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WESCO FINANCIAL CORP

10-K

NYS 1974

CARD 1

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

ARS For: 12/31/73 Rec: 3/4/74
Auditor: Peat, Marwick, Mitchell & Co.
Revenues: $31,325,000 Earnings: $4,608,000/$1.94
Assets: $451,980,000 Net Worth: $67,551,000
Extr. Items: None
Abstract: Revenues and earnings increased. Opened three new branch offices. Purchased 271,000 shares of capital stock of Crocker National Corp. for $6.78 million. Blue Chip Stamps increased ownership of Wesco to 44.58% of outstanding stock.

Proxy Dated: 3/11/74 Rec: 3/14/74
Meeting: Annual 4/16/74
Exceptional Subjects: None
Exhibits: None

10-K For: 12/31/73 Rec: 4/1/74
Shareholders: 3,865
Description of Business: Savings and loan holding company that controls one savings and loan bank with 10 offices in southern Calif. Makes first mortgage loans and mortgage construction loans. Also acts as fire, property, and mortgage life insurance agent.
- Savings and loan holding companies; Savings and loan institutions; Mortgage banking
- Insurance agents

Auditor's Report: Unqualified
Financial Statements and Notes:
- Loss allowances; Real estate investments
- Deferred income tax debits; Franchise taxes; State taxes
- Deferred income tax debits; Real estate sale gains; Revenue recognition; Prior years
- Unusual effective tax rate; Real estate sale gains; Foreclosure

Exhibits: None

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315 East Colorado Boulevard
Pasadena, Calif. 91109
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Fiscal Year Ends: 12/31 SIC No: 671

10-Q For: 3/31/74 Rec: 5/15/74
10-K Amendment 1 For: 12/31/73 Rec: 6/28/74
Business description amended. Changes in outstanding securities (Item 6) and executive officers (Item 8) amended.
10-Q For: 6/30/74 Rec: 8/12/74
10-Q For: 9/30/74

35

W34/2000 (1)

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.
20549

MAR 2

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, 1974 Commission file number 1-4720

WESCO FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	95-2109453 (I.R.S. Employer Identification No.)
315 East Colorado Boulevard, Pasadena, California (Address of principal executive offices)	91109 (Zip Code)
Registrant's telephone number, including area code	(213) 684-1500

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

Title of each class	Name of each exchange on which registered
Capital Stock, 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) Wesco Financial Corporation ("Wesco") was incorporated on March 18, 1959. Its principal business is the ownership of all of the outstanding Guarantee Stock of Mutual Savings and Loan Association ("Mutual") which serves the Southern California area through thirteen offices, of which five are in Los Angeles County, four in Orange County, two in Ventura County, and two in San Diego County. Mutual has also received permission to open two additional branch offices in Upland 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 savings deposits, principal payments on loans, borrowings from banks and operations. 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.

Wesco 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 is located and a minor amount of other property.

(b) (1) Mutual's savings deposits decreased by $12,413,000 in 1974 and decreased $15,742,000 in 1973, due principally to higher interest rates available on other market instruments. In 1974 Mutual's loan portfolio decreased $519,000 compared to an increase of $21,022,000 in 1973 due to lack of available funds for lending.

(2) through (6) not applicable.

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

(8) Wesco and its subsidiaries employed approximately 173 persons at December 31, 1974.

(9) Not applicable.

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

(d) and (e) not applicable.

Item 2. Summary of Operations, Continued

(a) The summary of operations of Wesco Financial Corporation and subsidiaries (consolidated) for the year ended December 31, 1974 and four prior years is incorporated by reference to the annual report included in item 10.

Dividends declared by Wesco Financial Corporation for the year ended December 31, 1974 and four prior years were as follows:

Description	Year ended Dec. 31, 1974	1973	1972	1971	1970
Cash dividends	$ 1,187,000	1,075,000	-	-	-
Stock dividends - market value at declaration date	-	1,780,000	1,883,000	2,307,000	1,879,000

(b) Not applicable

Item 3. Properties

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

Head office located at 315 East Colorado Boulevard, Pasadena, California 91109, leased by Mutual from Wesco, which is its parent company, under lease which expires June 14, 1984. Wesco is purchasing the property from 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 91304, leased by Mutual under a lease with a term 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 92672, leased by Mutual under a three-year lease to May 1, 1976, with two one-year renewal options.

Channel Islands--Oxnard office located at 3725 Hemlock Street, Oxnard, California 93030. This is a temporary location leased by Mutual under a one-year lease to July 1, 1975 with four three-months renewal options. A new building is presently under construction and scheduled for completion in June, 1975 which will become the permanent location for the Channel Islands office.

Corona del Mar office located at 2867 East Coast Highway, Corona del Mar, California 92625, leased by Mutual for a five-year period which expires July 14, 1979.

Covina office located at 200 North Citrus Avenue, Covina, California 91723, owned in fee simple by Mutual.

Fountain Valley office located at 17942 Magnolia Street, Fountain Valley, California 92708, leased by Mutual under a one-year lease to August 22, 1975 with two one-year renewal options. This is a temporary office and negotiations are presently being formalized for the construction of a new building for the Fountain Valley office.

Glendale office located at 336 North Brand Boulevard, Glendale, California 91203, owned in fee simple by Mutual.

Lake San Marcos office located at 1145-322 San Marino Drive, Lake San Marcos, California 92069, leased by Mutual for a five-year period which expires November 30, 1979, with one five-year option.

Santa Ana office located at 631 North Main Street, Santa Ana, California 92701, leased by Mutual under a two-year lease to November 9, 1975, with three one-year renewal options.

Item 3. Properties, continued

Thousand Oaks office located at 1330 Moorpark Road, Thousand Oaks, California 91360, 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 92083, leased by Mutual under a two-year lease to May 10, 1975 and extended to May 10, 1976 with six six-months renewal options.

West Arcadia office located at 660 West Duarte Road, Arcadia, California 91006, leased by Mutual under a ten-year lease with 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 Wesco to its subsidiaries from that previously reported at Item 3 of Wesco's 1966 and 1967 annual reports on Form 10-K.

Item 5. Pending Legal Proceedings

The current status of actions in which Mutual was named as a defendant, follows:

(a) 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. Mutual has succeeded in eliminating from this action the cause of action for ejectment, and the sole cause of action which remains is one for damages by reason of trespass on the easement, including the claim for punitive damages. Fidelity Bank has filed a complaint in intervention and Mutual has an open extension to answer that complaint. The case is pending.

Item 5. Pending Legal Proceedings, continued

(b) 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 [illegible], 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. Mutual's demurrer to the second amended complaint was sustained with leave to amend. As a result of the court's holding, the plaintiff eliminated causes of action with regard to breach of contracts against defendant Title Insurance and Trust Company, and for illegal interference with contractual relationships as against Mutual. The third amended complaint seeks damages for slander of title as against the Title Company and against Mutual, a cause of action for tortious bad faith and breach of covenant of fair dealing against the Title Company, and a conspiracy as against both Mutual and the Title Company. Mutual has filed an answer to this complaint and the case is at issue.

(c) 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 amount of the offset to which Mutual would be entitled has not, as yet, been determined. Some of the savings and loans have recently settled their late charge cases for between 15% and 20% of the amount that they collected.

(d) 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(c) 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) There has been no change in the number of outstanding shares of Wesco's capital stock from the 2,373,269 shares reported at Item 6(a) of Wesco's Form 10-K for the year ended December 31, 1973.

(b) Not applicable.

Item 7. Approximate Number of Equity Security Holders at December 31, 1974

(1) Title of class	(2) Number of record holders
Capital stock par value $1	3,033

Item 8. Executive Officers of the Registrant

(a) As stated at Item 1(a) of this Form 10-K, Wesco's principal business is the ownership of all of the stock of Mutual. Louis R. Vincenti, Chairman of the Board and President, and Marian H. Wiggins, Secretary and Treasurer, are the sole executive officers of Wesco. The other principal officers of Wesco are also listed below. There is no family relationship between any of them. All officers are elected to serve for one year and until their successors shall have been elected and qualified.

Name	Age	Position
Louis R. Vincenti	69	Chairman of the Board since January, 1973; also President since July, 1961.
Marian H. Wiggins	64	Secretary since June, 1961; also Treasurer since December, 1962.
John R. Armetta	56	Vice President, Property Development since April, 1973.
T. L. Egloff	63	Vice President, Operations since April, 1969.
P. E. Lynn	62	Vice President; Loan Processing since April, 1969.
Robert E. Sahm	47	Vice President, Building Management since July, 1971.

Item 9. Indemnification of Directors and Officers

Wesco 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, since November, 1972 Wesco and its subsidiaries have provided Directors and Officers Liability Insurance coverage as additional indemnification of their directors and officers against liability which they may incur in their capacities as such, subject to certain limitations.

Item 10. Exhibits, Financial Statements and Schedule.

Accountants' Report

Index to Financial Statements and Schedule

Financial Statements:

Consolidated Financial Statements of Wesco Financial Corporation and Subsidiaries, December 31, 1974 and 1973 (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, 1974 and 1973
Statements of Earnings - Years ended December 31, 1974 and 1973
Statements of Changes in Financial Position - Years ended December 31, 1974 and 1973

Supplemental Information to Notes to Consolidated Financial Statements

Schedule:

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

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, Wesco has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

WESCO FINANCIAL CORPORATION

Date March 21, 1975

By Louis R. Vincenti
Louis R. Vincenti President

WESCO FINANCIAL CORPORATION

Annual Report for Corporations - Form 10-K
Year ended December 31, 1974

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 schedule 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, 1974 and 1973, 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, 1974 and 1973, 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 schedule, in our opinion, present fairly the information set forth therein.

Peat, Marwick, Mitchell & Co.

Los Angeles, California
February 14, 1975

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

<u>Index to Financial Statements and Schedules</u>

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

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

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TO THE STOCKHOLDERS OF
WESCO FINANCIAL CORPORATION

Consolidated net earnings after taxes of Wesco Financial Corporation and its subsidiaries for 1974 amounted to $3,927,000 ($1.65 per share) compared to $4,608,000 ($1.94 per share) in 1973. Quarterly earnings per share for 1974 and 1973 were:

	1974	1973
First quarter	$ .48	.60
Second quarter	.40	.47
Third quarter	.44	.47
Fourth quarter	.33	.40
Year	$1.65	1.94

The reduction in net income for the fourth quarter is principally caused by a reduction in loans made and losses taken on sale of marketable securities. Loans made during the fourth quarter were $4,466,000 compared with $27,360,000 made during the first nine months of the year. Total losses on securities amounted to $429,000 for the year of which $350,000 were sustained in the fourth quarter. These fourth quarter losses were taken to improve the quality and yield of securities held. If such fourth quarter securities losses had not been taken, earnings for that quarter would have been $.40 per share.

A "Summary of Operations" for a five-year period is presented on page 3, followed by "Management's Discussion and Analysis" of that Summary. The purpose of the Summary and Discussion is to enable investors to compare periodic results of operations and to assess the source and probability of earnings.

Total savings in Mutual Savings decreased $12,413,000 in 1974 compared with a decrease of $15,742,000 in 1973. Out-of-state savings decreased $16,257,000, and local savings increased $3,844,000 in 1974. In 1973, out-of-state savings decreased $13,694,000 and local savings decreased $2,048,000. At December 31, 1974 out-of-state savings totalled $57,574,000 (17.3% of savings) compared with $73,831,000 (21.3% of savings) at December 31, 1973.

On July 1, 1973, the Federal Home Loan Bank authorized higher interest rates on savings accounts, which had a significant effect on the cost of savings. The highest rate authorized was 7½% for certificates maturing in four years or more. Effective December 23, 1974 another type certificate was authorized providing for a rate of 7¾% for a term of six years or more. As a result of these interest rate changes, substantial funds are being converted from maturing lower-rate certificates to those bearing an interest rate of 7½% or 7¾%. There is no rate limit on certificates of $100,000 or more. Savings accounts at December 31 by interest rates paid are summarized:

	1974	1973	1972
5 %	—%	—	38
5¼	36	35	5
5½	2	3	3
5¾	3	6	4
6	23	42	48
6½	8	5	2
6¾	3	1	—
7	1	1	—
7½	22	7	—
9	1	—	—
10	1	—	—
	100%	100	100

The recent decline in short-term interest rates has resulted in resumption of overall savings growth. We continue to experience losses in out-of-state savings. Substantial savings growth should be experienced for in-state savings during the first half of 1975, and may continue through the entire year. None of the basic problems of the American economy have been solved. The economy continues to suffer from both high inflation and deepening recession. Until further time elapses and Government programs are adopted and can be evaluated, the outlook in 1975 for the savings and loan industry is uncertain. Our present intent is to restrict lending so as to increase liquidity substantially, and thereafter to reduce bank indebtedness which at December 31, 1974 was $50,975,000.

The cost of savings for 1974 was 6.00% compared with 5.60% for 1973. Cost of all funds (savings and borrowings), which was 5.69% for 1973, increased to 6.25% for 1974. The interest rate on borrowings is expected to decrease moderately during 1975, but we believe that the interest rate required to be paid for savings will increase in 1975.

The interest rate on the loan portfolio, which was 7.17% at December 31, 1973, increased to 7.36% at December 31, 1974. The rate of increase in yield on the loan portfolio may moderate somewhat in 1975 because of limited lending volume and an

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expected decrease in the rate of interest that can be charged on new loans.

The following illustrates the increase in cost of savings, cost of all funds and yield on loans:

	1970	1971	1972	1973	1974
Cost of Savings	5.39%	5.51	5.56	5.60	6.00
Cost of all Funds	5.91	5.71	5.59	5.69	6.25
Yield on Loans at year end	6.71	6.82	7.03	7.17	7.36

Real estate loans made during 1974 totalled $31,998,000 compared with $52,647,000 in 1973. Loans in process and firm loan commitments, which at December 31, 1973 were $22,185,000, have decreased to $3,240,000 at December 31, 1974.

The increase of $506,000 in general and administrative expenses from $3,702,000 (10.8% of gross income) in 1973 to $4,208,000 (12.0% of gross income) in 1974 was caused by inflation, the expense of opening and operating additional branch offices and the cost of computerizing our accounting system.

In 1973 Mutual Savings disposed of 17 residential units which it had previously constructed in the Friendly Valley development. During 1974, Mutual completed 143 units at that location. As of December 31, 1974, 70 units had been sold, with 45 of the sales recorded and 25 in escrow. In January, 1975 an additional 9 units were sold. It is expected that the remaining 64 units will be disposed of during 1975. Construction of 58 additional units may be commenced during 1975. Mutual Savings had planned to construct during 1974 82 units on real property in Glendora, California. The property was sold in January, 1975 to a responsible builder who is presently constructing 80 residential units on this property. Upon the disposition of the units, which we expect to occur during 1975, we will report a profit of $192,000 as a gain on sale of this land.

Mutual Savings has substantial amounts of vacant land remaining at the Friendly Valley development, at Lake San Marcos in San Diego County and at Montecito in Santa Barbara County. Sales are in negotiation for portions of the San Marcos property. Disposition of additional property at Friendly Valley and in Santa Barbara will have to await economic recovery.

In April, 1974 the California Savings and Loan Commissioner adopted certain regulations authorized by legislation enacted in 1973, which gave to California savings and loan associations authority to invest 2% of assets in commercial paper, 2% of assets in non-convertible corporate debt securities, and 5% of assets in preferred stock of public utilities corporations. Mutual Savings and Wesco have purchased public utilities preferred stocks, and as of December 31, 1974 had invested $12,900,000 ($7,150,000 in California corporations) in such stocks with an annual yield of 9.77%. At December 31, 1974, Wesco owned 200,900 shares of Crocker National Corporation (a California corporation), purchased in 1973 at a cost of $5,079,000. Based on current dividends of $1.66 per share, the annual yield is 6.57%. 85% of dividend income is deductible in computing our Federal Income Taxes. For California Franchise Tax purposes, all dividend income of the California public utilities is deductible and approximately 90% of the dividend of Crocker National Corporation is deductible.

During 1974 Mutual opened branch offices in Santa Ana, Oxnard, Fountain Valley and Lake San Marcos. Three new branch offices were opened in 1973. Approval has been received for branch offices at Upland and Cerritos, which will commence operation during the second quarter of 1975, bringing the number of Mutual Savings offices to 15.

On January 21, 1975 Wesco increased its regular quarterly cash dividend from 10¢ to 15¢ per share, with the first 15¢ quarterly dividend payable March 13, 1975 to holders of record at the close of business on February 18, 1975. In 1974 50¢ was paid consisting of four regular dividends and an extra dividend each of 10¢ per share. No extra dividend is contemplated during 1975.

Blue Chip Stamps made two tender offers during 1974, one of which expired on April 15 and the other on September 6. Blue Chip Stamps now owns approximately 64.4% of Wesco's outstanding stock, as compared with 44.6% on December 31, 1973.

Louis R. Vincenti

LOUIS R. VINCENTI
Chairman of the Board and President

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Summary of Operations

Year ended December 31, 1974 and four prior years

	1974	1973	1972	1971	1970
Investment income:					
Interest on loans	$ 28,463,000	27,450,000	25,318,000	25,117,000	25,866,000
Interest on marketable securities	3,202,000	2,950,000	2,362,000	1,740,000	1,418,000
Dividends on common and preferred stocks	974,000	463,000	185,000	—	—
Interest and dividends on investments required by law	533,000	462,000	251,000	388,000	469,000
Total investment income	33,172,000	31,325,000	28,116,000	27,245,000	27,753,000
Cost of money:					
Interest on savings deposits	20,419,000	20,001,000	19,304,000	17,298,000	15,283,000
Interest on notes payable	3,364,000	1,313,000	611,000	3,105,000	6,965,000
Total cost of money	23,783,000	21,314,000	19,915,000	20,403,000	22,248,000
Margin on investments	9,389,000	10,011,000	8,201,000	6,842,000	5,505,000
Loan fees and service charges	1,542,000	1,786,000	2,662,000	1,684,000	1,169,000
Operations and net gains from sales of real property	593,000	831,000	622,000	320,000	1,166,000
Rental of office premises, net	206,000	303,000	261,000	238,000	312,000
Net gains or (losses) on sales of marketable securities	(429,000)	(72,000)	2,000	51,000	(69,000)
Other income, net	96,000	116,000	124,000	111,000	102,000
	11,397,000	12,975,000	11,872,000	9,246,000	8,185,000
General and administrative expenses	4,208,000	3,702,000	3,436,000	3,127,000	3,105,000
Earnings before taxes on income	7,189,000	9,273,000	8,436,000	6,119,000	5,080,000
Taxes on income:					
Current	3,262,000	4,263,000	3,018,000	2,530,000	994,000
Deferred	—	402,000	1,082,000	465,000	1,037,000
	3,262,000	4,665,000	4,100,000	2,995,000	2,031,000
Net earnings	$ 3,927,000	4,608,000	4,336,000	3,124,000	3,049,000
Per share*	$ 1.65	1.94	1.83	1.32	1.28
FINANCIAL DATA AT YEAR END					
Total assets	$465,646,000	451,980,000	448,240,000	423,969,000	434,445,000
Real estate loans	$386,398,000	387,165,000	367,679,000	356,933,000	375,593,000
Savings accounts	$333,117,000	345,530,000	361,272,000	329,782,000	288,652,000
Shareholders' equity	$ 70,291,000	67,551,000	64,018,000	59,682,000	56,558,000
Book value per share*	$ 29.62	28.46	26.98	25.15	23.83

*Per share earnings and book value per share are based on 2,373,269 shares outstanding at December 31, 1974.

Management's Discussion and Analysis of Summary of Operations

The accompanying Summary of Operations covers the five years ended December 31, 1974.

The principal business of Wesco Financial Corporation (Wesco) is the ownership of all of the outstanding stock of Mutual Savings and Loan Association, which operates in Southern California through thirteen offices located in Los Angeles, Orange, Ventura and San Diego Counties. Wesco also owns and operates a Pasadena business block in which its head office and the head office of Mutual Savings are located. This block is fully improved with a 9-story modern office building, a 420-car garage and four retail stores. Wesco invests its cash funds in marketable securities and at December 31, 1974 had so invested the sum of $12,799,000. Mutual Savings' principal business is the lending of money secured by first liens on real estate (principally residential) to enable borrowers to purchase, construct or refinance real property. Funds are provided by savings deposits, principal payments on existing loans, borrowings from banks and operations.

INTEREST ON LOANS. This source of income is dependent upon the amount of loans and the yield thereon. The yields at December 31, 1972, 1973 and 1974 were 7.03%, 7.17% and 7.36% respectively. Total real estate loans outstanding at the end of said years were $367,679,000, $387,165,000 and $386,398,000.

INTEREST ON MARKETABLE SECURITIES. Investments have consisted principally of certificates of deposit of major banks, bankers acceptances, United States Government bonds, notes, bills and agency securities. The variation in income shown on the accompanying Summary is accounted for by the varying amounts invested and the varying yields obtained in the particular year. The amount invested in marketable securities from time to time is dependent on the cash flow available for investment and the amount committed for investment in real estate loans.

DIVIDENDS ON COMMON AND PREFERRED STOCKS. No common or preferred stocks were owned in 1971 and prior years. During 1972 Wesco invested $4,102,000 in public utility preferred stocks, which during that year produced an income of $201,000. These stocks were disposed of during the first quarter of 1973. In May, 1973 $6,785,000 was invested in the common stock of Crocker National Corporation. A portion of the stock was sold in early 1974, and the investment at December 31, 1974 was $5,079,000. At December 31, 1974 Wesco and Mutual Savings had invested $12,900,000 ($267,000 by Wesco) in public utility preferred stocks. The income reflected in the accompanying Summary is that earned in the particular year from the securities purchased and held as indicated. 1975 dividend income on the investment of $13,927,000 in preferred stocks now owned is projected to be $1,369,000 as compared with $611,000 on preferred stocks in 1974. If the dividend rate of $1.66 per share is maintained, dividends on Crocker stock, which amounted to $363,000 in 1974, will be $333,000 in 1975. At 1974 year end the market value of the common and preferred stocks was below the investment, but since that date the market value of the portfolio has increased substantially. We believe that the market decline of the common stock is a temporary condition and that no permanent loss will be sustained. The market value of preferred stocks varies as interest rates vary. Since interest rates at year end were higher than rates at the time of purchase, the market value of our preferred stocks was below cost. Interest rates have since declined, with the result that the market value of our preferred stocks is now substantially above cost. The investments in common and preferred stocks and their market values for Wesco consolidated are summarized as follows:

	December 31, 1974		February 28, 1975	
	Investment Cost	Market Value	Investment Cost	Market Value
Common stock	$ 5,079,000	3,039,000	5,079,000	3,968,000
Preferred stocks	12,900,000	11,831,000	13,927,000	14,431,000

INTEREST AND DIVIDENDS ON INVESTMENTS REQUIRED BY LAW. This source of income consists of dividends received on stock of the Federal Home Loan Bank of San Francisco and interest received on our secondary reserve held by the Federal Savings and Loan Insurance Corporation. No dividend was paid in 1972, $189,000 was paid in 1973 and $229,000 in 1974. The variation in amount of interest on the secondary reserve has been nominal.

INTEREST ON SAVINGS DEPOSITS. Savings at December 31, 1971 totalled $329,782,000, increased to $361,272,000 by 1972 year end, then decreased to $345,530,000 at the end of 1973 and to $333,117,000 at the end of 1974. The increase of interest paid on savings deposits in 1973 over 1972 was caused by a substantial increase in rates paid on savings accounts effective July 1, 1973. Although savings declined further during 1974, interest paid on savings deposits increased due to higher rates continuing through the entire year of 1974 and due to substantial funds being converted from maturing lower-rate certificates to certificates bearing interest rates of 7½% or 7¾%.

INTEREST ON NOTES PAYABLE. The variation in interest on notes payable is due to fluctuations in amounts borrowed from time to time and varying rates paid thereon. During 1972 rates of interest on borrowings varied from 6⅞% to 8⅛%, in 1973 from 7½% to 9¾% and in 1974 from 7½% to 12%.

MARGIN ON INVESTMENTS. Margin on investments is the difference between total investment income and the cost of money, and is made up of the items discussed above. The $1,810,000 increase of margin in 1973 over 1972 is the result of an increase of investment income of $3,209,000 less an increase in the cost of money of $1,399,000. In 1974, while investment income increased $1,847,000, cost of money increased by $2,469,000 resulting in a $622,000 decrease of the margin on investments.

LOAN FEES AND SERVICE CHARGES. This income was derived from the following sources:

	1972	1973	1974
Loan fees	$1,410,000	855,000	858,000
Commitment fees	416,000	180,000	89,000
Escrow and clerical fees	125,000	139,000	102,000
Prepayment charges	415,000	341,000	334,000
Late charges	159,000	152,000	59,000
Other charges	137,000	119,000	100,000
	$2,662,000	1,786,000	1,542,000

Reduction in loans and commitments for loans, and in fees charged for such loans and commitments, account for most of the annual reduction in the total income from this source.

OPERATIONS AND NET GAINS FROM SALES OF REAL PROPERTY. Mutual Savings, over a period of years, has acquired foreclosed real property including vacant land. Some vacant land has been disposed of from time to time and, on other occasions, residential units were built thereon and sold. Mutual Savings has also acquired foreclosed residential properties and disposed of them. During 1972 Mutual Savings sold 118 residential units of which 92 units had been constructed by it, in 1973 sold 38 residential units of which 17 had been constructed by it, and in 1974 sold 53 units of which 45 had been constructed by it. In 1972 no significant profit or loss was sustained on the sale of vacant land. In 1973 a parcel of vacant land was sold in Santa Barbara County resulting in a profit of $495,000, and in 1974 a parcel of land was sold in San Diego County resulting in a profit of $215,000. The variation in sale of residences and of vacant land accounts for the variation in the income shown on the accompanying Summary.

RENTAL OF OFFICE PREMISES, NET. Substantially all of this income is derived from the Pasadena business block owned by Wesco in which the head office of Mutual Savings is located. The variation in income from 1972 to 1973 is substantially accounted for by additional percentage rents received from tenants of two commercial stores. The decrease from $303,000 in 1973 to $206,000 in 1974 is attributable to a $32,000 increase in expenses and the loss, at December 31, 1973, of a tenant occupying 26,000 square feet of space (20% of total rentable space). By December 31, 1974 16,000 square feet of that space had been leased. At 1974 year end 9,800 square feet of space was vacant. Rents are being increased as the leases expire, and some improvement of rental income in 1975 can be expected over that of 1973.

NET GAINS (LOSSES) ON SALES OF MARKETABLE SECURITIES. A loss of $429,000 taken on sale of securities in 1974 is accounted for by two transactions. In order to improve the quality and yield on public utility preferred stocks owned, some sales were made at a loss of $171,000 and the funds reinvested in other preferred stocks considered of better quality and providing a higher yield. Government and agency obligations were sold at a loss of $256,000 and proceeds reinvested so as to reduce the time to maturity.

GENERAL AND ADMINISTRATIVE EXPENSES. The increase of $266,000 from 1972 to 1973 was occasioned principally by the expense of opening and operating three additional branch offices during 1973. Operating expenses in 1972 were 10.8% of gross income. The $506,000 increase in general and administrative expense from $3,702,000 (10.8% of gross income) in 1973 to $4,208,000 (12% of gross income) in 1974 was occasioned by inflation, the expense of opening and operating four additional offices in 1974, and the cost of computerizing our accounting system.

TAXES ON INCOME. Taxes on income were 48.6% of earnings before taxes on income in 1972, 50.3% in 1973 and 45.4% in 1974. Total tax expense varies with the increase or decrease in pre-tax accounting income adjusted for permanent differences (generally non-taxable revenue or non-deductible expense items). In 1972 the permanent differences and the increases (or reductions) in taxes were as follows:

Net gains on sales of foreclosed real property	($357,000)
State franchise tax net of Federal income tax benefit	$467,000
Dividends received deduction on preferred stocks	($ 75,000)
Other permanent differences	$ 16,000

Note 4 of the notes to the consolidated financial statements describes the permanent differences for 1973 and 1974 and their tax effects. Deferred tax expense was $1,082,000 in 1972, $402,000 in 1973 and was nil in 1974. The decrease in deferred taxes was caused principally by the decrease in loan fees recognized for financial statement purposes and the increase in loan fees recognized for tax purposes.

STOCK MARKET DATA. The following table indicates the quarterly high and low prices for Wesco's capital stock on the New York Stock Exchange for the last two years:

1973			1974	
High	Low	Quarter Ended	High	Low
18¼	14¾	March 31	15	11⅛
16¼	11⅛	June 30	15	9⅝
13⅛	10½	September 30	13½	6¼
14⅞	10¼	December 31	9¾	7½

Consolidated Balance Sheets

December 31, 1974 and 1973

ASSETS	1974	1973
Cash	$ 1,067,000	1,151,000
Marketable securities (note 3):		
Certificates of deposit	24,010,000	21,998,000
United States Government and agency obligations and other marketable securities, at amortized identified cost (quoted market, $9,953,000 in 1974 and $10,036,000 in 1973)	10,009,000	10,178,000
Investment in common stocks (quoted market, $3,039,000 in 1974 and $5,996,000 in 1973)	5,079,000	6,785,000
Investment in preferred stocks (quoted market, $11,831,000 in 1974)	12,900,000	—
Loans receivable, less unearned loan fees, unrealized profit and loans in process (notes 2 and 3)	389,065,000	389,584,000
Accrued interest and dividends receivable	1,935,000	1,960,000
Properties purchased and held for investment, at cost	661,000	455,000
Properties acquired through foreclosure by Mutual Savings and held for sale, at cost less allowance for losses, $280,000 in 1974 and 1973 (note 3)	5,819,000	5,451,000
Investments required by law:		
Investment in stock of Federal Home Loan Bank, at cost (note 3)	3,745,000	3,691,000
Prepayments to FSLIC secondary reserve	4,863,000	4,644,000
Office properties and equipment, net (note 5)	5,140,000	5,297,000
Prepaid expenses and sundry assets, at cost	1,353,000	786,000
	$465,646,000	451,980,000

LIABILITIES AND STOCKHOLDERS' EQUITY	1974	1973
Cash disbursements to be funded at bank	$ 1,248,000	—
Savings deposits	333,117,000	345,530,000
Notes payable (note 3)	50,976,000	27,705,000
Advances by borrowers for taxes and insurance	1,129,000	1,261,000
Accounts payable and sundry accrued expenses	996,000	1,101,000
Taxes on income (note 4):		
Current	41,000	983,000
Deferred	7,849,000	7,849,000
Total liabilities	395,355,000	384,429,000
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	2,373,000	2,373,000
Capital surplus arising from stock dividends	28,066,000	28,066,000
Retained earnings	39,852,000	37,112,000
Total stockholders' equity	70,291,000	67,551,000
Commitment and contingent liabilities (notes 6 and 10).		
	$465,646,000	451,980,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

Years ended December 31, 1974 and 1973

Investment income:		
Interest on loans	$ 28,463,000	27,450,000
Interest on marketable securities	3,202,000	2,950,000
Dividends on common and preferred stocks	974,000	463,000
Interest and dividends on investments required by law	533,000	462,000
Total investment income	33,172,000	31,325,000
Cost of money:		
Interest on savings deposits	20,419,000	20,001,000
Interest on notes payable	3,364,000	1,313,000
Total cost of money	23,783,000	21,314,000
Margin on investments	9,389,000	10,011,000
Loan fees and service charges	1,542,000	1,786,000
Operations and net gains from sales of real property (note 9)	593,000	831,000
Rental of office premises, net	206,000	303,000
Net losses on sales of marketable securities	(429,000)	(72,000)
Other income, net	96,000	116,000
	11,397,000	12,975,000
General and administrative expenses	4,208,000	3,702,000
Earnings before taxes on income	7,189,000	9,273,000
Taxes on income (note 4):		
Current	3,262,000	4,263,000
Deferred	—	402,000
	3,262,000	4,665,000
Net earnings	$ 3,927,000	4,608,000
Earnings per capital share based on 2,373,369 shares	$ 1.65	1.94

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1974 and 1973

	1974	1973
Capital stock (note 7):		
Beginning of year	$ 2,373,000	2,260,000
5% stock dividend	—	113,000
End of year	2,373,000	2,373,000
Capital surplus arising from stock dividends (note 7):		
Beginning of year	28,066,000	26,399,000
Excess of market value of stock dividend over par value of stock issued	—	1,667,000
End of year	28,066,000	28,066,000
Retained earnings:		
Appropriated (notes 4 and 8):		
Beginning of year	42,446,000	41,587,000
Allocation of net earnings	596,000	859,000
End of year	43,042,000	42,446,000
Unappropriated (note 7):		
Beginning of year	23,905,000	21,231,000
Cash dividends declared and paid	(1,187,000)	(1,075,000)
Allocation of net earnings	3,331,000	3,749,000
End of year	26,049,000	23,905,000
Less stock dividends at market value (note 7):		
Beginning of year	(29,239,000)	(27,459,000)
Market value of stock dividend	—	(1,780,000)
End of year	(29,239,000)	(29,239,000)
Total retained earnings	39,852,000	37,112,000
Total stockholders' equity	$ 70,291,000	67,551,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1974 and 1973

	1974	1973
Funds provided:		
Net earnings	$ 3,927,000	4,608,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	314,000	294,000
Interest on savings deposits credited to savings accounts	14,810,000	14,005,000
Deferred income taxes (note 4)	—	402,000
FSLIC primary premium transferred from secondary reserve	86,000	91,000
Amortization of fees and discounts	(409,000)	(402,000)
Recognition of unrealized profit on real property	(410,000)	(259,000)
Interest income on FSLIC secondary reserve	(305,000)	(273,000)
Funds provided from operations	18,013,000	18,466,000
Principal payments on real estate loans	35,029,000	44,326,000
Additions to deferred loan fees	277,000	329,000
Sales of real property, net of gains	1,769,000	2,804,000
Increase in notes payable	23,270,000	14,985,000
Increase in advances by borrowers for taxes and insurance	—	349,000
Additions to unrealized profit on real property	155,000	340,000
Decrease in marketable securities	—	15,931,000
Decrease in cash	1,332,000	430,000
Total funds provided	$ 79,845,000	97,960,000
Funds used:		
Cash dividends declared and paid (note 7)	$ 1,187,000	1,075,000
Decrease in savings deposits	27,223,000	29,747,000
Investment in real estate loans	31,998,000	52,647,000
Investment in buildings and other assets	282,000	228,000
Additions to real property	2,219,000	1,716,000
Decrease in loans in process	1,883,000	11,173,000
Investment in stock of Federal Home Loan Bank	54,000	—
Decrease in advances by borrowers for taxes and insurance	132,000	—
Increase in marketable securities	13,037,000	—
Other, net	1,830,000	1,374,000
Total funds used	$ 79,845,000	97,960,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
December 31, 1974 and 1973

(1) Summary of Significant Accounting Policies

The following items comprise the significant accounting policies which the Company follows:

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.

Marketable Securities

U.S. Government, agency obligations and other marketable securities 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.

Common and preferred stocks are carried at identified cost.

Loan Fees

Loan fees for originating loans are deferred for amounts in excess of 1% of the loan amount plus $200 for non-construction loans and 2% of the loan amount plus $200 for construction loans. Deferred fees are amortized into income by use of the straight-line method over seven years.

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.

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.

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.

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.

Comparative Figures

Certain items in the 1973 financial statements have been reclassified to conform with 1974 classifications.

(2) Loans Receivable

Loans receivable are summarized as follows:

	1974	1973
Real estate loans on residential property of:		
One to four units (home loans)	$284,885,000	277,939,000
More than four units	92,786,000	99,864,000
Real estate loans on other properties	11,496,000	14,395,000
	389,167,000	392,198,000
Less:		
Unearned loan fees	(1,075,000)	(1,207,000)
Unrealized profit on sales of real property	(1,404,000)	(1,653,000)
Loans in process	(290,000)	(2,173,000)
	386,398,000	387,165,000
Loans on savings deposits	2,667,000	2,419,000
	$389,065,000	389,584,000

(3) Notes Payable

The following is a summary of notes payable:

Federal Home Loan Bank advances, secured by certain real estate loans and Federal Home Loan Bank stock, with interest from 7.50% to 9.75% in 1974 and 7.50% to 8.125% in 1973, and with maturity dates as follows:

Year ending Dec. 31,	1974	1973
1974	$ —	20,700,000
1975	17,400,000	—
1976	343,000	—
1977	3,494,000	—
1978	3,494,000	—
1979	3,494,000	—
1980	3,494,000	—
1981	3,494,000	—
1982	3,494,090	—
1983	3,494,000	—
1984	1,399,000	—
	43,600,000	20,700,000
Bank notes with interest principally at prime secured by certain marketable securities, real estate loans and real property, and with maturity dates as follows:		
Year ending Dec. 31,		
1974	—	6,085,000
1975	7,375,000	—
Bank note with interest at 9.75% due January 15, 1974, secured by certificate of deposit	—	920,000
	$ 50,975,000	27,705,000

(4) Taxes on Income

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.

Appropriated retained earnings at December 31, 1974 and 1973 include approximately $43,852,000 and $43,256,000, 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 1972 through 1974 are subject to examination by the United States Treasury Department.

Income tax expense for 1974 and 1973 includes the following components:

	1974		1973	
	Current tax expense	Deferred tax expense	Current tax expense	Deferred tax expense
Federal	$2,451,000	—	3,251,000	251,000
State	811,000	—	1,012,000	151,000
Total	$3,262,000	—	4,263,000	402,000

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 1974 and 1973 and the tax effect of each were as follows:

	1974	1973
Financial statement recognition of loan fees greater (less) than tax recognition	$ (156,000)	577,000
California franchise tax recognized for financial statement purposes on accrual basis but on cash basis for tax purposes	156,000	(125,000)
FSLIC secondary reserve interest income recognized on the financial statements, but deferred for tax purposes	166,000	75,000
Gains on sales of real property recognized in prior years for financial statement purposes	--	(225,000)
Other timing differences	(166,000)	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:

	1974	1973
Computed "expected" Federal tax expense	$ 3,451,000	4,451,000
Increases (reductions) in taxes resulting from:		
Net gains on sales of foreclosed real property	(219,000)	(386,000)
State franchise tax, net of Federal income tax benefit	422,000	606,000
Dividends received deduction on common and preferred stocks	(397,000)	(189,000)
Other permanent differences	5,000	183,000
	$ 3,262,000	4,665,000

(5) Office Properties and Equipment, Net

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

	1974	1973
Land	$ 1,509,000	1,623,000
Office buildings and leasehold improvements	5,780,000	5,659,000
Furniture, fixtures and equipment	930,000	838,000
	8,219,000	8,120,000
Accumulated depreciation and amortization	3,079,000	2,823,000
	$ 5,140,000	5,297,000

(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 1974 and 1973 approximated $94,000 and $79,000, respectively. The actuarially computed value of vested benefits as of December 31, 1974 and 1973 did not exceed the market value of the assets of the retirement fund.

The Employee Retirement Income Security Act of 1974 became law on September 2, 1974 and is principally concerned with participation, vesting, and funding requirements. Pension plans in existence on January 1, 1974 are not subject to those requirements until plan years beginning after December 31, 1975. Compliance with the requirements of the Act will not have a significant effect on the Company's pension plan.

(7) Dividends

Quarterly cash dividends of $.10 per share plus an extra cash dividend of $.10 per share declared and paid during 1974 amounted to $1,187,000. Cash dividends declared and paid during 1973 amounted to $1,075,000.

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).

(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, 1974 and 1973.

(9) Real Estate Operations

Operations and net gains from sales of real property are summarized as follows:

	1974	1973
Recognized net gains from sales	$ 591,000	852,000
Income from rentals	108,000	140,000
	699,000	992,000
Less maintenance and sales expense	106,000	161,000
	$ 593,000	831,000

(10) Contingent Liabilities

Mutual Savings is named as one of the defendants in several class actions relating to certain common practices in the mortgage lending field. The outcome of this litigation cannot be predicted; however, based on the facts presently available, 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 these actions and there is a substantial chance the cases can be successfully defended. While there is some risk to Mutual, in management's opinion, any such risk would not be material.

Accountants' Report

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
[illegible] South Flower Street
Los Angeles, California [illegible]

The Board of Directors
Wesco Financial Corporation:

We have examined the consolidated balance sheets of Wesco Financial Corporation and subsidiaries as of December 31, 1974 and 1973 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, 1974 and 1973 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.

Los Angeles, California
February 14, 1975

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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, 1974 and 1973 and the related statements of earnings and changes in financial position for the years then ended:

Balance Sheets

Assets	1974	1973
Cash	$ 117,000	139,000
Marketable securities:		
Certificates of deposit	1,000,000	5,002,000
Investment in common stocks (quoted market, $3,039,000 in 1974 and $5,996,000 in 1973)	5,079,000	6,785,000
Investment in preferred stocks (quoted market, $250,000 in 1974)	267,000	-
Other marketable securities, at amortized identified cost (quoted market, $6,453,000 in 1974)	6,453,000	-
Real estate loans receivable	221,000	111,000
Accrued interest and dividends receivable	93,000	203,000
Properties purchased and held for investment, at cost	89,000	89,000
Investments in subsidiaries, at equity	55,918,000	55,535,000
Office properties and equipment, net	4,316,000	4,624,000
Prepaid expenses and sundry assets, at cost	74,000	50,000
	$ 73,627,000	72,538,000

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

Liabilities and Stockholders' Equity	1974	1973
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	2,708,000	2,971,000
Accounts payable and sundry accrued expenses	687,000	1,076,000
Taxes on income:		
Current	21,000	20,000
Deferred	(80,000)	-
Total liabilities	3,336,000	4,987,000
Stockholders' equity:		
Capital stock of $1 par value per share. Authorized 2,500,000 shares; issued 2,373,269 shares	2,373,000	2,373,000
Capital surplus arising from stock dividends	28,066,000	28,066,000
Retained earnings:		
Appropriated	43,042,000	42,446,000
Unappropriated	26,049,000	23,905,000
Less stock dividends at market value	(29,239,000)	(29,239,000)
	39,852,000	37,112,000
Total stockholders' equity	70,291,000	67,551,000
Commitments and contingent liabilities.		
	$ 73,627,000	72,538,000

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Parent Company Financial Statements, Continued

Statements of Earnings

	1974	1973
Investment income:		
Equity in earnings of subsidiaries before taxes on income	$ 6,388,000	8,604,000
Interest on loans	10,000	9,000
Interest on marketable securities, including interest on deposits in Mutual Savings, $17,000 ($154,000 in 1973)	767,000	386,000
Dividends on common and preferred stocks	376,000	463,000
Total investment income	7,541,000	9,462,000
Cost of money - interest on notes payable, including interest on loan payable to Mutual Savings, $157,000 ($171,000 in 1973) and other interest paid to Mutual Savings, $112,000	287,000	193,000
	7,254,000	9,269,000
Loan fees and service charges	39,000	47,000
Rental of office premises, net	206,000	303,000
Net losses on sales of marketable securities	(14,000)	(63,000)
Other income (expense), net	-	15,000
	7,485,000	9,571,000
General and administrative expenses	296,000	298,000
Earnings before taxes on income	7,189,000	9,273,000
Taxes on income	3,262,000	4,665,000
Net earnings	$ 3,927,000	4,608,000

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

	1974	1973
Funds provided:		
Net earnings	$ 3,927,000	4,608,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	214,000	212,000
Deferred income taxes	(80,000)	(29,000)
Equity in net earnings of subsidiary	(3,383,000)	(4,091,000)
Funds provided from operations	678,000	700,000
Dividends from Mutual Savings	3,000,000	1,500,000
Principal payments on real estate loans	8,000	19,000
Increase in bank note payable	-	920,000
Sale of building and other assets, net of gains	124,000	-
Additions to unrealized profit on real property	48,000	-
Other, net	-	38,000
Decrease in cash	22,000	5,859,000
Total funds provided	$ 3,880,000	9,036,000
Funds used:		
Cash dividends declared and paid	$ 1,187,000	1,075,000
Investment in building and other assets	30,000	27,000
Decrease in loan payable to Mutual Savings	263,000	249,000
Decrease in bank note payable	920,000	-
Investment in real estate loans	172,000	-
Increase in investments in marketable securities	1,012,000	7,685,000
Other, net	296,000	-
Total funds used	$ 3,880,000	9,036,000

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

Supplementary Profit and Loss Information

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

	Years ended Dec.31,			
	1974		1973	
	Company	Consolidated	Company	Consolidated
Maintenance and repairs	$ 306,000	346,000	277,000	313,000
Depreciation and amortization of office properties and equipment	214,000	314,000	212,000	294,000
Taxes other than taxes on income:				
Payroll taxes	6,000	99,000	6,000	96,000
Property taxes	198,000	327,000	202,000	341,000
Advertising	-	472,000	-	396,000

Loan Payable to Mutual Savings

The loan payable to Mutual Savings is a 5-1/2% loan, due in 1981 with monthly installments 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 Dec.31,	
1975	$ 278,000
1976	294,000
1977	310,000
1978	328,000
1979	346,000
Thereafter	1,152,000
	$ 2,708,000

Deferred Taxes on Income

Based upon currently anticipated operations, it is expected that the deferred income tax balance will not substantially decrease through 1977.

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Supplemental Information to Notes to Consolidated Financial Statements, Continued

Office Properties and Equipment, Net

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

	Parent company only	
	1974	1973
Land	$ 1,386,000	1,500,000
Office buildings and leasehold improvements	5,001,000	5,026,000
Furniture, fixtures and equipment	6,000	6,000
	6,393,000	6,532,000
Accumulated depreciation and amortization	2,077,000	1,908,000
	$ 4,316,000	4,624,000

Total additions amounted to $30,000 in 1974 and $27,000 in 1973. Total sales and retirements amounted to $169,000 in 1974 and none in 1973. Neither total additions nor total sales or retirements during 1974 and 1973 amounted to more than 10% of the ending balance for the respective period.

WESCO FINANCIAL CORPORATION

Schedule III

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

Years ended December 31, 1974 and 1973

COLUMN A	COLUMN B		COLUMN C		COLUMN D		COLUMN E		COLUMN F
	BALANCE AT BEGINNING OF PERIOD		ADDITIONS		DEDUCTIONS		BALANCE AT END OF PERIOD		
NAME OF ISSUER AND DESCRIPTION OF INVESTMENT	(1) Number of Shares or Units, Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Equity Taken Up in Earnings (Losses) of Affiliates and Other Persons For the Period	(2) Other	(1) Distribution of Earnings by Persons in Which Earnings (Losses) Were Taken Up	(2) Other	(1) Number of Shares or Units, Principal Amount of Bonds and Notes	(2) Amount in Dollars	Dividends Received During the Period From Investments Not Accounted For By the Equity Method
Mutual Savings and Loan Association:									
Guarantee stock of $100 par value:									
1973	600(1)	$ 52,944,000	4,091,000	-	1,500,000	-	600(1)	$ 55,535,000	
1974	600(1)	$ 55,535,000	3,383,000	-	3,000,000	-	600(1)	$ 55,918,000	

(1) 100% of the outstanding shares.

END

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