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BLUE CHIP STAMPS

10-K

OTHER

1974

CARD 1

MICROFICHE BY DISCLOSURE INCORPORATED

Blue Chip Stamps [Calif.] Co: B558000000
5801 South Eastern Avenue
Los Angeles, Calif. 90040
SEC File No: 0-3810 Exch: Other
IRS No: 94-1354687 CUSIP: 0953299
Fiscal Year Ends: 2/28 SIC No: 739

8-K For: 4/30/73 Rec: 5/10/73
Warren E. Buffet, director, discloses has beneficial holdings (13%) and those of his associates (34%), for a total of 47% of common shares of the company. He disclaims control.
Exhibits: None

10-K For: 3/3/73 Rec: 5/29/73
Auditor: Price, Waterhouse & Co.
Revenues: $132,323,000 Earnings: $7,101,000/$1.38
Assets: $199,724,000 Net Worth: $53,125,000
Extr. Items: $(925,000) Shareholders: 3,104
Description of Business: Furnishes trade stamp service to retail stores. Develops incentive and marketing programs for use by businesses. Manufactures quality candy and retails same through company-operated stores in nine western states. Revenue from trade stamp service has declined 28.5% since 1970 due to strong competition.
¤ Trading stamp companies
¤ Marketing research
¤ Confectionery mfr; Confectionery retailing
Auditor's Report:
¤ Qualified opinions for uncertainties; Litigation
Financial Statements and Notes:
¤ Litigation settlement; Extraordinary losses
¤ Step acquisitions; *See's Candy Shops Inc.; Purchase accounting (acquisitions); Cash payment
¤ Fifty two/three week years; Trading stamp companies
¤ Deferred costs; Unamortized debt discounts
¤ Revenue recognition; Issuance date; *Trading stamps
¤ Estimated liabilities; Current liabilities; *Unredeemed trading stamps
¤ Companies owned 20 to 50 percent; Cost method of carrying investments; *Wesco Financial Corporation
¤ Unused capital loss deductions
Exhibits: None indexed.

10-Q For: 6/2/73 Rec: 7/2/73

8-K For: 5/31/73 Rec: 6/11/73
Additional information (as reported on Form 4) concerning interests in common stock of company owned by Warren E. Buffett and various associates.
Hearing scheduled for reconsideration of trial courts finding in Eleanor A. Botney and Thelma G. Daar, in behalf of themselves and all others similarly situated vs. Blue Chip Stamps.
Exhibits: None

8-K For: 6/30/73 Rec: 7/9/73
Warren E. Buffett disclaims control of company although his beneficial holdings total 48%.
Company's appeal in class action filed by Eleanor A. Botney and Thelma G. Daar in connection with sales tax reimbursement denied.
¤ Court decisions; Contesting (legal action); Third party reimbursement; Sales taxes
Exhibits: None

10-Q For: 9/1/73 Rec: 10/12/73

8-K For: 10/31/73 Rec: 11/12/73

RESUME CONTINUED ON NEXT FRAME

Federal Home Loan Bank Board granted company permission to acquire control of Wesco Financial Corp.
Made tender offer to Wesco shareholders to purchase up to 597,148 shares at $15 per share. 372,305 shares of Wesco tendered for $5,584,575.
Tender offer extended to 11/15/73.
In case of Manor Drug Stores, et al. vs. Blue Chip Stamps U.S. Court of Appeals reversed prior dismissal in case of persons entitled to purchase Blue Chip securities. Company has petitioned for rehearing. (See 8-K's for 11/70, 2/72, 5/71, and 6/71.)
¤ Investment increase; Corporate control change; *Wesco Financial Corp.; Cash tender offering; Regulatory approval
¤ Appealed court cases; Security placement/
Exhibits: None indexed

8-K For: 11/30/73 Rec: 12/7/73
Acquired under tender offer 438,382 common shares of Wesco Financial Corp. bringing total shares owned to 1,040,742 or 44%.
¤ Investment increase; Companies owned 20 to 50 percent; Tender offering; *Wesco Financial Corp.
Exhibits: None

10-Q For: 12/1/73 Rec: 1/11/74

8-K For: 2/31/74 Rec: 3/8/74
Warren E. Buffett, a director of Comapny disclosed ownership of 13%, individually, and 50%, with his associates of outstanding common stock.
Tender offers for 130,966 shares or 50.1% of Wesco Financial Corp. at $15 per share mailed to its shareholders.
¤ Tender offering; Attempted takeover; *Wesco Financial Corp.
Exhibits:
¤ Ex: Tender offers; *130,966 shares of Wesco Financial Corp. at $15 per share

B558000

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

MAY 24 1974
(Fees Received)

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 of THE SECURITIES EXCHANGE ACT OF 1934

For the fifty-two weeks ended March 2, 1974

Commission file number 0-3810

BLUE CHIP STAMPS
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of incorporation or organization)

94-1354687
(I.R.S. Employer Identification No.)

5801 South Eastern Avenue, Los Angeles, California (Address of principal executive offices)

90040 (Zip Code)

Registrant's telephone number, including area code: 213-685-8615

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

Common stock, par value $1.00 per share

6-3/4% Subordinated Debentures due 1978

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 shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

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Exhibit 11.1-3
to
Blue Chip Stamps' Form 10-K
Year Ended March 2, 1974

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B L U E C H I P S T A M P S

E M P L O Y E E S'

P E N S I O N P L A N

* * * *

Summary of Principal Provisions

Including 1970 Amendment

November, 1973

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Blue Chip Stamps Employees' Pension Plan was originally established in 1965 and improved in 1970. This booklet outlines some of the more important provisions of the plan as it exists today.

The plan covers all qualified regular full-time employees other than those for whom the Company contributes toward retirement of pension benefits under any other non-governmental plan.

By means of the Employees' Pension Plan, Blue Chip seeks to provide each of you a retirement income which, when combined with your Social Security benefits and your personal savings programs, will assure you of a reasonable degree of financial security in the years following your retirement.

We recommend that you read this summary thoroughly, so that you will understand the various provisions of Blue Chip Stamps Retirement Program.

With the exception of the definitions which follow, this booklet has been written in non-technical language to provide you with an understanding of your Pension Plan and how it operates.

Information has been presented in a question and answer format covering the major provisions of the Pension Plan.

If, after reading the material, you have further questions, please contact the Personnel Department in Los Angeles for an answer or clarification.

* * * * * * *

This presentation is a summary of the principal provisions of the Plan and may omit provisions applicable to individual situations. It should not be relied upon as controlling absolutely in any case.

The full and legal terms of the Plan are contained in the official text entitled, Blue Chip Stamps Employees' Pension Plan and Trust Agreement; a copy of which is available in the Los Angeles Personnel Office during regular business hours.

As required by Federal legislation, an annual summary of the operation and investment results of the Plan (Department of Labor D-2 form) together with a summary describing the Plan in outline form are also available for review in the Personnel Office.

PENSION PLAN DEFINITIONS

A clear understanding of certain terms used in this summary will avoid the complication of repeated definitions. We suggest that you have these definitions in mind as you read about the Pension Plan. The definitions are listed in alphabetical order.

Anniversary Date: The dates to which the years of the Plan's operation are related, beginning January 1 of each year.

Average Monthly Compensation: Average monthly compensation for the ten consecutive years of Plan participation which produce the highest total earnings. (Does not include bonuses, overtime pay, shift differentials, commissions, incentive payments or other contingent compensation).

Beneficiary: The person or persons named in writing by a Participant to receive Monthly Retirement Benefit payments following the Participant's death after retirement. (Applicable only if the Participant elects to receive the 180 Months Certain and Life Benefit optional form of retirement).

Committee: The Pension Committee appointed by the Company to be responsible for the administration of the Plan.

Continuous Service: Unbroken full-time employment with the Company, including authorized vacation periods, authorized leaves of absence, and periods of active service in the armed forces of the United States during which seniority rights are protected under Federal law.

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Credited Service: A Participant's Continuous Service beginning with the first day of January following the completion of two years of Continuous Service or the attainment of the Participant's twenty-fifth birthday, whichever occurs later.

Employee: Any person regularly employed by the Company on a full-time basis, for whom the Company is not required to contribute toward retirement, pension or profit-sharing benefits under any other non-governmental plan.

Joint Annuitant: The person designated in writing by a Participant, who elects the Joint and Survivor Benefits option, to receive lifetime Monthly Retirement Benefit payments in the event of the Participant's death after retirement.

Normal Retirement Date: The first day of the calendar month which coincides with or which next follows your 65th birthday or, if later, the first day of the calendar month which coincides with or which next follows your completion of 120 months of Continuous Service.

Participant: An Employee who has met the eligibility requirements for participation in the Plan and who has completed the Committee's prescribed form of application for participation.

Total Disability: A physical or mental condition which permanently prevents an Employee from engaging in any regular full-time employment with the Company, as determined by the Committee, generally in accordance with the standards prescribed by the Social Security Act.

Trust Fund: The funds received by the Trustee from the Company as contributions, and the securities and properties in which those funds are invested, together with the income and profits which they may earn.

Trustee: The bank or trust company which holds the Trust Fund in its custody.

FACTS YOU WILL WANT TO KNOW

ABOUT OUR PENSION PLAN

Are You Eligible?

You'll be eligible to participate in the Plan on the Anniversary Date on which you first meet the following requirements:

1) You are an Employee, as previously defined;
2) You have reached your 25th birthday, and
3) You have completed two years of continuous service

How Do You Become a Participant?

You must file a written application for participation with the Committee, on the form which it will provide for that purpose. Applications are sent out in early December before your anniversary date.

Must You Contribute?

No. All Plan costs are paid by the Company. The Plan neither requires nor permits a participant to contribute toward its support.

What Will the Company Contribute?

The Company contributions are based upon annual actuarial calculations. Any forfeitures arising under the provisions of the Plan will be used to reduce Company contribution costs.

What Does the Company Do With Its Contributions?

All contributions will be paid over to the Trustee for deposit in the Trust Fund. The Trustee, in turn, will invest and reinvest the principal and income of the Trust Fund in a variety of high grade securities. It is from this Trust Fund that all benefits under the Plan will be paid.

When Is Your Normal Retirement Date?

You will ordinarily retire either on the first of the month following your 65th birthday, or, if later, upon your completion of 120 months of Continuous Service.

If you have not completed 120 months of Continuous Service at age 65, permission to work beyond your 65th birthday must be obtained in writing from the Pension Committee on an annual basis.

Can One Retire at Some Other Date?

Yes. These retirement dates also are available:

Early Retirement

With the Company's consent, you may retire early - on the first day of any month after you have completed at least 180 months of Continuous Service and reached your 55th birthday.

Late Retirement

If you and the Company mutually agree, you may retire late - on the first day of any month after your Normal Retirement Date.

Disability Retirement

If you are totally and permanently disabled at any time after having completed 180 months of Continuous Service, you may then retire.

How Are Retirement Benefits Calculated?

1. At Normal Retirement Date:

The amount of retirement benefits payable each month for the life of a participant, retiring on his normal date, will be figured as follows:

a. 1 3/4% of his Average Monthly Compensation, times

b. his Credited Service

c. less the product of

i. 1/2 of his primary old age Social Security benefit, and

ii. 3% multiplied by his Continuous Service. (Such reduction shall not exceed 50% of the primary Social Security benefits)

The primary Social Security benefit and Blue Chip benefits are integrated by reason of the fact that the Company pays 1/2 of your Social Security taxes during your period of employment with the Company.

Minimum Benefit Provision

A Participant who qualifies for Normal Monthly Retirement Benefits shall receive not less than four dollars ($4.00) times years of credited service to a maximum of thirty (30) years. This minimum is not subject to Social Security offset as specified in "c" of the paragraph above.

2. <u>At Early Retirement Date</u>:

On retirement at an Early Retirement Date, with the consent of the Company, you will be entitled to receive an immediate Monthly Retirement Benefit equal to the amount computed just as your Normal Monthly Retirement Benefit would be computed if you had then reached your Normal Retirement Date, but <u>reduced</u> by 1/2 of 1% for each month then remaining until your Normal Retirement Date.

This reduction takes into account the fact that payments will be made to you over a longer period than would have been the case if you waited to retire at your Normal Retirement Date.

Or, having retired at an Early Retirement Date, you may wait until your Normal Retirement Date and then receive an unreduced Monthly Retirement Benefit based on your Credited Service to your Early Retirement Date.

3. <u>At Late Retirement Date</u>:

On retirement at a Late Retirement Date, you will be entitled to receive a Monthly Retirement Benefit equal to the amount computed just as your Normal Monthly Retirement Benefit would be computed if you had then reached your Normal Retirement Date. Continuous Service after your Normal Retirement Date counts as Credited Service in determining the amount of your Monthly Retirement Benefit. Such an arrangement can be made effective only if mutually agreed upon by you and the Company.

Working beyond age 65 requires the written approval of the Pension Committee on an annual basis.

4. <u>At Disability Retirement Date</u>:

On retirement at a Disability Retirement Date, due to your Total Disability, as determined by the Committee, you will be entitled to receive a Disability Monthly Retirement Benefit commencing approximately six months after the date established by the Committee as the commencement date of your disability. The amount of your Disability Monthly Retirement Benefit will be computed just as your Normal Monthly Retirement Benefit would be computed if you had then reached your Normal Retirement Date, but will be reduced by the monthly amount or the monthly equivalent of any lump sum amount of any payments to which you may be entitled under workmen's compensation and unemployment compensation laws.

Your Disability Monthly Retirement Benefit payments will be payable during the continuance of your disability until your death or recovery, but they stop at your Normal Retirement Date and will be replaced by Normal Monthly Retirement Benefits of the same amount if you are then living and still disabled.

How Long Will Your Retirement Benefits be Payable?

Your Monthly Retirement Benefit payments following retirement at your Normal Retirement Date or at your Early or Late Retirement Date will normally be paid for the remainder of your lifetime thereafter. The last monthly payment will be paid as of the first day of the month in which your death occurs. See the foregoing paragraph for provisions applying to the duration of Disability Monthly Retirement Benefit payments.

Can You Share Your Monthly Retirement Benefits with Someone Else?

Yes. There are two optional forms of payments available. Subject to the rules described below, either may be elected for the payment of your monthly Retirement Benefits following your retirement at your Normal Retirement Date, or at your Early or Late Retirement Date. However, neither is available in connection with the payment of Monthly Disability Retirement Benefits.

Here are the optional forms and the conditions surrounding their availability:

Joint and Survivor Benefits: Under this option you may elect to receive either: (1) a reduced Monthly Retirement Benefit payable during the remainder of your lifetime which, following your death after retirement, would be continued at the same reduced rate to your Joint Annuitant, if living, for the remainder of his or her lifetime; or (2) a less markedly reduced Monthly Retirement Benefit payable during the remainder of your lifetime, with provision for the contribution of some pre-selected portion of that reduced amount to your Joint Annuitant, if living, for the remainder of his or her lifetime.

a. This election should be made at least one year before the date when it is to become effective (your Normal Retirement Date or your selected Early Retirement Date) otherwise, for the protection of the Trust Fund, it can be approved only if you furnish such evidence of your good health as the Committee may require.

b. If after you have made this election your designated Joint Annuitant dies before the option is to become effective, the election will be cancelled and you will receive your Monthly Retirement Benefit payments on the normal form (for the remainder of your lifetime after retirement).

c. If after you have made this election your death occurs before the option is to become effective, no payments will be made to your Joint Annuitant.

d. If, having made this election, your retirement is deferred beyond the date when the option was to have become effective and your death occurs before payments commence, your Joint Annuitant will receive payments at the reduced rate applicable under the option.

180 Months Certain and Life Benefits: Under this option you may elect to receive a reduced Monthly Retirement Benefit payable during the remainder of your lifetime, with the guarantee that, if your death occurs before you have received payments for 180 months, payments of the same amount will be continued to your Beneficiary until a total of 180 months' payments (including those which you received) have been made.

a. This election should be made at least one year before the date when it is to become effective (your Normal Retirement Date or your selected Early Retirement Date) otherwise, for the protection of the Trust Fund, it can be approved only if you furnish such evidence of your good health as the committee may require.

b. If, after you have made this election, your Beneficiary dies before the first payment is made to you under the option, you will receive, at retirement, the reduced Monthly Retirement Benefit payments provided by the option, and you may name a new Beneficiary.

c. If, after you have made this election, your death occurs before the option is to become effective, no payments will be made to your Beneficiary.

d. If, having made this election, your retirement is deferred beyond the date when the option was to have become effective and your death occurs before payments commence, your Beneficiary will receive payments for 180 months at the reduced rate applicable under the option.

e. If payments are being made under this option and both you and your Beneficiary die before 180 monthly payments have been made, the legal representative of the last to die will be entitled to receive the remaining payments guaranteed, either as monthly payments when due or, in the Committee's discretion, in a lump sum of equivalent acturial value.

Either option, once selected, may be revoked only with the Committee's consent.

What Happens at your Death Before Retirement?

No benefits are payable at your death before retirement, except as they may be payable in accordance with your election of one of the Joint and Survivor or 180 Months Certain and Life options.

What Happens If You Leave the Company Before Retirement?

If, when you leave the Company before retirement, you have reached your 50th birthday and have completed 180 or more months of Continuous Service, you will retain the right to receive the Normal Monthly Retirement Benefit earned by you up to the date of termination of your service with the Company.

Payments will commence on what would have been your Normal Retirement Date if the Committee receives your written application during the 90 days preceding that date, otherwise on the first day of any month thereafter for which your timely application may be filed, provided only that application is made before your 70th birthday.

No benefits will be paid to any Participant whose service with the Company terminates before he has met both the age and length of continuous service requirements.

Notwithstanding the foregoing, a Participant will not be entitled to receive any benefit under this Plan if he is convicted of, or admits the fact of dishonesty, fraud, disclosing trade secrets, or a felony committed in connection with his employment with the Company.

Can the Company Amend the Plan?

The Company reserves the right to amend the Plan at any time. But no amendment can have the effect of reducing any rights to which you may have become entitled before its Effective Date, unless required by applicable Federal or State laws, regulations or rulings.

Can the Plan be Terminated Entirely?

The Plan was established with the hope and expectation that it will be permanent in nature. But, because the course of future events cannot be foretold with absolute accuracy, the Company necessarily reserves the right to terminate the Plan in its entirety at any time. In any such event, the assets of the Trust Fund will be applied for the benefit of retired and active Participants in the following order:

- First, to assure the continuation of Monthly Retirement Benefits to retired Participants and the payment of Monthly Retirement Benefits to Participants who have reached their Normal Retirement Dates but who have not yet retired, to the extent that the funds are sufficient to do so; and
- Next, to provide Monthly Retirement Benefits, based on Credited Service to the Plan termination date, for all Participants who have reached their 50th birthdays and have completed 180 or more months of continuous service, to the extent that the remaining funds are sufficient to do so; and
- Finally, to provide Monthly Retirement Benefits, based on Credited Service to the Plan termination date, for all other active Participants, to the extent that the remaining funds are sufficient to do so.

What Else Should You Know About the Plan?

Here are a few further facts worth knowing:

a. The service of any person first employed by the Company on any of the first five days of the month of January of any calendar year is considered, for the purposes of this Plan, as continuous from January 1st of that year.

b. All benefits will be paid to you or your Joint Annuitant or your Beneficiary directly by the Trustee, to the extent of the sufficiency of the assets of the Trust Fund for that purpose.

c. Participation in the Plan does not of itself give any Participant the right to continue in the service of the Company, or any right or claim to any payment whatsoever except to the extent of the benefits provided by the Plan.

d. Except as to any indebtedness owing to the Company, none of a Participant's benefits are subject to the claims of his creditors; and neither you nor your Joint Annuitant nor you Beneficiary may in any way transfer your interest in such benefits to any other person or organization, except to the Company as security for any such indebtedness.

e. Every Participant and every Joint Annuitant, prior to the commencement date of his Monthly Retirement Benefit payments, will be required to furnish satisfactory proof of his age.

f. If a Participant becomes a member of a unit represented by a labor organization for purposes of collective bargaining, and if on account of such membership he becomes entitled to participation in a plan, other than this Plan, to which the Company makes contributions (such as, but not by way of limitation, a profit sharing, retirement or pension plan), his participation in this Plan shall terminate as of the date of his becoming a member of the unit.

g. The Plan contains limitations on the benefits of certain of the Company's most highly compensated personnel, applicable in the event of the early termination of the Plan or the Company's failure to meet its current costs during the first 10 years of its operation. Participants affected by these necessarily complex limitations will be given individual explanations.

Annual Statement of Benefits

Blue Chip Stamps Employees' Pension Plan Participants will receive an annual statement of retirement benefits. This statement will list such information as your birthdate, most recent hire date, annual rate of pay, the date you entered the Plan and normal retirement date. It will also estimate the amount that you will receive from Social Security at age 65 as well as the amount of retirement benefits payable from the Blue Chip Stamps' Plan. These estimates will be computed on the assumption that your last year's base pay rate will continue until your retirement date.

What Would Cause You to Lose Anticipated Pension Benefits?

Although covered elsewhere in this booklet, the following are repeated in one location for emphasis.

Potential Retirement Benefits will be lost if anyone of the following occurs:

1. Break in service record from resignation, discharge, failure to return from a leave of absence within time specified on such leave, layoff of more than three months duration, or changing from a full-time to a part-time employee, unless accrued benefits are vested at such termination of service.

2. Death of a Participant before his Normal or Early Retirement commenses, (even if a survivor option has been designated).

3. Termination of an employee before a Participant qualifies for Normal Retirement, Early Retirement or Disability Retirement.

4. Becomes a Participant in any other non-governmental retirement plan to which the Company, on account of the Participant's membership, makes contributions; unless accrued benefits are vested at time of entry to such other plans.

5. Committed or admitted the fact of dishonesty, fraud, disclosing trade secrets, or a felony committed in connection with his employment with the Company.

6. Failure by a Participant with vested pension rights to file a claim for such benefits before age 70.

Pension Committee:

Donald A. Koeppel
William F. Ramsey
Raymond H. Allen

Trustee:

Union Bank
Trust Division
445 South Figueroa
Los Angeles, California 90017

Pension Plan Consultants
to the Company:

Ron Stever and Company
2999 West 6th Street
Los Angeles, California 90005

* * * * * * *

Copies of the Pension Plan and records are maintained in the Los Angeles Personnel Office for your review.

LOAN AGREEMENT

This agreement is made as of the 8th of February 1974 at Los Angeles, California between BLUE CHIP STAMPS, a California corporation, having its chief place of business at Los Angeles, California and hereinafter called "Borrower", and BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, a national banking association, hereinafter called "Bank".

SECTION 1

AGREEMENT TO LEND

1.1 The Loan. Subject to all of the terms and provisions of this agreement, and upon the request of Borrower therefor, Bank will lend to Borrower, on or before 28 February 1974, up to $28,755,154.00, lawful money of the United States of America, to be evidenced by a note dated as of the date the loan is made and executed by Borrower and delivered to Bank, in the form commonly used by Bank, which note shall bear interest and shall be repaid as hereinafter provided in subparagraphs A. and B. of this paragraph 1.1.

A. The loan made by Bank to Borrower hereunder shall bear interest, payable monthly on the last day of each month beginning on 28 February 1974, from the date of its making at the rates and for the periods of time hereinafter set forth in sub-subparagraphs i., ii. and iii. of this subparagraph 1.1 A.:

i. At the prime interest rate of Bank for 90-day commercial notes (which prime interest rate is currently 9 1/2%) plus 1/2% per year from the date of the making of such loan to 31 January 1976;

ii. At such prime interest rate plus 3/4% per year from 1 February 1976 to 31 January 1978; and

iii. At such prime interest rate plus 1% per year from 1 February 1978 to 31 January 1980.

In the event of any change in such prime interest rate, such change shall be effective as to Borrower on the day following such change, and thereafter the unpaid principal balance of the loan made hereunder shall bear interest at the changed rate on and after such date.

B. The principal amount of said loan shall be repaid as hereinafter set forth in sub-subparagraphs i. and ii. of this subparagraph 1.1 B.:

i. $5,134.838.00 on 31 January 1975, 31 January 1976, 31 January 1977 and 31 January 1978; and

ii. $4,107,901.00 on 31 January 1979 and 31 January 1980;

on which last-named date the entire balance of principal and interest then unpaid shall become due and payable.

1.2 <u>Prepayment of Loan</u>. Borrower may prepay the loan in whole or in part without premium or penalty, but any such prepayments shall be applied on the principal payments next due.

SECTION 2

CONDITIONS PRECEDENT TO LENDING

2.1 Conditions Precedent to the Loan. Prior to the making of the loan hereunder, Borrower shall deliver, or cause to be delivered, to Bank:

A. The written opinion of its counsel, which opinion shall be in form and substance satisfactory to Bank and which counsel shall be satisfactory to Bank, stating that, in the opinion of such counsel:

i. Borrower is a validly organized and existing corporation under the laws of the State of California, without limitation on the duration of its existence, and, to the best knowledge of such counsel, is duly qualified to do business in every state in which it is presently doing business.

ii. Borrower is duly authorized under California law, its Articles of Incorporation, and its By-Laws to conduct its business and to execute and perform this agreement, the note and the security agreement provided for herein; that the same have been duly authorized by all necessary corporate action; and that this agreement, the note and the security agreement provided for herein, when executed and delivered for value received, will be valid and binding obligations of Borrower in accordance with their terms and provisions, except as the same may be limited by the bankruptcy and other laws affecting creditors' rights.

iii. To the best knowledge of such counsel there is no Charter, By-Law or Preferred Stock provision, nor any agreement, contract, indenture, document or instrument to which Borrower is a party, nor any statute, rule or regulation binding on Borrower, which would be contravened by the execution or delivery of this agreement, the note or the security agreement, or by the performance of any term, provision, covenant, condition, agreement or obligation of Borrower contained herein or therein.

iv. No order, consent, permit, authorization or approval is required by or from any governmental body, agency or authority to validate this agreement, the note, the security agreement, or any action taken, or to be taken, by Borrower hereunder or thereunder.

B. Certified copies of resolutions of its Board of Directors approving and authorizing the execution, delivery and performance of this agreement, the note and the security agreement and all other actions to be taken by Borrower hereunder or thereunder.

C. A description, to be in form and substance satisfactory to Bank, of all securities to be pledged by Borrower to Bank as collateral for the loan to be made by Bank to Borrower hereunder, which securities shall be delivered to Bank and which shall be satisfactory to Bank at the time of such delivery.

D. A security agreement, to be in form and substance satisfactory to Bank, from Borrower to Bank granting Bank security interests in all of the securities hereinabove mentioned in subparagraph 2.1 C. or hereinafter mentioned in paragraph 3.5.

E. Stock assignments, to be in form and substance satisfactory to Bank and executed and delivered by Borrower to Bank, covering the securities hereinabove mentioned in subparagraph 2.1 C. or hereinafter mentioned in paragraph 3.5.

SECTION 3

REPRESENTATIONS AND WARRANTIES

3. Borrower represents and warrants that:

3.1 Financial Statements. All financial statements, information and other data furnished by Borrower to Bank in connection with Borrower's application for credit hereunder are, in all material respects, accurate and correct; the financial statements have been prepared in accordance with generally accepted accounting principles and practices and fairly represent the financial condition of Borrower; no materially adverse changes have occurred since the dates of said statements; and no material liabilities, contingent or otherwise, not shown on said financial statements existed on the respective dates thereof.

3.2 Liens and Encumbrances. The properties and assets of Borrower, real, personal and mixed, are not subject to any liens or encumbrances or outstanding Financing Statements, whether filed or unfiled, except for taxes which are not yet delinquent.

3.3 Litigation. There are no actions, suits, proceedings or claims pending or threatened against or affecting

Borrower, the result of which might substantially affect the financial condition, business or operations of Borrower other than litigation of which Bank has been advised in writing by counsel for Borrower under date of 8 February 1974.

3.4 Authority. This agreement, the note and the security agreement provided for herein, when executed and delivered for value received, will be valid and binding obligations of Borrower.

3.5 Composition of Securities. The securities hereinabove mentioned in subparagraph 2.1 C. shall, at all times, have a market value of at least 150% of the unpaid principal balance of the loan and shall consist of:

a. All securities purchased by Borrower and issued by See's Candy Shops, Incorporated, hereinafter called "See's", shall have an agreed value, for the purposes of this agreement, of $30.00 per share, and shall satisfy no more than 70% of the requirement for the maintenance of collateral under this paragraph 3.5. However, at all times Borrower will have pledged to Bank at least 985,891 shares of See's stock which it owns.

b. The additional securities (other than shares of See's delivered to Bank as collateral) shall satisfy at least 30% of the requirement for the maintenance of collateral under this paragraph 3.5. Borrower may, at any time, substitute other additional securities as collateral consisting of common or preferred stock or convertible debentures carrying from a B+ to an A+ rating in Standard + Poors Stock Guide, corporate bonds rated BBB or better in Standard + Poors Bond Guide, or other securities which are acceptable to Bank and may withdraw collateral, other than securities issued by See's, which is in excess of the amount of collateral required to be maintained under this paragraph 3.5.

3.6 Financial Condition of Borrower. There has been no material adverse change in the financial condition of Borrower from that shown on its interim financial statement dated 1 September 1973.

3.7 Regulation U. No part of the proceeds of the loan to be made by Bank to Borrower hereunder shall be used to purchase or carry margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System) or to extend credit to others for the purpose of purchasing or carrying any such margin stock.

SECTION 4

AFFIRMATIVE COVENANTS OF BORROWER

4. Borrower covenants and agrees that so long as the credit hereby granted shall remain available in whole or in part and until the full and final payment of all indebtedness incurred hereunder, unless Bank waives compliance in writing:

4.1 Use of Proceeds of Loan. It will use the proceeds of the loan to be made by Bank to it hereunder to refinance the indebtedness currently owing by Borrower to Bank.

4.2 Current Liabilities. The amount of cash, merchandise inventory and marketable securities which are not restricted as to sale owned by Borrower shall, at all times, exceed the amount of its current liabilities.

4.3 Payment of Obligations. It will pay all of its liabilities and obligations when due and prior to the date on which penalties attach thereto.

4.4 Insurance. It will insure in, and will maintain insurance satisfactory to Bank with, responsible insurance companies in such amounts and against such risks as is customarily carried by owners of similar businesses and property, and it will furnish Bank, upon request, with full information as to the insurance carried.

4.5 Notice of Default. It will give prompt written notice to Bank of all events of default under any of the terms or provisions of this agreement, any note, or of any other agreement, contract, indenture, document or instrument entered, or to be entered, into by it, changes in management, litigation, and of any other matter which has resulted in, or might result in, a materially adverse change in its financial condition or operations.

4.6 Records. It will keep and maintain full and accurate accounts and records of its operations according to generally accepted accounting principles and practices and will permit Bank, and its designated officers, employes, agents and representatives, to have access thereto and to make examination thereof at all reasonable times, to make audits, and to inspect and otherwise check its properties, real, personal and mixed.

4.7 Information Furnished. It will furnish to Bank:

A. Within 60 days after the close of each fiscal quarter, except for the last quarter of each fiscal year, its consolidated balance sheet, plus the balance sheets of See's and Wesco Financial Corporation, hereinafter called "Wesco", respectively, as of the close of such quarter, and its consolidated profit and loss statement and surplus reconcilation, and the profit and loss statement and surplus reconcilation of See's and the profit and loss statement of Wesco, respectively, for that quarter and for that portion of the fiscal year ending with such quarter, all in triplicate, all prepared in accordance with generally accepted accounting principles and practices, and so certified by Borrower's president, a vice president or Borrower's chief financial officer as to its and See's statements.

B. Within 120 days after the close of each fiscal year, a complete copy of its annual report, in triplicate, which report shall include at least its consolidated balance sheet as of the close of such fiscal year and its consolidated profit and loss statement and surplus reconcilation for such fiscal year, together with the opinion of independent certified public accountants selected by Borrower and satisfactory to Bank, prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the previous year.

C. Any consolidated financial statements prepared by or for Borrower.

D. Copies of all statements and reports sent to its shareholders and copies of all statements and reports sent to the shareholders of Wesco and Source Capital, Inc.

E. Such other information concerning its affairs as Bank may reasonably request.

4.8 Reimbursement of Bank. It will pay, or will reimburse Bank by reason of its payment of, all governmental charges, taxes and penalties imposed on this agreement or on any note issued hereunder.

4.9 Maintenance of Corporate Existence. It will maintain and preserve its corporate existence and all rights, permits, privileges and franchises presently existing and required in the conduct of its business; will conduct its business in an orderly, efficient and customary manner; and will keep and maintain all of its properties in good working order and condition.

4.10 Payment of Attorneys' Fees. It will promptly, upon demand by Bank, pay to and reimburse Bank for all costs and expenses, including reasonable attorneys fees, which Bank may expend or incur in the enforcement of any of the terms or provisions of this agreement or of any note or of any other agreement, contract, indenture, document or instrument mentioned herein or therein.

4.11 Execution of Other Documents. It will promptly, upon demand by Bank, execute all such additional agreements, contracts, indentures, documents and instruments in connection with this agreement as Bank may reasonably request.

4.12 Cross-collateralization. All of the securities hereinabove referred to in subparagraph 2.1 C. and paragraph 3.5 hereof, in addition to being collateral for the loan to be made by Bank to Borrower hereunder, shall also be collateral for the loan in the amount of $11,244,846.00 to be made by Bank to Borrower under a Loan Agreement dated as of the 8th of February 1974 between Borrower and Bank.

SECTION 5

NEGATIVE COVENANTS OF BORROWER

5. Borrower covenants and agrees that so long as the credit hereby granted shall remain available in whole or in part and until the full and final payment of all indebtedness incurred hereunder, unless Bank waives compliance in writing:

5.1 Funded Debt and Effective Net Worth. The funded debt of Borrower, herein defined as including (i) loans outstanding under this commitment, (ii) unsubordinated long term debt, and (iii) other non-current liabilities not defined herein, shall, at no time during the existence of this agreement, exceed the effective net worth of Borrower, herein defined as shareholders' equity plus subordinated debt.

5.2 Limitation on Intangibles. Any intangible asset which would result from any additional acquisition (s) shall not exceed an amount which is equal to 10 times the average net after-tax earnings for the preceding 3 years of the company to be acquired if funded debt (as hereinabove defined in paragraph 5.1) is in excess of 50% of the effective net worth (as hereinabove defined in paragraph 5.1).

5.3 Default Under Other Agreements or Contracts. It will not commit or do, or fail to commit or do, any act or thing which would constitute an event of default under any of the terms or provisions of any other agreement, contract, indenture, document or instrument executed, or to be executed, by it, and which would have a materially adverse effect on Bank's position hereunder.

5.4 Negative Pledge. It will not pledge, assign, transfer or convey, nor grant a security interest in, any of its assets with an aggregate value in excess of $10,000,000.00. The restrictions contained in this paragraph 5.4 shall not apply to the sale of any of the assets or securities owned by Borrower for valuable consideration.

SECTION 6

EVENTS OF DEFAULT

6.1 Events of Default. If one or more of the following described events of default shall occur:

A. Borrower shall default in the due and punctual payment of the principal of or the interest on any note issued hereunder; or

B. Borrower shall fail to perform or observe any of the terms, provisions, covenants, conditions, agreements or obligations (i) contained herein or (ii) in any other agreement, contract, indenture, document or instrument executed, or to be executed, by it and which would have a materially adverse effect on Bank's position hereunder, and such failure shall continue for more than 30 days after written notice from Bank to Borrower of the existence and character of such event of default; or

C. Borrower shall become insolvent, or be unable to pay its debts as they mature, or shall make an assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its properties or assets, or shall file a voluntary petition in bankruptcy or seeking reorganization or to effect a plan or other arrangement with creditors, or shall file an answer admitting the jurisdiction of the Court and the material allegations of an involuntary petition filed pursuant to any Act of Congress relating to bankruptcy or reorganization, or shall join in any such petition for an adjudication or for a reorganization or other arrangement, or shall become or be adjudicated a bankrupt, or shall apply for or consent to the appointment of or consent that an order be made appointing any receiver or trustee, for itself or for any of its properties, assets or business, or if an order shall be entered pursuant to any Act of Congress relating to bankruptcy or reorganization, or if a receiver or a trustee shall be appointed for all or a substantial part of its properties, assets or business, (otherwise than upon its own application or consent), and any such receiver or trustee so appointed shall not be discharged within 30 days after the date of such appointment; or

D. Any representation or warranty made by Borrower herein or in any certificate or financial or other statement heretofore or hereafter furnished by Borrower or any of its officers shall prove to be in any material respect false or misleading; or

E. Any writ of execution, attachment or garnishment of any lien, or any other legal process, be issued for an amount in excess of $1,000,000.00 against any of the property of Borrower; or

F. All, or substantially all, of the property of Borrower shall be condemned, seized or otherwise appropriated;. or

G. Borrower shall voluntarily suspend the transaction of business for more than 30 days in any fiscal year from the effective date of this agreement;

THEN, or at any time thereafter, and in each and every such case, unless such default shall have been remedied, or waived in writing by Bank, the credit herein granted shall, at the option of Bank, immediately terminate, and, at the option of Bank, all notes and other liabilities and obligations outstanding under this agreement shall thereupon, without presentment, demand, protest, or notice of any kind, all of which are hereby expressly waived, be forthwith due and payable, if not otherwise then due and payable, anything herein or in any note or other agreement, contract, indenture, document or instrument contained to the contrary notwithstanding, and Bank may immediately, and without expiration of any period of grace, enforce payment of all liabilities and obligations of Borrower to Bank under this agreement and under any notes and other agreements, contracts, indentures, documents and instruments between Borrower and Bank.

SECTION 7

MISCELLANEOUS PROVISIONS

7.1 Notices. All notices, payments, requests, reports, information and demands which either party hereto may desire, or may be required, to give or make to the other party hereto, shall be given or made upon such other party by hand delivery or through deposit in the United States mail or by Western Union telegram, addressed as follows:

BLUE CHIP STAMPS
5801 South Eastern Avenue
Los Angeles, California 90040

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION
National Division
48th Floor - Bank of America Tower
555 South Flower Street
Los Angeles, California 90071

or to such other address as may, from time to time, be specified in writing by Borrower or Bank, respectively, and such action shall be complete upon receipt thereof.

7.2 Waiver. Neither the failure of, nor any delay on the part of, either party hereto in exercising any right, power or privilege hereunder, or under any agreement, contract, indenture, document or instrument mentioned herein, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder, or under any agreement, contract, indenture, document or instrument mentioned herein, preclude other or further exercise thereof or the exercise of any other right, power or privilege; nor shall any waiver of any right, power, privilege or default hereunder, or under any agreement, contract, indenture, document or instrument mentioned herein, constitute a waiver of any other right, power, privilege or default or constitute a waiver of any other default of the same or of any other term or provision. All rights and remedies herein provided are cumulative and not exclusive of any rights or remedies otherwise provided by law.

7.3 Termination. Notwithstanding anything to the contrary contained in this agreement, Bank shall not be obligated to extend any further credit to or make any additional loans to Borrower, and Bank expressly retains the right to terminate this credit and to accelerate the maturity of all indebtedness of Borrower to Bank in case of a change in the executive personnel or management policies of Borrower which Bank considers materially adverse to its interests as a lender or if there should occur an adverse change in the financial condition of Borrower which, in the opinion of Bank, is materially prejudicial to its interests as a lender.

7.4 Jurisdiction. This agreement and any notes issued hereunder and any agreements, contracts, indentures, documents or instruments mentioned herein, shall be governed by and construed according to the laws of the State of California, to the jurisdiction of whose courts the parties hereto hereby agree to submit.

7.5 Headings. The headings hereinabove set forth are solely for the purpose of identification and shall not be construed as a part of the paragraphs they head.

IN WITNESS WHEREOF this agreement has been executed by the parties hereto at the place and as of the date first hereinabove written.

BLUE CHIP STAMPS

By ______________________
Executive Vice President

(Seal)

By ______________________
Secretary

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By ______________________
Vice President

(Seal)

By ______________________
Assistant Secretary

LOAN AGREEMENT

This agreement is made as of the 8th of February 1974 at Los Angeles, California between BLUE CHIP STAMPS, a California corporation, having its chief place of business at Los Angeles, California and hereinafter called "Borrower", and BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, a national banking association, hereinafter called "Bank".

SECTION 1
AGREEMENT TO LEND

1.1 The Loan. Subject to all of the terms and provisions of this agreement, and upon the request of Borrower therefor, Bank will lend to Borrower, on or before 28 February 1974, up to $11,244,846.00, lawful money of the United States of America, to be evidenced by a note dated as of the date the loan is made and executed by Borrower and delivered to Bank, in the form commonly used by Bank, which note shall bear interest and shall be repaid as hereinafter provided in subparagraphs A. and B. of this paragraph 1.1.

A. The loan made by Bank to Borrower hereunder shall bear interest, payable monthly on the last day of each month beginning on 28 February 1974, from the date of its making at the rates and for the periods of time hereinafter set forth in sub-subparagraphs i., ii. and iii. of this subparagraph 1.1 A.:

i. At the prime interest rate of Bank for 90-day commercial notes (which prime interest rate is currently 9 1/2%) plus 1/2% per year from the date of the making of such loan to 31 January 1976;

ii. At such prime interest rate plus 3/4% per year from 1 February 1976 to 31 January 1978; and

iii. At such prime interest rate plus 1% per year from 1 February 1978 to 31 January 1980.

In the event of any change in such prime interest rate, such change shall be effective as to Borrower on the day following such change, and thereafter the unpaid principal balance of the loan made hereunder shall bear interest at the changed rate on and after such date.

B. The principal amount of said loan shall be repaid as hereinafter set forth in sub-subparagraphs i. and ii. of this subparagraph 1.1 B.:

i. $1,865,162.00 on 31 January 1975, 31 January 1976, 31 January 1977 and 31 January 1978; and

ii. $1,892,099.00 on 31 January 1979 and 31 January 1980;

on which last-named date the entire balance of principal and interest then unpaid shall become due and payable.

1.2 <u>Prepayment of Loan</u>. Borrower may prepay the loan in whole or in part without premium or penalty, but any such prepayments shall be applied on the principal payments next due.

SECTION 2

CONDITIONS PRECEDENT TO LENDING

2.1 Conditions Precedent to the Loan. Prior to the making of the loan hereunder, Borrower shall deliver, or cause to be delivered, to Bank:

A. The written opinion of its counsel, which opinion shall be in form and substance satisfactory to Bank and which counsel shall be satisfactory to Bank, stating that, in the opinion of such counsel:

i. Borrower is a validly organized and existing corporation under the laws of the State of California, without limitation on the duration of its existence, and, to the best knowledge of such counsel, is duly qualified to do business in every state in which it is presently doing business.

ii. Borrower is duly authorized under California law, its Articles of Incorporation, and its By-Laws to conduct its business and to execute and perform this agreement, the note and the security agreement provided for herein; that the same have been duly authorized by all necessary corporate action; and that this agreement, the note and the security agreement provided for herein, when executed and delivered for value received, will be valid and binding obligations of Borrower in accordance with their terms and provisions, except as the same may be limited by the bankruptcy and other laws affecting creditors' rights.

iii. To the best knowledge of such counsel there is no Charter, By-Law or Preferred Stock provision, nor any agreement, contract, indenture, document or instrument to which Borrower is a party, nor any statute, rule or regulation binding on Borrower, which would be contravened by the execution or delivery of this agreement, the note or the security agreement, or by the performance of any term, provision, covenant, condition, agreement or obligation of Borrower contained herein or therein.

iv. No order, consent, permit, authorization or approval is required by or from any governmental body, agency or authority to validate this agreement, the note, the security agreement, or any action taken, or to be taken, by Borrower hereunder or thereunder.

B. Certified copies of resolutions of its Board of Directors approving and authorizing the execution, delivery and performance of this agreement, the note and the security agreement and all other actions to be taken by Borrower hereunder or thereunder.

C. A description, to be in form and substance satisfactory to Bank, of all securities to be pledged by Borrower to Bank as collateral for the loan to be made by Bank to Borrower hereunder, which securities shall be delivered to Bank and which shall be satisfactory to Bank at the time of such delivery.

D. A security agreement, to be in form and substance satisfactory to Bank, from Borrower to Bank granting Bank security interests in all of the securities hereinabove mentioned in subparagraph 2.1 C. or hereinafter mentioned in paragraph 3.5.

E. Stock assignments, to be in form and substance satisfactory to Bank and executed and delivered by Borrower to Bank, covering the securities hereinabove mentioned in subparagraph 2.1 C. or hereinafter mentioned in paragraph 3.5.

SECTION 3

REPRESENTATIONS AND WARRANTIES

3. Borrower represents and warrants that:

3.1 Financial Statements. All financial statements, information and other data furnished by Borrower to Bank in connection with Borrower's application for credit hereunder are, in all material respects, accurate and correct; the financial statements have been prepared in accordance with generally accepted accounting principles and practices and fairly represent the financial condition of Borrower; no materially adverse changes have occurred since the dates of said statements; and no material liabilities, contingent or otherwise, not shown on said financial statements existed on the respective dates thereof.

3.2 Liens and Encumbrances. The properties and assets of Borrower, real, personal and mixed, are not subject to any liens or encumbrances or outstanding Financing Statements, whether filed or unfiled, except for taxes which are not yet delinquent.

3.3 Litigation. There are no actions, suits, proceedings or claims pending or threatened against or affecting

Borrower, the result of which might substantially affect the financial condition, business or operations of Borrower other than litigation of which Bank has been advised in writing by counsel for Borrower under date of 8 February 1974.

3.4 Authority. This agreement, the note and the security agreement provided for herein, when executed and delivered for value received, will be valid and binding obligations of Borrower.

3.5 Composition of Securities. The securities hereinabove mentioned in subparagraph 2.1 C. shall, from the date the loan is made until 31 January 1975, have a market value of at least 200% of the unpaid principal balance of the loan, and, at no time after 31 January 1975 until the loan is paid in full, shall such securities have a market value of less than 150% of the unpaid principal balance of the loan and shall consist of:

a. All common stock of Wesco Financial Corporation, hereinafter called "Wesco", up to a maximum of 51% of all common stock issued by Wesco, shall satisfy no more than 50% of the requirement for the maintenance of collateral under this paragraph 3.5.

b. The additional securities (other than shares of Wesco delivered to Bank as collateral) shall satisfy at least 50% of the requirement for the maintenance of collateral under this paragraph 3.5. Borrower may, at any time, substitute other additional securities as collateral consisting of common or preferred stock or convertible debentures carrying from a B+ to an A+ rating in Standard + Poors Stock Guide, corporate bonds rated BBB or better in Standard + Poors

Bond Guide, or other securities which are acceptable to Bank and may withdraw collateral, other than securities issued by Wesco, which is in excess of the amount of collateral required to be maintained under this paragraph 3.5 and which would not violate in any way any of the provisions of Regulation U of the Board of Governors of the Federal Reserve System.

3.6 Financial Condition of Borrower. There has been no material adverse change in the financial condition of Borrower from that shown on its interim financial statement dated 1 September 1973.

SECTION 4

AFFIRMATIVE COVENANTS OF BORROWER

4. Borrower covenants and agrees that so long as the credit hereby granted shall remain available in whole or in part and until the full and final payment of all indebtedness incurred hereunder, unless Bank waives compliance in writing:

4.1 Use of Proceeds of Loan. It will use the proceeds of the loan to be made by Bank to it hereunder to purchase securities.

4.2 Current Liabilities. The amount of cash, merchandise inventory and marketable securities which are not restricted as to sale owned by Borrower shall, at all times, exceed the amount of its current liabilities.

4.3 Payment of Obligations. It will pay all of its liabilities and obligations when due and prior to the date on which penalties attach thereto.

4.4 Insurance. It will insure in, and will maintain insurance satisfactory to Bank with, responsible insurance companies in such amounts and against such risks as is customarily carried by owners of similar businesses and property, and it will furnish Bank, upon request, with full information as to the insurance carried.

4.5 Notice of Default. It will give prompt written notice to Bank of all events of default under any of the terms or provisions of this agreement, any note, or of any other agreement, contract, indenture, document or instrument entered, or to be entered, into by it, changes in management, litigation, and of any other matter which has resulted in, or might result in, a materially adverse change in its financial condition or operations.

4.6 Records. It will keep and maintain full and accurate accounts and records of its operations according to generally accepted accounting principles and practices and will permit Bank, and its designated officers, employes, agents and representatives, to have access thereto and to make examination thereof at all reasonable times, to make audits, and to inspect and otherwise check its properties, real, personal and mixed.

4.7 Information Furnished. It will furnish to Bank:

A. Within 60 days after the close of each fiscal quarter, except for the last quarter of each fiscal year, its consolidated balance sheet, plus the balance sheets of See's and Wesco, respectively, as of the close of such quarter, and its consolidated profit and loss statement and surplus reconcilation, and the profit and loss statement and surplus reconcilation of See's and the profit and loss statement of Wesco, respectively, for that quarter and for that portion of the fiscal year ending with such quarter, all in triplicate, all prepared in accordance with generally accepted accounting principles and practices, and so certified by Borrower's president, a vice president or Borrower's chief financial officer as to its and See's statements.

B. Within 120 days after the close of each fiscal year, a complete copy of its annual report, in triplicate, which report shall include at least its consolidated balance sheet as of the close of such fiscal year and its consolidated profit and loss statement and surplus reconcilation for such fiscal year, together with the opinion of independent certified public accountants selected by Borrower and satisfactory to Bank, prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the previous year.

C. Any consolidated financial statements prepared by or for Borrower.

D. Copies of all statements and reports sent to its shareholders and copies of all statements and reports sent to the shareholders of Wesco and Source Capital, Inc.

E. Such other information concerning its affairs as Bank may reasonably request.

4.8 Reimbursement of Bank. It will pay, or will reimburse Bank by reason of its payment of, all governmental charges, taxes and penalties imposed on this agreement or on any note issued hereunder.

4.9 Maintenance of Corporate Existence. It will maintain and preserve its corporate existence and all rights, permits, privileges and franchises presently existing and required in the conduct of its business; will conduct its business in an orderly, efficient and customary manner; and will keep and maintain all of its properties in good working order and condition.

4.10 Payment of Attorneys' Fees. It will promptly, upon demand by Bank, pay to and reimburse Bank for all costs and expenses, including reasonable attorneys fees, which Bank may expend or incur in the enforcement of any of the terms or provisions of this agreement or of any note or of any other agreement, contract, indenture, document or instrument mentioned herein or therein.

4.11 Execution of Other Documents. It will promptly, upon demand by Bank, execute all such additional agreements, contracts, indentures, documents and instruments in connection with this agreement as Bank may reasonably request.

4.12 Cross-collateralization. All of the securities hereinabove referred to in subparagraph 2.1 C. and paragraph 3.5 hereof, in addition to being collateral for the loan to be made by Bank to Borrower hereunder, shall also be collateral for the loan in the amount of $28,755,154.00 to be made by Bank to Borrower under a Loan Agreement dated as of the 8th of February 1974 between Borrower and Bank.

SECTION 5

NEGATIVE COVENANTS OF BORROWER

5. Borrower covenants and agrees that so long as the credit hereby granted shall remain available in whole or in part and until the full and final payment of all indebtedness incurred hereunder, unless Bank waives compliance in writing:

5.1 Funded Debt and Effective Net Worth. The funded debt of Borrower, herein defined as including (i) loans outstanding under this commitment, (ii) unsubordinated long term debt, and (iii) other non-current liabilities not defined herein, shall, at no time during the existence of this agreement, exceed the effective net worth of Borrower, herein defined as shareholders' equity plus subordinated debt.

5.2 Limitation on Intangibles. Any intangible asset which would result from any additional acquisition (s) shall not exceed an amount which is equal to 10 times the average net after-tax earnings for the preceding 3 years of the company to be acquired if funded debt (as hereinabove defined in paragraph 5.1) is in excess of 50% of the effective net worth (as hereinabove defined in paragraph 5.1).

5.3 Default Under Other Agreements or Contracts. It will not commit or do, or fail to commit or do, any act or thing which would constitute an event of default under any of the terms or provisions of any other agreement, contract, indenture, document or instrument executed, or to be executed, by it, and which would have a materially adverse effect on Bank's position hereunder.

5.4 Negative Pledge. It will not pledge, assign, transfer or convey, nor grant a security interest in, any of its assets with an aggregate value in excess of $10,000,000.00. The restrictions contained in this paragraph 5.4 shall not apply to the sale of any of the assets or securities owned by Borrower for valuable consideration.

SECTION 6

EVENTS OF DEFAULT

6.1 Events of Default. If one or more of the following described events of default shall occur:

A. Borrower shall default in the due and punctual payment of the principal of or the interest on any note issued hereunder; or

B. Borrower shall fail to perform or observe any of the terms, provisions, covenants, conditions, agreements or obligations (i) contained herein or (ii) in any other agreement, contract, indenture, document or instrument executed, or to be executed, by it and which would have a materially adverse effect on Bank's position hereunder, and such failure shall continue for more than 30 days after written notice from Bank to Borrower of the existence and character of such event of default; or

C. Borrower shall become insolvent, or be unable to pay its debts as they mature, or shall make an assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its properties or assets, or shall file a voluntary petition in bankruptcy or seeking reorganization or to effect a plan or other arrangement with creditors, or shall file an answer admitting the jurisdiction of the Court and the material allegations of an involuntary petition filed pursuant to any Act of Congress relating to bankruptcy or reorganization, or shall join in any such petition for an adjudication or for a reorganization or other arrangement, or shall become or be adjudicated a bankrupt, or shall apply for or consent to the appointment of or consent that an order be made appointing any receiver or trustee, for itself or for any of its properties, assets or business, or if an order shall be entered pursuant to any Act of Congress relating to bankruptcy or reorganization, or if a receiver or a trustee shall be appointed for all or a substantial part of its properties, assets or business, (otherwise than upon its own application or consent), and any such receiver or trustee so appointed shall not be discharged within 30 days after the date of such appointment; or

D. Any representation or warranty made by Borrower herein or in any certificate or financial or other statement heretofore or hereafter furnished by Borrower or any of its officers shall prove to be in any material respect false or misleading; or

E. Any writ of execution, attachment or garnishment of any lien, or any other legal process, be issued for an amount in excess of $1,000,000.00 against any of the property of Borrower; or

F. All, or substantially all, of the property of Borrower shall be condemned, seized or otherwise appropriated; or

G. Borrower shall voluntarily suspend the transaction of business for more than 30 days in any fiscal year from the effective date of this agreement;

THEN, or at any time thereafter, and in each and every such case, unless such default shall have been remedied, or waived in writing by Bank, the credit herein granted shall, at the option of Bank, immediately terminate, and, at the option of Bank, all notes and other liabilities and obligations outstanding under this agreement shall thereupon, without presentment, demand, protest, or notice of any kind, all of which are hereby expressly waived, be forthwith due and payable, if not otherwise then due and payable, anything herein or in any note or other agreement, contract, indenture, document or instrument contained to the contrary notwithstanding, and Bank may immediately, and without expiration of any period of grace, enforce payment of all liabilities and obligations of Borrower to Bank under this agreement and under any notes and other agreements, contracts, indentures, documents and instruments between Borrower and Bank.

SECTION 7

MISCELLANEOUS PROVISIONS

7.1 Notices. All notices, payments, requests, reports, information and demands which either party hereto may desire, or may be required, to give or make to the other party hereto, shall be given or made upon such other party by hand delivery or through deposit in the United States mail or by Western Union telegram, addressed as follows:

BLUE CHIP STAMPS
5801 South Eastern Avenue
Los Angeles, California 90040

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION
National Division
48th Floor - Bank of America Tower
555 South Flower Street
Los Angeles, California 90071

or to such other address as may, from time to time, be specified in writing by Borrower or Bank, respectively, and such action shall be complete upon receipt thereof.

7.2 Waiver. Neither the failure of, nor any delay on the part of, either party hereto in exercising any right, power or privilege hereunder, or under any agreement, contract, indenture, document or instrument mentioned herein, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder, or under any agreement, contract, indenture, document or instrument mentioned herein, preclude other or further exercise thereof or the exercise of any other right, power or privilege; nor shall any waiver of any right, power, privilege or default hereunder, or under any agreement, contract, indenture, document or instrument mentioned herein, constitute a waiver of any other right, power, privilege or default or constitute a waiver of any other default of the same or of any other term or provision. All rights and remedies herein provided are cumulative and not exclusive of any rights or remedies otherwise provided by law.

7.3 Termination. Notwithstanding anything to the contrary contained in this agreement, Bank shall not be obligated to extend any further credit to or make any additional loans to Borrower, and Bank expressly retains the right to terminate this credit and to accelerate the maturity of all indebtedness of Borrower to Bank in case of a change in the executive personnel or management policies of Borrower which Bank considers materially adverse to its interests as a lender or if there should occur an adverse change in the financial condition of Borrower which, in the opinion of Bank, is materially prejudicial to its interests as a lender.

7.4 Jurisdiction. This agreement and any notes issued hereunder and any agreements, contracts, indentures, documents or instruments mentioned herein, shall be governed by and construed according to the laws of the State of California, to the jurisdiction of whose courts the parties hereto hereby agree to submit.

7.5 Headings. The headings hereinabove set forth are solely for the purpose of identification and shall not be construed as a part of the paragraphs they head.

IN WITNESS WHEREOF this agreement has been executed by the parties hereto at the place and as of the date first hereinabove written.

BLUE CHIP STAMPS

By______________________
Executive Vice President

(Seal)

By______________________
Secretary

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By______________________
Vice President

(Seal)

By______________________
Assistant Secretary

PART I

Item 1. Business.

Blue Chip Stamps (the "Company") and its subsidiaries are engaged in four lines of business:

(1) The trading stamp business. The Company purchases merchandise from approximately 500 suppliers for distribution to consumers through seventy modern, full-service redemption stores, located primarily in California.

(2) The incentive business. A separate division, on a nationwide basis, develops incentive programs for all types of businesses and also programs under which oil companies and other large issuers of credit cards can offer merchandise to their credit card holders.

(3) The candy business. A subsidiary acquired in January 1972 manufactures quality candy and retails it through 172 company-operated shops in nine western states including Hawaii.

(4) The savings and loan business. An unconsolidated subsidiary, controlled since late 1973, operates at ten locations in Southern California.

Stamp service revenues have declined from a historical peak of $124,180,000 for the fiscal year ended February 28, 1970 to $51,375,000 for the fiscal year ended March 2, 1974. This decline has resulted from several factors. First, a number of supermarket operators have discontinued or reduced the use of trading stamps in connection with their conversion to discount merchandising. Second, the nation's largest trading stamp company converted much of its California operations to the Company's lower-priced, nonfranchised manner of doing business. Third, the service station industry curtailed so-called multiple stamping and has now, as a result of the gasoline shortage, virtually eliminated the use of stamps. No reversal of this adverse trend in stamp service volume is expected in the near future.

The number of Company employees fluctuates but currently averages less than 1,000.

Item 1. Business. (Continued)

A substantial portion of each year's candy sales are generated in the Christmas season.

The following table sets forth for the past five fiscal years the relative contribution of each line of business presently accounting for ten per cent or more of total (consolidated) revenues or of total income before income taxes, securities losses and extraordinary charges:

	Fiscal year ended February 28, 1970	February 27, 1971	March 4, 1972	March 3, 1973	March 2, 1974
Revenues:					
Trading stamp service	99%	99%	95%	73%	59%
Candy business	-	-	4	25	35
Income before income taxes, securities losses and extraordinary charges:					
Trading stamp service	100	100	95	60	44
Candy business	-	-	4	38	40
Savings and loan business	-	-	-	-	16

Item 2. Summary of Operations.

Following is a statement of income for the Company for the two fiscal years ended February 27, 1971 and a consolidated statement of income for the Company and its consolidated subsidiary for the three fiscal years ended March 2, 1974:

	Fiscal year ended February 28, 1970	February 27, 1971	March 4, 1972	March 3, 1973	March 2, 1974
	(In thousands except for amounts per share)				
Revenues:					
Stamp service revenues	$124,180	$118,374	$100,622	$ 88,736	$ 51,375
Incentive sales	1,822	1,759	2,145	3,624	6,261
Candy sales	-	-	4,104	32,049	35,780
Interest and dividends	4,708	6,203	6,359	7,315	8,260
Other	1,310	1,448	872	599	543
	132,020	127,784	114,102	132,323	102,219
Costs and expenses:					
Cost of redemptions and sales	108,977	104,392	93,791	95,662	68,156
Selling, general and administrative expenses	7,275	8,558	10,917	21,729	21,263
Interest	705	705	927	2,638	3,597
Discount amortization	358	358	365	358	365
	117,315	114,013	106,000	120,387	93,381
Income before income taxes, equity in net income of Wesco Financial Corporation, securities gains (losses) and extraordinary charges	14,705	13,771	8,102	11,936	8,838
Provision for income taxes	(6,967)	(5,032)	(2,195)	(3,828)	(2,071)
Equity in net income of Wesco Financial Corporation	-	-	-	-	1,423
Income before securities gains (losses) and extraordinary charges	7,738	8,739	5,907	8,108	8,190
Securities gains (losses), less income tax effect	27	(155)	(1,693)	(82)	(185)
Income before extraordinary charges	7,765	8,584	4,214	8,026	8,005
Extraordinary charges - settlements of lawsuits, less income tax effect	(378)	-	-	(925)	-
Net income	$ 7,387	$ 8,584	$ 4,214	$ 7,101	$ 8,005
Per share:					
Income before securities gains (losses) and extraordinary charges	$1.53	$1.72	$1.15	$1.58	$1.58
Securities gains (losses), less income tax effect	.01	(.03)	(.33)	(.02)	(.03)
Income before extraordinary charges	1.54	1.69	.82	1.56	1.55
Extraordinary charges, less income tax effect	(.08)	-	-	(.18)	-
Net income	$1.46	$1.69	$ .82	$1.38	$1.55
Dividends declared	$ .10	$ .24	$ .24	$ .24	$ .24

Item 2. Summary of Operations. (Continued)

Candy sales and other accounts of the candy subsidiary are included on a consolidated basis from acquisition in January 1972.

The Company's equity in Wesco Financial Corporation's net income for the latter's year ended December 31, 1973 is included in the Company's operations for the year ending March 2, 1974 under the equity method (see Note 1 to the consolidated financial statements in the attached printed annual report).

Per share earnings computations are based upon the weighted average number of shares of common stock outstanding during the fiscal year adjusted for a five-for-one stock split in October 1969 and for the dilutive effect of all outstanding stock options. Such dilution is calculated assuming all such options have been exercised and the proceeds used to purchase shares at the average market price during the year. Following is a summary of the shares used in per share earnings computations:

	Fiscal year ended				
	February 28, 1970	February 27, 1971	March 4, 1972	March 3, 1973	March 2, 1974
Average shares outstanding	4,877,000	4,957,000	5,028,000	5,069,000	5,179,000
Dilution assuming exercise of outstanding stock options	180,000	123,000	88,000	60,000	1,000
	5,057,000	5,080,000	5,116,000	5,129,000	5,180,000

No change in per share amounts would result from use of the more restrictive "fully diluted" method.

The decline in stamp service revenues beginning with the fiscal year ended in 1971 has been caused by various factors (see Item 1). Related net income has suffered less due to improved after-tax yield on marketable securities. Net income for the fiscal year ended in 1972 decreased significantly due to the decline in stamp service revenues and also as a result of substantial securities losses. Total revenues for the fiscal year ended in

Item 2. Summary of Operations. (Continued)

1973 increased over those for the fiscal year ended in 1972 due to inclusion of a full year's candy sales in the fiscal 1973 figures versus only two months' in the fiscal 1972 figures. The acquisition of the candy business has improved net income starting with the fiscal year ended in 1973, while inclusion of the Company's equity in earnings of the savings and loan business has benefited net income in fiscal 1974. Net income was adversely affected in the fiscal years ended in 1970 and 1973 due to extraordinary charges. Comments in this paragraph also apply to the corresponding per share figures.

Revenues, earnings and earnings per share as set forth in the statement of income are not necessarily indicative of future revenues, earnings and earnings per share. As explained in Item 1, stamp service revenues have been declining since the fiscal year ended in 1970; in particular, these revenues have dropped from $21,159,000 in the fourth quarter of fiscal 1973 to $8,774,000 in the fourth quarter of fiscal 1974. No reversal of this trend is expected in the near future. The Company believes that a sale or spin-off of one-third of its California trading stamp business (see Item 5 herein and Note 11 to the consolidated financial statements in the attached printed annual report), if consummated, would compel the Company to discontinue issuance of its trading stamps.

Item 2. Summary of Operations. (Continued)

Following is an analysis of retained earnings and other capital accounts for the five fiscal years ended March 2, 1974:

	Common stock Shares*	Common stock Amount	Paid-in capital	Retained earnings
Balance at March 1, 1969	4,871,000	$ 325,000	$2,878,000	$24,846,000
Change in par value	-	4,546,000	(2,878,000)	(1,668,000)
Exercise of stock options	79,000	79,000	403,000	-
Cash dividends of $.10 per share	-	-	-	(487,000)
Net income	-	-	-	7,387,000
Balance at February 28, 1970	4,950,000	4,950,000	403,000	30,078,000
Exercise of stock options	77,000	77,000	393,000	-
Purchase of stock from terminated employees	(1,000)	(1,000)	-	-
Cash dividends of $.24 per share	-	-	-	(1,188,000)
Net income	-	-	-	8,584,000
Balance at February 27, 1971	5,026,000	5,026,000	796,000	37,474,000
Exercise of stock options	13,000	13,000	66,000	-
Cash dividends of $.24 per share	-	-	-	(1,208,000)
Net income	-	-	-	4,214,000
Balance at March 4, 1972	5,039,000	5,039,000	862,000	40,480,000
Exercise of stock options	140,000	140,000	717,000	-
Cash dividends of $.24 per share	-	-	-	(1,214,000)
Net income	-	-	-	7,101,000
Balance at March 3, 1973	5,179,000	5,179,000	1,579,000	46,367,000
Cash dividends of $.24 per share	-	-	-	(1,243,000)
Net income	-	-	-	8,005,000
Balance at March 2, 1974	5,179,000	$5,179,000	$1,579,000	$53,129,000

*Adjusted for five-for-one stock split, October 1969.

Item 3. Properties.

The Company operates a merchandise distribution center at Los Angeles. The distribution center has a storage capacity of approximately 8,000,000 cubic feet and is leased under an agreement expiring July 31, 1975 (with a five-year renewal option). The Company is in the process of selling a 4,900,000-cubic-foot distribution center in Richmond, California, which it closed in March 1974.

The candy manufacturing subsidiary manufactures candy in approximately 220,000 square feet of fully equipped kitchen facilities which it owns in Los Angeles and South San Francisco.

The savings and loan subsidiary owns its head office building in Pasadena.

Redemption stores, candy shops and savings and loan branch offices are normally leased. The leases expire on various dates, none later than 1994.

Item 4. Parents and Subsidiaries.

Warren E. Buffett, a director of the Company, holds beneficially 13% of the Company's 5,178,770 shares of common stock outstanding; the beneficial holdings of Mr. Buffett and his associates aggregate 52%. Mr. Buffett, his wife and entities with which they are associated own shares of the Company's common stock, as follows:

Warren E. Buffett	550,090
Susan T. Buffett, spouse, children of Mr. Buffett and trusts of which he is trustee but has no beneficial interest	126,628
Subsidiaries of Diversified Retailing Company, Inc. (a)	841,900
Berkshire Hathaway Inc. and subsidiaries (b)	1,170,233

(a) Mr. Buffett is Chairman of the Board of Diversified Retailing Company, Inc. ("Diversified") (which through a subsidiary is principally engaged in operating women's apparel stores). Mr. and Mrs. Buffett own 43% of the common stock of Diversified.

Item 4. Parents and Subsidiaries. (Continued)

(b) Mr. Buffett is Chairman of the Board and chief executive officer of Berkshire Hathaway Inc. ("Berkshire") (which is principally engaged in the manufacture and sale of textiles, and subsidiaries of which are principally engaged in the banking and insurance businesses). Mr. and Mrs. Buffett own 36% of the common stock of Berkshire. In addition, Diversified and subsidiaries, referred to in (a) above, own 11% of such stock. Berkshire and Diversified are seeking the necessary approvals of stockholders and regulatory authorities in order to merge Diversified into Berkshire.

The Company owns 99% of the outstanding common stock of See's Candy Shops, Incorporated, which, in turn, owns 100% of the common stock of See's Candies, Inc., both California corporations. Financial statements of both companies are included in the Company's consolidated financial statements from date of acquisition in January 1972.

The Company owns 58% of the outstanding common stock of Wesco Financial Corporation ("Wesco"), a Delaware corporation, which, in turn, owns all of the outstanding stock of Mutual Savings and Loan Corporation, a California corporation, whose subsidiaries are insignificant in the aggregate. The Company has taken up its equity in Wesco's consolidated undistributed net earnings for Wesco's year ended December 31, 1973. Consolidated and unconsolidated financial statements of Wesco are incorporated herein by reference to Wesco's Form 10-K Annual Report for the year ended December 31, 1973.

Item 5. Pending Legal Proceedings.

(a) United States of America v. Blue Chip Stamp Company, Alexander's Markets, Lucky Stores, Inc., Market Basket, Purity Stores, Inc., Ralphs Grocery Company, Safeway Stores, Incorporated, Thriftimart, Inc., Thrifty Drug Stores, Inc., and Vons Grocery Co. United States District Court, Central District of California, Civil Action No. 63-1552-F.

Item 5. Pending Legal Proceedings. (Continued)

This action under the Sherman Act was instituted by the United States Department of Justice on December 26, 1963 against the Company's predecessor and a Consent Decree was entered therein on June 5, 1967. Pursuant to said Consent Decree, the Company in June 1972 submitted for approval by the Court a plan to offer for sale one-third of its California trading stamp business located within a contiguous geographical area in Southern California. In January 1973 the Court signed an order (1) disapproving said plan, (2) requiring the Company to continue efforts to negotiate a sale and (3) calling for the appointment of an independent expert witness to study the feasibility of a sale or spin-off of a portion of the Company's trading stamp business under existing conditions. The report of the independent witness has not yet been filed with the Court.

(b) Black and Brown Trading Stamp Corporation v. Blue Chip, Chevron Oil Company, Shell Oil Company, Phillips Petroleum Company, Mohawk, Standard Oil of California, Mobil Oil Corporation, Texaco, Inc., ARCO, Humble Oil and Refining Company, Douglas Oil Co. of California, Gulf Oil Corporation, Union Oil of California, Simas Bros. Service Stations, Vons Grocery Company, Lucy Stores, Inc., Safeway Stores, Inc., Mayfair Markets, Boy's Markets, Better Foods, and Thriftimart, Inc. United States District Court, Northern District of California, Civil Action No. 71-1333-OJC filed July 12, 1971.

This antitrust action, brought by a California corporation formerly engaged in the trading stamp business, asserts damages to plaintiff in excess of $160,000,000 and seeks treble damages plus attorneys' fees and costs, but the Company has not been served with process.

(c) Manor Drug Stores, and all other users of Blue Chip Stamps who were entitled but failed to purchase stock of Blue Chip Stamps, on behalf of themselves and all other persons similarly situated v. Blue Chip Stamps, Blue Chip Stamp Co., a merged corporation, Alexander's Markets, Lucky Stores, Inc., Market Basket.

Item 5. Pending Legal Proceedings. (Continued)

Purity Stores, Inc., Ralphs Grocery Company, Safeway Stores, Inc., Thriftimart, Inc., Thrifty Drug Stores Co., Inc., Vons Grocery Co., Robert E. Alexander, Donald A. Koeppell, Leonard H. Straus, William F. Ramsey, Robert E. Laverty, Richard Ralphs, John R. Niven, Fred Von der Ahe. United States District Court, Central District of California, Civil Action No. 70-2539 filed November 10, 1970.

This purported class action was filed on behalf of retailer users of Blue Chip stamps who failed to purchase stock of the Company in a 1968 offering to retailer users. The amended complaint filed January 27, 1971 alleges damages to plaintiffs of \$21,400,000 and exemplary damages of \$25,000,000, interest, attorneys' fees and costs, and prays that plaintiffs have the right to purchase stock, or units of stock and debentures, of the Company on the terms of the 1968 offering. The action was dismissed with prejudice by the United States District Court. On October 15, 1973 a panel of three judges of the United States Court of Appeals for the Ninth Circuit reversed the prior dismissal by the District Court and remanded the case for further proceedings. In a two-to-one opinion, the panel held that a class of persons who were entitled to but failed to purchase securities of the Company in connection with the 1968 offering had standing to sue for damages under Rule 10b-5 of the Securities Exchange Act of 1934, if they could prove that such failure to purchase was induced by alleged fraudulent representations of the Company and certain of its past and present officers, directors and shareholders. On April 1, 1974 the Ninth Circuit denied a petition for rehearing and a request that the case be heard by the entire panel of judges of the Ninth Circuit. The defendants will seek a review by the United States Supreme Court.

On June 21, 1971 plaintiffs filed a substantially identical action against the same defendants in the Superior Court of the State of California for the County of Los Angeles (No. C-5652). The Company has not yet been served with process in this latter action.

Item 5. Pending Legal Proceedings. (Continued)

(d) Eleanor A. Botney and Thelma G. Daar, in behalf of themselves and all others similarly situated v. Blue Chip Stamps. Los Angeles County Superior Court, No. 997,374 filed March 1, 1971.

This is a purported class action to recover for stamp savers monies collected by the Company as reimbursement for California sales taxes on redemption of stamps. Plaintiffs claim that redemption transactions are not taxable and that all such collections should be returned, or alternatively, that such collections exceeded the tax properly payable and such excess should be returned. The Company has paid sales taxes to the state equal to its reimbursement collections. The Company has asserted claims against the state for reimbursement of all or part of any recovery by plaintiffs. Following denial of these claims by the state, the Company cross-complained against the state seeking indemnity. The original complaint was amended to allege fraud and to seek punitive damages from the Company. On June 1, 1973 two partial summary judgments were entered by way of interlocutory orders, neither of which has yet become final or appealable. The first was in favor of the Company to the effect that the redemption transactions were taxable. The second was in favor of plaintiffs to the effect that the Company's collections exceeded the tax properly payable.

(e) The information as to pending legal proceedings set forth in Item 5 of the Form 10-K Annual Report for the year ended December 31, 1973 filed by Wesco Financial Corporation, a subsidiary of the Company, is incorporated herein by reference.

Item 6. Increases and Decreases in Outstanding Securities.

Following is an analysis of changes in the amount of the Company's 6-3/4% Subordinated Debentures due 1978 outstanding during the fiscal year ended March 2, 1974:

Balance, March 3, 1973	$10,840,000
Purchases of debentures for retirement, July 1973 through February 1974	(287,000)
Balance, March 2, 1974	$10,553,000

Item 7. Approximate Number of Equity Security Holders.

Title of class	Number of record holders as of April 15, 1974
Common stock, par value $1.00 per share	2,791

Item 8. Executive Officers of the Registrant.

Following is a list of the Company's executive officers, whose ages range from 56 to 40 years:

Name	Position
Donald A. Koeppel	Chairman of the Board and President
William F. Ramsey	Executive Vice President and Director
Raymond H. Allen	Vice President, Information Systems
Gerald N. Anderson	Vice President, Sales
Robert H. Bird	Vice President, Secretary and Treasurer
James D. Carter	Vice President, Operations
Walter M. Cusack	Vice President, Incentives
William K. Klepper	Vice President, Merchandise
Kenneth E. Wittmeyer	Vice President, Industrial Relations

Item 9. Indemnification of Directors and Officers.

Reference is made to Item 29 of Part II of the Company's Registration Statement (Form S-1) No. 2-35318 dated December 17, 1969.

Item 10. Financial Statements and Exhibits Filed.

(a) Financial Statements:

Index to Financial Statements

The final proof of the March 2, 1974 and March 3, 1973 consolidated balance sheets and consolidated statements of income, stockholders' equity and changes in financial position and notes thereto, together with the report thereon of Price Waterhouse & Co. dated April 12, 1974, which will appear in the 1974 printed annual report of Blue Chip Stamps is incorporated in this Form 10-K Annual Report. With the exception of the aforementioned information, the 1974 printed annual report is not to be deemed filed as part of this report.

The December 31, 1973 and 1972 consolidated and unconsolidated balance sheets and statements of earnings, stockholders' equity and changes in financial position of Wesco Financial Corporation, the notes thereto and the supplemental information to the notes to such consolidated financial statements, and the supporting schedules, together with the report thereon of Peat, Marwick, Mitchell & Co. dated February 8, 1974, are incorporated herein by reference to the Form 10-K Annual Report listed below in Item 10(b).

The following additional financial data should be read in conjunction with the financial statements and notes of Blue Chip Stamps referred to above. Schedules not included with this additional financial data have been omitted because they are not applicable or the required information is shown in such financial statements or notes.

The individual financial statements of Blue Chip Stamps have been omitted since it is primarily an operating company and the total of minority interest and nonguaranteed long-term debt of its consolidated subsidiary is less than 4% of total consolidated assets.

Item 10. Financial Statements and Exhibits Filed. (Continued)

(b) Exhibits:

(1) Incorporated by reference to Form 10-K Annual Report filed by Wesco Financial Corporation for the year ended December 31, 1973 -

Item 5. Pending Legal Proceedings

Consolidated and unconsolidated financial statements of Wesco Financial Corporation

(2) Filed herewith -

11.1-3 Booklet summarizing pension plan of Blue Chip Stamps

13.10 Loan Agreement dated February 8, 1974 between Blue Chip Stamps and Bank of America National Trust and Savings Association in amount of $28,755,154

13.11 Loan Agreement dated February 8, 1974 between Blue Chip Stamps and Bank of America National Trust and Savings Association in amount of $11,244,846

PART II

Item 11. Principal Security Holders and Security Holdings of Management.

The following table sets forth information as of April 15, 1974 as to holdings of the Company's common stock by beneficial owners of 10% or more and by all directors and officers as a group:

Name and address	Type of ownership	Shares owned	Per cent of class
Warren E. Buffett, Omaha, Nebraska	Record and beneficial	676,718(a)	13
Diversified Retailing Company, Inc., Baltimore, Maryland	Beneficial only	841,900(a)	16
Berkshire Hathaway Inc., New Bedford, Massachusetts	Record and beneficial	1,170,233(a)	23
All directors and officers as a group	Record and beneficial	311,941(b)	6

(a) See Item 4 herein for explanation of relationships between Mr. Buffett, Diversified Retailing Company, Inc. and Berkshire Hathaway Inc.

(b) Does not include holdings of Mr. Buffett, a director of the Company, or his associates, as shown above. Also excluded are indirect holdings of John P. Guerin, Jr., Joseph P. Hughes, Charles T. Munger, Ron Stever and Andrew J. Wolf, directors of the Company, as follows:

(1) J. P. Guerin & Co., a limited partnership of which Mr. Guerin is a general partner, owned 100,000 shares;

(2) Hughes Markets, Inc., of which Mr. Hughes is President and beneficial owner of an 86% interest, owned 51,225 shares;

(3) Wheeler, Munger & Co., a limited partnership of which Mr. Munger is managing general partner, owned 505,060 shares. Mr. Stever is a limited partner owning less than a 5% interest in said partnership. Wheeler, Munger & Co. also owned 10% of Diversified Retailing Company, Inc.;

Item 11. Principal Security Holders and Security Holdings of Management. (Continued)

(4) A & B Supermarkets, Inc., of which Mr. Wolf is President and 50% owner, owned 3,990 shares, and Redemp Co., a profit sharing trust in which he has a substantial interest, owned 2,125 shares.

Item 12. Directors of the Registrant.

The following table sets forth certain information as to each director including the period during which he has served as a director of the Company and its predecessor, Blue Chip Stamp Company:

Name	Age	Director since	Other offices with the Company
Warren E. Buffett	43	1970	None
Z. Wayne Griffin	66	1969	None
John P. Guerin, Jr.	44	1970	None
Joseph P. Hughes	67	1969	None
Emmett H. Jones	72	1969	None
Donald A. Koeppel	56	1960	Chairman of the Board, President
Charles T. Munger	50	1969	None
William F. Ramsey	46	1966	Executive Vice President
Ron Stever	69	1969	None
Andrew J. Wolf	49	1969	None

Directors are elected annually to serve until their respective successors have been elected.

Item 13. Remuneration of Directors and Officers.

The following table shows the aggregate direct remuneration paid by the Company or its subsidiary with respect to the fiscal year ended March 2, 1974 to each director of the Company whose direct remuneration exceeded $40,000 and to each of the three highest paid officers of the Company who received more than that amount, the estimated annual benefit upon retirement of each such director or officer and the aggregate direct remuneration for such year to all directors and officers of the Company as a group:

Name of individual or identity of group	Capacity in which remuneration was received	Aggregate direct remuneration(a)	Estimated annual benefit under pension plan(b)
Donald A. Koeppel	President	$ 82,000	$30,191
William F. Ramsey	Executive Vice President	76,820	28,875
Robert H. Bird	Secretary and Treasurer	42,500	13,137
All directors and officers as a group, 18 in number		412,810	

(a) Includes bonuses paid to officers with respect to such fiscal year. In the event of death while employed by the Company, Mr. Koeppel's heirs would receive $25,000 and Mr. Ramsey's heirs $17,000 annually for the next ten years.

(b) Amounts have been calculated as of January 1, 1974. It is assumed that the recipients continue to be employed by the Company until normal retirement date and that the plan is continued without modification.

Item 14. Options Granted to Management to Purchase Securities.

The Company has a qualified stock option plan for officers and key employees. Directors who are not officers or employees are not eligible. The following table sets forth information with respect to such plan as of April 15, 1974 for all officers and directors as a group (including a person elected as an officer on March 28, 1974):

	Number of shares
Granted or exercised since March 3, 1973	None
Unexercised at April 15, 1974 -	
Option price of $15.19 per share	14,000
Option price of $14.75 per share	7,200

Item 15. Interest of Management and Others in Certain Transactions.

During the fiscal year ended March 2, 1974, Hughes Markets, Inc. of which Joseph P. Hughes is President, purchased trading stamp services from the Company in the amount of $1,532,175 and A & B Supermarkets, Inc., of which Andrew J. Wolf is President, purchased trading stamp services from the Company in the amount of $109,856. Messrs. Hughes and Wolf are directors of the Company.

SIGNATURES

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

BLUE CHIP STAMPS

Date: May 22, 1974

By [signature]
R. H. Bird
Vice President,
Secretary and Treasurer

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the application of our report dated April 12, 1974, which appears in the final proof of the 1974 printed annual report of Blue Chip Stamps, to the additional financial data of Blue Chip Stamps listed in the foregoing index when this data is read in conjunction with the final proof of the consolidated financial statements which will appear in such annual report; our report and the consolidated financial statements have been incorporated in this Form 10-K Annual Report. The examinations referred to in our report included examinations of the additional financial data.

Price Waterhouse & Co.
PRICE WATERHOUSE & CO.

606 South Olive Street
Los Angeles 90014
April 12, 1974

SUPPLEMENTARY INFORMATION TO NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	March 2, 1974	March 3, 1973
Income from marketable securities:		
Interest	$1,521,000	$1,529,000
Dividends	6,739,000	5,786,000
	$8,260,000	$7,315,000

The cost of securities sold is determined by the first-in, first-out method.

Beginning and ending inventories for the two fiscal years ended in 1974 are as follows:

March 4, 1972	$14,187,000
March 3, 1973	13,114,000
March 2, 1974	10,355,000

The above amounts consist primarily of redemption merchandise except that the March 2, 1974, March 3, 1973 and March 4, 1972 amounts include $2,225,000, $1,214,000 and $1,459,000 relating to candy operations.

The estimated useful lives used in computing depreciation are as follows:

Buildings	10 to 40 years
Furniture, fixtures and equipment	3 to 15 years
Leasehold improvements	Lives of leases

Expenditures for renewals and betterments of property, fixtures and equipment are capitalized; maintenance and repair costs are charged to income as incurred. When assets are retired or otherwise disposed of, the accounts are relieved of applicable cost and accumulated depreciation and amortization, and any gain or loss on disposal is credited or charged to income.

The excess of cost over equity in net assets of the consolidated subsidiary increased from $16,245,000 at March 4, 1972 to $17,223,000 at March 3, 1973 and $17,227,000 at March 2, 1974 due to purchases of additional shares. These amounts are shown net of accumulated amortization of $54,000, $482,000 and $913,000.

The components of accounts payable and accrued expenses are as follows:

	March 2, 1974	March 3, 1973
Accounts payable	$5,745,000	$5,679,000
Accrued compensation	1,831,000	2,315,000
Taxes other than income	570,000	632,000
	$8,146,000	$8,626,000

Included in interest and discount amortization is amortization of debenture discount amounting to $365,000 and $358,000 for the fiscal years ended in 1974 and 1973. Debenture discount is being amortized over the term of the debentures by use of the debentures outstanding method.

Provisions for income taxes include state taxes of $663,000 and $518,000 for the fiscal years ended in 1974 and 1973.

Securities losses are shown net of income tax benefits of $9,000 and $3,000 for the fiscal years ended in 1974 and 1973.

The aggregate maturities of all long-term debt due in the five years subsequent to March 2, 1974 are:

Fiscal year ending in	
1975	$8,881,000
1976	9,168,000
1977	9,168,000
1978	9,168,000
1979	8,168,000

The Company has a short-term line of credit of $5,000,000. There were no borrowings at March 2, 1974, and monthend balances during the year then ended did not exceed $3,500,000. Interest, which is at prime rate, averaged 9.2% during the year based on the average monthend balance of $1,808,000.

The results of operations would not be materially affected if all so-called noncapitalized financing leases were capitalized.

Rental commitments apply primarily to redemption stores and candy shops.

The Company's consolidated subsidiary has two noncontributory profit-sharing plans which cover employees meeting certain eligibility requirements. Company contributions are discretionary and subject to certain limitations. Provisions for contributions to the trust funds for the fiscal years ended in 1974 and 1973 totaled $315,000 and $426,000.

Under the Company's qualified stock option plan, options for 332,500 shares were granted in February 1969 at $6.10 per share, options for 7,500 shares were granted in March 1970 at $14.75 per share and options for 18,000 shares were granted in March 1972 at $15.1875 per share, fair market values at dates granted. The options are exercisable in four annual instalments beginning one year after date of grant and expire five years after such date. At both March 2, 1974 and March 3, 1973, 194,000 shares were available for grant. The excess of aggregate proceeds from exercise over par value is credited to paid-in capital. Additional option information is summarized below:

	Year ended	
	March 2, 1974	March 3, 1973
Options which became exercisable during the period:		
Number of shares	6,375	78,625
Option price -		
Per share	$14.75 and $15.1875	$6.10 and $14.75
Total	$96,000	$495,830
Market price at date first exercisable -		
Per share	$13.00 and $13.125	$13.625 and $14.75
Total	$83,438	$1,073,375
Options exercised during the period:		
Number of shares	-	140,500
Option price -		
Per share	-	$6.10
Total	-	$857,050
Market price at dates exercised -		
Per share range	-	$13.375 - $15.125
Total	-	$1,909,875

At March 2, 1974 options to purchase 25,200 shares were outstanding at an aggregate price of $379,575 (including options for 9,825 shares currently exercisable for $146,888).

SCHEDULE I - MARKETABLE SECURITIES
MARCH 2, 1974

Name of issuer and title of issue	Number of shares or units - principal amount of bonds and notes	Amount at which shown in balance sheet	Value based on market quotations at March 2, 1974
Certificates of deposit, interest bearing	$27,200,000	$27,200,000	$27,200,000
Commercial paper	$ 4,000,000	$ 3,964,000	$ 3,983,000
Preferred stocks:			
Duke Power Co., 6.75% Cum. Conv.	10,000	$ 1,000,000	$ 840,000
Other	31,800	863,000	715,000
	41,800	$ 1,863,000	$ 1,555,000
Common stocks:			
American Telephone & Telegraph Company	298,400	$13,578,000	$15,666,000
American Water Works Co., Inc.	86,800	1,062,000	857,000
Baystate Corp.	108,480	3,557,000	2,929,000
Cleveland Trust Company	87,799	7,136,000	7,309,000
Detroitbank Corporation	155,083	7,170,000	6,552,000
Harris Bankcorp, Inc.	104,900	5,285,000	6,189,000
Hartford National Corp.	100,844	3,070,000	2,370,000
Iowa Power & Light Company	42,700	1,064,000	919,000
Iowa Southern Utilities Company	64,300	1,648,000	1,479,000
Kansas City Power & Light Company	30,100	1,017,000	824,000
Kansas Power & Light Company	43,400	896,000	891,000
Manufacturers National Corp.	109,470	3,706,000	3,229,000
National Detroit Corp.	296,880	14,431,000	12,031,000
Northeast Bancorp, Inc.	33,000	1,117,000	825,000
Peoples Gas Company	28,900	967,000	845,000

SCHEDULE I - MARKETABLE SECURITIES (Continued)
MARCH 2, 1974

Name of issuer and title of issue	Number of shares or units - principal amount of bonds and notes	Amount at which shown in balance sheet	Value based on market quotations at March 2, 1974
Common stocks: (Continued)			
Philadelphia Electric Company	88,700	$ 1,818,000	$ 1,685,000
Pittsburgh National Corp.	286,500	9,734,000	9,526,000
San Jose Water Works	30,800	1,071,000	1,124,000
Shawmut Association, Inc.	68,423	3,533,000	2,669,000
Source Capital, Inc.	1,065,159	10,508,000	9,853,000
State Street Boston Financial Corporation	64,239	2,609,000	2,377,000
TI Corporation of California	55,500	1,200,000	1,027,000
Toledo Edison Company	32,000	837,000	828,000
Other	111,114	2,702,000	3,912,000
	3,393,491	$ 99,716,000	$ 95,916,000
Total marketable securities		$132,743,000	$128,654,000

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SCHEDULE III

INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS

Name of issuer and description of investment	Balance at beginning of period		Additions			Deductions	Balance at end of period	
	Number of shares	Amount in dollars	Equity taken up in earnings of affiliate for the period	Purchases	Other	Distributions of earnings by person in which earnings were taken up	Number of shares	Amount in dollars
March 2, 1974:								
Investment in common stock of Wesco Financial Corporation ("Wesco")	518,860 (1)	$8,099,000 (1)	$1,455,000 (1) (2)	$8,125,000	$218,000 (3)	$451,000	1,058,042 (4)	$17,446,000

(1) As explained in Note 1 to the consolidated financial statements, the investment in Wesco at March 3, 1973 represented 21.9% of Wesco's outstanding stock and was included at cost in marketable securities. Upon receipt of regulatory approval to obtain control (defined inter alia as ownership of more than 25%) in September 1973, the Company increased its ownership beyond 25% and recorded the investment under the equity method.

(2) The amount shown in the income statement is $32,000 less due to provision for income taxes on the portion distributed.

(3) Amortization of the excess of equity in Wesco's net assets over cost.

(4) Represents 44.6% of Wesco's outstanding stock.

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SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

Classification	Balance at beginning of period	Additions at cost	Retirements	Other changes add (deduct)	Balance at end of period
Year ended March 3, 1973:					
Land	$ 2,900,000				$ 2,900,000
Buildings	5,572,000	$ 33,000	$ 6,000	$104,000 (1)	5,703,000
Furniture, fixtures and equipment	8,897,000	383,000	236,000	(87,000)(1)	8,957,000
Leasehold improvements	3,406,000	911,000	184,000	(17,000)(1)	4,116,000
	$20,775,000	$1,327,000	$426,000	$ -	$21,676,000
Year ended March 2, 1974:					
Land	$ 2,900,000				$ 2,900,000
Buildings	5,703,000	$ 52,000			5,755,000
Furniture, fixtures and equipment	8,957,000	629,000	$297,000		9,289,000
Leasehold improvements	4,116,000	398,000	227,000		4,287,000
	$21,676,000	$1,079,000	$524,000		$22,231,000

(1) Reclassifications to other accounts.

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SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Description	Balance at beginning of period	Charged to costs and expenses	Retirements	Other changes add (deduct)	Balance at end of period
Year ended March 3, 1973:					
Buildings	$ 1,935,000	$ 239,000		$24,000 (1)	$ 2,198,000
Furniture, fixtures and equipment	6,252,000	798,000	$189,000	(67,000)(1)	6,794,000
Leasehold improvements	1,655,000	317,000	116,000	43,000 (1)	1,899,000
	$ 9,842,000	$1,354,000	$305,000	$ -	$10,891,000
Year ended March 2, 1974:					
Buildings	$ 2,198,000	$ 236,000			$ 2,434,000
Furniture, fixtures and equipment	6,794,000	720,000	$271,000		7,243,000
Leasehold improvements	1,899,000	397,000	196,000		2,100,000
	$10,891,000	$1,353,000	$467,000		$11,777,000

(1) Reclassifications to other accounts.

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SCHEDULE XVI - SUPPLEMENTARY INCOME STATEMENT INFORMATION

Item	Charged to costs and expenses
Year ended March 3, 1973:	
Maintenance and repairs	$1,092,000
Taxes other than income taxes -	
Payroll	1,394,000
Other	754,000
Advertising costs	1,034,000
Year ended March 2, 1974:	
Maintenance and repairs	$1,120,000
Taxes other than income taxes -	
Payroll	1,528,000
Other	734,000
Advertising costs	1,012,000

No royalties or research and development costs were incurred. Depreciation, amortization and rents are disclosed in the notes to consolidated financial statements.

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Consolidated Balance Sheet

March 2, 1974 and March 3, 1973 (Note 1)

ASSETS	1974	1973
Current assets:		
Cash	$ 3,013,000	$ 4,196,000
Marketable securities (Notes 3 and 5)	132,743,000	144,601,000
Accounts receivable	4,034,000	4,148,000
Merchandise and supplies inventories, at the lower of cost (first-in, first-out) or market	10,355,000	13,114,000
Prepaid income taxes and other expenses (Note 6)	4,879,000	4,792,000
Total current assets	155,024,000	170,851,000
Property, fixtures and equipment, at cost, less accumulated depreciation and amortization (Note 4)	10,454,000	10,785,000
Unamortized debenture discount	982,000	1,347,000
Investment in Wesco Financial Corporation (Note 1)	17,446,000	—
Excess of cost over equity in net assets of See's Candy Shops, Incorporated, less accumulated amortization (Note 1)	16,314,000	16,741,000
	$200,220,000	$199,724,000

LIABILITIES AND STOCKHOLDERS' EQUITY	1974	1973
Current liabilities:		
Accounts payable and accrued expenses	$ 8,146,000	$ 8,625,000
Note payable to bank	—	1,000,000
Current portion of long-term debt	8,881,000	5,751,000
Income taxes payable (Note 6)	2,858,000	4,027,000
Liability for unredeemed trading stamps (Note 2)	78,776,000	93,351,000
Total current liabilities	98,661,000	112,755,000
Long-term debt, less current portion (Note 5):		
Notes payable to bank	33,000,000	23,004,000
6¾% Subordinated Debentures due 1978	8,672,000	10,840,000
Total long-term debt	41,672,000	33,844,000
Stockholders' equity (Notes 5, 7 and 11):		
Common stock, par value $1.00 Shares authorized — 7,000,000 Shares outstanding — 5,179,000	5,179,000	5,179,000
Paid-in capital	1,579,000	1,579,000
Retained earnings	53,129,000	46,367,000
Total stockholders' equity	59,887,000	53,125,000
	$200,220,000	$199,724,000

See accompanying notes to consolidated financial statements

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Consolidated Statement of Income

Fifty-two Weeks Ended March 2, 1974 and March 3, 1973 (Note 1)

	1974	1973
Revenues:		
Stamp service revenues (Note 2)	$ 51,375,000	$ 88,736,000
Incentive sales	6,261,000	3,624,000
Candy sales	35,780,000	32,049,000
Interest and dividends	8,260,000	7,315,000
Other	543,000	599,000
	102,219,000	132,323,000
Costs and expenses:		
Cost of redemptions and sales (Note 2)	68,156,000	95,662,000
Selling, general and administrative expenses	21,263,000	21,729,000
Interest and discount amortization	3,962,000	2,996,000
	93,381,000	120,387,000
Income before income taxes, equity in net income of Wesco Financial Corporation, securities losses and extraordinary charges	8,838,000	11,936,000
Provision for income taxes (Note 6)	(2,071,000)	(3,828,000)
Equity in net income of Wesco Financial Corporation (Note 1)	1,423,000	–
Income before securities losses and extraordinary charges	8,190,000	8,108,000
Securities losses, less income tax effect	(185,000)	(62,000)
Extraordinary charges (Note 11)	–	(925,000)
Net income	$ 8,005,000	$ 7,101,000
Per share (Note 8):		
Income before securities losses and extraordinary charges	$1.58	$1.58
Securities losses	(.03)	(.02)
Extraordinary charges	–	(.18)
Net income	$1.55	$1.38

Consolidated Statement of Stockholders' Equity

Fifty-two Weeks Ended March 2, 1974 and March 3, 1973 (Note 1)

	Common Stock	Paid-in Capital	Retained Earnings
Balance at March 4, 1972	$5,039,000	$ 862,000	$40,480,000
Exercise of stock options	140,000	717,000	–
Cash dividends of $.24 per share	–	–	(1,214,000)
Net income	–	–	7,101,000
Balance at March 3, 1973	5,179,000	1,579,000	46,367,000
Cash dividends of $.24 per share (Note 5)	–	–	(1,243,000)
Net income	–	–	8,005,000
Balance at March 2, 1974	$5,179,000	$1,579,000	$53,129,000

See accompanying notes to consolidated financial statements

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Consolidated Statement of Changes in Financial Position

Fifty-two Weeks Ended March 2, 1974 and March 3, 1973 (Note 1)

	1974	1973
Working capital was provided by:		
Income before extraordinary charges	$ 8,005,000	$ 8,026,000
Income charges (credits) not affecting working capital:		
Depreciation and amortization	1,931,000	2,141,000
Minority interest in net income of See's Candy Shops, Incorporated	22,000	35,000
Dividends received from Wesco Financial Corporation	419,000	—
Equity in net income of Wesco Financial Corporation (Note 1)	(1,423,000)	—
Working capital provided by operations	8,954,000	10,202,000
Notes payable to bank (long-term portion)	16,996,000	1,496,000
Exercise of stock options	—	857,000
Minority interest in See's Candy Shops, Incorporated	(22,000)	(1,070,000)
	25,928,000	11,485,000
Working capital was used for:		
Excess of cost over equity in net assets of See's Candy Shops, Incorporated	4,000	978,000
Property additions, net	1,022,000	1,206,000
Payment of dividends	1,243,000	1,214,000
Transfer of long-term debt to short-term debt	8,881,000	5,751,000
Debentures purchased for retirement	287,000	—
Investment in Wesco Financial Corporation (Note 1)	16,224,000	—
Extraordinary charges (Note 11)	—	925,000
	27,661,000	10,074,000
Increase (decrease) in working capital	$ (1,733,000)	$ 1,411,000
Increases (decreases) in components of working capital:		
Cash	$ (1,183,000)	$ 208,000
Marketable securities	(11,858,000)	9,870,000
Accounts receivable	(114,000)	(799,000)
Inventories	(2,759,000)	(1,073,000)
Prepaid income taxes and other expenses	87,000	735,000
Accounts payable and accrued expenses	480,000	(796,000)
Note payable to bank (short-term)	1,000,000	(1,000,000)
Current portion of long-term debt	(3,130,000)	(299,000)
Income taxes payable	1,169,000	(1,329,000)
Liability for unredeemed trading stamps	14,575,000	(4,106,000)
Increase (decrease) in working capital	$ (1,733,000)	$ 1,411,000

See accompanying notes to consolidated financial statements

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Notes to Consolidated Financial Statements

Note 1 – Subsidiary companies:

The consolidated financial statements include the accounts of the Company and its 99%-owned subsidiary, See's Candy Shops, Incorporated (See's). The excess of cost over equity in the net assets of See's is being amortized over 40 years; amortization amounted to $431,000 and $428,000 for the fiscal years ended in 1974 and 1973.

At March 3, 1973 the Company owned 21.9% of the outstanding shares of Wesco Financial Corporation (Wesco) common stock at a cost of $8,099,000. The Company had increased its ownership to 24.9% at April 6, 1973 and applied to federal and California regulatory authorities to obtain control of Wesco (defined *inter alia* as ownership of more than 25%). Such permission was granted in September 1973. The Company's ownership of Wesco has increased to 44.6% through March 2, 1974 and to approximately 57% through April 12, 1974. The Company's investment in Wesco is recorded at cost plus equity in net earnings for Wesco's year ended December 31, 1973; the $12,780,000 excess of equity in the net assets of Wesco over cost is being amortized over 40 years. Such amortization amounted to $218,000 during the fiscal year ended in 1974. Summarized financial information of Wesco for the year ended December 31, 1973 follows:

Assets –	
Cash and marketable securities	$ 40,112,000
Loans receivable, less unearned loan fees, unrealized profit and loans in process	389,584,000
Other assets	22,284,000
Total assets	$451,980,000
Liabilities and stockholders' equity –	
Savings deposits	$345,530,000
Other liabilities	38,899,000
Total liabilities	384,429,000
Stockholders' equity	67,551,000
Total liabilities and stockholders' equity	$451,980,000
Total income	$ 34,289,000
Net earnings	$ 4,608,000
Per share	$1.94

Note 2 – Stamp service accounting:

The Company recognizes stamp service revenues upon issuance of its trading stamps and provides a liability account for unredeemed trading stamps consisting of the cost of merchandise and related redemption expenses. For a number of years the Company has made statistical evaluations of its redemptions. Based upon analysis of such evaluations, the Company presently estimates that 97.5% of all stamps issued will ultimately be redeemed. The liability for unredeemed trading stamps of $78,776,000 at March 2, 1974 included $64,431,000 for the cost of merchandise and $14,345,000 for redemption expenses.

Note 3 – Marketable securities:

Following is a summary of marketable securities, which are stated at cost:

	Cost	Market Value
March 2, 1974 –		
Short-term investments	$ 31,164,000	$ 31,183,000
Preferred and common stocks	101,579,000	97,471,000
	$132,743,000	$128,654,000
March 3, 1973 –		
Short-term investments	$ 21,298,000	$ 21,298,000
Preferred and common stocks	123,303,000	127,004,000
	$144,601,000	$148,302,000

Note 4 – Property, fixtures and equipment:

Following is a summary of property, fixtures and equipment:

	March 2, 1974	March 3, 1973
Land	$ 2,900,000	$ 2,900,000
Buildings	5,755,000	5,703,000
Furniture, fixtures and equipment	9,289,000	8,957,000
Leasehold improvements	4,287,000	4,116,000
	22,231,000	21,676,000
Less accumulated depreciation and amortization	11,777,000	10,891,000
	$10,454,000	$10,785,000

Depreciation and amortization of property, fixtures and equipment are provided by straight line and accelerated methods over the estimated useful lives of the assets. Total provisions amounted to $1,353,000 and $1,354,000 for the fiscal years ended in 1974 and 1973.

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Notes to Consolidated Financial Statements (Cont.)

Note 5 – Long-term debt:

In January 1974 the Company refinanced a bank loan of $28,755,000 and obtained $11,245,000 in additional funds. The resulting bank loans at March 2, 1974 aggregating $40,000,000 are repayable beginning January 1975 in annual installments of $7,000,000 through 1978 and $6,000,000 in 1979 and 1980. Interest is payable monthly at one-half to one per cent above prime rate. In addition to the stock of See's and Wesco, securities having an aggregate market value of approximately two-thirds the unpaid balance are pledged as collateral. Under the most restrictive covenants of the loan agreements, total unsubordinated long-term debt (including the loans) may not exceed the sum of stockholders' equity and subordinated debt, and the Company's current liabilities may not exceed the aggregate of cash, unrestricted marketable securities and merchandise inventory.

The debentures are subordinated to senior indebtedness as defined in the underlying indenture. At least 20% of the debentures must be paid to a sinking fund annually beginning December 1, 1974, and the Company may redeem debentures after December 1, 1974. Under the terms of the indenture, the Company is permitted to pay cash dividends in any fiscal year in an amount not to exceed the greater of (a) 24 cents per share or (b) 25% of the net income for the preceding fiscal year. Dividends may not be paid if the Company is in arrears in any sinking fund payments. During the fiscal year ended in 1974 the Company purchased $287,000 principal amount of debentures for retirement.

Note 6 – Income taxes:

The income tax provision of $2,071,000 for the fiscal year ended in 1974 was 23.4% of pretax income of $8,838,000. Following is a summary of the differences between the federal statutory rate and this effective percentage:

Statutory income tax rate	48.0%
Dividend exclusion	(27.7)
State income taxes, net of federal income tax benefit	3.8
All other (net)	(.7)
Effective income tax rate	23.4%

Prepaid income taxes of $3,815,000 and $3,802,000 at March 2, 1974 and March 3, 1973 result primarily from deducting certain redemption expenses for income tax reporting purposes when stamps are redeemed and for financial reporting purposes when stamps are issued. The net increase in prepaid income taxes resulting from timing differences amounted to $13,000 and $851,000 for the fiscal years ended in 1974 and 1973.

At March 2, 1974 the Company had capital loss carry-forwards of $1,883,000 available for offset against capital gains of $1,300,000 and $583,000 through fiscal years ending in 1977 and 1979.

Investment tax credits, which have not been material, are recognized as the tax benefits are realized.

In 1972 the Company received a notice of deficiency from the Internal Revenue Service claiming additional taxes of approximately $7,500,000, excluding interest, for the three fiscal years ended in 1971. Of this amount, more than $5,500,000 results from the Service's contention that the Company has overstated its liability for unredeemed stamps by overestimating the number of stamps issued which will ultimately be redeemed. Since its inception in 1956, the Company's financial statements and tax returns have been prepared on the basis that 97.5% of all stamps issued will ultimately be redeemed. This percentage has been based upon annual statistical evaluations of stamp redemptions. The Company disagrees with the Service's position and accordingly has petitioned the United States Tax Court for a determination that there are no additional federal income taxes due for the fiscal year ended in 1971 and prior years. The other items in the notice involved the disallowance of certain expenses and were settled in January 1974 for approximately $200,000. The California Franchise Tax Board proposed assessment of additional taxes based on the federal notice, and the Company filed a protest.

Note 7 – Stock options:

Under the Company's qualified stock option plan, options to purchase shares of the Company's common stock were outstanding at March 2, 1974, as follows: 7,200 shares at $14.75 (including 5,325 currently exercisable) and 18,000 shares at $15.1875 (of which 4,500 were currently

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exercisable). No options were granted or exercised during the fiscal year.

Note 8 – Per share computations:

Per share amounts are based upon the weighted average number of shares of common stock outstanding during the fiscal year adjusted for the dilutive effect of outstanding stock options.

Note 9 – Pension plan:

The Company has a noncontributory pension plan which covers employees meeting certain eligibility requirements. The plan is funded annually and the cost for the fiscal years ended in 1974 and 1973 approximated $120,000 and $300,000. There are no unfunded prior service costs.

Note 10 – Lease commitments and rental expense:

At March 2, 1974 minimum rental commitments are as follows:

Fiscal year ending in –	
1975	$2,662,000
1976	2,289,000
1977	1,782,000
1978	1,455,000
1979	1,282,000
Five fiscal years ending in –	
1984	3,428,000
1989	988,000
1994	253,000

The net rental expense was $3,708,000 and $3,645,000 for the fiscal years ended in 1974 and 1973. Rentals applicable to candy operations are generally determined on the basis of a fixed percentage of sales subject to a specific minimum rental. Such minimum rental expense, which is included above, was $834,000 and $790,000 for the fiscal years ended in 1974 and 1973.

Note 11 – Legal proceedings:

During the fiscal year ended in 1973, the Company settled eleven lawsuits for $1,923,000. The settlements, less $998,000 applicable income taxes, were charged against income as extraordinary charges.

Pursuant to a consent final judgment entered in 1967, the Company in June 1972 submitted for approval by the United States District Court a plan to offer for sale one third of its California trading stamp business located within a contiguous geographical area in Southern California. In January 1973, the Court made an order (1) disapproving said plan, (2) requiring the Company to continue efforts to negotiate a sale and (3) calling for the appointment of an independent expert to study the feasibility of a sale or spin-off of a portion of the Company's trading stamp business under existing conditions. The report of the independent expert has not yet been filed with the Court. The Company believes that such a sale or spin-off, if consummated under existing market conditions, would compel the Company to discontinue issuance of its trading stamps.

The Company is a defendant in a purported class action filed March 1, 1971 to recover for stamp savers monies collected by it as reimbursement for California sales taxes on redemption of stamps. Plaintiffs claim that redemption transactions are not taxable and that all such collections should be returned, or alternatively, that such collections exceeded the tax properly payable and such excess should be returned. The Company has paid sales taxes to the state equal to its reimbursement collections. The Company has asserted claims against the state for reimbursement of all or part of any recovery by plaintiffs. Following denial of these claims by the state, the Company cross-complained against the state seeking indemnity. The original complaint was amended to assert fraud and to seek punitive damages. On June 1, 1973 two partial summary judgments were entered by way of interlocutory orders, neither of which has yet become final or appealable. The first was in favor of the Company to the effect that the redemption transactions were taxable. The second was in favor of plaintiffs to the effect that the Company's collections exceeded the tax properly payable. In the opinion of counsel for the Company the second partial summary judgment was erroneous. Issues relating to the class action aspects of the case remain unresolved along with a number of issues of fact. Maximum liability in respect of this action is estimated at $7,000,000 less the amount of any money which may be recovered on the claims against the state. Counsel believes the prospects for such recovery to be good. In the opinion of counsel for the Company, substantial defenses are available, but counsel cannot predict the ultimate outcome of the action.

A purported class action was filed on November 10, 1970 against the Company and certain of its present and former

Blue Chip Stamps

FINAL PROOF

Notes to Consolidated Financial Statements (Cont.)

stockholders and directors. The complaint was filed on behalf of retailer users of Blue Chip stamps who failed to purchase stock of the Company in a 1968 offering to retailer users. The complaint alleges damages to plaintiffs of $21,400,000, together with exemplary damages of $25,000,000, interest, attorneys' fees and costs, and prays that plaintiffs have the right to purchase stock, or units of stock and debentures, of the Company on the terms of the 1968 offering. The action was dismissed with prejudice by the United States District Court. On October 15, 1973 a panel of three judges of the United States Court of Appeals for the Ninth Circuit reversed the prior dismissal by the District Court and remanded the case for further proceedings. In a two-to-one opinion, the panel held that a class of persons who were entitled to but failed to purchase securities of the Company in connection with the 1968 offering had standing to sue for damages under Rule 10b-5 of the Securities Exchange Act of 1934, if they could prove that such failure to purchase was induced by alleged fraudulent representations of the Company and certain of its past and present officers, directors and shareholders. On April 1, 1974 the Ninth Circuit denied a petition for rehearing and a request that the case be heard by the entire panel of judges of the Ninth Circuit. The defendants will seek a review by the United States Supreme Court. On June 21, 1971 plaintiffs filed a substantially identical action against the same defendants in the Los Angeles County Superior Court, but the Company has not yet been served with process in that action. In the opinion of counsel for the Company, upon the facts now known and the present state of the law, there appear to be substantial defenses on the merits to the complaints in both the federal and state actions.

The Company, together with a number of oil companies and supermarket chains, was named as defendant in an antitrust action filed on July 12, 1971 by a California corporation formerly engaged in the trading stamp business. The complaint seeks treble damages in substantial amounts plus attorneys' fees and costs. The Company has not been served with process. In the opinion of counsel for the Company, upon the facts known, the action is without substantial merit.

Report of Independent Accountants

To the Board of Directors and
Stockholders of Blue Chip Stamps

We have examined the consolidated balance sheet of Blue Chip Stamps and its consolidated subsidiary as of March 2, 1974 and March 3, 1973, and the related consolidated statements of income, stockholders' equity and changes in financial position for the fiscal years then ended. Our examinations were 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. We did not examine the financial statements of Wesco Financial Corporation which is accounted for on the equity method in the consolidated financial statements (Note 1). These statements were examined by other independent accountants whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for Wesco Financial Corporation, is based solely upon such report.

As explained in Note 11 to the accompanying financial statements, the Company is subject to certain legal proceedings.

In our opinion, based on our examinations and the report of other independent accountants, subject to the effect, if any, of the legal proceedings referred to in the preceding paragraph, the consolidated financial statements present fairly the financial position of Blue Chip Stamps and its consolidated subsidiary at March 2, 1974 and March 3, 1973 and the results of their operations and changes in financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied.

Price Waterhouse & Co.

Los Angeles, California
April 12, 1974

Price Waterhouse & Co.

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.
20549

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 Idnetification 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:

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

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 X No ____

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

Yes X 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)

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	214,000	256,000	279,000	346,000	849,000
Total investment income	7,424,000	5,172,000	6,260,000	8,533,000	9,462,000
Cost of money:					
Interest on notes payable	221,000	218,000	205,000	185,000	193,000
Total cost of money	221,000	218,000	205,000	185,000	193,000
	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	10,000	11,000	11,000	11,000	(48,000)
	7,544,000	5,312,000	6,363,000	8,693,000	9,571,000
General and administrative expenses	204,000	232,000	244,000	257,000	298,000
Earnings before taxes on income	7,340,000	5,080,000	6,119,000	8,436,000	9,273,000
Taxes on income:					
Current	1,287,000	994,000	2,530,000	3,018,000	4,263,000
Deferred	2,074,000	1,037,000	465,000	1,082,000	402,000
	3,361,000	2,031,000	2,995,000	4,100,000	4,665,000
Net earnings	$ 3,979,000	3,049,000	3,124,000	4,336,000	4,608,000

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

3

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	374,000	469,000	388,000	251,000	462,000
Total investment income	27,452,000	27,753,000	27,245,000	28,116,000	31,325,000
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	3,732,000	6,965,000	3,105,000	611,000	1,313,000
Total cost of money	20,305,000	22,248,000	20,403,000	19,915,000	21,314,000
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	139,000	33,000	162,000	126,000	44,000
	10,395,000	8,185,000	9,246,000	11,872,000	12,975,000
General and administrative expenses	3,055,000	3,105,000	3,127,000	3,436,000	3,702,000
Earnings before taxes on income	7,340,000	5,080,000	6,119,000	8,436,000	9,273,000
Taxes on income:					
Current	1,287,000	994,000	2,530,000	3,018,000	4,263,000
Deferred	2,074,000	1,037,000	465,000	1,082,000	402,000
	3,361,000	2,031,000	2,995,000	4,100,000	4,665,000
Net earnings	$ 3,979,000	3,049,000	3,124,000	4,336,000	4,608,000
Earnings per capital share based on 2,373,269 shares	$ 1.68	1.28	1.32	1.83	1.94

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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	92,000	98,000	103,000	107,000	113,000
End of year	1,952,000	2,050,000	2,153,000	2,260,000	2,373,000
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	2,638,000	1,782,000	2,204,000	1,776,000	1,667,000
End of year	20,637,000	22,419,000	24,623,000	26,399,000	28,066,000
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	(1,700,000)	690,000	330,000	367,000	859,000
End of year	40,200,000	40,890,000	41,220,000	41,587,000	42,446,000
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	5,679,000	2,359,000	2,794,000	3,969,000	3,749,000
End of year	12,109,000	14,468,000	17,262,000	21,231,000	23,905,000
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	(2,731,000)	(1,879,000)	(2,307,000)	(1,883,000)	(1,780,000)
End of year	(21,390,000)	(23,269,000)	(25,576,000)	(27,459,000)	(29,239,000)
Total retained earnings	30,919,000	32,089,000	32,906,000	35,359,000	37,112,000
Total stockholders' equity	$ 53,508,000	56,558,000	59,682,000	64,018,000	67,551,000

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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.

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 enjoint 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.

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) Title of class	(2) Number of record holders
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, 1974

By /s/ 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.
Peat, Marwick, Mitchell & Co

Los Angeles, California
February 8, 1974

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

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

WESCO FINANCIAL CORPORATION

Annual report 1973

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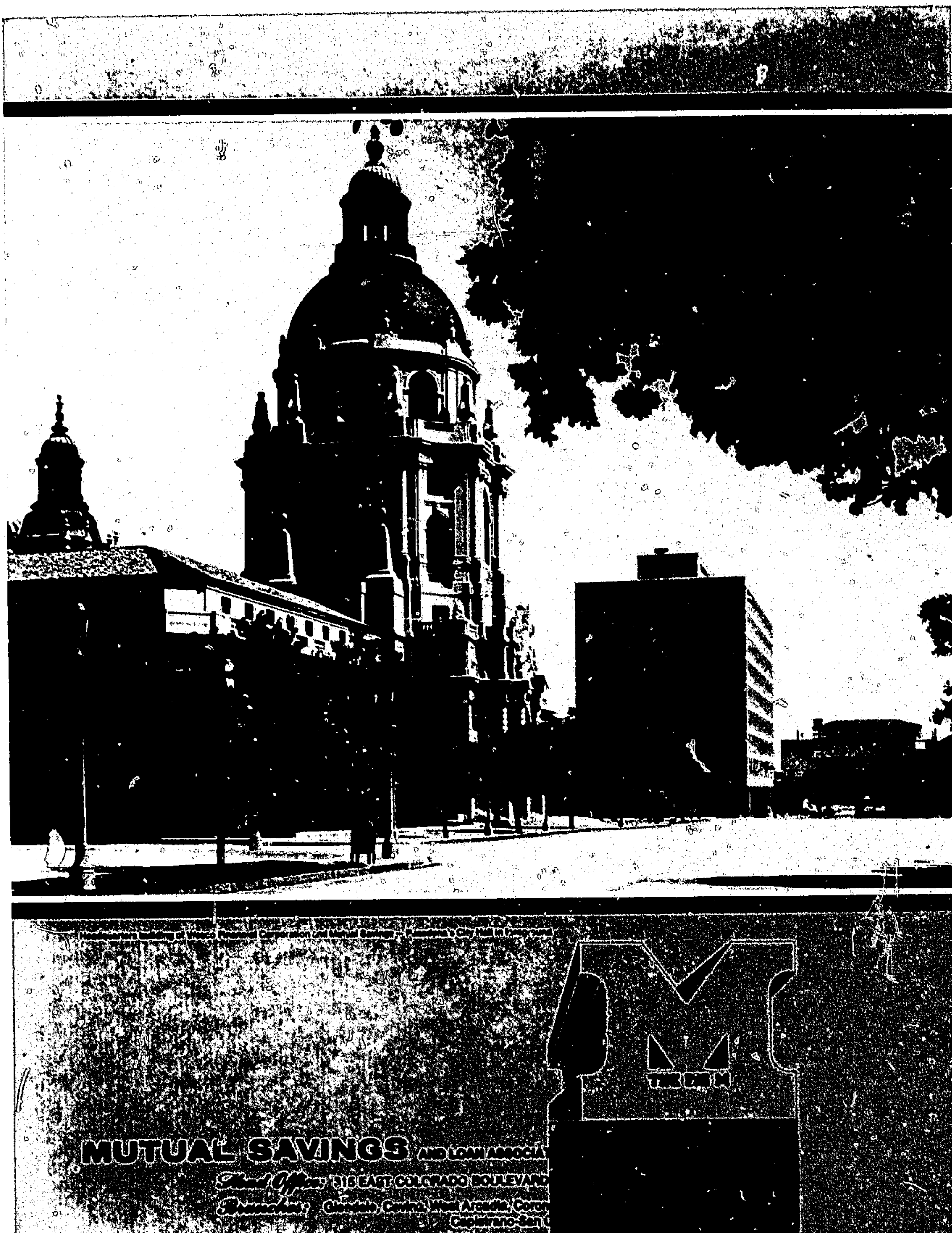
MUTUAL SAVINGS

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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	31,325,000	28,116,000
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	21,314,000	19,915,000
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
	12,975,000	11,872,000
General and administrative expenses	3,702,000	3,436,000
Earnings before taxes on income	9,273,000	8,436,000
Taxes on income (note 4):		
Current	4,263,000	3,018,000
Deferred	402,000	1,082,000
	4,665,000	4,100,000
Net earnings	$ 4,608,000	4,336,000
Earnings per capital share based on 2,373,269 shares	$ 1.94	1.83

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	384,429,000	384,222,000
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	(29,239,000)	(27,459,000)
	37,112,000	35,359,000
Total stockholders' equity	67,551,000	64,018,000
Commitments and contingent liabilities (notes 6 and 9).		
	$451,980,000	448,240,000

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	113,000	107,000
End of year	2,373,000	2,260,000
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	1,667,000	1,776,000
End of year	28,066,000	26,399,000
Retained earnings:		
Appropriated (notes 4 and 8):		
Beginning of year	41,587,000	41,220,000
Allocation of net earnings	855,000	367,000
End of year	42,446,000	41,587,000
Unappropriated:		
Beginning of year	21,231,000	17,262,000
Cash dividends declared and paid (note 7)	(1,075,000)	—
Allocation of net earnings	3,749,000	3,969,000
End of year	23,905,000	21,231,000
Less stock dividends at market value (note 7):		
Beginning of year	(27,459,000)	(25,576,000)
Market value of stock dividend	(1,780,000)	(1,883,000)
End of year	(29,239,000)	(27,459,000)
Total retained earnings	37,112,000	35,359,000
Total stockholders' equity	$ 67,551,000	64,018,000

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	18,466,000	17,726,000
Increase in savings deposits	—	18,509,000
Principal payments on real estate loans	44,326,000	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	81,599,000	93,988,000
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	1,716,000	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	97,960,000	77,874,000
Increase (decrease) in cash and marketable securities	$(16,361,000)	16,114,000

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.

(2) Loans Receivable

Loans receivable are summarized as follows:

	1973	1972
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	14,395,000	14,250,000
	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	(2,173,000)	(13,346,000)
	387,165,000	367,679,000
Loans on savings deposits	2,419,000	883,000
	$389,584,000	368,562,000

(3) Notes Payable

The following is a summary of notes payable:

Federal Home Loan Bank advances, with interest to 8⅛% 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 9¾% due January 15, 1974, secured by certificate of deposit	920,000	—
	$ 27,705,000	12,720,000

(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
	$ 3,502,000	1,163,000	4,665,000

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
	$ 402,000

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)
	$ 4,665,000

(5) Office Properties and Equipment, Net

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

	1973	1972
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:

Date declared	Date paid	Per Share	Amount
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**	$383,877,000	$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

Assets	1973	1972
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
	$ 72,538,000	68,150,000

Liabilities and Stockholders' Equity	1973	1972
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	4,987,000	4,132,000
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	(29,239,000)	(27,459,000)
	37,112,000	35,359,000
Total stockholders' equity	67,551,000	64,018,000
Commitments and contingent liabilities.		
	$ 72,538,000	68,150,000

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

	1973	1972
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)	849,000	346,000
Total investment income	9,462,000	8,533,000
Cost of money:		
Interest on notes payable, including interest on loan payable to Mutual Savings, $171,000 ($184,000 in 1972)	193,000	185,000
Total cost of money	193,000	185,000
	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	(48,000)	11,000
	9,571,000	8,693,000
General and administrative expenses	298,000	257,000
Earnings before taxes on income	9,273,000	8,436,000
Taxes on income	4,665,000	4,100,000
Net earnings	$ 4,608,000	4,336,000

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

	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	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	38,000	42,000
Total cash and marketable securities provided	3,177,000	4,958,000
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	249,000	236,000
Total cash and marketable securities used	1,351,000	265,000
Increase in cash and marketable securities	$ 1,826,000	4,693,000

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
	$ 128,000	3,502,000	51,000	3,188,000
California franchise tax expense:				
Current	$ 28,000	1,012,000	9,000	659,000
Deferred	(4,000)	151,000	(2,000)	253,000
	$ 24,000	1,163,000	7,000	912,000

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
	$ 2,971,000

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	600(1)	$ 53,309,000	-	$ 4,135,000(2)	-	$ 4,500,000(3)	600(1)	$ 52,944,000
1973	600(1)	$ 52,944,000	-	$ 4,091,000(2)	-	$ 1,500,000(3)	600(1)	$ 55,535,000

(1) 100% of the outstanding shares.

(2) Net earnings of subsidiaries.

(3) Dividend received from Mutual Savings.

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Schedule V

WESCO FINANCIAL CORPORATION
AND
WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Property, Plant and Equipment

Years ended December 31, 1973 and 1972

Classification	Balance at beginning of period	Additions at cost	Retirements or sales	Other changes	Balance at close of period
1972					
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
	$ 6,476,000	29,000	-	-	6,505,000
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
	$ 7,870,000	74,000	47,000	-	7,897,000
1973					
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
	$ 6,505,000	27,000	-	-	6,532,000
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
	$ 7,897,000	228,000	5,000	-	8,120,000

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Schedule VI

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

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

(1) Depreciation adjustment.

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