

SEC FILE NO 0-3810 03

SIC 739

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BLUE CHIP STAMPS

10-K

OTHER

CARD 1

MICROFICHE BY DISCLOSURE INCORPORATED

FOR 02/28/76

Blue Chip Stamps [Calif.] Cc: 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
 Auditor: Price Waterhouse & Co.

10-K For: 3/1/75

Auditor: Price Waterhouse & Co.
 Shareholders: 2,671

For the years ended:	3/1/75	3/2/74
Revenues:	\$89,365,000	\$102,219,000
Earnings:	\$8,665,000/\$1.67	\$8,005,000/\$1.55
Extr. Items:	\$903,000	None
Assets:	\$153,495,000	\$200,220,000
Net Worth:	\$67,309,000	\$59,887,000

Description of Business: Provides trading stamp service to Calif. and Nev. retailers, including stamps, catalogs, books, promotional material, and redemption centers. Operates incentive promotion business. Produces candy and confectioneries and operates 170 candy shops in nine western states. Operates savings and loan business in southern Calif.

- Trading stamp companies
- Promotional merchandising services
- Candy mfr; Confectionery mfr
- Chain store operation; Confectionery retailing
- Savings and loan associations

Auditor's Report:

- Qualified opinions for uncertainties; Civil court proceedings; Proposed divestiture; Proposed spinoff; Regulatory orders; Forced divestiture; Trading stamp companies
- Qualified opinions for uncertainties; Civil court proceedings; Class action; Sales taxes; Trading stamp companies
- Qualified opinions for uncertainties; Fraud; Common stock offering; Prior years; Court decisions pending

Financial Statements and Notes:

- Unconsolidated finance subsidiaries
- Unusual effective tax rate; Dividends received deductions (IRC)
- Tax return auditing; Tax deficiency; Court decisions pending
- Extraordinary loss carryover gains

Exhibits: None indexed

8-K For: 5/31/75

Exhibits: None indexed

ARS For: 3/1/75

Proxy For: 4/28/75

10-Q For: 5/31/75

8-K For: 6/30/75

- Juridical approval; Technical reports; Proposed spinoff; Forced divestiture; Trading stamp companies
- Tax litigation; Tax deficiency; Federal income taxes

Exhibits: None

10-Q For: 8/30/75

8-K For: 9/30/75

Exhibits: None

8-K For: 10/31/75

Exhibits: None

10-Q For: 11/29/75

RESUME CONTINUED ON NEXT FRAME

8-K For: 1/31/76

Investment loss allowances; Marketable securities

Exhibits: None

8-K For: 2/29/76

New individual controlling interest; Beneficial ownership

Loss allowance reduction; Lower of cost or market value; Marketable securities; Capital in excess of par value

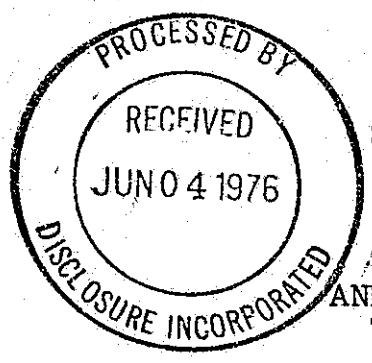
Exhibits: None

8-K For: 3/31/76

Exhibits: None

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SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

RECD S.E.C.
 MAY 26 1976
 (Fees Received)

FORM 10-K

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

For the fiscal year
 ended February 28, 1976

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
 (Title of class)

6-3/4% Subordinated Debentures due 1978
 (Title of class)

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), and (2) has been subject to such filing re-
 quirements for the past 90 days.

Yes X No _____

PART I

Item 1. Business.

The information set forth in the section entitled "Principal Business Activities" on page 6 of the 1976 printed annual report of Blue Chip Stamps, a copy of which page is attached, is incorporated herein by reference. With the exception of the aforementioned information and data referred to in Item 2 and on page S-1 hereof, information contained in said annual report is not to be deemed filed as part of this report.

Item 2. Summary of Operations.

The information set forth in the section entitled "Summary of Operations" on pages 7 and 8 of the 1976 printed annual report of Blue Chip Stamps, copies of which pages are attached, is incorporated herein by reference. With the exception of the aforementioned information and data referred to in Item 1 and on page S-1 hereof, information contained in said annual report is not to be deemed filed as part of this report.

Item 3. Properties.

The Company operates a merchandise distribution center at Los Angeles. The distribution center has a storage capacity of approximately 500,000 square feet and is leased under an agreement expiring July 31, 1980.

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 1996.

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 61%. 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)	1,640,459

- (a) Mr. and Mrs. Buffett own 56% of the common stock of Diversified Retailing Company, Inc., which through a subsidiary is principally engaged in operating women's apparel stores. Mr. Buffett is Chairman of the Board of such company.
- (b) Mr. and Mrs. Buffett own 36% of the common stock of Berkshire Hathaway Inc., a textile manufacturer also engaged through subsidiaries in banking and insurance. In addition, Diversified Retailing Company, Inc. and subsidiaries, referred to in (a) above, own 16% of such stock. Mr. Buffett is Chairman of the Board and Chief Executive Officer of Berkshire Hathaway Inc.

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.

Item 4. Parents and Subsidiaries. (Continued)

The Company owns 64% 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 Association, a California corporation, whose subsidiaries are insignificant in the aggregate. The Company, beginning with its fiscal year ended March 2, 1974, has taken up its equity in Wesco's consolidated undistributed net earnings. Separate consolidated and unconsolidated financial statements of Wesco are incorporated herein by reference, as explained in the Index to Financial Statements on page S-1 hereof.

Item 5. 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, Thriftmart, Inc., Thrifty Drug Stores, Inc., and Vons Grocery Co. United States District Court, Central District of California, Civil Action No. 63-1552-F.

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. Said Consent Decree provided for, among other things, a plan to offer for sale one-third of the Company's California trading stamp business located within a contiguous geographical area in Southern California. That portion of the Consent Decree has been suspended indefinitely by stipulation and court order signed March 31, 1976.

(b) 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, Purity Stores, Inc., Ralphs Grocery Company, Safeway Stores, Inc.,

Item 5. Legal Proceedings. (Continued)

Thriftmart, Inc., Thrifty Drug Stores Co., Inc., Vons Grocery Co., Robert F. 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 alleged damages to plaintiffs of \$21,400,000 and exemplary damages of \$25,000,000, interest, attorneys' fees and costs, and prayed that plaintiffs have the right to purchase stock, or units of stock and debentures, of the Company on the terms of the 1968 offering. After hearings in the United States District Court and the United States Court of Appeals for the Ninth Circuit, the United States Supreme Court granted review and in a decision rendered on June 9, 1975 held that the purported class did not have standing to bring such an action. Accordingly, the federal action is concluded. On June 5, 1974, the Company was served with a complaint in a substantially identical action filed in Los Angeles County Superior Court on June 21, 1971. Although plaintiffs are pursuing the state court action, in the opinion of counsel for the Company, upon the facts now known, the present state of the law, and the decision of the Supreme Court in the federal action, there appear to be substantial defenses on the merits.

(c) 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.

Item 5. Legal Proceedings. (Continued)

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 class action complaint against the Company was amended to allege 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. 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. The class action complaint was also amended effective September 19, 1974 to assert, in substance, that the Company's predecessor had engaged in similar conduct from 1961 until its merger into the Company in 1968, and that the Company must respond in respect of the alleged liability of its predecessor to plaintiffs and the persons they purport to represent for overreimbursement of sales taxes. On October 24, 1975 the California Supreme Court granted the petition of the Company for an alternative writ of mandate to determine (1) whether the trial court properly certified the action as a class action and set it for trial without any notice to members of the purported class and (2) whether or not an order for partial summary judgment previously entered was erroneous. Proceedings in the trial court are stayed pending final determination of the mandate proceedings in the California Supreme Court. 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 as amended may be as high as \$17,000,000 less the amount of any money which may be recovered on the claims against the state. Counsel believes the prospects for some 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.

Item 5. Legal Proceedings. (Continued)

(d) The information set forth in Item 5 of the Form 10-K Annual Report for the year ended December 31, 1975 filed by Wesco Financial Corporation, a subsidiary of the Company, a copy of which report is attached for convenience, is incorporated herein by reference. With the exception of the aforementioned information and data referred to in the Index to Financial Statements on page S-1 hereof, information contained in said report is not to be deemed filed as part of this report.

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 February 28, 1976:

Balance, March 1, 1975	\$6,512,000
Open market or private purchases, March - June 1975	<u>(120,000)</u>
Balance, February 28, 1976	<u>\$6,392,000</u>

There were 5,179,000 shares of \$1 par value common stock outstanding throughout the fiscal year.

Item 7. Approximate Number of Equity Security Holders.

<u>Title of class</u>	<u>Number of record holders as of April 9, 1975</u>
Common stock, par value \$1.00 per share	2,573

Item 8. Executive Officers of the Registrant.

Following is a list of the Company's executive officers, whose ages range from 58 to 43 years:

<u>Name</u>	<u>Position</u>
Donald A. Koepfel	Chairman of the Board and President
William F. Ramsey	Executive Vice President and Director
Raymond H. Allen	Vice President, Information Systems
Robert H. Bird	Vice President, Secretary and Treasurer
James D. Carter	Vice President, Operations
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.

(a) Financial Statements: Refer to Index to Financial Statements on page S-1.

(b) Exhibits:

- (1) Incorporated by reference to Form 8-K Current Report of Blue Chip Stamps for May 1975 -
 - 3.1-3 Amendment to articles of incorporation effective May 22, 1975 fixing number of directors at not less than eight nor more than eleven
 - 3.2-5 Amendment to bylaws effective May 22, 1975 fixing number of directors at nine within a range of eight to eleven
- (2) Filed herewith -
 - 4(d). Second compendium amendment to Profit Sharing Plan and Trust Agreement of See's Candy Shops, Incorporated
 - 5(g). Second compendium amendment to Profit Sharing Plan and Trust Agreement of See's Candies, Inc.
 - 6(a). Amendment dated July 15, 1975 to Employment Agreement between See's Candies, Inc. and Edward G. Peck
 - 11.1-4 Blue Chip Stamps Employees' Pension Plan and Trust Agreement as amended effective January 1, 1976
 - 14.1 Letter from Price Waterhouse & Co. relating to change in method of accounting for marketable equity securities in the fiscal year ended February 28, 1976

PART II

Items 11 to 15 Inclusive.

These items are omitted pursuant to General Instruction H to Form 10-K. The Company has filed with the Securities and Exchange Commission a definitive proxy statement pursuant to Regulation 14A for its annual meeting of stockholders scheduled for May 27, 1976.

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 24, 1976

By /s/ R. H. Bird
R. H. Bird
Vice President,
Secretary and Treasurer

BLUE CHIP STAMPSINDEX TO FINANCIAL STATEMENTS

The 1976 and 1975 consolidated financial statements, together with the report thereon of Price Waterhouse & Co. dated April 12, 1976, appearing on pages 9 through 16 in the Company's 1976 Annual Report to stockholders, copies of which pages are attached, are incorporated in this Form 10-K Annual Report. With the exception of the aforementioned information and the information incorporated in Items 1 and 2 hereof, information contained in the 1976 Annual Report to stockholders is not to be deemed filed as part of this report.

The December 31, 1975 and 1974 consolidated and unconsolidated balance sheets and related 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 January 30, 1976, are incorporated herein by reference to the Form 10-K Annual Report filed by Wesco Financial Corporation for the year ended December 31, 1975, a copy of which is attached. With the exception of the aforementioned information and data referred to in paragraph (d) of Item 5 hereof, information contained in said report is not to be deemed filed as part of this report.

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 indebtedness of its consolidated subsidiary to unaffiliated parties is five per cent or less of total consolidated assets at February 28, 1976.

The following additional financial data should be read in conjunction with the financial statements 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 the financial statements or notes thereto.

	<u>Page number</u>
Consent of independent accountants	S-3
Additional financial data of Blue Chip Stamps: Supplementary information to notes to consolidated financial statements	S-4 to S-6
Financial schedules -	
I - Marketable securities	S-7
III - Investments in, equity in earnings of, and dividends received from affiliates and other persons	S-8
V - Property, plant and equipment	S-9
VI - Accumulated depreciation, depletion and amortization of property, plant and equipment	S-10
XVI - Supplementary income statement information	S-11

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the application of our report, which appears on page 16 of the 1976 Blue Chip Stamps Annual Report to stockholders, to the additional financial data listed in the foregoing index when this data is read in conjunction with the consolidated financial statements in such 1976 Annual Report to stockholders; 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.

Los Angeles, California
April 12, 1976

BLUE CHIP STAMPSSUPPLEMENTARY INFORMATION TO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At February 28, 1976 and March 1, 1975, accounts receivable include approximately \$180,000 and \$1,920,000 relating to sales of marketable securities.

Beginning and ending inventories for the two fiscal years ended in 1976 are as follows:

February 28, 1976	\$ 7,295,000
March 1, 1975	11,767,000
March 2, 1974	10,355,000

The above amounts consist primarily of redemption merchandise except that the February 28, 1976, March 1, 1975 and March 2, 1974 amounts include \$2,122,000, \$3,168,000 and \$2,225,000 relating to candy operations.

The estimated useful lives used in computing depreciation and amortization 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, See's Candy Shops, Incorporated (See's), amounted to \$17,262,000 at February 28, 1976 and \$17,227,000 at March 1, 1975 and at March 2, 1974. The excess of equity over cost in net assets of the unconsolidated subsidiary, Wesco Financial Corporation (Wesco), amounted to \$12,562,000 at March 2, 1974.

Following is a summary of accumulated amortization of the intangibles discussed above, at each of the three most recent fiscal yearends:

	<u>See's</u>	<u>Wesco</u>
February 28, 1976	\$1,775,000	\$1,167,000
March 1, 1975	1,344,000	675,000
March 2, 1974	913,000	218,000

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

	<u>February 28, 1976</u>	<u>March 1, 1975</u>
Accounts payable	\$3,840,000	\$3,344,000
Accrued compensation	1,259,000	1,601,000
Taxes other than income	<u>1,128,000</u>	<u>544,000</u>
	<u>\$6,227,000</u>	<u>\$5,489,000</u>

Income from marketable securities is broken down as follows:

	<u>Fiscal year ended in</u>	
	<u>1976</u>	<u>1975</u>
Interest	\$ 871,000	\$1,652,000
Dividends	<u>4,042,000</u>	<u>6,086,000</u>
	<u>\$4,913,000</u>	<u>\$7,738,000</u>

Included in interest and discount amortization is amortization of debenture discount amounting to \$212,000 and \$306,000 for the fiscal years ended in 1976 and 1975. Debenture discount is being amortized over the term of the debentures by use of the debentures outstanding method. Unamortized debenture discount of \$379,000 and \$595,000 at February 28, 1976 and March 1, 1975 is included in pre-paid income taxes and other expenses.

Rental commitments apply primarily to redemption stores and candy shops.

The Company has a renewable line of credit in the maximum amount of \$5,000,000. Marketable securities with a market value of at least 150% of the outstanding borrowings must be maintained as collateral. There were no such borrowings at February 28, 1976 or March 1, 1975, and the maximum outstanding monthend balances during the fiscal years ended in 1976 and 1975 were \$500,000 and \$1,000,000, respectively. Interest, which is at prime rate, averaged 7.6% and 10.7% during the fiscal years ended in 1976 and 1975 based on average daily balances of \$55,000 and \$96,000, respectively.

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 value at dates granted. At February 28, 1976 and March 1, 1975, 239,200 and 224,500 shares were available for grant. Options are exercisable in four annual instalments beginning one year after date of grant and expire five years after such date. The excess of aggregate proceeds from exercise over par value is credited to paid-in capital. Additional option information is summarized below:

	<u>Fiscal year ended in</u>	
	<u>1976</u>	<u>1975</u>
Options which became exercisable during the period:		
Number of shares	2,875	6,375
Option price -		
Per share	\$15.1875	\$14.75 and \$15.1875
Total	\$43,664	\$96,000
Market price at date first exercisable -		
Per share	\$ 7.375	\$ 8.375 and \$8.625
Total	\$21,203	\$54,516
Options exercised during the period	None	None

At February 28, 1976 options to purchase 4,000 shares were outstanding and currently exercisable at an aggregate price of \$60,750.

BLUE CHIP STAMPSSCHEDULE I - MARKETABLE SECURITIES
FEBRUARY 28, 1976

<u>Name of issuer and title of issue</u>	<u>Number of shares or units - principal amount of bonds or notes</u>	<u>Amount at which shown in balance sheet</u>
<u>Short-term investments, at cost</u>		
U.S. Treasury Bills	<u>\$25,000,000</u>	<u>\$24,695,000</u>
 <u>Marketable equity securities, at the lower of aggregate cost or market</u>		
Preferred stocks:		
Duke Power Company, 6.75%		
Cum. Conv.	10,000	\$ 830,000
Other	23,800	<u>417,000</u>
		<u>1,247,000</u>
Common stocks:		
American Water Works Company, Inc.	86,800	922,000
Baystate Corporation	108,480	2,685,000
Cleveland Trust Corporation	105,598	4,462,000
Hartford National Corporation	84,844	1,082,000
Manufacturers National Corporation	109,470	3,147,000
National Detroit Corporation	274,580	13,180,000
Pittsburgh National Corporation	256,500	9,298,000
San Jose Water Works	43,100	1,460,000
Shawmut Association, Inc.	68,423	1,522,000
Source Capital, Inc.	1,257,127	13,671,000
State Street Boston Financial Corporation	62,239	1,447,000
Other	134,734	<u>2,589,000</u>
		<u>55,465,000</u>
 Total marketable equity securities, at market value		 <u>\$56,712,000</u>

BLUE CHIP STAMPS

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	Amounts 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
<u>Year ended March 1, 1975:</u>								
Investment in common stock of Wesco Financial Corporation ("Wesco")	1,058,042	\$17,446,000	\$2,588,000	\$7,025,000		\$752,000 (1)	1,527,299 (3)	\$26,307,000
<u>Year ended February 28, 1976:</u>								
Investment in common stock of Wesco	1,527,299	\$26,307,000	\$3,092,000		\$76,000 (2)	\$887,000 (1)	1,527,299 (3)	\$28,588,000

(1) Net of income taxes of \$67,000 and \$58,000 in the fiscal years ended in 1976 and 1975.

(2) Represents an adjustment to acquisition cost.

(3) Represents 64.4% of Wesco's outstanding stock at February 28, 1976 and at March 1, 1975.

BLUE CHIP STAMPS

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

<u>Classification</u>	<u>Balance at beginning of period</u>	<u>Additions at cost</u>	<u>Retirements</u>	<u>Other changes add (deduct)</u>	<u>Balance at end of period</u>
<u>Year ended March 1, 1975:</u>					
Land	\$ 2,900,000		\$ 577,000		\$ 2,323,000
Buildings	5,755,000	\$ 24,000	1,748,000		4,031,000
Furniture, fixtures and equipment	9,289,000	574,000	816,000	\$572,000 (1)	9,619,000
Leasehold improvements	<u>4,287,000</u>	<u>309,000</u>	<u>131,000</u>	<u>(572,000) (1)</u>	<u>3,893,000</u>
	<u>\$22,231,000</u>	<u>\$ 907,000</u>	<u>\$3,272,000</u>	<u>\$ -0-</u>	<u>\$19,866,000</u>
<u>Year ended February 28, 1976:</u>					
Land	\$ 2,323,000		\$ 8,000		\$ 2,315,000
Buildings	4,031,000	\$ 155,000			4,186,000
Furniture, fixtures and equipment	9,619,000	789,000	600,000		9,808,000
Leasehold improvements	<u>3,893,000</u>	<u>252,000</u>	<u>278,000</u>		<u>3,867,000</u>
	<u>\$19,866,000</u>	<u>\$1,196,000</u>	<u>\$ 886,000</u>		<u>\$20,176,000</u>

(1) Reclassification.

BLUE CHIP STAMPS

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

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to costs and expenses</u>	<u>Retirements</u>	<u>Other changes add (deduct)</u>	<u>Balance at end of period</u>
<u>Year ended March 1, 1975:</u>					
Buildings	\$ 2,434,000	\$ 193,000	\$ 523,000		\$ 2,104,000
Furniture, fixtures and equipment	7,243,000	630,000	778,000	\$306,000 (1)	7,401,000
Leasehold improvements	<u>2,100,000</u>	<u>397,000</u>	<u>103,000</u>	<u>(306,000) (1)</u>	<u>2,088,000</u>
	<u>\$11,777,000</u>	<u>\$1,220,000</u>	<u>\$1,404,000</u>	<u>\$ -0-</u>	<u>\$11,593,000</u>
<u>Year ended February 28, 1976:</u>					
Buildings	\$ 2,104,000	\$ 169,000			\$ 2,273,000
Furniture, fixtures and equipment	7,401,000	568,000	\$ 583,000		7,386,000
Leasehold improvements	<u>2,088,000</u>	<u>310,000</u>	<u>171,000</u>		<u>2,227,000</u>
	<u>\$11,593,000</u>	<u>\$1,047,000</u>	<u>\$ 754,000</u>		<u>\$11,886,000</u>

(1) Reclassification.

BLUE CHIP STAMPSSCHEDULE XVI - SUPPLEMENTARY INCOME STATEMENT INFORMATION

<u>Item</u>	<u>Charged to costs and expenses</u>
<u>Year ended March 1, 1975:</u>	
Maintenance and repairs	\$1,244,000
Taxes other than income taxes -	
Payroll	1,427,000
Other	576,000
Advertising costs	612,000
<u>Year ended February 28, 1976:</u>	
Maintenance and repairs	\$1,291,000
Taxes other than income taxes -	
Payroll	1,456,000
Other	606,000
Advertising costs	818,000

No royalties or research and development costs were incurred.

Depreciation, amortization and rents are disclosed in the notes to consolidated financial statements.

Principal Business Activities

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

(1) **The candy business.** See's Candy Shops, Incorporated, a 99%-owned subsidiary acquired in January 1972, produces quality candy and confectionery products in two fully equipped kitchens in California. The candy is sold fresh to the public in 171 company-operated shops in nine western states including Hawaii. The See's entity is believed to be one of the largest candy manufacturers distributing through its own chain of retail shops. Chocolate, sugar and certain other essential ingredients are generally available but subject to price fluctuations from time to time. A substantial portion of each year's candy sales are generated during the Christmas season.

(2) **The trading stamp business.** The Company provides a trading stamp service to retail merchants and their customers in California and Nevada. The service includes the issuance of trading stamps, catalogs, savings books, signs, banners and other promotional material as well as the redemption of Blue Chip stamps for merchandise or cash through forty-nine redemption stores.

(3) **The incentive and merchandise promotion business.** Blue Chip Incentives operates as a separate division on a nationwide basis. It tailors incentive programs for businesses. These programs use awards of merchandise, travel, points and stamps in order to stimulate sales or productivity, promote attendance or safety, or perform other motivational functions. The division's deluxe catalog is the cornerstone of many of these programs. In addition, Blue Chip Incentives develops, for oil companies and other large issuers of credit cards, complete merchandise packages for their credit card holders—including item selection, graphics design, mailing of promotional materials and fulfillment of merchandise orders.

(4) **The savings and loan business.** Wesco Financial Corporation, an unconsolidated subsidiary controlled since late 1973, owns all of the outstanding guarantee stock of Mutual Savings and Loan Association, which operates at sixteen locations in Southern California. The association 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.

Stamp service revenues have declined from a historical peak of \$124,180,000 for the fiscal year ended February 28, 1970 to \$20,361,000 for the fiscal year ended February 28, 1976. This decline has resulted primarily from two factors. First, many supermarket operators discontinued or reduced the use of trading stamps in connection with their conversion to discount merchandising. Second, many service stations, as a result of the gasoline shortage, eliminated the use of stamps. The reduction in stamp revenues has increased the relative importance to the business of the remaining customers: the two largest customers, both Southern California supermarket chains, accounted for 29% of stamp volume during the fiscal year ended February 28, 1976 as compared with 22% the preceding year. Over the past four years the Company has reduced the number of redemption stores from a peak of 90 to 49 at present. The number of its employees fluctuates but now averages less than 500.

The following table sets forth 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 gains (losses) and extraordinary items for the five fiscal years ended February 28, 1976:

	1976	1975	1974	1973	1972
Revenues:					
Candy business	56%	49%	35%	25%	4%
Trading stamp service	28	39	59	73	95
Incentive and merchandise promotions	16	12	6	2	1
Income (loss) before income taxes, securities gains (losses) and extraordinary items:					
Candy business	82	77	40	38	4
Trading stamp service	3	—	44	60	95
Incentive and merchandise promotions	(8)	(7)	—	2	1
Savings and loan business	23	30	16	—	—

Summary of Operations

Five Fiscal Years Ended February 28, 1976
(In thousands except for amounts per share)

	1976	1975	1974	1973	1972
Revenues:					
Candy sales	\$51,342	\$42,907	\$ 35,780	\$ 32,049	\$ 4,104
Stamp service revenues	20,361	25,564	51,375	88,736	100,622
Merchandise promotions and incentive sales ..	15,210	11,022	6,261	3,624	2,145
Dividends and interest	4,913	7,738	8,260	7,315	6,359
Other	818	2,134	543	599	872
	<u>92,644</u>	<u>89,365</u>	<u>102,219</u>	<u>132,323</u>	<u>114,102</u>
Costs and expenses:					
Cost of sales and redemptions	52,116	54,912	68,156	95,662	93,791
Selling, general and administrative expenses ..	29,552	23,940	21,481	21,729	10,917
Interest	437	4,050	3,597	2,638	927
Discount amortization	212	306	365	358	365
	<u>82,317</u>	<u>83,208</u>	<u>93,599</u>	<u>120,387</u>	<u>106,000</u>
Income before income taxes, equity in net income					
of Wesco Financial Corporation, securities					
gains (losses) and extraordinary items	10,327	6,157	8,620	11,936	8,102
Provision for income taxes	(4,374)	(1,237)	(2,071)	(3,828)	(2,195)
Equity in net income of Wesco					
Financial Corporation	<u>3,092</u>	<u>2,588</u>	<u>1,641</u>	<u>—</u>	<u>—</u>
Income before securities gains (losses)					
and extraordinary items	9,045	7,508	8,190	8,108	5,907
Realized securities gains (losses), less taxes ...	8	254	(185)	(82)	(1,693)
Income before extraordinary items	<u>9,053</u>	<u>7,762</u>	<u>8,005</u>	<u>8,026</u>	<u>4,214</u>
Extraordinary credit (charges)	—	903	—	(925)	—
Net income	<u>\$ 9,053</u>	<u>\$ 8,665</u>	<u>\$ 8,005</u>	<u>\$ 7,101</u>	<u>\$ 4,214</u>
Per share:					
Income before securities gains (losses)					
and extraordinary items	\$1.75	\$1.45	\$1.58	\$1.58	\$1.15
Realized securities gains (losses)	—	.05	(.03)	(.02)	(.33)
Income before extraordinary items	1.75	1.50	1.55	1.56	.82
Extraordinary credit (charges)	—	.17	—	(.18)	—
Net income	<u>\$1.75</u>	<u>\$1.67</u>	<u>\$1.55</u>	<u>\$1.38</u>	<u>\$.82</u>
Dividends declared	<u>\$.24</u>	<u>\$.24</u>	<u>\$.24</u>	<u>\$.24</u>	<u>\$.24</u>

See notes and management's discussion and analysis on page 8

NOTES TO SUMMARY OF OPERATIONS

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 is included under the equity method beginning with the fiscal year ended in 1974. Ownership of the savings and loan holding company increased from 21.9% at March 3, 1973 to 44.6% at March 2, 1974, and to the present 64.4% in August 1974.

The extraordinary charges for fiscal 1973 represented settlement of lawsuits, less income tax effect. The extraordinary credit for fiscal 1975 represented federal income tax not payable due to offset of capital loss carry-forwards, primarily from fiscal 1972.

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 any outstanding stock options. Shares used in the summary were 5,179,000 in fiscal 1976 and 1975; 5,180,000 in fiscal 1974, including 1,000 dilution; 5,129,000 in fiscal 1973, including 60,000 dilution; and 5,116,000 in fiscal 1972, including 88,000 dilution.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Candy sales increased from fiscal 1974 to fiscal 1975 due almost entirely to an increase in average selling price per pound. Of the increase in candy sales in fiscal 1976, approximately 60% resulted from continued pricing improvement and 40% from an increase in the number of pounds sold.

The decline in stamp service revenues throughout the five-year period ended in 1976 has been caused by various factors as explained above under Principal Business Activities.

Revenues from merchandise promotions and incentive sales have increased sharply during the two years ended in 1976 primarily as a result of the Company's diversification into developing, for oil companies and other large issuers of credit cards, complete merchandise packages for their credit card holders.

The drop in dividend and interest income from fiscal 1975 to fiscal 1976 was caused mainly by the sale of marketable securities in fiscal 1975 to repay \$40,000,000 of bank loans.

Other revenues in fiscal 1975 included a \$1,254,000 gain on sale of a warehouse and a \$311,000 gain on purchase and early retirement of outstanding debentures. Other revenues in fiscal 1976 included \$262,000 relating to a limited trucking operation.

Cost of sales and redemptions during the two

years ended in 1976 varied generally according to related revenues. Gross profit improved except with respect to stamp redemptions.

The increase in selling, general and administrative expenses from fiscal 1974 to fiscal 1975 was due mainly to an increase in employee compensation as well as in commissions paid with respect to credit card merchandise promotions. The sharp increase in this expense category in fiscal 1976 was the result of the increased cost of printing and mailing merchandise promotional material to credit card holders, as well as increased commissions paid with respect to such promotions, employee compensation, rent and other expenses.

Interest expense dropped sharply in fiscal 1976 due to the repayment of bank loans late in fiscal 1975. The increase in interest from fiscal 1974 to 1975 was the result of prime rate increases.

The provision for income taxes declined as a percentage of pre-tax income from 24% in fiscal 1974 to 20% in fiscal 1975 because tax-excludable dividend income, although slightly reduced, represented a greater proportion of pre-tax income. The effective rate jumped to 42% in fiscal 1976 primarily because of the sharp increase in See's pre-tax income, taxed at a relatively high effective rate.

The Company's equity in net income of Wesco Financial Corporation increased from fiscal 1974 to fiscal 1975 due to a substantial increase in ownership despite a decline in Wesco's earnings. The increase in this item in fiscal 1976 resulted mainly from an improvement in the subsidiary's earnings.

Realized securities gains and losses fluctuate from year to year and accordingly are set out separately. The after-tax change from net losses of \$185,000 in fiscal 1974 to net gains of \$254,000 in fiscal 1975 and \$8,000 in fiscal 1976, although material, was not abnormal to the business. Beginning late in fiscal 1976 the Company reduced the carrying value of marketable equity securities to the lower of cost or market; the related charge did not affect net income (see Note 3 to the accompanying financial statements).

The decrease in income before securities gains (losses) and extraordinary items from fiscal 1974 to fiscal 1975 was caused primarily by the decline in the trading stamp operation offset to a great extent by increased contributions to earnings by the candy and savings and loan subsidiaries. The sharp recovery in this line item in fiscal 1976 was attributable mainly to the success of the candy operation.

Revenues, expenses, earnings and other items set forth in the summary of operations are not necessarily indicative of future revenues, expenses, earnings and other items.

Consolidated Statement of Income and Retained Earnings

Blue Chip Stamps

Fifty-two Weeks Ended February 28, 1976 and March 1, 1975 (Note 1)

	<u>1976</u>	<u>1975</u>
Revenues:		
Candy sales	\$51,342,000	\$42,907,000
Stamp service revenues (Note 2)	20,361,000	25,564,000
Merchandise promotions and incentive sales	15,210,000	11,022,000
Dividends and interest	4,913,000	7,738,000
Other revenues (Notes 4 and 5)	818,000	2,134,000
	<u>92,644,000</u>	<u>89,365,000</u>
Costs and expenses:		
Cost of sales and redemptions (Note 2)	52,116,000	54,912,000
Selling, general and administrative expenses	29,552,000	23,940,000
Interest and discount amortization	649,000	4,356,000
	<u>82,317,000</u>	<u>83,208,000</u>
Income before income taxes, equity in net income of Wesco Financial Corporation, securities gains and extraordinary credit	10,327,000	6,157,000
Provision for income taxes (Note 7)	(4,374,000)	(1,237,000)
Equity in net income of Wesco Financial Corporation (Notes 1 and 7)	3,092,000	2,588,000
Income before securities gains and extraordinary credit	9,045,000	7,508,000
Realized securities gains, less income tax effect (Notes 3 and 7)	8,000	254,000
Extraordinary credit (Note 7)	—	903,000
Net income	<u>9,053,000</u>	<u>8,665,000</u>
Retained earnings at beginning of year	60,551,000	53,129,000
Cash dividends of \$.24 per share per year (Note 5)	(1,243,000)	(1,243,000)
Retained earnings at end of year	<u>\$68,361,000</u>	<u>\$60,551,000</u>
Amounts per share based on weighted average shares outstanding:		
Income before securities gains and extraordinary credit	\$1.75	\$1.45
Realized securities gains	—	.05
Extraordinary credit	—	.17
Net income	<u>\$1.75</u>	<u>\$1.67</u>

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Financial Position

Blue Chip Stamps

Fifty-two Weeks Ended February 28, 1976 and March 1, 1975 (Note 1)

	<u>1976</u>	<u>1975</u>
Sources (uses) of cash, including short-term investments, from operations:		
Income before realized securities gains and extraordinary credit	\$ 9,045,000	\$ 7,508,000
Add (deduct):		
Depreciation and amortization	1,478,000	1,651,000
Equity in net income of Wesco Financial Corporation less dividends received, net of income taxes	(2,204,000)	(1,836,000)
Decrease (increase) in trade accounts receivable	(4,105,000)	428,000
Decrease (increase) in inventories	4,472,000	(1,412,000)
Increase (decrease) in trade accounts payable	628,000	(1,150,000)
Decrease in liability for unredeemed trading stamps	(1,048,000)	(6,593,000)
Increase in prepaid income taxes and other expenses	(7,773,000)	(828,000)
Increase (decrease) in income taxes payable	9,558,000	(856,000)
Cash provided (used) by operations before realized securities gains and extraordinary credit	10,051,000	(3,088,000)
Other sources of cash:		
Realized securities gains, less income tax effect	8,000	254,000
Extraordinary credit—federal income tax not payable due to offset of capital loss carry-forwards	—	903,000
Decrease in marketable equity securities (1976 amount is net of \$4,978,000 net unrealized loss deducted from stockholders' equity)	10,469,000	29,420,000
Decrease (increase) in accounts receivable from securities transactions	1,740,000	(1,923,000)
Proceeds from disposal of property, fixtures and equipment, net of income taxes and gain on sales	131,000	1,868,000
Total	<u>22,399,000</u>	<u>27,434,000</u>
Other uses of cash:		
Additions to property, fixtures and equipment	1,195,000	907,000
Decrease (increase) in accounts payable from securities transactions	(110,000)	1,507,000
Payment of dividends	1,243,000	1,243,000
Purchase of stock of Wesco Financial Corporation	—	7,025,000
Purchase of debentures for retirement	120,000	4,041,000
Repayment of notes payable to bank	—	40,000,000
Other	112,000	—
Total	<u>2,560,000</u>	<u>54,723,000</u>
Increase (decrease) in cash, including short-term investments	<u>\$ 19,839,000</u>	<u>\$(27,289,000)</u>
Increase (decrease) in—		
Cash	\$ 526,000	\$(1,507,000)
Short-term investments	19,313,000	(25,782,000)
	<u>\$ 19,839,000</u>	<u>\$(27,289,000)</u>

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet

Blue Chip Stamps

February 28, 1976 and March 1, 1975 (Note 1)

ASSETS	<u>1976</u>	<u>1975</u>
Cash	\$ 2,032,000	\$ 1,506,000
Short-term investments, at cost	24,695,000	5,382,000
Marketable equity securities, at the lower of cost or market at February 28, 1976 and at cost at March 1, 1975 (Note 3)	56,712,000	72,159,000
Accounts receivable	7,894,000	5,529,000
Merchandise and supplies inventories, at the lower of cost (first-in, first-out) or market	7,295,000	11,767,000
Prepaid income taxes and other expenses (Note 7)	14,462,000	6,689,000
Property, fixtures and equipment, net (Note 4)	8,290,000	8,273,000
Investment in Wesco Financial Corporation (Note 1)	28,588,000	26,307,000
Excess of cost over equity in net assets of See's Candy Shops, Incorporated, less accumulated amortization (Note 1)	15,487,000	15,883,000
	<u>\$165,455,000</u>	<u>\$153,495,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	\$ 6,227,000	\$ 5,489,000
Income taxes payable (Note 7)	11,560,000	2,002,000
Liability for unredeemed trading stamps (Note 2)	71,135,000	72,183,000
6¾% Subordinated Debentures due 1978 (Note 5)	6,392,000	6,512,000
	<u>95,314,000</u>	<u>86,186,000</u>
Stockholders' equity (Notes 5 and 9)		
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	68,361,000	60,551,000
Net unrealized loss on marketable equity securities (Note 3)	(4,978,000)	—
Total stockholders' equity	<u>70,141,000</u>	<u>67,309,000</u>
	<u>\$165,455,000</u>	<u>\$153,495,000</u>

See accompanying notes to consolidated financial statements

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 of \$431,000 has been charged to selling, general and administrative expenses in each of the fiscal years ended in 1976 and 1975.

The Company's investment in Wesco Financial Corporation (Wesco), a savings and loan holding company, has increased from 44.6% at March 2, 1974 to 64.4% at March 1, 1975 and February 28, 1976. The investment is recorded at cost plus equity in Wesco's calendar-year net income, less taxes; the \$18,131,000 and \$18,699,000 excess of equity in the net assets of Wesco over cost at February 28, 1976 and March 1, 1975, respectively, is being amortized over 40 years. Summarized financial information of Wesco for the years ended December 31, 1975 and 1974 follows:

	December 31, 1975	December 31, 1974
Assets—		
Cash and marketable securities	\$ 77,417,000	\$ 53,065,000
Loans receivable, less unearned loan fees, unrealized profit and loans in process	373,059,000	389,065,000
Other assets	19,651,000	23,516,000
	<u>\$470,127,000</u>	<u>\$465,646,000</u>
Liabilities and stockholders' equity—		
Savings deposits ..	\$360,070,000	\$333,117,000
Other liabilities	36,839,000	62,238,000
Total liabilities	396,909,000	395,355,000
Stockholders' equity, partially appropriated	73,218,000	70,291,000
	<u>\$470,127,000</u>	<u>\$465,646,000</u>
Total revenues	<u>\$ 36,610,000</u>	<u>\$ 35,180,000</u>
Net income	<u>\$ 4,351,000</u>	<u>\$ 3,927,000</u>

	December 31, 1975	December 31, 1974
Blue Chip Stamps' equity therein—		
Average ownership ..	<u>64.4%</u>	<u>60.5%</u>
Share of net income	\$ 2,800,000	\$ 2,375,000
Income taxes thereon assuming ultimate distribution	(200,000)	(244,000)
Amortization of excess equity over cost	492,000	457,000
	<u>\$ 3,092,000</u>	<u>\$ 2,588,000</u>

Wesco's appropriated retained earnings at December 31, 1975 and 1974 include approximately \$44,940,000 and \$43,852,000 respectively of reserves on 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. 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 as of December 31, 1975 and 1974.

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 estimates of the cost of merchandise and related redemption service expenses. The Company's estimated cost of future redemptions depends upon two factors: (1) the percentage of stamps issued which will ultimately be redeemed and (2) the future cost per stamp of the merchandise and redemption service expenses which will be required.

In its annual report for the year ended March 1, 1975, the Company explained that its accounting practice for many years had been to assume that 97.5% of stamps issued would ultimately be redeemed and to base its estimate of future redemption costs per stamp on the most recent information available. The Company indicated that both assumptions were considered less reliable than in previous years because of the recent substantial decline (approximately 80%) in its issuances of trading stamps and continuing increases in total redemption costs per stamp. Under such conditions it was thought that the current redemption rate might well be less than the 97.5% estimated with respect to prior years and that future redemption costs per stamp might well be higher than those projected. It was further noted that the Internal Revenue Service had proposed a substantial tax deficiency for the fiscal

years ended in 1969 through 1974 (since settled—see Note 7) based partially on its contention that the Company's estimated stamp redemption rate was less than the 97.5% which had been assumed for many years in preparing financial statements and tax returns.

With additional experience, the Company in February 1976 reevaluated both factors affecting the estimated cost of future redemptions and made the following revisions in its current financial statements:

- (1) The Company reduced its liability for unredeemed trading stamps, as of February 28, 1976, and increased net income for the year, to reflect a reduction in the total estimated number of stamps to be redeemed in the future, computed by modifying the Company's former assumption that 97.5% of all stamps issued will ultimately be redeemed. The modifications (i) as of the conclusion of the fiscal year ended in 1974, reduced by approximately 4% the total number of stamps then estimated to be redeemed in the future, and (ii) for the two subsequent fiscal years ended in 1975 and 1976, reduced the redemption expectancy, applicable to stamps issued in such years, to 93%. These reductions reflect the Company's present estimate that ultimate redemption rates are reduced by a decline in issuances, with most of the reduction occurring with respect to stamps issued after the decline, and that, accordingly, the Company will have to redeem about 97% of stamps issued before March 1974, and only 93% thereafter.
- (2) The Company increased its provision for future redemption service expenses per stamp to reflect its present estimate that a lower volume of redemptions will cause these expenses to increase materially on a per-stamp basis.

The effect of the foregoing revisions after federal and state income taxes was to increase current year's net income \$573,000, or \$.11 per share. The liability for unredeemed trading stamps of \$71,135,000 at February 28, 1976, included \$47,878,000 for the cost of merchandise and \$23,257,000 for redemption service expenses.

The Company expects stamp issuances to continue to decline and therefore, with additional experience, may make additional revisions of its redemption expectancy and costs in the future.

NOTE 3—Marketable equity securities:

Cost (first-in, first-out) and market value of marketable equity securities at February 28, 1976 and at March 1, 1975 are set forth below:

	February 28, 1976	March 1, 1975
Cost	\$61,690,000	\$72,159,000
Market value	56,712,000	54,212,000

Pursuant to Statement of Financial Accounting Standards No. 12 issued by the Financial Accounting Standards Board, the Company at February 28, 1976

established a \$4,978,000 valuation allowance to reduce the amount of marketable equity securities shown in its balance sheet from historical cost to the lower of aggregate cost or market. The valuation allowance, which represented the excess of \$7,246,000 of gross unrealized losses over \$2,268,000 of gross unrealized gains, was charged directly to stockholders' equity (i.e., not included in the determination of net income). The amount charged was not reduced by the tax benefit that will result if losses are ultimately realized and offset by capital gains. At March 1, 1975 marketable equity securities were not required to be carried at the lower of aggregate cost or market, and accordingly they are carried at historical cost in the balance sheet.

Marketable equity securities, among other assets, are held primarily for the purpose of satisfying the Company's obligation to redeem outstanding trading stamps which, based on the Company's experience, will be presented for redemption over a number of years.

NOTE 4—Property, fixtures and equipment:

Following is a summary of property, fixtures and equipment, stated at cost:

	February 28, 1976	March 1, 1975
Land	\$ 2,315,000	\$ 2,323,000
Buildings	4,186,000	4,031,000
Furniture, fixtures and equipment	9,808,000	9,619,000
Leasehold improvements	3,867,000	3,893,000
	<u>20,176,000</u>	<u>19,866,000</u>
Less accumulated depreciation and amortization	11,886,000	11,593,000
	<u>\$ 8,290,000</u>	<u>\$ 8,273,000</u>

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 \$1,047,000 and \$1,220,000 for the fiscal years ended in 1976 and 1975.

A \$1,254,000 gain on the sale of the Company's Richmond, California warehouse is included in other revenues in the fiscal year ended in 1975.

NOTE 5—Debentures:

The indenture underlying the debentures requires three annual sinking fund payments of approximately \$2,000,000 in November 1976, 1977 and 1978. However, as a result of an invitation for tenders and open-market purchases subsequent to February 28, 1976, the 1976 requirement will be reduced by approximately \$1,000,000. During the fiscal years ended in 1976 and 1975, the Company realized gains of \$7,000 and \$311,000 in connection with purchases of debentures in anticipation of prior sinking fund requirements.

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 net income for the preceding fiscal year. Dividends may not be paid if the Company is in arrears in any sinking fund payments.

NOTE 6—Pension and profit sharing plans:

Employees of the Company and of its consolidated subsidiary who meet certain eligibility requirements are covered under either Company-sponsored noncontributory pension or profit sharing plans or union-sponsored pension plans. The Company-sponsored plans are funded annually; the cost for the fiscal years ended in 1976 and 1975 approximated \$375,000 and \$386,000 respectively. The total market value of the plans' assets exceeded the actuarially computed value of vested benefits at yearend by approximately \$1,000,000. The plans are being amended to comply with the Employee Retirement Income Security Act of 1974 and for other purposes. The amendments are not expected to have a material effect on the consolidated financial statements.

NOTE 7—Taxes on income:

The consolidated statement of income contains charges for income taxes as follows:

	Fiscal year ended in	
	1976	1975
Provision for income taxes	\$4,374,000	\$1,237,000
Charged against equity in net income of Wesco Financial Corporation ...	200,000	244,000
Charged against securities gains	4,000	284,000
Extraordinary credit, representing federal income tax not payable due to the offset of capital loss carry-forwards	—	(903,000)
Total taxes charged in income statement	\$4,578,000	\$ 862,000

These taxes are payable or recoverable as follows:

	Fiscal year ended in	
	1976	1975
Payable currently—		
Federal	\$6,472,000	\$ 788,000
State	1,572,000	789,000
	<u>8,044,000</u>	<u>1,577,000</u>
Recoverable in the future—		
Federal	(2,839,000)	(543,000)
State	(627,000)	(172,000)
	<u>(3,466,000)</u>	<u>(715,000)</u>
Total taxes charged in income statement	\$4,578,000	\$ 862,000

Of the above taxes, the amounts currently payable are included in income taxes payable on the consolidated balance sheet. The amounts recoverable in the future are included in prepaid income taxes and result from the following timing differences in the recognition of revenue and expense items on the books as compared to the tax returns:

	Fiscal year ended in	
	1976	1975
Deductible California franchise taxes over (under) those accrued on the books ..	\$ (101,000)	\$ 429,000
Deductible redemption expenses under those accrued on the books	(3,240,000)	(1,351,000)
Deferred taxes on undistributed earnings of Wesco Financial Corporation	133,000	113,000
Other timing differences ..	(258,000)	94,000
Total taxes recoverable in the future	\$ (3,466,000)	\$ (715,000)

The provision for income taxes of \$4,374,000 for the fiscal year ended in 1976 amounted to 42.4% of pre-tax income of \$10,327,000; the provision of \$1,237,000 for the prior fiscal year represented 20.1% of pre-tax income of \$6,157,000. Following is a summary of the differences between the federal statutory rate and these effective percentages:

	Fiscal year ended in	
	1976	1975
Statutory federal income tax rate	48.0%	48.0%
Federal tax benefit from dividend exclusion	(13.7)	(33.8)
State income taxes net of federal income tax benefit	4.8	5.5
All other (net)	3.3	.4
Effective income tax rate	42.4%	20.1%

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

The consolidated balance sheet includes prepaid income taxes of \$12,935,000 and \$4,925,000 at February 28, 1976, and March 1, 1975, resulting primarily from (1) deducting certain redemption service expenses for tax purposes when stamps are redeemed and for book purposes when stamps are issued and (2) at February 28, 1976 a difference between book and tax accounting for the number of outstanding stamps expected to be redeemed.

In March 1976 the Company settled its disagreement with the Internal Revenue Service with respect to its income tax returns for the fiscal years ended in 1969 through 1974 resulting from the Service's contentions that the Company (1) overstated its liability

for unredeemed stamps by overestimating the number of stamps issued which would ultimately be redeemed and (2) should change its tax accounting method to deduct a greater portion of its redemption service expenses for tax purposes when stamps are redeemed, rather than when they are issued. Throughout the period, the Company's financial statements and tax returns had been prepared on the basis of (1) the Company's expectation that 97.5% of all stamps issued would ultimately be redeemed and (2) a tax accounting method, previously approved by the Service, where under most of the Company's total expected redemption service expenses were permitted to be deducted when stamps were issued and the balance deducted when stamps were redeemed. The settlement with the Service, which is reflected in the financial statements for the year ended in 1976, was as follows:

- (1) The Company, for tax purposes, agreed to reduce its accumulated provision for redemption of outstanding stamps and to increase taxable income for the fiscal year ended in 1974 to assume a reduction of 11% in the total number of outstanding stamps then estimated to be redeemed in the future. This resulted in a tax deficiency, before interest, of approximately \$3,400,000. The Company believes that the 11% reduction in outstanding stamps expected to be redeemed for tax purposes is unreasonably high. It consented to the settlement only because of the prospective expense and risk of litigation and because the reduction was of a type where under any error would be adjusted in later years, resulting only in a loss of the use of funds. Accordingly, the Company, as explained in Note 2, revised its financial statements to reflect a reduction of only approximately 4%, instead of 11%, in the number of stamps that would ultimately be redeemed.
- (2) The Company also agreed to change its tax accounting method effective with the fiscal year ended in 1974 to deduct a greater portion of redemption service expenses when stamps are redeemed, as opposed to when they are issued, with an expected tax effect of approximately \$3,500,000.

The Company expects to be assessed additional California franchise taxes in the near future based upon the federal settlement.

In the fiscal year ended in 1976, prepaid income taxes and income taxes payable were increased by approximately \$4,500,000 for the federal and California effect of the settlement. The increase in prepaid income taxes was subsequently reduced by approximately \$1,300,000 as a result of the adjustment to the financial statements to reflect a reduction in the number of stamps to be redeemed explained in Note 2. In addition, approximately \$3,000,000 of the settlement is

payable without interest in equal annual installments from 1977 through 1983 and will be included in prepaid income taxes and income taxes payable as the installments become due. The settlement had no effect on the consolidated statement of income where tax deficiencies constituted timing, rather than permanent, differences.

NOTE 8—Lease commitments and rental expense:

At February 28, 1976 minimum rental commitments are as follows:

Fiscal year ending in—	
1977	\$2,541,000
1978	2,202,000
1979	1,963,000
1980	1,767,000
1981	1,308,000
Five fiscal years ending in—	
1986	2,937,000
1991	961,000
1996	107,000

Net rental expenses were \$4,420,000 and \$4,070,000 for the fiscal years ended in 1976 and 1975. Rentals applicable to candy operations are generally determined on the basis of a fixed percentage of sales subject to a specific minimum rental. Percentage rental expenses in excess of minimum rentals, which are included above, were \$1,547,000 and \$1,288,000 for the fiscal years ended 1976 and 1975.

Substantially all of the candy subsidiary's leases are, based on current assumptions, considered "financing leases" as defined by the Securities and Exchange Commission. The respective present values of aggregate rental commitments (including estimated future percentage rentals) of these leases were approximately \$12,602,000 and \$11,315,000 at February 28, 1976 and March 1, 1975. In computing present values, prime interest rates ranging from 1.5% to 12% were used and averaged approximately 6% in each of the fiscal years. The effect on net income, assuming the leases had been capitalized at inception, would not have been material.

NOTE 9—Legal proceedings:

Pursuant to an antitrust action filed by the federal government a consent final judgment was entered in 1967 providing for, among other things, a plan to offer for sale one-third of the Company's California trading stamp business located within a contiguous geographical area in Southern California. That portion of the judgment has been suspended indefinitely by stipulation and court order signed in March 1976.

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 class action complaint against the Company 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. 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. The class action complaint was also amended effective September 19, 1974 to assert, in substance, that the Company's predecessor had engaged in similar conduct from 1961 until its merger into the Company in 1968, and that the Company must respond in respect of the alleged liability of its predecessor to plaintiffs and the persons they purport to represent for overreimbursement of sales taxes. On October 24, 1975 the California Supreme Court granted the petition of Blue Chip Stamps for an alternative writ of mandate to determine (1) whether the trial court properly certified the action as a class action and set it for trial without any notice to members of the purported class and (2) whether or not an order for partial summary judgment previously entered was erroneous. Proceedings in the trial court are stayed pending final determination of the mandate proceedings in the California Supreme Court. 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 as amended may be as high as \$17,000,000 less the amount of any money which may be recovered on the claims against the state. Counsel believes the prospects for some 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 under federal securities laws on November 10, 1970 against the Company and certain of its present and former stockholders and directors, on behalf of retailer users of Blue Chip Stamps who failed to purchase securities of the Company in a 1968 offering to retailer users. The complaint alleged damages to plaintiffs of \$21,400,000, together with exemplary damages of \$25,000,000, interest, attorneys' fees and costs, and prayed that plaintiffs have the right to purchase securities of the Company on the terms of the 1968 offering. After hearings in the United States District Court and the United States Court of Appeals for the Ninth Circuit, the Supreme Court of the United States in a decision rendered on June 9, 1975 held that the purported class did not have standing to bring such an action. Accordingly, the federal action is concluded. On June 5, 1974 the Company was served with a

complaint in a substantially identical action based on California corporate and common law filed in Los Angeles County Superior Court on June 21, 1971. Although plaintiffs are pursuing the state court action, in the opinion of counsel for the Company, upon the facts now known, the present state of the law and the decision of the Supreme Court in the federal action, there appear to be substantial defenses on the merits.

Report of Independent Accountants

**Price
Waterhouse & Co.**

606 SOUTH OLIVE STREET
LOS ANGELES, CALIFORNIA 90014
213-625-4400

April 12, 1976

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 February 28, 1976 and March 1, 1975, and the related consolidated statements of income and retained earnings and of 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 9 to the accompanying consolidated financial statements, the Company is subject to certain legal proceedings.

As described in Note 3 to the accompanying consolidated financial statements, the Company changed its method of accounting for marketable equity securities as of February 28, 1976.

In our opinion, based on our examinations and the report of other independent accountants and subject to the effect, if any, of the legal proceedings referred to in the second paragraph above, the consolidated financial statements present fairly the financial position of Blue Chip Stamps and its consolidated subsidiary at February 28, 1976 and March 1, 1975, and the results of their operations and the changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied during the period, except for the change, with which we concur, referred to in the preceding paragraph.

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, 1975 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 No

and

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

Yes 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 sixteen offices, of which six are in Los Angeles County, four in Orange County, two in Ventura County, three in San Diego County and one in San Bernardino County. Mutual invests in marketable securities and 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 income from marketable securities, 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 increased by \$26,953,000 in 1975 and decreased \$12,413,000 in 1974. In 1975, Mutual's loan portfolio decreased \$16,006,000 compared to a decrease of \$519,000 in 1974.

(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, 1975.

(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

(a) The Summary of operations of Wesco Financial Corporation and subsidiaries (consolidated) for the year ended December 31, 1975 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, 1975 and four prior years were as follows:

<u>Description</u>	<u>Year ended Dec. 31</u>				
	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>
Cash dividends	\$ 1,424,000	1,187,000	1,075,000	--	--
Stock dividends - market value at declaration date	<u>--</u>	<u>--</u>	<u>1,780,000</u>	<u>1,883,000</u>	<u>2,307,000</u>

(b) Not applicable

Item 3. Properties

The occupancy of the sixteen 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 purchased the property from Mutual under Agreement for Sale of Real Estate dated May 31, 1964.

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

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

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 expires June 30, 1976. The second renewal option to June 12, 1981 has been exercised by Mutual.

Corona del Mar Office located at 2867 East Coast Highway, Corona del Mar, California 91615, leased by Mutual for a five-year period which expires July 14, 1979.

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, 1977, with an option to extend the lease term to May 31, 1980.

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.

Capistrano-San Clemente Office located at 530 Camino de Estrella, San Clemente, California 92672, leased by Mutual under a lease with a term to June 1, 1976, with an option to renew to June 1, 1978. Mutual has, however, a new lease for twenty years with options for three additional five-year terms, on an existing building in the same Shopping Center. The building is free standing and located at one of the principal entrances. Remodeling plans are in the process of being completed and Mutual is scheduled to move in the new location May 15, 1976.

Vista Office located at 1020 East Vista Way, Vista, California 92083, leased by Mutual under a lease to May 10, 1976 with six-month options to May 10, 1979.

Santa Ana Office located at 631 North Main Street, Santa Ana, California 92701, leased by Mutual under a lease to November 1, 1978, with three three-year options to November 1, 1987.

Channel Islands Office located at 739 W. Channel Island Boulevard, Port Hueneme, California 93041, leased by Mutual under a lease to August 13, 1990.

Fountain Valley Office located at 17942 Magnolia Street, Fountain Valley, California 92708, leased by Mutual under a lease to August 23, 1976 with an additional one-year option to August 23, 1977. Mutual has a new lease in the same Shopping Center to 1991 with options to 2006. Plans for a new free-standing building are currently being prepared with anticipated completion in July or August, 1976.

Lake San Marcos Office located at 1143-322 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.

Upland Office located at 160 West Foothill, Upland, California 91786, leased by Mutual under a lease to June 1, 2000, with an additional option for ten years.

Cerritos Office located at 13343 Artesia Boulevard, Cerritos, California 90701, leased by Mutual under a lease to May 31, 1978 with an additional option to 1985.

Fallbrook Office located at 119 East Ivy, Fallbrook, California 92101, leased by Mutual under a lease to November 1, 1976 with an additional six six-month options to November 1, 1979.

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-foot 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. This case has been consolidated for trial with the case of American Savings and Loan Association vs. Title Insurance and Trust Company, Mutual Savings and Loan Association, et al. (see Item (b)), and has been transferred to the Central District of the Los Angeles Superior Court for trial. The trial setting conference has been vacated. The case is pending.

(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 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. 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 the 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. This case has been consolidated with Item (a) above.

(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. Motion has been granted to vacate the trial setting conference date and to strike the certificate of readiness on the ground that the plaintiff has not complied with the rules on class actions contained in the Class Action Policy Memorandum. Although the case is at issue, it still is in early stages of proceeding since there has been no determination of the class or whether this is a proper class action, nor no notice given to the class. We do not know whether the plaintiff will proceed with this matter or not.

(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.

(e) Sylmar Company et al. vs. Robertson's Apartment Builders, Inc., Mutual et al. - Los Angeles Superior Court No. C 87229

This is an action filed by a borrower of Mutual on a large construction loan to build an apartment house claiming damages by reason of defective construction of the apartment house. The action is filed against the contractor of the apartment house and against Mutual. The theory as against Mutual is that Mutual's inspectors discovered the defective workmanship and failed to notify the plaintiffs of the defect. The facts do not justify or support these allegations. There was defective workmanship which caused a delay in the completion and an increase in the cost. However, Mutual was not aware of this until approximately the same time that the plaintiff was aware of it. Mutual cooperated fully with the plaintiff in efforts to correct the situation.

There are eight causes of action in the complaint and only one is directed against Mutual. Damages claimed in the complaint as against Mutual, as alleged "will exceed the sum of \$2,000,000." Plaintiffs are also claiming punitive damages in the amount of \$1 million against Mutual. However, plaintiffs' lawyer has agreed to eliminate the claim for punitive damages. The case is pending.

As to Items (a) and (b) above, 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. As to Items (c), (d) and (e) above, the outcome of these actions cannot be predicted; however, based on the facts presently available, Mutual believes there are substantial defenses to these actions and that losses, if any, would not be material.

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, 1975

(1)	(2)
<u>Title of class</u>	<u>Number of record holders</u>
Capital stock par value \$1	2,934

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 the stock of Mutual. Louis R. Vincenti, Chairman of the Board and President, and Bette Deckard, 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.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Louis R. Vincenti	70	Chairman of the Board since January, 1973; also President since July, 1961.
Bette Deckard	56	Secretary-Treasurer since April, 1975.
John R. Armetta	57	Vice President, Property Development since April, 1973.
T. L. Egloff	64	Vice President, Operations since April, 1969.
P. E. Lynn	63	Vice President, Loan Processing since April, 1969
Robert E. Sahn	48	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.

Since February, 1975 the directors and officers liability insurance coverage has been on a joint policy with Blue Chip Stamps and See's Candy Shops, Incorporated.

Item 10. Exhibits, Financial Statements and ScheduleWESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Accountants' Report

Index to Financial Statements and Schedule

Financial Statements:

Consolidated Financial Statements of Wesco Financial Corporation and Subsidiaries, December 31, 1975 and 1974 (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, 1975 and 1974
 Statements of Earnings - Years ended December 31, 1975 and 1974
 Statements of Changes in Financial Position - Years ended December 31, 1975 and 1974

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.

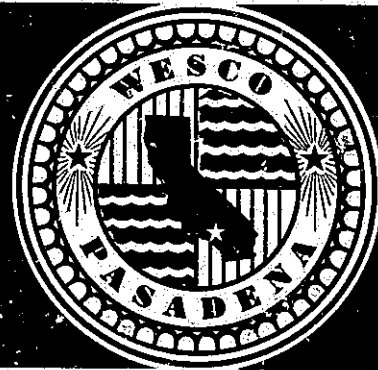
SIGNATURE

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 22, 1976

By Louis R. Vincenti
 Louis R. Vincenti, President

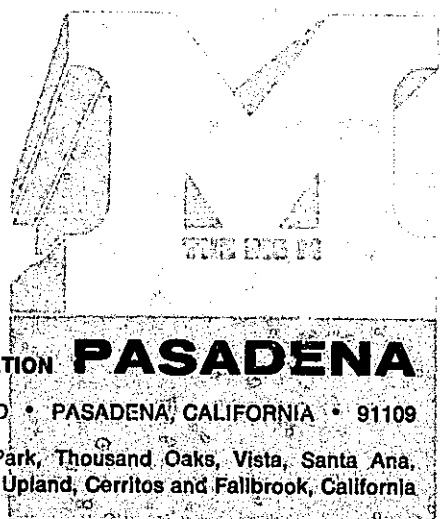


WESCO FINANCIAL CORPORATION

Annual report 1975



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



MUTUAL SAVINGS AND LOAN ASSOCIATION PASADENA

Head Office: 315 EAST COLORADO BOULEVARD • PASADENA, CALIFORNIA • 91109

Branches: Glendale, Covina, West Arcadia, Corona del Mar, Canoga Park, Thousand Oaks, Vista, Santa Ana, Capistrano-San Clemente, Channel Islands, Fountain Valley, Lake San Marcos, Upland, Cerritos and Fallbrook, California

TO THE STOCKHOLDERS OF WESCO FINANCIAL CORPORATION

Consolidated net earnings of Wesco Financial Corporation and its subsidiaries for 1975 amounted to \$4,351,000 (\$1.83 per share) compared to \$3,927,000 (\$1.65 per share) in 1974. Quarterly earnings per share were:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1975	\$.36	.36	.54	.57	1.83
1974	.48	.40	.44	.33	1.65

Total savings in Mutual Savings increased \$26,953,000 in 1975 compared with a decrease of \$12,413,000 in 1974. Out-of-state savings decreased \$5,261,000 in 1975 and \$16,257,000 in 1974. Most of the decrease in out-of-state savings in 1975 occurred during the first six months of the year. At December 31, 1975, out-of-state savings totaled \$52,313,000 (14.7% of savings) compared with \$57,574,000 (17.3% of savings) at December 31, 1974. The amount of out-of-state savings appears to have stabilized.

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

	1975	1974	1973
5¼ %	38%	36	35
5½	1	2	3
5¾	3	3	6
6	10	23	42
6½	11	8	5
6¾	4	3	1
7	1	1	1
7½	27	22	7
7¾	5	—	—
Over 7¾	—	2	—
	100%	100	100

Cost of savings and cost of funds (savings and borrowings) continued to increase in 1975 as did the yield on the loan portfolio of Mutual Savings.

	1975	1974	1973	1972	1971
Cost of Savings	6.29%	6.00	5.60	5.56	5.51
Cost of all Funds	6.41	6.25	5.69	5.59	5.71
Yield on Loans at year end	7.55	7.36	7.17	7.03	6.82

We expect the cost of savings to rise gradually during 1976 because of the increased funds being converted to and deposited in certificate accounts paying 7½% and 7¾%. Yield on loans will also increase.

Real estate loans made during 1975 totaled \$36,317,000 compared with \$31,998,000 in 1974. Loans in process and firm loan commitments, which at December 31, 1974 were \$3,240,000, have decreased to \$1,643,000 at December 31, 1975.

The liquid assets of Wesco were markedly improved during 1975, with cash and marketable securities at year end totaling \$77,417,000 compared

with \$53,065,000 at December 31, 1974. Also notes payable were reduced during 1975 by the sum of \$24,765,000 and at year end were \$26,210,000.

Mutual Savings and Wesco, which at December 31, 1974 had invested \$12,900,000 in public utilities preferred stocks, increased such investments during 1975 and at year end had invested \$23,206,000 (\$267,000 in Wesco) in such stocks with an annual yield of 10.20%. Mutual Savings, by regulation, is limited to 5% of assets in the amount of preferred stocks of public utilities it may own. Its present investments approximate that amount. During the last quarter of 1975, Mutual Savings purchased municipal bonds and at year end had invested \$4,554,000 in such securities with an annual yield of 7.11%.

For several years, Mutual Savings constructed homes at its Friendly Valley development. No homes were constructed during 1975. 91 units of homes previously constructed were sold and, at December 31, 1975, 7 units remained unsold, 6 of which were in escrow. A portion of the land in Friendly Valley was sold in 1975 to a responsible builder, who has completed the construction of 58 residences which are presently being sold. As such residences are sold, Wesco will recognize its profit of \$198,000 on the land sale. We expect to dispose of the remaining land at Friendly Valley to builders for development, rather than building for our own account.

We continue to market portions of property owned at Lake San Marcos in San Diego County, having sold in 1975 one parcel of 195 acres for the sum of \$614,000 resulting in a profit of \$208,000, which is carried as unrealized profit due to the low down payment. We expect to dispose of substantially all of our remaining vacant land at Lake San Marcos during 1976, retaining our one-half interest in a modern shopping center, motel and restaurant.

During 1975 Mutual Savings opened three new branch offices in Upland, Cerritos and Fallbrook, bringing the total number of Mutual Savings offices to sixteen. Four new branch offices were opened in 1974 and three in 1973.

On January 20, 1976 Wesco increased its regular quarterly cash dividend from 15¢ to 17½¢, payable March 11, 1976 to holders of record at the close of business on February 20, 1976.

A "Summary of Operations" for a five-year period is presented on page 2, 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.

Louis R. Vincenti

LOUIS R. VINCENTI
Chairman of the Board and President

WESCO FINANCIAL CORPORATION AND SUBSIDIARIES

Summary of Operations

Year ended December 31, 1975 and four prior years

	1975	1974	1973	1972	1971
Investment income:					
Interest on loans	\$ 28,438,000	28,463,000	27,450,000	25,318,000	25,117,000
Interest on marketable securities ..	3,171,000	3,202,000	2,950,000	2,362,000	1,740,000
Dividends on common and preferred stocks	1,953,000	974,000	463,000	185,000	—
Interest and dividends on investments required by law	519,000	533,000	462,000	251,000	388,000
Total investment income ..	<u>34,081,000</u>	<u>33,172,000</u>	<u>31,325,000</u>	<u>28,116,000</u>	<u>27,245,000</u>
Cost of money:					
Interest on savings deposits	21,844,000	20,419,000	20,001,000	19,304,000	17,298,000
Interest on notes payable	2,628,000	3,364,000	1,313,000	611,000	3,105,000
Total cost of money	<u>24,472,000</u>	<u>23,783,000</u>	<u>21,314,000</u>	<u>19,915,000</u>	<u>20,403,000</u>
Margin on investments	9,609,000	9,389,000	10,011,000	8,201,000	6,842,000
Loan fees and service charges	1,362,000	1,542,000	1,786,000	2,662,000	1,684,000
Operations and net gains from sales of real property	909,000	593,000	831,000	622,000	320,000
Rental of office premises, net	288,000	206,000	303,000	261,000	238,000
Net gains or (losses) on sales of marketable securities	(62,000)	(429,000)	(72,000)	2,000	51,000
Other income, net	32,000	96,000	116,000	124,000	111,000
	<u>12,136,000</u>	<u>11,397,000</u>	<u>12,975,000</u>	<u>11,872,000</u>	<u>9,246,000</u>
General and administrative expenses	4,710,000	4,208,000	3,702,000	3,436,000	3,127,000
Earnings before taxes on income	<u>7,428,000</u>	<u>7,189,000</u>	<u>9,273,000</u>	<u>8,436,000</u>	<u>6,119,000</u>
Taxes on income:					
Current	3,735,000	3,262,000	4,263,000	3,018,000	2,530,000
Deferred	(658,000)	—	402,000	1,082,000	465,000
	<u>3,077,000</u>	<u>3,262,000</u>	<u>4,665,000</u>	<u>4,100,000</u>	<u>2,995,000</u>
Net earnings	<u>\$ 4,351,000</u>	<u>3,927,000</u>	<u>4,608,000</u>	<u>4,336,000</u>	<u>3,124,000</u>
Per share*	<u>\$ 1.83</u>	<u>1.65</u>	<u>1.94</u>	<u>1.83</u>	<u>1.32</u>
FINANCIAL DATA AT YEAR END					
Total assets	\$470,127,000	465,646,000	451,980,000	448,240,000	423,969,000
Real estate loans	\$371,041,000	386,398,000	387,165,000	367,679,000	356,933,000
Savings accounts	\$360,070,000	333,117,000	345,530,000	361,272,000	329,782,000
Shareholders' equity	\$ 73,218,000	70,291,000	67,551,000	64,018,000	59,682,000
Book value per share*	\$ 30.85	29.62	28.46	26.98	25.15

*Per share earnings and book value per share are based on 2,373,269 shares outstanding at December 31, 1975.

Management's Discussion and Analysis of Summary of Operations

The accompanying Summary of Operations covers the five years ended December 31, 1975.

The principal business of Wesco Financial Corporation (Wesco) is the ownership of all of the outstanding stock of Mutual Savings and Loan Association (Mutual Savings), which operates sixteen offices in Southern California. 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, 1975 had so invested the sum of \$14,026,000. 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 re-finance 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, 1975, 1974 and 1973 were 7.55%, 7.36% and 7.17% respectively. Total real estate loans outstanding at the end of such years were \$371,041,000, \$386,398,000 and \$387,165,000.

INTEREST ON MARKETABLE SECURITIES. Investments have consisted principally of certificates of deposit of major banks, bankers acceptances, United States Government bonds, notes, bills, agency securities and municipal bonds. 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. In May, 1973 \$6,785,000 was invested in 271,000 shares of common stock of Crocker National Corporation. The investment at December 31, 1974 was \$5,079,000 and at December 31, 1975 was \$1,853,000. 70,100 shares were sold in 1974 and 128,000 shares were sold in 1975 at approximate cost. The remaining 72,900 shares were sold in 1976 at a loss of \$85,000.

Commencing in April, 1974 Wesco and Mutual Savings purchased public utility preferred stocks, and at December 31, 1974 had invested \$12,900,000 (\$267,000 by Wesco) with an annual yield of 9.77%. At December 31, 1975 \$23,206,000 (\$267,000 by Wesco) had been invested with an annual yield of 10.20% and a market value of \$23,825,000, which at February 28, 1976 had increased to \$25,008,000. The income on common and preferred stocks reflected in the accompanying Summary is that earned in the particular year from the securities held. 85% of the dividend income from stocks is deductible in computing Federal Income Taxes. Mutual Savings, by regulation, may invest in preferred stock of public utilities in an amount up to 5% of its assets. At December 31, 1975 Mutual Savings' investments in preferred stocks approximate that amount.

The market value of preferred stocks varies as interest rates vary. Since interest rates at 1975 year end were somewhat lower than the rates at time of purchase, the market value of our preferred stocks increased above cost. Interest rates continued to decline in 1976 resulting in a further increase of market value.

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. A dividend of \$189,000 was declared in 1973, \$229,000 in 1974 and

\$198,000 in 1975 all in the fourth quarter. The variation in amount of interest on the secondary reserve has been nominal.

INTEREST ON SAVINGS DEPOSITS. Savings at December 31, 1972 which totaled \$361,272,000, decreased in 1973 to \$345,530,000 and to \$333,117,000 at the end of 1974, and increased to \$360,070,000 at the end of 1975. Although savings declined during 1973 and 1974, interest paid increased due to higher rates, which became effective July 1, 1973, and to substantial funds being converted from maturing lower-rate certificates to certificates bearing higher interest rates. The substantial increase in the amount of interest paid on savings deposits in 1975 was occasioned by increase in total savings and a continuation of conversion of lower-rate certificates to certificates bearing 7½% and 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. Rates of interest on borrowings varied in 1975 from 7¼% to 10½%, in 1974 from 7½% to 12% and in 1973 from 7½% to 9¾%.

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 \$622,000 decrease in margin between 1974 and 1973 is the result of an increase in the cost of money by \$2,469,000, with investment income increasing by only \$1,847,000. The margin increased in 1975 by \$220,000, with total investment income increasing \$909,000 and total cost of money increasing \$689,000.

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

	1975	1974	1973
Loan Fees	\$ 721,000	858,000	855,000
Commitment fees	—	89,000	180,000
Escrow and clerical fees	47,000	102,000	139,000
Prepayment charges	314,000	334,000	341,000
Late charges	82,000	59,000	152,000
Other charges	198,000	100,000	119,000
	<u>\$1,362,000</u>	<u>1,542,000</u>	<u>1,786,000</u>

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. During 1973, 38 residential units were sold, 17 of which had been constructed by it and in 1974, 53 units were sold of which 45 had been constructed by it and in 1975, 96 were sold of which 91 had been constructed by it. Parcels of vacant land were sold in 1973 and 1974 resulting in profits of \$495,000 and \$215,000. In the fourth quarter of 1975, a profit on vacant land of \$256,000 was recognized on a sale that had been made in 1969. The variation in the 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 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). At 1974 year end, 9,800 square feet of space was vacant compared with 7,900 square feet of vacant space at 1975 year end. Net rental income in 1975 improved by \$82,000, to a total of \$288,000 by reduction in unrented space and increased rentals obtained, despite an increase in costs of operation of \$48,000.

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. The loss of \$62,000 in 1975 is due principally to sales of securities with the proceeds being used to purchase more desirable issues.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased \$506,000 in 1974 and \$502,000 in 1975 as compared to the respective prior years. Business expenses were 12.9% of gross income in 1975, 12% in 1974 and 10.8% in 1973. The increases were occasioned principally by inflation, the expense of opening and operating four additional offices in 1974, three additional offices in 1975 and the cost of computerizing our accounting system.

TAXES ON INCOME. Taxes on income were 41.4% of earnings before taxes on income in 1975, 45.4% in 1974 and 50.3% in 1973. 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). The main reason for the decreasing effective tax rates is the 85% dividends received deduction on common and preferred stock. This deduction has increased as the investment in preferred stock has increased.

A reconciliation of total income and the amount computed by applying the U. S. Federal

Income Tax rate of 48% to earnings before taxes on income follows:

	<u>1975</u>	<u>1974</u>	<u>1973</u>
Computed "expected" Federal taxes	\$3,565,000	3,451,000	4,451,000
Increase (reductions) in taxes resulting from:			
Net gains on sales of foreclosed real property	(278,000)	(219,000)	(386,000)
State franchise tax net of Federal income tax benefit	418,000	422,000	606,000
Dividends received deduction on common and preferred stocks	(796,000)	(397,000)	(189,000)
Other permanent differences	168,000	5,000	183,000
Taxes on income	<u>\$3,077,000</u>	<u>3,262,000</u>	<u>4,665,000</u>

Deferred tax expense was \$402,000 in 1973, nil in 1974 and (\$658,000) in 1975. The decrease in deferred taxes was caused principally by the decrease in loan fees and accrued investment income recognized for financial statement purposes and the increase in loan fees and investment income 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:

<u>1975</u>		<u>Quarter Ended</u>	<u>1974</u>	
<u>High</u>	<u>Low</u>		<u>High</u>	<u>Low</u>
11¾	8¾	March 31	15	11½
12	10¾	June 30	15	9½
11¾	9	September 30	13½	6¾
10¾	8¾	December 31	9¾	7½

A copy of Form 10-K for 1975, filed with the Securities and Exchange Commission, is available without charge upon a stockholder's written request addressed to Mrs. Dolores Henderson, Assistant Secretary, Wesco Financial Corporation, 315 East Colorado Boulevard, Pasadena, California 91109.

Consolidated Balance Sheets

December 31, 1975 and 1974

ASSETS	1975	1974
Cash	\$ 3,584,000	1,067,000
Marketable securities (notes 3 and 11)		
Certificates of deposit	40,000	24,010,000
United States Government and agency obligations and other marketable securities, at amortized identified cost (quoted market, \$48,923,000 in 1975 and \$9,953,000 in 1974)	48,734,000	10,009,000
Investment in common stocks (quoted market, \$1,567,000 in 1975 and \$3,039,000 in 1974)	1,853,000	5,079,000
Investment in preferred stocks (quoted market, \$23,825,000 in 1975 and \$11,831,000 in 1974)	23,206,000	12,900,000
Loans receivable, less unearned loan fees, unrealized profit and loans in process (notes 2 and 3)	373,059,000	389,065,000
Accrued interest and dividends receivable	1,581,000	1,935,000
Properties purchased and held for investment, at cost	288,000	661,000
Properties acquired through foreclosure by Mutual Savings and held for sale, at cost less allowance for losses, \$251,000 in 1975 and \$280,000 in 1974	3,286,000	5,819,000
Investments required by law:		
Investment in stock of Federal Home Loan Bank, at cost (note 3)	3,967,000	3,745,000
Prepayments to FSLIC secondary reserve	4,792,000	4,863,000
Office properties and equipment, net (note 5)	5,080,000	5,140,000
Prepaid expenses and sundry assets, at cost	657,000	1,353,000
	<u>\$470,127,000</u>	<u>465,646,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Cash disbursements to be funded at bank	\$ 646,000	1,248,000
Savings deposits	360,070,000	333,117,000
Notes payable (note 3)	26,210,000	50,975,000
Advances by borrowers for taxes and insurance	779,000	1,129,000
Accounts payable and sundry accrued expenses	1,032,000	996,000
Taxes on income (note 4):		
Current	981,000	41,000
Deferred	7,191,000	7,849,000
Total liabilities	<u>396,909,000</u>	<u>395,355,000</u>
Stockholders' equity (notes 4, 7 and 8):		
Capital stock of \$1 par value per share:		
Authorized 2,500,000 shares; issued 2,373,269 shares	2,373,000	2,373,000
Capital surplus arising from stock dividends	28,066,000	28,066,000
Retained earnings	42,779,000	59,852,000
Total stockholders' equity	<u>73,218,000</u>	<u>70,291,000</u>
Commitment and contingent liabilities (notes 6 and 10).	<u>\$470,127,000</u>	<u>465,646,000</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

Years ended December 31, 1975 and 1974

	1975	1974
Investment income:		
Interest on loans	\$ 28,438,000	28,463,000
Interest on marketable securities	3,171,000	3,202,000
Dividends on common and preferred stocks	1,953,000	974,000
Interest and dividends on investments required by law	519,000	533,000
Total investment income	<u>34,081,000</u>	<u>33,172,000</u>
Cost of money:		
Interest on savings deposits	21,844,000	20,419,000
Interest on notes payable	2,628,000	3,364,000
Total cost of money	<u>24,472,000</u>	<u>23,783,000</u>
Margin on investments	9,609,000	9,389,000
Loan fees and service charges	1,362,000	1,542,000
Operations and net gains from sales of real property (note 9)	909,000	593,000
Rental of office premises, net	288,000	206,000
Net losses on sales of marketable securities	(62,000)	(429,000)
Other income, net	32,000	96,000
	<u>12,138,000</u>	<u>11,397,000</u>
General and administrative expenses	4,710,000	4,208,000
Earnings before taxes on income	<u>7,428,000</u>	<u>7,189,000</u>
Taxes on income (note 4):		
Current	3,735,000	3,262,000
Deferred	(658,000)	—
	<u>3,077,000</u>	<u>3,262,000</u>
Net earnings	<u>\$ 4,351,000</u>	<u>\$ 3,927,000</u>
Earnings per capital share based on 2,373,269 shares	<u>\$ 1.83</u>	<u>1.65</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1975 and 1974

	1975	1974
Capital stock	\$ 2,373,000	2,373,000
Capital surplus arising from stock dividends	28,066,000	28,066,000
Retained earnings:		
Appropriated (notes 4 and 8):		
Beginning of year	43,042,000	42,446,000
Allocation of net earnings	1,088,000	596,000
End of year	<u>44,130,000</u>	<u>43,042,000</u>
Unappropriated (note 7):		
Beginning of year	26,049,000	23,905,000
Cash dividends declared and paid	(1,424,000)	(1,187,000)
Allocation of net earnings	3,263,000	3,331,000
End of year	<u>27,888,000</u>	<u>26,049,000</u>
Less stock dividends at market value	<u>(29,239,000)</u>	<u>(29,239,000)</u>
Total retained earnings	<u>42,779,000</u>	<u>39,852,000</u>
Total stockholders' equity	<u>\$ 73,218,000</u>	<u>\$ 70,291,000</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1975 and 1974

	1975	1974
Funds provided:		
Net earnings	\$ 4,351,000	3,927,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	335,000	314,000
Interest on savings deposits credited to savings accounts	16,611,000	14,810,000
FSLIC primary premium transferred from secondary reserve	88,000	86,000
Deferred income taxes (note 4)	(658,000)	—
Amortization of fees and discounts	(342,000)	(409,000)
Recognition of unrealized profit on real property	(814,000)	(410,000)
Interest income on FSLIC secondary reserve	(320,000)	(305,000)
Funds provided from operations	<u>19,251,000</u>	<u>18,013,000</u>
Principal payments on real estate loans	51,419,000	35,029,000
Additions to deferred loan fees	79,000	277,000
Sales of real property, net of gains	4,423,000	1,769,000
Increase in notes payable	—	23,270,000
Increase in loans in process	843,000	—
Additions to unrealized profit on real property	489,000	155,000
Increase in savings deposits	10,342,000	—
Decrease in cash	—	1,332,000
Other, net	3,222,000	—
Total funds provided	<u>\$ 90,068,000</u>	<u>79,845,000</u>
Funds used:		
Cash dividends declared and paid (note 7)	\$ 1,424,000	1,187,000
Decrease in savings deposits	—	27,223,000
Decrease in notes payable	24,765,000	—
Investment in real estate loans	36,317,000	31,998,000
Investment in buildings and other assets	275,000	282,000
Additions to real property	1,626,000	2,219,000
Decrease in loans in process	—	1,883,000
Investment in stock of Federal Home Loan Bank	222,000	54,000
Decrease in advances by borrowers for taxes and insurance	350,000	132,000
Increase in marketable securities	21,970,000	13,037,000
Increase in cash	3,119,000	—
Other, net	—	1,830,000
Total funds used	<u>\$ 90,068,000</u>	<u>79,845,000</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1975 and 1974

(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. See Note 11 for discussion of marketable equity securities.

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 25 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.

(2) Loans Receivable

Loans receivable are summarized as follows:

	<u>1975</u>	<u>1974</u>
Real estate loans on residential property of:		
One to four units (home loans)	\$273,496,000	284,885,000
More than four units	87,250,000	92,786,000
Real estate loans on other properties	<u>13,265,000</u>	<u>11,496,000</u>
	374,011,000	389,167,000
Less:		
Unearned loan fees	(812,000)	(1,075,000)
Unrealized profit on sales of real property	(1,025,000)	(1,404,000)
Loans in process	<u>(1,133,000)</u>	<u>(290,000)</u>
	371,041,000	386,398,000
Loans on savings deposits	<u>2,018,000</u>	<u>2,667,000</u>
	<u>\$373,059,000</u>	<u>389,065,000</u>

(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 at 7.50% in 1975 and 7.50% to 9.75% in 1974 and with maturity dates as follows:

Year ending Dec. 31,	<u>1975</u>	<u>1974</u>
1975	\$ —	17,400,000
1976	343,000	343,000
1977	3,494,000	3,494,000
1978	3,494,000	3,494,000
1979	3,494,000	3,494,000
1980	3,494,000	3,494,000
1981-1984	<u>11,881,000</u>	<u>11,881,000</u>
	26,200,000	43,600,000
Bank notes due on demand with interest principally at prime secured by certain marketable securities and real estate loans	<u>10,000</u>	<u>7,375,000</u>
	<u>\$ 26,210,000</u>	<u>50,975,000</u>

(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 and undivided profits 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, 1975 and 1974 include approximately \$44,940,000 and \$43,852,000, 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 and 1973 are currently under examination by the Internal Revenue Service. In the opinion of management, additional tax assessments, if any, will not have a material effect on the accompanying consolidated financial statements.

Income taxes for 1975 and 1974 include the following components:

	<u>1975</u>		<u>1974</u>	
	<u>Current</u>	<u>Deferred</u>	<u>Current</u>	<u>Deferred</u>
Federal	\$2,867,000	(594,000)	2,451,000	—
State	868,000	(64,000)	811,000	—
Total	<u>\$3,735,000</u>	<u>(658,000)</u>	<u>3,262,000</u>	—

Deferred taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences in 1975 and 1974 and the tax effect of each were as follows:

	<u>1975</u>	<u>1974</u>
Financial statement recognition of loan fees less than tax recognition	\$ (290,000)	(156,000)
California franchise tax recognized for financial statement purposes on accrual basis, but on cash basis for tax purposes	(128,000)	156,000
FSLIC secondary reserve interest income recognized on the financial statements, but deferred for tax purposes	45,000	166,000
Investment income recognized for financial statement purposes on accrual basis, but on cash basis for tax purposes ...	(150,000)	(24,000)
Other timing differences	<u>(135,000)</u>	<u>(142,000)</u>
	<u>\$ (658,000)</u>	<u>—</u>

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

	<u>1975</u>	<u>1974</u>
Computed "expected" Federal taxes	\$3,565,000	3,451,000
Increases (reductions) in taxes resulting from:		
Net gains on sales of foreclosed real property	(278,000)	(219,000)
State franchise tax, net of Federal income tax benefit	418,000	422,000
Dividends received deduction on common and preferred stocks	(796,000)	(397,000)
Other permanent differences ..	<u>168,000</u>	<u>5,000</u>
	<u>\$3,077,000</u>	<u>3,262,000</u>

(5) Office Properties and Equipment, Net

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

	<u>1975</u>	<u>1974</u>
Land	\$1,509,000	1,509,000
Office buildings and leasehold improvements	5,989,000	5,780,000
Furniture, fixtures and equipment	<u>919,000</u>	<u>930,000</u>
	8,417,000	8,219,000
Accumulated depreciation and amortization	<u>3,337,000</u>	<u>3,079,000</u>
	<u>\$5,080,000</u>	<u>5,140,000</u>

(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 1975 and 1974 approximated \$87,000 and \$94,000, respectively. The actuarially computed value of vested benefits as of December 31, 1975 and 1974 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. Some changes to the plan will be required and the effect of such changes on future provisions for pension expense, periodic funding of pension costs or unfunded vested benefits will not be known until revised actuarial computations are made.

(7) Dividends

Quarterly cash dividends of \$.15 per share declared and paid during 1975 amounted to \$1,424,000. Cash dividends declared and paid during 1974 amounted to \$1,187,000.

(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, 1975 and 1974.

(9) Real Estate Operations

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

	<u>1975</u>	<u>1974</u>
Recognized net gains from sales	\$ 920,000	591,000
Income from rentals	151,000	108,000
	<u>1,071,000</u>	<u>699,000</u>
Less maintenance and sales expense	162,000	106,000
	<u>\$ 909,000</u>	<u>593,000</u>

(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.

(11) Marketable Equity Securities

The investment in marketable equity securities consists of common stocks of \$1,853,000 and preferred stocks of \$10,500,000, at cost. At December 31, 1975 the difference between cost and market value representing unrealized gains or losses is not material.

Accountants' Report

PEAT, MARWICK, MITCHELL & Co.
 CERTIFIED PUBLIC ACCOUNTANTS
 930 SOUTH FLOWER STREET
 LOS ANGELES, CALIFORNIA 90017

The Board of Directors
 Wesco Financial Corporation:

We have examined the consolidated balance sheets of Wesco Financial Corporation and subsidiaries as of December 31, 1975 and 1974 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, 1975 and 1974 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
 January 30, 1976

BOARD OF DIRECTORS

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Chairman of the Board and President

WILLIAM T. CASPERS
Vice President

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Partner of Hahn & Hahn, Attorneys at Law

JAMES N. GAMBLE
Investment Counselling and Trust Administration

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(textile manufacturing, and through subsidiaries, banking and insurance)

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EXECUTIVE OFFICERS**

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H. J. HARRISON
Senior Vice President, Loans

P. E. LYNN
Senior Vice President, Loan Processing

WANDA G. MOTES
Senior Vice President, Savings

TRANSFER AGENTS AND REGISTRARS

SECURITY PACIFIC NATIONAL BANK
P.O. Box 3546 Terminal Annex, Los Angeles, California 90051

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

LEGAL COUNSEL
Hahn & Hahn

AUDITORS
Peat, Marwick, Mitchell & Co.

LISTED ON
New York Stock Exchange
Pacific Stock Exchange

WESCO FINANCIAL CORPORATION

**Annual Report for Corporations - Form 10-K
Year ended December 31, 1975**

**Financial Statements, Supplementary Data
and
Accountants' Report**

WESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Index to Financial Statements and Schedules

Financial Statements:

Consolidated Financial Statements of Wesco Financial Corporation and Subsidiaries, December 31, 1975 and 1974 (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, 1975 and 1974

Statements of Earnings - Years ended December 31, 1975 and 1974

Statements of Changes in Financial Position - Years ended December 31, 1975 and 1974

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.

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, 1975 and 1974, 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, 1975 and 1974, 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
January 30, 1976

WESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Parent Company Financial Statements

Following are the balance sheets of Wesco Financial Corporation (parent only) at December 31, 1975 and 1974 and the related statements of earnings and changes in financial position for the years then ended:

<u>Assets</u>	<u>Balance Sheets</u>		<u>Liabilities and Stockholders' Equity</u>	<u>1975</u>	<u>1974</u>
	<u>1975</u>	<u>1974</u>			
Cash	\$ 698,000	117,000	Loan payable to Mutual Savings	\$ 2,430,000	2,708,000
Marketable securities:			Accounts payable and sundry accrued expenses	768,000	687,000
Certificates of deposit	-	1,000,000	Taxes on income:		
Investment in common stocks (quoted market, \$1,567,000 in 1975 and \$3,039,000 in 1974)	1,853,000	5,079,000	Current	134,000	21,000
Investment in preferred stocks (quoted market, \$250,000 in 1975 and 1974)	267,000	267,000	Deferred	<u>(122,000)</u>	<u>(80,000)</u>
Other marketable securities, at amortized identified cost (quoted market, \$11,939,000 in 1975 and \$6,453,000 in 1974)	11,907,000	6,453,000	Total liabilities	<u>3,210,000</u>	<u>3,336,000</u>
Real estate loans receivable	242,000	221,000	Stockholders' equity:		
Accrued interest and dividends receivable	353,000	93,000	Capital stock of \$1 par value per share.		
Properties purchased and held for investment, at cost	89,000	89,000	Authorized 2,500,000 shares; issued		
Investments in subsidiaries, at equity	56,731,000	55,918,000	2,373,269 shares	2,373,000	2,373,000
Office properties and equipment, net	4,200,000	4,316,000	Capital surplus arising from stock dividends	28,066,000	28,066,000
Prepaid expenses and sundry assets, at cost	88,000	74,000	Retained earnings:		
	<u>\$ 76,428,000</u>	<u>73,627,000</u>	Appropriated	44,130,000	43,042,000
			Unappropriated	27,888,000	26,049,000
			Less stock dividends at market value	<u>(29,239,000)</u>	<u>(29,239,000)</u>
			Total stockholders' equity	<u>42,779,000</u>	<u>39,852,000</u>
			Commitments and contingent liabilities	73,218,000	70,291,000
				<u>\$ 76,428,000</u>	<u>73,627,000</u>

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

WESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Parent Company Financial Statements, Continued

Statements of Earnings

	<u>1975</u>	<u>1974</u>
Investment income:		
Equity in earnings of subsidiaries before taxes on income	\$ 6,474,000	6,388,000
Interest on loans	25,000	10,000
Interest on marketable securities, including interest on deposits in Mutual Savings, \$37,000 (\$17,000 in 1974)	807,000	767,000
Dividends on common and preferred stocks	<u>217,000</u>	<u>376,000</u>
Total investment income	7,523,000	7,541,000
Cost of money - interest on notes payable, including interest on loan payable to Mutual Savings, \$142,000 (\$157,000 in 1974) and other interest paid to Mutual Savings, \$112,000 in 1974	<u>144,000</u>	<u>287,000</u>
	7,379,000	7,254,000
Loan fees and service charges	58,000	39,000
Rental of office premises, net	288,000	206,000
Net gain (loss) on sales of marketable securities	3,000	(14,000)
Other income, net	<u>1,000</u>	-
	7,729,000	7,485,000
General and administrative expenses	<u>301,000</u>	<u>296,000</u>
Earnings before taxes on income	7,428,000	7,189,000
Taxes on income	<u>3,077,000</u>	<u>3,262,000</u>
Net earnings	\$ <u>4,351,000</u>	<u>3,927,000</u>

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

WESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Parent Company Financial Statements, Continued

Statements of Changes in Financial Position

	<u>1975</u>	<u>1974</u>
Funds provided:		
Net earnings	\$ 4,351,000	3,927,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	221,000	214,000
Deferred income taxes	(42,000)	(80,000)
Equity in net earnings of subsidiary	<u>(3,813,000)</u>	<u>(3,383,000)</u>
Funds provided from operations	717,000	678,000
Dividends from Mutual Savings	3,000,000	3,000,000
Principal payments on real estate loans	29,000	8,000
Sale of building and other assets, net of gains	-	124,000
Additions to unrealized profit on real property	-	48,000
Decrease in cash	-	<u>22,000</u>
Total funds provided	<u>\$ 3,746,000</u>	<u>3,880,000</u>
Funds used:		
Cash dividends declared and paid	\$ 1,424,000	1,187,000
Investment in building and other assets	105,000	30,000
Decrease in loan payable to Mutual Savings	278,000	263,000
Decrease in bank note payable	-	920,000
Investment in real estate loans	50,000	172,000
Increase in cash	581,000	-
Increase in investments in marketable securities	1,228,000	1,012,000
Other, net	<u>80,000</u>	<u>296,000</u>
Total funds used	<u>\$ 3,746,000</u>	<u>3,880,000</u>

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

WESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Supplemental Information to Notes to Consolidated Financial Statements

Supplementary Profit and Loss Information

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

	<u>Year ended December 31</u>			
	<u>1975</u>		<u>1974</u>	
	<u>Company</u>	<u>Consolidated</u>	<u>Company</u>	<u>Consolidated</u>
Maintenance and repairs	\$ 346,000	378,000	306,000	346,000
Depreciation and amortization of office properties and equipment	221,000	335,000	214,000	314,000
Taxes other than taxes on income:				
Payroll taxes	9,000	105,000	6,000	99,000
Property taxes	199,000	316,000	198,000	327,000
Advertising	-	<u>504,000</u>	-	<u>472,000</u>

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:

<u>Years ending</u> <u>December 31</u>	
1976	\$ 294,000
1977	310,000
1978	328,000
1979	346,000
1980	366,000
Thereafter	<u>786,000</u>
	<u>\$ 2,430,000</u>

WESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Supplemental Information to Notes to Consolidated
Financial Statements, Continued

Deferred Taxes on Income

Based upon currently anticipated operations, it is expected that the deferred income tax balance will not substantially decrease through 1978.

Office Properties and Equipment, Net

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

	<u>Parent company only</u>	
	<u>1975</u>	<u>1974</u>
Land	\$ 1,386,000	1,386,000
Office buildings and leasehold improvements	5,106,000	5,001,000
Furniture, fixtures and equipment	<u>6,000</u>	<u>6,000</u>
	6,498,000	6,393,000
Accumulated depreciation and amortization	<u>2,298,000</u>	<u>2,077,000</u>
	<u>\$ 4,200,000</u>	<u>4,316,000</u>

Total additions amounted to \$105,000 in 1975 and \$30,000 in 1974. Total sales and retirements amounted to \$169,000 in 1974. Neither total additions nor total sales or retirements during 1975 and 1974 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, 1975 and 1974

COLUMN A NAME OF ISSUER AND DESCRIPTION OF INVESTMENT	COLUMN B BALANCE AT BEGINNING OF PERIOD		COLUMN C ADDITIONS		COLUMN D DEDUCTIONS		COLUMN E BALANCE AT END OF PERIOD		COLUMN F Dividends Received During the Period From Investments Not Accounted For By the Equity Method
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	
	Number of Shares or Units. Principal Amount of Bonds and Notes	Amount in Dollars	Equity Taken Up in Earnings (Losses) of Affiliates and Other Persons For the Period	Other	Distribution of Earnings by Persons In Which Earnings (Losses) Were Taken Up	Other	Number of Shares or Units. Principal Amount of Bonds and Notes	Amount in Dollars	

Mutual Savings and Loan
Association:
Guarantee stock of
\$100 par value:

1974	<u>600</u> (1)	\$ <u>55,535,000</u>	<u>3,383,000</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>	<u>600</u> (1)	\$ <u>55,918,000</u>
1975	<u>600</u> (1)	\$ <u>55,918,000</u>	<u>3,813,000</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>	<u>600</u> (1)	\$ <u>56,731,000</u>

(1) 100% of the outstanding shares.

BLUE CHIP STAMPS

COMMISSION FILE NUMBER 0-3810

EXHIBITS TO FORM 10-K

FOR THE FISCAL YEAR ENDED FEBRUARY 28, 1976

SEE'S CANDY SHOPS, INCORPORATED
PROFIT SHARING PLAN AND TRUST AGREEMENT
(Second Compendium Amendment)

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SEE'S CANDY SHOPS, INCORPORATED
PROFIT SHARING PLAN AND TRUST AGREEMENT
(Second Compendium Amendment)

THIS AGREEMENT is made and entered into this _____ day of _____, 1976, by and between See's Candy Shops, Incorporated, a California corporation (hereinafter "Company") and Crocker National Bank, a national banking association (hereinafter "Trustee"). This Agreement amends and republishes the See's Candy Shops, Incorporated Profit Sharing Plan (hereinafter "Predecessor Plan"), dated December 31, 1951, as amended by five amendments and the Compendium Amendment effective September 1, 1971.

WITNESSETH:

ARTICLE I

Designation of Trust

1.1 Title. This Profit Sharing Plan and Trust Agreement shall be known as the See's Candy Shops, Incorporated Profit Sharing Plan (hereinafter "Plan").

1.2 Effective Date. This Second Compendium Agreement shall be effective March 1, 1975, except as hereinafter provided in this Section 1.2:

(a) Article III of this Plan shall be effective for Plan Years beginning on and after March 1, 1976. Until March 1, 1976, the provisions of Article III of the Predecessor Plan shall remain in full force and effect.

(b) Article IV of this Plan shall be effective for Plan Years beginning on and after March 1, 1975, subject to the following:

(i) The profit sharing account of an employee who becomes a Participant under the Predecessor Plan on February 29, 1976, shall be credited as of such date with an amount allocated to such Participant with respect to the entire Plan Year then ending. Such amount shall be allocated in accordance with the provisions of Articles IV and V of the Predecessor Plan, from such contributions as may be authorized by the Board of Directors for the purpose of satisfying the requirements of this subparagraph (i). For Plan Years beginning on and after March 1, 1976, Article IV of this Plan shall be applied without regard to this subparagraph (i).

(ii) Until March 1, 1976, the provisions of Articles IV and V of the Predecessor Plan regarding forfeiture of accounts, shall remain in full force and effect.

(c) Article V of this Plan shall be effective for Plan Years beginning on and after March 1, 1976.

(d) Except to the extent provided in Section 6.5, Article VI of this Plan shall be effective for

Plan Years beginning on and after March 1, 1976. The provisions of Article VI of the Predecessor Plan shall remain in full force and effect until March 1, 1976, except that until September 1, 1976, the provisions of the Predecessor Plan shall apply to the extent that they authorize the immediate distribution of a Participant's benefits in a lump sum or in quarterly or other installments for a period not exceeding ten (10) years, upon such Participant's termination of employment.

(e) Article XIV of this Plan shall be effective for Plan Years beginning on and after March 1, 1976.

The above-referenced provisions of the Predecessor Plan shall cease to be of any force or effect as of March 1, 1976, without the necessity of any action by the Company or the Committee.

1.3 Plan Year. Beginning March 1, 1975, the Plan Year of the Plan shall be the fiscal year commencing each March 1 and ending on the last day of February.

1.4 Plan Quarter. Each Plan Year shall be divided into four quarters, which shall be deemed to close, respectively, on May 31, August 31, November 30, and the last day of February.

ARTICLE II

The Committee

2.1 Members. A Profit Sharing Plan Committee (hereinafter "Committee") shall be appointed consisting of seven (7)

members who shall constitute the Named Fiduciaries of the Plan, within the meaning of Section 402(a)(2) of the Employee Retirement Income Security Act of 1974. Said members shall be selected by, and shall serve at the pleasure of, the Board of Directors of the Company. A person so selected shall become a member by filing a written notice of acceptance with the Board of Directors of the Company. A member of the Committee may resign by delivering a written notice of resignation to the Board of Directors of the Company. The Board of Directors of the Company may remove any member by delivering a certified copy of its resolution of removal to such member. A resignation or removal shall be effective on the date specified in the written notice of resignation or the resolution of removal, as the case may be, which shall be not less than ten (10) days and not more than twenty (20) days after the delivery of the notice or resolution. The Trustee shall be promptly notified of the original membership and of any change in the membership of the Committee by the Secretary of the Company. Vacancies in the membership of the Committee shall be filled promptly by the Board of Directors of the Company.

2.2 Committee Procedure. Any action of the Committee shall be taken pursuant to a majority vote, or to the written consent of a majority, of its members and such action shall constitute the action of the Committee and be binding the same as if all members had joined therein. A quorum of the Committee shall consist of four (4) members.

2.3 Allocation of Fiduciary Responsibilities. The Committee may allocate its fiduciary responsibilities (other than trustee responsibilities) among the Named Fiduciaries and may designate other persons to carry out fiduciary responsibilities (other than trustee responsibilities) under the Plan. The term "trustee responsibilities" as used herein shall mean any responsibility provided herein to manage or control the assets of the Plan. The Committee shall choose a Secretary and an Assistant Secretary (either of whom is hereinafter referred to as "Secretary") who shall keep minutes of the Committee's proceedings and all records and documents pertaining to the Committee's administration of the Plan. The Secretary may execute any certificate or other written direction on behalf of the Committee. The Trustee or third person dealing with the Committee may conclusively rely upon any certificate or other written direction signed by the Secretary which purports to have been duly authorized by the Committee.

2.4 Rights and Duties. The Committee shall have authority to control and manage the operation and administration of the Plan. The Committee shall have all powers necessary to exercise its authority and discharge its responsibilities, including, but not by way of limitation, the following:

(a) To determine all questions relating to the eligibility of employees to participate;

(b) To maintain all necessary records for the administration of the Plan other than those maintained by the Trustee;

(c) To compute and certify to the Trustee the amount and kind of benefits payable to Participants and their beneficiaries;

(d) To authorize all disbursements by the Trustee from the trust fund;

(e) To direct the Trustee with respect to all investments of the trust fund;

(f) To make and publish such rules for the regulation of the Plan as are not inconsistent with the terms hereof;

(g) To employ one or more persons to render advice with regard to any responsibility any Named Fiduciary (or other person designated in accordance with Section 2.3) has under the Plan.

2.5 Information. To enable the Committee to perform its functions, the Company shall supply full and timely information to the Committee on all matters relating to the compensation of all Participants, their retirement, death, the termination of their employment and the cause thereof, and such other pertinent facts as the Committee may require; and the Committee shall advise the Trustee of such of the foregoing facts as may be pertinent to the Trustee's administration of the Plan.

2.6 Compensation Expenses. The members of the Committee shall serve without compensation for their services hereunder. It is intended that all expenses of the Committee shall be paid by the Company.

2.7 Investment Adviser; Investment Manager. The Committee may employ one or more investment advisers to render investment advice to the Committee, or may appoint one or more investment managers to manage (including the power to acquire and dispose of) any assets of the Plan. In the event that the Committee appoints one or more investment managers in accordance with this Section 2.7, the Committee shall certify to the Trustee the name of such investment manager or managers and the responsibility and authority which such investment manager or managers shall have. As used herein the term "investment manager" shall mean any fiduciary (other than a trustee or named fiduciary, as defined in Section 492(a)(2) of the Employee Retirement Income Security Act of 1974):

(a) who has the power to manage, acquire or dispose of any assets of the Plan;

(b) who is (i) registered as an investment adviser under the Investment Advisers Act of 1940; (ii) is a bank, as defined in that Act; or (iii) is an insurance company qualified to perform services described in subparagraph (a) under the laws of more than one State; and

(c) who has acknowledged in writing that he is a fiduciary with respect to the Plan.

2.8 Funding Policy and Method. The Committee from time to time shall establish a funding policy and method for the Plan which is consistent with the objectives of the Plan and the requirements of the Employee Retirement Income Security Act of 1974. The funding policy and method, as

established and amended from time to time, shall be stated to the Trustee and the one or more investment managers, if applicable.

ARTICLE III

Participation

3.1 Eligibility Requirements. Every employee of the Company, including every officer, shall become a Participant in this Plan on the Quarterly Entry Date occurring on or after March 1, 1976 and coinciding with or next following such employee's completion of three (3) Years of Service (determined in accordance with Section 3.3 below), provided that on such Quarterly Entry Date such employee is employed by the Company, or is then on an authorized absence described in Section 3.4. The Quarterly Entry Dates occurring during each Plan Year shall be March 1, June 1, September 1 and December 1.

3.2 Application for Participation. Employees may be required to file with the Committee a written application for participation, providing such information as the Committee may deem necessary. The application for participation shall signify the employee's acceptance of the benefits and terms of this Plan and Trust.

3.3 Determination of Years of Service. For purposes of this Article III, the term "Year of Service" shall mean a twelve (12) month period during which the employee completes not less than one thousand (1,000) Hours of Service (as defined in Section 3.4). Computation of any twelve (12) month

period shall be made with reference to the date on which the employee first performs an Hour of Service following his employment or following his most recent Break in Service, whichever is applicable. For purposes of determining whether an employee has completed three (3) Years of Service, all Years of Service of such employee shall be taken into account, except that in the case of any employee who has a Break in Service (as defined in Section 3.5) and who, prior to such Break in Service has not completed three (3) Years of Service (excluding service which is not taken into account by reason of this sentence), then service before such Break in Service shall not be taken into account.

3.4 Hour of Service. For purposes of this Article III, the term "Hour of Service" shall mean an hour for which the employee is directly or indirectly paid, or entitled to payment by the Company or by an Affiliated Company (as defined in Section 3.6) for the performance of duties for such employer. In addition, an employee shall be deemed to perform Hours of Service during a period of absence described in Paragraph (a) or (b), below, provided that on the date immediately preceding commencement of such period of absence, the employee is employed by the Company, or See's Candies, Inc.:

(a) Absence for service in the Armed Forces of the United States, which requires reinstatement to employment by the Company in accordance with applicable federal law;

provided that the employee returns to work following his discharge or severance from service as required by said law;

(b) Absence pursuant to a leave of absence granted by the Company in writing and designated as a leave of absence, before or after such absence, for any purpose including sickness, accident, other casualty, or for the convenience of the Company; provided that the employee returns to work before or at the expiration of such leave of absence or any extension thereof.

The number of Hours of Service to be credited with respect to any of the above authorized periods of absence shall be determined under rules to be established and applied by the Committee on a uniform basis. Notwithstanding the foregoing provisions of this Section 3.4, in the event that an employee shall fail to return to work as required above following one of the above authorized periods of absence, then, except in the case of such employee's death during such period, none of the periods of such absence shall be deemed to constitute an Hour of Service.

3.5 Break in Service. For purposes of this Article III, the term "Break in Service" shall mean a twelve (12) month period (determined in the same manner as the twelve (12) month period described in Section 3.3) in which an employee completes not more than five hundred (500) Hours of Service. Solely for purposes of determining whether an employee has sustained a Break in Service, an employee's Hours of Service shall include (to the extent not included in the definition of Hours of

Service in Section 3.4) each hour for which an employee is directly or indirectly paid or entitled to payment by the Company or by an Affiliated Company (as defined in Section 3.6) during periods of vacation, sickness, disability or other similar periods, whether or not such payment is for the performance of duties.

3.6 Affiliated Company. For purposes of this Article III, the term "Affiliated Company" shall mean (a) any corporation which is included in a controlled group of corporations (within the meaning of Section 414(b) of the Internal Revenue Code), which group also includes See's Candy Shops, Incorporated and See's Candies, Inc., and (b) any trade or business which is under common control with See's Candy Shops, Incorporated, and See's Candies, Inc. (within the meaning of Section 414(c) of the Internal Revenue Code).

3.7 Continuation of Participation. Once an employee becomes a Participant, he shall continue to participate in the Plan without regard to the number of Hours of Service which he renders, until the close of the Plan Quarter coinciding with or next preceding the actual termination of his employment for any reason, including retirement. However, if an employee has become a Participant, but fails to return to work from an authorized period of absence as provided in Section 3.4, his participation in the Plan shall be deemed to have ceased as of the commencement of such period of absence.

3.8 Subsequent Participation. If an employee ceases to participate in the Plan and thereafter has a Break in Service, such employee shall not again participate in the Plan until the Quarterly Entry Date coinciding with or next following the close of the twelve-month period (determined with reference to the date of his first Hour of Service performed after his resumption of employment) in which he completes one thousand (1,000) Hours of Service after his resumption of employment, provided he is then employed by the Company. However, notwithstanding the preceding sentence, in the case of an employee who does not have a vested right to benefits under this Plan and who sustains two or more consecutive Breaks in Service, if the number of such consecutive Breaks in Service equals or exceeds the aggregate number of such employee's Years of Service before such Break in Service (excluding any Years of Service not required to be taken into account by reason of this sentence) then such employee shall not again participate in this Plan until he has satisfied the service requirements in Section 3.1, computed without taking into account such employee's Years of Service before such Break in Service. For purposes of this Section 3.8, an employee shall be deemed to have no vested right to benefits under the Plan if such employee has received a distribution of his entire interest in his profit sharing account pursuant to Article VI.

3.9 Participants as of February 29, 1976. All employees who are Participants in the Predecessor Plan as of

February 29, 1976, shall continue to be Participants in this Plan until such participation ceases in accordance with the provisions of this Article III. As of March 1, 1976, such Participants shall become fully vested in their profit sharing accounts in accordance with Section 6.1.

ARTICLE IV

Contributions

4.1 Obligation. The Company has previously made contributions to the Trust hereunder and subject to the provisions of this Plan will make additional quarterly contributions during each Plan Year and within the period for filing its United States income tax return, or any extension of such period, in an amount determined as set forth in Section 4.2. The Trustee acknowledges receipt of all contributions heretofore made, and agrees to hold and administer the same, together with the additional contributions of the Company, in trust pursuant to the terms of this Agreement.

4.2 Profit Contribution Formula. The quarterly contribution, if any, to be made by the Company shall be made from the profits of the Company, and shall be a percentage of the compensation paid or accrued by the Company during the quarter for which the contribution is being made to all Participants under the Plan as of the close of such quarter, which percentage, in accordance with the provisions of the Internal Revenue Code, shall not exceed fifteen percent (15%) of such compensation. The applicable percentage shall be

determined by the Board of Directors for each Plan Year within one hundred twenty (120) days following the commencement of such Plan Year. There shall be deducted from said contribution, as hereinafter provided in Section 4.3, the amount required to be paid by the Company to any other pension or retirement plan pursuant to an agreement with a union or employees' representative.

4.3 Participants' Profit Sharing Accounts. The Committee, in addition to all other books of account and records necessary or advisable in its judgment properly to reflect its activities, shall open and maintain a profit sharing account for each Participant wherein such Participant shall be credited for each quarter of the Plan Year with the amounts allocated to him as hereinafter provided. Such account shall be opened by the Committee as of the day each employee became a Participant. As soon as the Committee has made the quarterly allocations among the Participants, the Committee shall credit the allocated sums to the account of each Participant, and the Committee shall notify the Participants accordingly. In the case of Participants who are members of a union having a pension or retirement plan, the Committee shall deduct from the Participant's allocated sum the amount contributed to the union's plan upon behalf of such Participant up to the full amount of such allocation, or from allocations which will hereafter be made to such Participant under this Plan. Following the quarterly allocations, the amount credited in each

Participant's account shall be deemed to reflect the value of each Participant's proportionate share of the Trust as of the date on which the allocations are made. Such allocations, credit and notification shall not vest in any Participant any right, title or interest in the Trust, nor any right to withdraw or possess any sums allocated or credited to him, except at the time or times and upon the terms and conditions herein provided, and shall not create any claim against the Company, Committee or Trustee except to the extent expressly provided.

4.4 Quarterly Contributions. The total contribution provided in Article IV for each quarter of the Plan Year shall be allocated among the profit sharing accounts of the Participants within forty-five (45) days after the close of the Plan Quarter, as of the close of such quarter. Only those Participants who are still employed by the Company immediately following the close of such Plan Quarter shall be entitled to such an allocation. The Company shall have no obligation to determine or allocate any interest on such allocated amounts with respect to the period commencing on the close of such quarter and ending on the date when the contribution of the Company is actually allocated among the profit sharing accounts. The amount allocated to each Participant's account shall be in the proportion that his total compensation during such quarter bears to the total compensation of all Participants during such quarter, modified by deductions applicable to contributions made for those Participants for whom the

Company makes contributions to a union plan as provided by Section 4.3. Such allocation shall not be made until after the allocation required by Section 4.5 has been made.

The word "compensation" for the purpose of this Plan means the full amount of regular or basic salary before reduction on account of any authorized withholding such as income taxes, social security taxes, etc., excluding overtime, bonuses, maintenance, and any other payments.

Compensation payments shall be deemed to have been made on the date of the close of the applicable payroll period.

4.5 Quarterly Evaluation of Participant's Accounts.

Quarterly, as of the close of each quarter of each Plan Year, the Committee shall restate the value of the net trust assets, excluding the Company's contribution due to the Trustee as of that day, so as to reflect any increase or decrease in the market or cash value of all the net trust assets as of the close of such quarter compared with the stated value of such assets as of the close of the next preceding quarter. The increase or decrease so determined shall be allocated to the profit sharing accounts of the respective Participants as of the close of such quarter in the proportion that the cumulative amount previously allocated to each such Participant's profit sharing account bears to the total amount previously allocated to all Participants' profit sharing accounts. The Company, Committee and Trustee do not in any manner or to any extent whatever, warrant, guarantee or represent that the value

of a Participant's account shall at any time equal or exceed the amount previously contributed thereto and shall not be liable or responsible for any inadequacy of the fund to meet and discharge any or all payments and liabilities under this Plan.

4.6 Transfer of Employment. Allocation of Company contributions to the accounts of Participants who transfer employment between the Company and See's Candies, Inc., in any quarter shall be based on compensation from the Company for such quarter. Any Participant whose employment is transferred between the Company and See's Candies, Inc. shall have his account transferred to the profit sharing plan of the corporation to which his employment is transferred immediately following the close of the quarter in which his transfer occurs.

4.7 Joint Employment. Any Participant who is employed jointly by the Company and See's Candies, Inc. shall participate in each Plan as respects his compensation from each corporation and accounts will be maintained for him in each Plan so long as his employment is on a joint basis. However, notwithstanding the foregoing, a Participant who renders service to both such corporations but who receives compensation only from the Company, shall participate only in this Plan.

ARTICLE V

Limitation on Contributions

Subject to the adjustments hereinafter set forth, the annual addition to a Participant's account pursuant to Article IV shall in no event exceed the lesser of (a) twenty-five thousand dollars (\$25,000) or (b) twenty-five percent (25%) of the Participant's annual compensation as defined in Section 415 of the Internal Revenue Code. The term "annual addition", as used in this Article V, shall mean the sum of (a) the contributions of the Company with respect to a Participant plus (b) forfeitures. The limitation of twenty-five thousand dollars (\$25,000) imposed by the preceding sentence shall be deemed to be adjusted annually, without the necessity of formal amendment of this Plan, for increases in the cost of living, in accordance with Regulations issued by the Secretary of the Treasury pursuant to the provisions of Section 415(d) of the Internal Revenue Code. The limitations of this Article with respect to any Participant who at any time has been a Participant in any other defined contribution plan (within the meaning of the Employee Retirement Income Security Act of 1974) maintained by the Company or by a corporation or other trade or business which is a member of a controlled group of corporations (within the meaning of Sections 414(b) and (c) and 415(h) of the Internal Revenue Code) of which the Company is a member shall apply as if the total benefits payable under all defined contribution plans in which the Participant has been a Participant during the year were payable from one plan.

ARTICLE VI

Benefits

6.1 Vesting of Interests. The interest of each Participant in his profit sharing account shall at all times be fully vested. However, the vesting of a Participant's account shall not preclude the allocations and reevaluations provided for under Article IV, nor any adjustment required to avoid the limitation imposed by Article V.

6.2 Distribution of Benefits. No amount shall be distributable under this Plan to a Participant until he ceases to participate hereunder. When a Participant ceases to participate in this Plan, there shall be distributable to him in the manner hereinafter set forth in this Article VI a sum which is equal to the amount credited to his profit sharing account as of the close of the Plan Quarter next preceding the date on which such Participant ceases to participate.

6.3 Benefit at Retirement. The benefits distributable to a Participant pursuant to Section 6.2 by reason of his retirement at Normal Retirement Date, shall be payable in annual or quarterly installments over a period not exceeding ten (10) years, commencing not later than sixty (60) days after the close of the Plan Year in which his Normal Retirement Date occurs. However, the Committee may, in its sole discretion, determine to pay such benefits in one lump sum not later than sixty (60) days after

the close of such Plan Year. If a Participant's benefits are paid in installments, and the Participant dies before receiving all such installments, then the remaining installments shall be paid to the beneficiary designated by such Participant. Any amount payable in installments pursuant to this Section 6.3 shall, upon a Participant's Normal Retirement Date, be segregated and deposited in a savings bank authorized to do business in the State of California under the banking laws of said State, or in a savings and loan institution, and interest shall be credited to such Participant for the balance undistributed. No arrangement for payment in installments pursuant to this Section 6.3 shall be made which will, on the basis of mortality tables adopted by the Company, exceed the Participant's life expectancy determined as of the time he has ceased participation.

6.4 Death Benefits. In the event that a Participant dies before retirement, the amount distributable pursuant to this Article VI shall be paid in a cash lump sum to the surviving beneficiary or beneficiaries designated by him in accordance with Section 6.6.

6.5 Termination Benefits. Effective September 1, 1976, if a Participant's employment with See's Candy Shops, Incorporated and See's Candies, Inc. terminates prior to his Normal Retirement Date for any reason other than death, he shall be eligible to receive his benefits in one cash lump

sum twenty-four (24) months after such termination of employment, provided that he is not reemployed by See's Candy Shops, Incorporated or See's Candies, Inc. prior to the end of such twenty-four (24) month period. If a Participant is so reemployed, distribution of his benefits shall not be made under this Section 6.5 until twenty-four (24) months after subsequent termination of employment. Notwithstanding the foregoing provisions, a Participant whose employment with See's Candy Shops, Incorporated or See's Candies, Inc. terminates as described above, may receive distribution of his benefits prior to twenty-four (24) months following termination of his employment, in accordance with Paragraphs (a), (b) and (c), below:

(a) If such employment terminates after the Participant has attained age fifty-five (55) or completed twenty (20) Years of Service for See's Candy Shops, Incorporated and See's Candies, Inc. the Participant shall be eligible to receive a distribution of his benefits in a form described in Section 6.3, commencing on a date determined by the Committee which is within sixty (60) days after the close of the Plan Year in which such termination of employment occurs;

(b) In the case of a Participant who would otherwise receive a distribution of his benefits twenty-four (24) months after his termination of employment, the Committee may distribute his benefits in a cash lump sum on an

earlier date following such termination of employment if, in its sole discretion, it determines that there is a demonstrated need for such earlier distribution;

(c) If, on the date of a Participant's termination of employment, his account balance is less than one thousand dollars (\$1,000), his benefit shall be distributed to him in one cash lump sum as soon as practicable after his termination of employment.

Any amount the payment of which is deferred in accordance with this Section, shall be segregated and deposited in a savings bank authorized to do business in the State of California under the banking laws of said State, or in a savings and loan association, and interest shall be credited to such Participant for the balance undistributed. In the event a person again becomes a Participant in the Plan before receiving a complete distribution of his benefits, any undistributed amount segregated in accordance with the preceding sentence, shall, on or after his recommencement of participation, be transferred to his profit sharing account.

6.6 Designation of Beneficiary. Whenever a Participant may be permitted to designate a beneficiary pursuant to this Article VI, such designation may be made by the execution and delivery to the Committee of an instrument in form satisfactory to the Committee. Except as otherwise provided in this Article VI, the interest of a deceased Participant shall be paid to the beneficiary designated by

such Participant. If a deceased Participant shall have failed to designate a beneficiary, or if the Committee shall be unable to locate the designated beneficiary after reasonable efforts have been made, or if such beneficiary shall be deceased, distribution shall be made by payment of the deceased Participant's interest in the Trust fund to his personal representative, in a lump sum within one (1) year after his death. In the event that the deceased Participant was not a resident of California at the date of his death, the Committee, in its discretion, may require the establishment of ancillary administration in California. If the Committee cannot locate a qualified personal representative of the deceased Participant, or if administration of the deceased Participant's estate is not otherwise required, the Committee, in its discretion, may pay the deceased Participant's interest in the Trust fund to his heirs at law (determined in accordance with the laws of the State of California as they existed at the date of the Participant's death).

6.7 Facility of Payment. If any payee under the Plan is a minor, or if the Committee reasonably believes that any payee is legally incapable of giving a valid receipt and discharge for any payment due him, the Committee may have such payment, or any part thereof, made to the person (or persons or institution) whom it reasonably believes is caring for or supporting such payee, unless it has received

due notice of claim therefor from a duly appointed guardian or committee of such payee. Any such payment shall be a payment for the account of such payee and shall, to the extent thereof, be a complete discharge of any liability under the Plan to such payee.

6.8 Normal Retirement Date. The term "Normal Retirement Date" as used herein shall mean the date on which a Participant attains age sixty-five (65).

ARTICLE VII

The Trustee

7.1 Acceptance of Trust. The Trustee hereby accepts the Trust created hereunder and agrees to perform the obligations imposed by this Agreement.

7.2 Powers of the Trustee. The Trustee shall hold, manage, and control the Trust assets and is authorized and instructed, upon receiving instructions from the Committee or from the one or more investment managers which the Committee may appoint and in accordance with such instructions (but not otherwise except as hereinafter expressly provided):

(a) To invest and reinvest the Trust assets, together with the income, in bonds, common or preferred stock (including Qualifying Employer Securities within the meaning of the Employee Retirement Income Security Act of 1974), deposits in any bank including any bank serving as Trustee hereunder, life insurance policies or other annuity contracts, other securities, or property, personal, real or mixed (including Qualifying Employer Real Property within the

meaning of the Employee Retirement Income Security Act of 1974); to retain in cash or other property unproductive of income so much of the Trust Fund as the Committee or the one or more Investment Managers may determine; and to deposit cash in any bank directed by the Committee or the one or more investment managers, or by the Trustee in the absence of such directions;

(b) To sell, convey, exchange, partition, divide, subdivide, improve and repair; to grant options and to sell upon deferred payments; to lease for terms within or extending beyond the duration of this Trust for any purpose, including exploration for and removal of gas, or other minerals; to enter into community oil leases; to create restrictions, easements and other servitudes; to compromise, arbitrate or otherwise adjust claims in favor of or against the Trust; and to institute, compromise and defend actions and proceedings;

(c) To cause securities or other property to be registered and/or held in its individual name, either with or without disclosing fiduciary capacity, or in the name of its nominee; and to select any bank as custodian of the Trust assets;

(d) To vote any stocks, bonds or other securities of any corporation, or other issuer at any time held in trust; to otherwise consent to or request any action on the part of any such corporation or other issuer; to give

general or special proxies or powers of attorney with or without power of substitution; to participate in any reorganization, recapitalization, consolidation, merger or similar transaction with respect to such securities, and to deposit such stocks or other securities in any voting trust, or with the Trustee, or with depositaries designated thereby; to exercise any subscription rights and conversion privileges; and to generally exercise any of the powers of an owner with respect to the stocks or other securities or properties comprising the Trust;

(e) Generally to do all such acts, execute all such instruments, take all such proceedings, and exercise all such rights and privileges with relation to property constituting the Trust Fund as if the Trustee were the absolute owner thereof.

The Trust Fund shall be held, administered, invested, and reinvested in the manner provided herein as a single fund and the Trustee shall not be required to invest separately any share of any Participant in the Fund.

7.3 Collection of Principal and Income. The Trustee shall take such action as the Committee or the one or more investment managers as may be appointed may direct, or in the absence of such directions, as the Trustee deems advisable; to collect the principal and income of the Trust as the same shall become due and payable and to give a binding receipt therefor. If at any time there shall be a

default in the payment of such principal or income, or any controversy shall arise with respect to obligations or liabilities due to or from the Trustee, including any claim that may be asserted for taxes, the Trustee shall take such action as directed by the Committee or the one or more investment managers as may be appointed, or in the absence of directions, as it deems advisable, whether by legal proceedings, compromise or otherwise.

7.4 Taxes. If the whole or any part of the Trust Fund or the proceeds thereof, shall become liable for the payment of any estate, inheritance, income or other tax, charge or assessment which the Trustee shall be required to pay, the Trustee shall have full power and authority to pay such tax, charge or assessment out of any moneys or other property in its hands for the account of the person whose interests hereunder are so liable, but at least ten (10) days prior to making any such payment the Trustee shall mail notice to the Committee of its intention to make such payment. Prior to making any transfers or distributions of any of the Trust Fund the Trustee may require such releases or other documents from any lawful taxing authority as it shall deem necessary.

7.5 Controversy or Disagreement. In the event any controversy or disagreement shall arise as to the person or persons to whom payment or delivery of any funds or property shall be made by the Trustee, the Trustee may

retain the funds or property involved without liability pending settlement of the controversy or disagreement and/or may require that such controversy or disagreement be adjudicated by a court of competent jurisdiction. The Trustee shall not be liable for the payment of any interest or income on the cash or other property held by it under such circumstances.

7.6 Employment of Counsel. The Trustee may consult with legal counsel (who may be counsel for the Company) with respect to the construction of the Trust Agreement or its duties hereunder; or with respect to any legal proceedings or any question of law. The Trust Fund shall be liable for and shall pay the reasonable fees and expenses of such counsel for services rendered to the Trustee, unless the Company elects to pay same.

7.7 Records. The Trustee shall keep a full record of the administration of the Trust which the Committee shall have the right to examine at any time during the Trustee's regular business hours. Within thirty (30) days following the close of each Plan Quarter, the Trustee will furnish the Committee with a statement of account. Such account shall set forth all sales, investments, receipts, disbursements, and other transactions effected by the Trustee during said Plan Year and shall show the cash, securities and investments held at the end of the Plan Quarter, including the cost of each item as carried on the books of the Trustee, and the market value.

7.8 Certifications and Mailing Addresses.

Whenever in the administration of this Trust a certification is required to be given to the Trustee, or the Trustee shall deem it necessary that a matter be approved prior to taking, suffering or omitting any act hereunder, such certification shall be duly made and said matter may be deemed to be conclusively approved by an instrument, delivered to the Trustee, signed in the name of the Committee by its Secretary, but, in its discretion, the Trustee may in lieu thereof accept other evidence of the matter or may require such other evidence as to it may seem reasonable. The Trustee shall be protected in acting upon any notice, resolution, order, certification, opinion, telegram, letter or other document believed to be genuine and to have been signed by the proper party or parties. The Trustee shall not be required to determine, or make any investigation to determine the identity or mailing address of any person entitled to benefits under the Plan, and shall be discharged of its obligation in that respect when it shall have sent checks, and other papers by ordinary first class mail to such persons and addresses as may be furnished it by the Committee. The Trustee shall recognize only instructions given it by the Committee and shall have the right to act thereon without notice to any Participant, and without considering the rights of any Participant under the terms of this Agreement which may result directly or indirectly from said Participant's interest in the Trust.

7.9 Compensation and Indemnity. The Trustee shall receive such compensation as may be agreed upon from time to time by the Committee and the Trustee. Any and all expenses and liabilities of whatever nature of the Trustee in its administration of the Trust shall be charged to the Trust Fund, provided, however, that the Trustee's compensation and any other expenses may be paid by the Company if the Company so elects.

7.10 Duty of Care. The Trustee shall discharge its duties and responsibilities with respect to the Plan in accordance with the applicable standards set forth in Title I of the Employee Retirement Income Security Act of 1974, and in particular shall discharge such duties:

(a) with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; and

(b) in accordance with the documents and instruments governing the Plan insofar as such documents and instruments are consistent with the provisions of the said Title I.

7.11 Third Persons. A third person dealing with the Trustee shall not be required to make any inquiry whether the Committee has instructed the Trustee, or the Trustee is otherwise authorized, to take or omit any action, or to

follow the application by the Trustee of any money or property which may be paid or delivered to the Trustee.

ARTICLE VIII

Resignation and Removal of Trustee

8.1 Resignation. The Trustee may resign at any time upon delivering to the Board of Directors of the Company a written notice of resignation, to take effect at a date specified therein, which shall not be less than thirty (30) days after the delivery thereof, unless such notice shall be waived.

8.2 Removal. The Trustee may be removed by resolution of the Board of Directors of the Company and by delivery of a certified copy of such resolution to the Trustee, together with a written notice of removal, to take effect at a date specified therein, which shall not be less than thirty (30) days after delivery thereof, unless such notice shall be waived.

8.3 Settlement of Account. In the case of the resignation or removal of the Trustee, the Trustee shall have the right to a settlement of its account, which may be made at the option of the Trustee either (1) by a judicial settlement in an action instituted by the Trustee in a court of competent jurisdiction, or (2) by agreement of settlement between the Trustee and the Committee.

8.4 Successor Trustee. Upon such settlement all right, title and interest of such Trustee in the assets of

the Trust and all rights and privileges under this Agreement theretofore vested in such Trustee shall vest in the successor Trustee, and thereupon all future liability of such Trustee shall terminate; provided, however, that the Trustee shall execute, acknowledge and deliver all documents and written instruments which are necessary to transfer and convey the right, title and interest in the Trust assets, and all rights and privileges to the successor trustee.

The Board of Directors of the Company, upon receipt of or giving notice of the resignation or removal of a Trustee, shall forthwith appoint, by resolution of the Board of Directors of the Company to appoint such Successor Trustee within sixty (60) days after notice of resignation or removal, the Trustee may secure the appointment of such Successor Trustee by a court of competent jurisdiction at the expense of the Trust. Any Successor Trustee so appointed may qualify by executing, acknowledging and delivering to the Board of Directors of the Company an instrument accepting such appointment, and upon delivery such successor, without further act, shall become vested with all the right, title and interest, and discretion and duties of the predecessor Trustee with like effect as if originally named as Trustee herein.

ARTICLE IX

Amendment of Plan

9.1 Amendment. The Company, by Resolution of its Board of Directors, shall have the right to amend this Plan

and Trust Agreement at any time and from time to time and in such manner and to such extent as it may deem advisable subject to the following provisions:

(a) No amendment shall have the effect of reducing any Participant's interest in the Trust Fund.

(b) No amendment shall have the effect of diverting any part of the Trust Fund to persons or purposes other than the exclusive benefit of the Participants or their beneficiaries.

(c) No amendment shall have the effect of increasing the Trustee's duties or responsibilities without its written consent.

ARTICLE X

Termination and Discontinuance of Contributions

10.1 Termination. In the event the Company decides it is impossible or inadvisable for the Company to continue the Plan, the Company, by Resolution of its Board of Directors, may terminate the Plan by appropriate resolution. A copy of such resolution shall be delivered to the Committee promptly and as soon as possible thereafter the Committee shall send or deliver to the Trustee and to each Participant of the Plan a copy of said resolution. Upon and after the effective date of such termination, the Company shall not make any further contributions under the Plan and no contributions under Article IV need be made by the Company applicable to the quarter of the Plan Year in which such termination occurs.

10.2 Disposition of Accounts. On or before the effective date of termination, the Committee shall direct the Trustee to proceed as soon as possible, but in any event within six (6) months from such effective date, to reduce all of the assets of the Trust Fund to cash in such proportions as the Committee shall determine and, after first reserving therefrom such sums as it may deem to be reasonably necessary for its expenses and compensation for any liabilities, absolute or contingent, chargeable to the Trust Fund, to distribute the balance of such assets among the then Participants of the Plan, each such Participant to receive his pro rata share of the assets of the Trust Fund. The Trustee and the Committee shall continue to function as such for such period of time as may be necessary for the winding up of this Plan and for the making of distributions provided in this Article.

10.3 Discontinuance of Contributions. In the event the Company decides it is impossible or inadvisable to continue to make contributions under the Plan, the Company, by Resolution of its Board of Directors, may discontinue contributions to the Plan. Upon and after the effective date of such discontinuance the Company shall not make any further contributions under the Plan and no contributions under Article IV need be made by the Company applicable to the quarter of the Plan Year in which such discontinuance occurs. The discontinuance of contributions on the part of

the Company shall not terminate the Plan as to the funds and assets then held by the Trustee, or operate to accelerate any payments of distributions to or for the benefit of Participants or beneficiaries, and the Trustee shall continue to administer the Trust Fund in accordance with the provisions hereof until the obligations hereunder shall have been discharged and satisfied.

10.4 Suspension of Contributions. The failure of the Company to contribute to the Trust in any period when no contribution is required under Article IV shall not operate to discontinue this Trust.

ARTICLE XI

Miscellaneous

11.1 Contributions Not Recoverable. It shall be impossible for any part of the principal or income to be used for, or diverted to, purposes other than the exclusive benefit of such participants or their beneficiaries, except as follows:

(a) In the case of a contribution which is (i) made by a mistake of fact or (ii) conditioned on qualification of the Plan under Sections 401, 403(a) or 405(a) of the Internal Revenue Code and the Plan does not qualify, such contribution may be returned to the Company within one (1) year after it is made.

(b) In the case of a contribution conditioned on the deductibility thereof under Section 404 of the Internal

Revenue Code, such contribution may, to the extent such deduction is disallowed, be returned to the Company within one (1) year after it is made.

(c) In the case of any residual assets remaining after satisfaction of all liabilities of the Plan, a distribution to the Company may be made of such residual assets.

11.2 Limitation on Participants' Rights. Participation in this Trust shall not give any employee the right to be retained in the Company's employ, or any right or interest in this Trust other than as herein provided. The Company reserves the right to dismiss any employee without any liability for any claim either against the Trust Fund, except to the extent provided for herein, or against the Company. All benefits payable hereunder shall be provided solely from the Fund, and the Company assumes no responsibility for the acts of the Trustee.

11.3 Receipt of Release. Any payment to any Participant or his legal representative or beneficiary, in accordance with the provisions of this Agreement, shall, to the extent thereof, be in full satisfaction of all claims against the Trustee, the Committee, and the Company, and the Trustee may require such Participant, legal representative or beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

11.4 Non-Assignability. None of the benefits, payments, proceeds or claims of any Participant shall be subject to any claim of any creditor of any Participant and, in particular, the same shall not be subject to attachment or garnishment or other legal process by any legal creditor of any Participant, nor shall any such Participant have any right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits of payments or proceeds which he may expect to receive, contingently or otherwise, under this Agreement.

11.5 Governing Law. All legal questions pertaining to the Plan shall be determined in accordance with the Employee Retirement Income Security Act of 1974, and to the extent applicable, in accordance with the laws of the State of California. All contributions made hereunder shall be deemed to have been made in the State of California.

11.6 Time Limit. Pursuant to Section 715.3 of the Civil Code of the State of California, this Trust shall continue in perpetuity unless sooner terminated as provided herein.

11.7 Relinquishment to Fund. If the Committee acting in good faith, and with due diligence upon information available to it, cannot locate a person entitled to any benefit under this Plan within a period of two (2) years, such interest shall be relinquished at the end of such period and shall be allocated among the profit sharing

accounts existing as of the close of the next preceding Plan Quarter, in the manner provided in Section 4.5.

11.8 Headings, Etc., No Part of Agreement. Headings and subheadings in this Agreement are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

11.9 Successors and Assigns. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their successors and assigns.

11.10 Notices. Any notice, demand or other writing which may be given hereunder to either party hereto or to the Committee shall be given by registered mail directed as follows:

See's Candy Shops Incorporated
3423 S. La Cienega Boulevard
Los Angeles, California 90016

See's Candy Shops Incorporated
Profit Sharing Plan Committee
3423 S. La Cienega Boulevard
Los Angeles, California 90016

Crocker National Bank
611 West 6th Street
Los Angeles, California 90014

Each such notice shall be deposited in the United States mail as registered matter, postage prepaid, and shall be deemed to be given on the day following the date of mailing. Any of the above parties may at any time or from time to time by notice in writing to the remaining parties change the address to which such notices, demands, or other writings are to be mailed.

ARTICLE XII

Liability and Indemnification

12.1 Indemnification. To the extent permitted by law, the Company may indemnify any Committee member or such other persons as the Committee may specify, who was or is a party, or is threatened to be a party to any threatened, pending or completed action or suit, where such action or suit alleges an act or omission in connection with administration, management, or investment activity under the Plan. The Company may also purchase liability insurance for such persons in the case of any such action or threatened action or suit.

12.2 Fidelity Bonds. Fidelity bonds covering those persons having authority to handle Plan assets shall be purchased with Plan funds unless the Company shall elect to bear the expense of such purchase.

ARTICLE XIII

Application for Benefits

13.1 Application for Benefits. The Committee may require any person claiming benefits under the Plan to submit an application therefor, together with such documents and information as the Committee may require. In the case of any person suffering from a disability which prevents such claimant from making personal application for benefits, the Committee may, in its discretion, permit application to be made by another person acting on his behalf.

13.2 Action on Application. Within sixty (60) days following receipt of an application and all necessary documents and information, the Committee, or its authorized delegate, shall furnish the claimant with written notice, by mail, of the decision rendered with respect to such application. Such written notice shall set forth specific reasons for the decision, with reference to Plan provisions upon which the decision is based, a description of any additional information or material necessary for perfection of the application, if necessary (together with an explanation why such material or information is necessary), and an explanation of the Plan's claim review procedure.

13.3 Appeals. A claimant who does not agree with the decision rendered with respect to his application, may appeal such decision to the Committee. Such appeal shall be made, in writing, within ninety (90) days after the date of notice of the decision with respect to the application, or if the application has neither been approved nor denied within the sixty (60) day period provided in Section 11.2 above, then such appeal shall be made within ninety (90) days after the expiration of such sixty (60) day period. Such claimant may request that his application be given full and fair review by the Committee. Such claimant may review all pertinent documents and submit issues and comments in writing in connection with the appeal. The decision of the Committee shall be made promptly, and not later than sixty

(60) days after the Plan's receipt of a request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later than one hundred twenty (120) days after receipt of a request for review. The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant with specific reference to the pertinent Plan provisions upon which the decision is based.

ARTICLE XIV

Merger

Notwithstanding any other provision in this Plan, this Plan shall not in whole or in part merge or consolidate with, or transfer its assets or liabilities to, any other plan unless each affected Participant in this Plan would (if the Plan had then terminated) receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if the Plan had then terminated).

EXECUTED this 19th day of May, 1976.

CROCKER NATIONAL BANK

SEE'S CANDY SHOPS, INCORPORATED

By _____

By Charles W. Higgins PRESIDENT

By _____

By Harold J. Sullivan SECRETARY

SEE'S CANDIES, INC.

PROFIT SHARING PLAN AND TRUST AGREEMENT

(Second Compendium Amendment)

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SEE'S CANDIES, INC.

PROFIT SHARING PLAN AND TRUST AGREEMENT

(Second Compendium Amendment)

THIS AGREEMENT is made and entered into this _____ day of _____, 1976, by and between See's Candies, Inc., a California corporation (hereinafter "Company") and Crocker National Bank, a national banking association (hereinafter "Trustee"). This Agreement amends and republishes the See's Candies, Inc. Profit Sharing Plan (hereinafter "Predecessor Plan"), dated August 27, 1958, as amended by six amendments and the Compendium Amendment effective September 1, 1971.

WITNESSETH:

ARTICLE I

Designation of Trust

1.1 Title. This Profit Sharing Plan and Trust Agreement shall be known as the See's Candies, Inc. Profit Sharing Plan (hereinafter "Plan").

1.2 Effective Date. This Second Compendium Agreement shall be effective March 1, 1975, except as hereinafter provided in this Section 1.2:

(a) Article III of this Plan shall be effective for Plan Years beginning on and after March 1, 1976. Until March 1, 1976, the provisions of Article III of the Predecessor Plan shall remain in full force and effect.

(b) Article IV of this Plan shall be effective for Plan Years beginning on and after March 1, 1975, subject to the following:

(i) The profit sharing account of an employee who becomes a Participant under the Predecessor Plan on February 29, 1976, shall be credited as of such date with an amount allocated to such Participant with respect to the entire Plan Year then ending. Such amount shall be allocated in accordance with the provisions of Articles IV and V of the Predecessor Plan, from such contributions as may be authorized by the Board of Directors for the purpose of satisfying the requirements of this subparagraph (i). For Plan Years beginning on and after March 1, 1976, Article IV of this Plan shall be applied without regard to this subparagraph (i).

(ii) Until March 1, 1976, the provisions of Articles IV and V of the Predecessor Plan regarding forfeiture of accounts, shall remain in full force and effect.

(c) Article V of this Plan shall be effective for Plan Years beginning on and after March 1, 1976.

(d) Except to the extent provided in Section 6.5, Article VI of this Plan shall be effective for

Plan Years beginning on and after March 1, 1976. The provisions of Article VI of the Predecessor Plan shall remain in full force and effect until March 1, 1976, except that until September 1, 1976, the provisions of the Predecessor Plan shall apply to the extent that they authorize the immediate distribution of a Participant's benefits in a lump sum or in quarterly or other installments for a period not exceeding ten (10) years, upon such Participant's termination of employment.

(e) Article XIV of this Plan shall be effective for Plan Years beginning on and after March 1, 1976.

The above-referenced provisions of the Predecessor Plan shall cease to be of any force or effect as of March 1, 1976, without the necessity of any action by the Company or the Committee.

1.3 Plan Year. Beginning March 1, 1975, the Plan Year of the Plan shall be the fiscal year commencing each March 1 and ending on the last day of February.

1.4 Plan Quarter. Each Plan Year shall be divided into four quarters, which shall be deemed to close, respectively, on May 31, August 31, November 30, and the last day of February.

ARTICLE II

The Committee

2.1 Members. A Profit Sharing Plan Committee (hereinafter "Committee") shall be appointed consisting of

seven (7) members who shall constitute the Named Fiduciaries of the Plan, within the meaning of Section 402(a)(2) of the Employee Retirement Income Security Act of 1974. Said members shall be selected by, and shall serve at the pleasure of, the Board of Directors of the Company. A person so selected shall become a member by filing a written notice of acceptance with the Board of Directors of the Company. A member of the Committee may resign by delivering a written notice of resignation to the Board of Directors of the Company. The Board of Directors of the Company may remove any member by delivering a certified copy of its resolution of removal to such member. A resignation or removal shall be effective on the date specified in the written notice of resignation or the resolution of removal, as the case may be, which shall be not less than ten (10) days and not more than twenty (20) days after the delivery of the notice or resolution. The Trustee shall be promptly notified of the original membership and of any change in the membership of the Committee by the Secretary of the Company. Vacancies in the membership of the Committee shall be filled promptly by the Board of Directors of the Company.

2.2 Committee Procedure. Any action of the Committee shall be taken pursuant to a majority vote, or to the written consent of a majority, of its members and such action shall constitute the action of the Committee and be binding the same as if all members had joined therein. A

quorum of the Committee shall consist of four (4) members.

2.3 Allocation of Fiduciary Responsibilities.

The Committee may allocate its fiduciary responsibilities (other than trustee responsibilities) among the Named Fiduciaries and may designate other persons to carry out fiduciary responsibilities (other than trustee responsibilities) under the Plan. The term "trustee responsibilities" as used herein shall mean any responsibility provided herein to manage or control the assets of the Plan. The Committee shall choose a Secretary and an Assistant Secretary (either of whom is hereinafter referred to as "Secretary") who shall keep minutes of the Committee's proceedings and all records and documents pertaining to the Committee's administration of the Plan. The Secretary may execute any certificate or other written direction on behalf of the Committee. The Trustee or third person dealing with the Committee may conclusively rely upon any certificate or other written direction signed by the Secretary which purports to have been duly authorized by the Committee.

2.4 Rights and Duties. The Committee shall have authority to control and manage the operation and administration of the Plan. The Committee shall have all powers necessary to exercise its authority and discharge its responsibilities, including, but not by way of limitation, the following:

(a) To determine all questions relating to the eligibility of employees to participate;

(b) To maintain all necessary records for the administration of the Plan other than those maintained by the Trustee;

(c) To compute and certify to the Trustee the amount and kind of benefits payable to Participants and their beneficiaries;

(d) To authorize all disbursements by the Trustee from the trust fund;

(e) To direct the Trustee with respect to all investments of the trust fund;

(f) To make and publish such rules for the regulation of the Plan as are not inconsistent with the terms hereof;

(g) To employ one or more persons to render advice with regard to any responsibility any Named Fiduciary (or other person designated in accordance with Section 2.3) has under the Plan.

2.5 Information. To enable the Committee to perform its functions, the Company shall supply full and timely information to the Committee on all matters relating to the compensation of all Participants, their retirement, death, the termination of their employment and the cause thereof, and such other pertinent facts as the Committee may require; and the Committee shall advise the Trustee of such

of the foregoing facts as may be pertinent to the Trustee's administration of the Plan.

2.6 Compensation Expenses. The members of the Committee shall serve without compensation for their services hereunder. It is intended that all expenses of the Committee shall be paid by the Company.

2.7 Investment Adviser; Investment Manager. The Committee may employ one or more investment advisers to render investment advice to the Committee, or may appoint one or more investment managers to manage (including the power to acquire and dispose of) any assets of the Plan. In the event that the Committee appoints one or more investment managers in accordance with this Section 2.7, the Committee shall certify to the Trustee the name of such investment manager or managers and the responsibility and authority which such investment manager or managers shall have. As used herein the term "investment manager" shall mean any fiduciary (other than a trustee or named fiduciary, as defined in Section 492(a)(2) of the Employee Retirement Income Security Act of 1974):

(a) who has the power to manage, acquire or dispose of any assets of the Plan;

(b) who is (i) registered as an investment adviser under the Investment Advisers Act of 1940; (ii) is a bank, as defined in that Act; or (iii) is an insurance company qualified to perform services described in subparagraph (a) under the laws of more than one State; and

(c) who has acknowledged in writing that he is a fiduciary with respect to the Plan.

2.8 Funding Policy and Method. The Committee from time to time shall establish a funding policy and method for the Plan which is consistent with the objectives of the Plan and the requirements of the Employee Retirement Income Security Act of 1974. The funding policy and method, as established and amended from time to time, shall be stated to the Trustee and the one or more investment managers, if applicable.

ARTICLE III

Participation

3.1 Eligibility Requirements. Every employee of the Company, including every officer, shall become a Participant in this Plan on the Quarterly Entry Date occurring on or after March 1, 1976 and coinciding with or next following such employee's completion of three (3) Years of Service (determined in accordance with Section 3.3 below), provided that on such Quarterly Entry Date such employee is employed by the Company, or is then on an authorized absence described in Section 3.4. The Quarterly Entry Dates occurring during each Plan Year shall be March 1, June 1, September 1 and December 1. Notwithstanding the foregoing provisions, an employee shall not be eligible to be a Participant in this Plan during any period that he is covered under any other pension, profit sharing or other retirement plan to which

the Company contributes, except the See's Candy Shops, Incorporated Profit Sharing Plan, or a federal, state, social security or similar welfare program.

3.2 Application for Participation. Employees may be required to file with the Committee a written application for participation, providing such information as the Committee may deem necessary. The application for participation shall signify the employee's acceptance of the benefits and terms of this Plan and Trust.

3.3 Determination of Years of Service. For purposes of this Article III, the term "Year of Service" shall mean a twelve (12) month period during which the employee completes not less than one thousand (1,000) Hours of Service (as defined in Section 3.4). Computation of any twelve (12) month period shall be made with reference to the date on which the employee first performs an Hour of Service following his employment or following his most recent Break in Service, whichever is applicable. For purposes of determining whether an employee has completed three (3) Years of Service, all Years of Service of such employee shall be taken into account, except that in the case of any employee who has a Break in Service (as defined in Section 3.5) and who, prior to such Break in Service has not completed three (3) Years of Service (excluding service which is not taken into account by reason of this sentence), then service before such Break in Service shall not be taken into account.

3.4 Hour of Service. For purposes of this Article III, the term "Hour of Service" shall mean an hour for which the employee is directly or indirectly paid, or entitled to payment by the Company or by an Affiliated Company (as defined in Section 3.6) for the performance of duties for such employer. In addition, an employee shall be deemed to perform Hours of Service during a period of absence described in Paragraph (a) or (b), below, provided that on the date immediately preceding commencement of such period of absence, the employee is employed by the Company, or See's Candy Shops, Incorporated:

(a) Absence for service in the Armed Forces of the United States, which requires reinstatement to employment by the Company in accordance with applicable federal law; provided that the employee returns to work following his discharge or severance from service as required by said law;

(b) Absence pursuant to a leave of absence granted by the Company in writing and designated as a leave of absence, before or after such absence, for any purpose including sickness, accident, other casualty, or for the convenience of the Company; provided that the employee returns to work before or at the expiration of such leave of absence or any extension thereof.

The number of Hours of Service to be credited with respect to any of the above authorized periods of absence

shall be determined under rules to be established and applied by the Committee on a uniform basis. Notwithstanding the foregoing provisions of this Section 3.4, in the event that an employee shall fail to return to work as required above following one of the above authorized periods of absence, then, except in the case of such employee's death during such period, none of the periods of such absence shall be deemed to constitute an Hour of Service.

3.5 Break in Service. For purposes of this Article III, the term "Break in Service" shall mean a twelve (12) month period (determined in the same manner as the twelve (12) month period described in Section 3.3) in which an employee completes not more than five hundred (500) Hours of Service. Solely for purposes of determining whether an employee has sustained a Break in Service, an employee's Hours of Service shall include (to the extent not included in the definition of Hours of Service in Section 3.4) each hour for which an employee is directly or indirectly paid or entitled to payment by the Company or by an Affiliated Company (as defined in Section 3.6) during periods of vacation, sickness, disability or other similar periods, whether or not such payment is for the performance of duties.

3.6 Affiliated Company. For purposes of this Article III, the term "Affiliated Company" shall mean (a) any corporation which is included in a controlled group of corporations (within the meaning of Section 414(b) of the

Internal Revenue Code), which group also includes See's Candy Shops, Incorporated and See's Candies, Inc., and (b) any trade or business which is under common control with See's Candy Shops, Incorporated, and See's Candies, Inc. (within the meaning of Section 414(c) of the Internal Revenue Code).

3.7 Continuation of Participation. Once an employee becomes a Participant, he shall continue to participate in the Plan without regard to the number of Hours of Service which he renders, until the close of the Plan Quarter coinciding with or next preceding the actual termination of his employment for any reason, including retirement. However, if an employee has become a Participant, but fails to return to work from an authorized period of absence as provided in Section 3.4, his participation in the Plan shall be deemed to have ceased as of the commencement of such period of absence.

3.8 Subsequent Participation. If an employee ceases to participate in the Plan and thereafter has a Break in Service, such employee shall not again participate in the Plan until the Quarterly Entry Date coinciding with or next following the close of the twelve-month period (determined with reference to the date of his first Hour of Service performed after his resumption of employment) in which he completes one thousand (1,000) Hours of Service after his resumption of employment, provided he is then employed by

the Company. However, notwithstanding the preceding sentence, in the case of an employee who does not have a vested right to benefits under this Plan and who sustains two or more consecutive Breaks in Service, if the number of such consecutive Breaks in Service equals or exceeds the aggregate number of such employee's Years of Service before such Break in Service (excluding any Years of Service not required to be taken into account by reason of this sentence) then such employee shall not again participate in this Plan until he has satisfied the service requirements in Section 3.1, computed without taking into account such employee's Years of Service before such Break in Service. For purposes of this Section 3.8, an employee shall be deemed to have no vested right to benefits under the Plan if such employee has received a distribution of his entire interest in his profit sharing account pursuant to Article VI.

3.9 Participants as of February 29, 1976. All employees who are Participants in the Predecessor Plan as of February 29, 1976, shall continue to be Participants in this Plan until such participation ceases in accordance with the provisions of this Article III. As of March 1, 1976, such Participants shall become fully vested in their profit sharing accounts in accordance with Section 6.1.

ARTICLE IV

Contributions

4.1 Obligation. The Company has previously made contributions to the Trust hereunder and subject to the provisions of this Plan will make additional quarterly contributions during each Plan Year and within the period for filing its United States income tax return, or any extension of such period, in an amount determined as set forth in Section 4.2. The Trustee acknowledges receipt of all contributions heretofore made, and agrees to hold and administer the same, together with the additional contributions of the Company, in trust pursuant to the terms of this Agreement.

4.2 Profit Contribution Formula. The quarterly contribution, if any, to be made by the Company shall be made from the profits of the Company, and shall be a percentage of the compensation paid or accrued by the Company during the quarter for which the contribution is being made to all Participants under the Plan as of the close of such quarter, which percentage, in accordance with the provisions of the Internal Revenue Code, shall not exceed fifteen percent (15%) of such compensation. The applicable percentage shall be determined by the Board of Directors for each Plan Year within one hundred twenty (120) days following the commencement of such Plan Year.

4.3 Participants' Profit Sharing Accounts. The Committee, in addition to all other books of account and

records necessary or advisable in its judgment properly to reflect its activities, shall open and maintain a profit sharing account for each Participant wherein such Participant shall be credited for each quarter of the Plan Year with the amounts allocated to him as hereinafter provided. Such account shall be opened by the Committee as of the day each employee became a Participant. As soon as the Committee has made the quarterly allocations among the Participants, the Committee shall credit the allocated sums to the account of each Participant, and the Committee shall notify the Participants accordingly. Following the quarterly allocations, the amount credited in each Participant's account shall be deemed to reflect the value of each Participant's proportionate share of the Trust as of the date on which the allocations are made. Such allocations, credit and notification shall not vest in any Participant any right, title or interest in the Trust, nor any right to withdraw or possess any sums allocated or credited to him, except at the time or times and upon the terms and conditions herein provided, and shall not create any claim against the Company, Committee or Trustee except to the extent expressly provided.

4.4 Quarterly Contributions. The total contribution provided in Article IV for each quarter of the Plan Year shall be allocated among the profit sharing accounts of the Participants within forty-five (45) days after the close of the Plan Quarter, as of the close of such quarter. Only

those Participants who are still employed by the Company immediately following the close of such Plan Quarter shall be entitled to such an allocation. The Company shall have no obligation to determine or allocate any interest on such allocated amounts with respect to the period commencing on the close of such quarter and ending on the date when the contribution of the Company is actually allocated among the profit sharing accounts. The amount allocated to each Participant's account shall be in the proportion that his total compensation during such quarter bears to the total compensation of all Participants during such quarter. Such allocation shall not be made until after the allocation required by Section 4.5 has been made.

The word "compensation" for the purpose of this Plan means the full amount of regular or basic salary before reduction on account of any authorized withholding such as income taxes, social security taxes, etc., excluding overtime, bonuses, maintenance, and any other payments.

Compensation payments shall be deemed to have been made on the date of the close of the applicable payroll period.

4.5 Quarterly Evaluation of Participant's Accounts. Quarterly, as of the close of each quarter of each Plan Year, the Committee shall restate the value of the net trust assets, excluding the Company's contribution due to the Trustee as of that day, so as to reflect any increase or

decrease in the market or cash value of all the net trust assets as of the close of such quarter compared with the stated value of such assets as of the close of the next preceding quarter. The increase or decrease so determined shall be allocated to the profit sharing accounts of the respective Participants as of the close of such quarter in the proportion that the cumulative amount previously allocated to each such Participant's profit sharing account bears to the total amount previously allocated to all Participants' profit sharing accounts. The Company, Committee and Trustee do not in any manner or to any extent whatever, warrant, guarantee or represent that the value of a Participant's account shall at any time equal or exceed the amount previously contributed thereto and shall not be liable or responsible for any inadequacy of the fund to meet and discharge any or all payments and liabilities under this Plan.

4.6 Transfer of Employment. Allocation of Company contributions to the accounts of Participants who transfer employment between the Company and See's Candy Shops, Incorporated, in any quarter shall be based on compensation from the Company for such quarter. Any Participant whose employment is transferred between the Company and See's Candy Shops, Incorporated shall have his account transferred to the profit sharing plan of the corporation to which his employment is transferred immediately following the close of the quarter in which his transfer occurs.

4.7 Joint Employment. Any Participant who is employed jointly by the Company and See's Candy Shops, Incorporated shall participate in each Plan as respects his compensation from each corporation and accounts will be maintained for him in each Plan so long as his employment is on a joint basis. However, notwithstanding the foregoing, a Participant who renders service to both such corporations but who receives compensation only from the Company, shall participate only in this Plan.

ARTICLE V

Limitation on Contributions

Subject to the adjustments hereinafter set forth, the annual addition to a Participant's account pursuant to Article IV shall in no event exceed the lesser of (a) twenty-five thousand dollars (\$25,000) or (b) twenty-five percent (25%) of the Participant's annual compensation as defined in Section 415 of the Internal Revenue Code. The term "annual addition", as used in this Article V, shall mean the sum of (a) the contributions of the Company with respect to a Participant plus (b) forfeitures. The limitation of twenty-five thousand dollars (\$25,000) imposed by the preceding sentence shall be deemed to be adjusted annually, without the necessity of formal amendment of this Plan, for increases in the cost of living, in accordance with Regulations issued by the Secretary of the Treasury pursuant to the provisions of Section 415(d) of the Internal Revenue Code. The limitations

of this Article with respect to any Participant who at any time has been a Participant in any other defined contribution plan (within the meaning of the Employee Retirement Income Security Act of 1974) maintained by the Company or by a corporation or other trade or business which is a member of a controlled group of corporations (within the meaning of Sections 414(b) and (c) and 415(h) of the Internal Revenue Code) of which the Company is a member shall apply as if the total benefits payable under all defined contribution plans in which the Participant has been a Participant during the year were payable from one plan.

ARTICLE VI

Benefits

6.1 Vesting of Interests. The interest of each Participant in his profit sharing account shall at all times be fully vested. However, the vesting of a Participant's account shall not preclude the allocations and reevaluations provided for under Article IV, nor any adjustment required to avoid the limitation imposed by Article V.

6.2 Distribution of Benefits. No amount shall be distributable under this Plan to a Participant until he ceases to participate hereunder. When a Participant ceases to participate in this Plan, there shall be distributable to him in the manner hereinafter set forth in this Article VI a sum which is equal to the amount credited to his profit sharing account as of the close of the Plan Quarter next

preceding the date on which such Participant ceases to participate.

6.3 Benefit at Retirement. The benefits distributable to a Participant pursuant to Section 6.2 by reason of his retirement at Normal Retirement Date, shall be payable in annual or quarterly installments over a period not exceeding ten (10) years, commencing not later than sixty (60) days after the close of the Plan Year in which his Normal Retirement Date occurs. However, the Committee may, in its sole discretion, determine to pay such benefits in one lump sum not later than sixty (60) days after the close of such Plan Year. If a Participant's benefits are paid in installments, and the Participant dies before receiving all such installments, then the remaining installments shall be paid to the beneficiary designated by such Participant. Any amount payable in installments pursuant to this Section 6.3 shall, upon a Participant's Normal Retirement Date, be segregated and deposited in a savings bank authorized to do business in the State of California under the banking laws of said State, or in a savings and loan institution, and interest shall be credited to such Participant for the balance undistributed. No arrangement for payment in installments pursuant to this Section 6.3 shall be made which will, on the basis of mortality tables adopted by the Company, exceed the Participant's life expectancy determined as of the time he has ceased participation.

6.4 Death Benefits. In the event that a Participant dies before retirement, the amount distributable pursuant to this Article VI shall be paid in a cash lump sum to the surviving beneficiary or beneficiaries designated by him in accordance with Section 6.6.

6.5 Termination Benefits. Effective September 1, 1976, if a Participant's employment with See's Candy Shops, Incorporated and See's Candies, Inc. terminates prior to his Normal Retirement Date for any reason other than death, he shall be eligible to receive his benefits in one cash lump sum twenty-four (24) months after such termination of employment, provided that he is not reemployed by See's Candy Shops, Incorporated or See's Candies, Inc. prior to the end of such twenty-four (24) month period. If a Participant is so reemployed, distribution of his benefits shall not be made under this Section 6.5 until twenty-four (24) months after subsequent termination of employment. Notwithstanding the foregoing provisions, a Participant whose employment with See's Candy Shops, Incorporated or See's Candies, Inc. terminates as described above, may receive distribution of his benefits prior to twenty-four (24) months following termination of his employment, in accordance with Paragraphs (a), (b) and (c), below:

(a) If such employment terminates after the Participant has attained age fifty-five (55) or completed twenty (20) Years of Service for See's Candy Shops, Incor-

porated and See's Candies, Inc. the Participant shall be eligible to receive a distribution of his benefits in a form described in Section 6.3, commencing on a date determined by the Committee which is within sixty (60) days after the close of the Plan Year in which such termination of employment occurs;

(b) In the case of a Participant who would otherwise receive a distribution of his benefits twenty-four (24) months after his termination of employment, the Committee may distribute his benefits in a cash lump sum on an earlier date following such termination of employment if, in its sole discretion, it determines that there is a demonstrated need for such earlier distribution;

(c) If, on the date of a Participant's termination of employment, his account balance is less than one thousand dollars (\$1,000), his benefit shall be distributed to him in one cash lump sum as soon as practicable after his termination of employment.

Any amount the payment of which is deferred in accordance with this Section, shall be segregated and deposited in a savings bank authorized to do business in the State of California under the banking laws of said State, or in a savings and loan association, and interest shall be credited to such Participant for the balance undistributed. In the event a person again becomes a Participant in the Plan before receiving a complete distribution of his benefits,

any undistributed amount segregated in accordance with the preceding sentence, shall, on or after his recommencement of participation, be transferred to his profit sharing account.

6.6 Designation of Beneficiary. Whenever a Participant may be permitted to designate a beneficiary pursuant to this Article VI, such designation may be made by the execution and delivery to the Committee of an instrument in form satisfactory to the Committee. Except as otherwise provided in this Article VI, the interest of a deceased Participant shall be paid to the beneficiary designated by such Participant. If a deceased Participant shall have failed to designate a beneficiary, or if the Committee shall be unable to locate the designated beneficiary after reasonable efforts have been made, or if such beneficiary shall be deceased, distribution shall be made by payment of the deceased Participant's interest in the Trust fund to his personal representative, in a lump sum within one (1) year after his death. In the event that the deceased Participant was not a resident of California at the date of his death, the Committee, in its discretion, may require the establishment of ancillary administration in California. If the Committee cannot locate a qualified personal representative of the deceased Participant, or if administration of the deceased Participant's estate is not otherwise required, the Committee, in its discretion, may pay the deceased Participant's interest in the Trust fund to his heirs at law

(determined in accordance with the laws of the State of California as they existed at the date of the Participant's death).

6.7 Facility of Payment. If any payee under the Plan is a minor, or if the Committee reasonably believes that any payee is legally incapable of giving a valid receipt and discharge for any payment due him, the Committee may have such payment, or any part thereof, made to the person (or persons or institution) whom it reasonably believes is caring for or supporting such payee, unless it has received due notice of claim therefor from a duly appointed guardian or committee of such payee. Any such payment shall be a payment for the account of such payee and shall, to the extent thereof, be a complete discharge of any liability under the Plan to such payee.

6.8 Normal Retirement Date. The term "Normal Retirement Date" as used herein shall mean the date on which a Participant attains age sixty-five (65).

ARTICLE VII

The Trustee

7.1 Acceptance of Trust. The Trustee hereby accepts the Trust created hereunder and agrees to perform the obligations imposed by this Agreement.

7.2 Powers of the Trustee. The Trustee shall hold, manage, and control the Trust assets and is authorized and instructed, upon receiving instructions from the Committee

or from the one or more investment managers which the Committee may appoint and in accordance with such instructions (but not otherwise except as hereinafter expressly provided):

(a) To invest and reinvest the Trust assets, together with the income, in bonds, common or preferred stock (including Qualifying Employer Securities within the meaning of the Employee Retirement Income Security Act of 1974), deposits in any bank including any bank serving as Trustee hereunder, life insurance policies or other annuity contracts, other securities, or property, personal, real or mixed (including Qualifying Employer Real Property within the meaning of the Employee Retirement Income Security Act of 1974); to retain in cash or other property unproductive of income so much of the Trust Fund as the Committee or the one or more Investment Managers may determine; and to deposit cash in any bank directed by the Committee or the one or more investment managers, or by the Trustee in the absence of such directions;

(b) To sell, convey, exchange, partition, divide, subdivide, improve and repair; to grant options and to sell upon deferred payments; to lease for terms within or extending beyond the duration of this Trust for any purpose, including exploration for and removal of gas, or other minerals; to enter into community oil leases; to create restrictions, easements and other servitudes; to compromise, arbitrate or otherwise adjust claims in favor of or against the Trust; and to institute, compromise and defend actions and proceedings;

(c) To cause securities or other property to be registered and/or held in its individual name, either with or without disclosing fiduciary capacity, or in the name of its nominee; and to select any bank as custodian of the Trust assets;

(d) To vote any stocks, bonds or other securities of any corporation, or other issuer at any time held in trust; to otherwise consent to or request any action on the part of any such corporation or other issuer; to give general or special proxies or powers of attorney with or without power of substitution; to participate in any reorganization, recapitalization, consolidation, merger or similar transaction with respect to such securities, and to deposit such stocks or other securities in any voting trust, or with the Trustee, or with depositaries designated thereby; to exercise any subscription rights and conversion privileges; and to generally exercise any of the powers of an owner with respect to the stocks or other securities or properties comprising the Trust;

(e) Generally to do all such acts, execute all such instruments, take all such proceedings, and exercise all such rights and privileges with relation to property constituting the Trust Fund as if the Trustee were the absolute owner thereof.

The Trust Fund shall be held, administered, invested, and reinvested in the manner provided herein as a single

fund and the Trustee shall not be required to invest separately any share of any Participant in the Fund.

7.3 Collection of Principal and Income. The Trustee shall take such action as the Committee or the one or more investment managers as may be appointed may direct, or in the absence of such directions, as the Trustee deems advisable; to collect the principal and income of the Trust as the same shall become due and payable and to give a binding receipt therefor. If at any time there shall be a default in the payment of such principal or income, or any controversy shall arise with respect to obligations or liabilities due to or from the Trustee, including any claim that may be asserted for taxes, the Trustee shall take such action as directed by the Committee or the one or more investment managers as may be appointed, or in the absence of directions, as it deems advisable, whether by legal proceedings, compromise or otherwise.

7.4 Taxes. If the whole or any part of the Trust Fund or the proceeds thereof, shall become liable for the payment of any estate, inheritance, income or other tax, charge or assessment which the Trustee shall be required to pay, the Trustee shall have full power and authority to pay such tax, charge or assessment out of any moneys or other property in its hands for the account of the person whose interests hereunder are so liable, but at least ten (10) days prior to making any such payment the Trustee shall mail

notice to the Committee of its intention to make such payment. Prior to making any transfers or distributions of any of the Trust Fund the Trustee may require such releases or other documents from any lawful taxing authority as it shall deem necessary.

7.5 Controversy or Disagreement. In the event any controversy or disagreement shall arise as to the person or persons to whom payment or delivery of any funds or property shall be made by the Trustee, the Trustee may retain the funds or property involved without liability pending settlement of the controversy or disagreement and/or may require that such controversy or disagreement be adjudicated by a court of competent jurisdiction. The Trustee shall not be liable for the payment of any interest or income on the cash or other property held by it under such circumstances.

7.6 Employment of Counsel. The Trustee may consult with legal counsel (who may be counsel for the Company) with respect to the construction of the Trust Agreement or its duties hereunder; or with respect to any legal proceedings or any question of law. The Trust Fund shall be liable for and shall pay the reasonable fees and expenses of such counsel for services rendered to the Trustee, unless the Company elects to pay same.

7.7 Records. The Trustee shall keep a full record of the administration of the Trust which the Committee

shall have the right to examine at any time during the Trustee's regular business hours. Within thirty (30) days following the close of each Plan Quarter, the Trustee will furnish the Committee with a statement of account. Such account shall set forth all sales, investments, receipts, disbursements, and other transactions effected by the Trustee during said Plan Year and shall show the cash, securities and investments held at the end of the Plan Quarter, including the cost of each item as carried on the books of the Trustee, and the market value.

7.8 Certifications and Mailing Addresses.

Whenever in the administration of this Trust a certification is required to be given to the Trustee, or the Trustee shall deem it necessary that a matter be approved prior to taking, suffering or omitting any act hereunder, such certification shall be duly made and said matter may be deemed to be conclusively approved by an instrument, delivered to the Trustee, signed in the name of the Committee by its Secretary, but, in its discretion, the Trustee may in lieu thereof accept other evidence of the matter or may require such other evidence as to it may seem reasonable. The Trustee shall be protected in acting upon any notice, resolution, order, certification, opinion, telegram, letter or other document believed to be genuine and to have been signed by the proper party or parties. The Trustee shall not be required to determine, or make any investigation to determine

the identity or mailing address of any person entitled to benefits under the Plan, and shall be discharged of its obligation in that respect when it shall have sent checks, and other papers by ordinary first class mail to such persons and addresses as may be furnished it by the Committee. The Trustee shall recognize only instructions given it by the Committee and shall have the right to act thereon without notice to any Participant, and without considering the rights of any Participant under the terms of this Agreement which may result directly or indirectly from said Participant's interest in the Trust.

7.9 Compensation and Indemnity. The Trustee shall receive such compensation as may be agreed upon from time to time by the Committee and the Trustee. Any and all expenses and liabilities of whatever nature of the Trustee in its administration of the Trust shall be charged to the Trust Fund, provided, however, that the Trustee's compensation and any other expenses may be paid by the Company if the Company so elects.

7.10 Duty of Care. The Trustee shall discharge its duties and responsibilities with respect to the Plan in accordance with the applicable standards set forth in Title I of the Employee Retirement Income Security Act of 1974, and in particular shall discharge such duties:

(a) with the care, skill, prudence, and diligence under the circumstances then prevailing that a

prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; and

(b) in accordance with the documents and instruments governing the Plan insofar as such documents and instruments are consistent with the provisions of the said Title I.

7.11 Third Persons. A third person dealing with the Trustee shall not be required to make any inquiry whether the Committee has instructed the Trustee, or the Trustee is otherwise authorized, to take or omit any action, or to follow the application by the Trustee of any money or property which may be paid or delivered to the Trustee.

ARTICLE VIII

Resignation and Removal of Trustee

8.1 Resignation. The Trustee may resign at any time upon delivering to the Board of Directors of the Company a written notice of resignation, to take effect at a date specified therein, which shall not be less than thirty (30) days after the delivery thereof, unless such notice shall be waived.

8.2 Removal. The Trustee may be removed by resolution of the Board of Directors of the Company and by delivery of a certified copy of such resolution to the Trustee, together with a written notice of removal, to take effect at a date specified therein, which shall not be less

than thirty (30) days after delivery thereof, unless such notice shall be waived.

8.3 Settlement of Account. In the case of the resignation or removal of the Trustee, the Trustee shall have the right to a settlement of its account, which may be made at the option of the Trustee either (1) by a judicial settlement in an action instituted by the Trustee in a court of competent jurisdiction, or (2) by agreement of settlement between the Trustee and the Committee.

8.4 Successor Trustee. Upon such settlement all right, title and interest of such Trustee in the assets of the Trust and all rights and privileges under this Agreement theretofore vested in such Trustee shall vest in the successor Trustee, and thereupon all future liability of such Trustee shall terminate; provided, however, that the Trustee shall execute, acknowledge and deliver all documents and written instruments which are necessary to transfer and convey the right, title and interest in the Trust assets, and all rights and privileges to the successor trustee.

The Board of Directors of the Company, upon receipt of or giving notice of the resignation or removal of a Trustee, shall forthwith appoint, by resolution of the Board of Directors of the Company to appoint such Successor Trustee within sixty (60) days after notice of resignation or removal, the Trustee may secure the appointment of such Successor Trustee by a court of competent jurisdiction at the expense

of the Trust. Any Successor Trustee so appointed may qualify by executing, acknowledging and delivering to the Board of Directors of the Company an instrument accepting such appointment, and upon delivery such successor, without further act, shall become vested with all the right, title and interest, and discretion and duties of the predecessor Trustee with like effect as if originally named as Trustee herein.

ARTICLE IX

Amendment of Plan

9.1 Amendment. The Company, by Resolution of its Board of Directors, shall have the right to amend this Plan and Trust Agreement at any time and from time to time and in such manner and to such extent as it may deem advisable subject to the following provisions:

(a) No amendment shall have the effect of reducing any Participant's interest in the Trust Fund.

(b) No amendment shall have the effect of diverting any part of the Trust Fund to persons or purposes other than the exclusive benefit of the Participants or their beneficiaries.

(c) No amendment shall have the effect of increasing the Trustee's duties or responsibilities without its written consent.

ARTICLE X

Termination and Discontinuance of Contributions

10.1 Termination. In the event the Company decides it is impossible or inadvisable for the Company to continue the Plan, the Company, by Resolution of its Board of Directors, may terminate the Plan by appropriate resolution. A copy of such resolution shall be delivered to the Committee promptly and as soon as possible thereafter the Committee shall send or deliver to the Trustee and to each Participant of the Plan a copy of said resolution. Upon and after the effective date of such termination, the Company shall not make any further contributions under the Plan and no contributions under Article IV need be made by the Company applicable to the quarter of the Plan Year in which such termination occurs.

10.2 Disposition of Accounts. On or before the effective date of termination, the Committee shall direct the Trustee to proceed as soon as possible, but in any event within six (6) months from such effective date, to reduce all of the assets of the Trust Fund to cash in such proportions as the Committee shall determine and, after first reserving therefrom such sums as it may deem to be reasonably necessary for its expenses and compensation for any liabilities, absolute or contingent, chargeable to the Trust Fund, to distribute the balance of such assets among the then Participants of the Plan, each such Participant to receive

his pro rata share of the assets of the Trust Fund. The Trustee and the Committee shall continue to function as such for such period of time as may be necessary for the winding up of this Plan and for the making of distributions provided in this Article.

10.3 Discontinuance of Contributions. In the event the Company decides it is impossible or inadvisable to continue to make contributions under the Plan, the Company, by Resolution of its Board of Directors, may discontinue contributions to the Plan. Upon and after the effective date of such discontinuance the Company shall not make any further contributions under the Plan and no contributions under Article IV need be made by the Company applicable to the quarter of the Plan Year in which such discontinuance occurs. The discontinuance of contributions on the part of the Company shall not terminate the Plan as to the funds and assets then held by the Trustee, or operate to accelerate any payments of distributions to or for the benefit of Participants or beneficiaries, and the Trustee shall continue to administer the Trust Fund in accordance with the provisions hereof until the obligations hereunder shall have been discharged and satisfied.

10.4 Suspension of Contributions. The failure of the Company to contribute to the Trust in any period when no contribution is required under Article IV shall not operate to discontinue this Trust.

ARTICLE XI

Miscellaneous

11.1 Contributions Not Recoverable. It shall be impossible for any part of the principal or income to be used for, or diverted to, purposes other than the exclusive benefit of such participants or their beneficiaries, except as follows:

(a) In the case of a contribution which is (i) made by a mistake of fact or (ii) conditioned on qualification of the Plan under Sections 401, 403(a) or 405(a) of the Internal Revenue Code and the Plan does not qualify, such contribution may be returned to the Company within one (1) year after it is made.

(b) In the case of a contribution conditioned on the deductibility thereof under Section 404 of the Internal Revenue Code, such contribution may, to the extent such deduction is disallowed, be returned to the Company within one (1) year after it is made.

(c) In the case of any residual assets remaining after satisfaction of all liabilities of the Plan, a distribution to the Company may be made of such residual assets.

11.2 Limitation on Participants' Rights. Participation in this Trust shall not give any employee the right to be retained in the Company's employ, or any right or interest in this Trust other than as herein provided. The Company

reserves the right to dismiss any employee without any liability for any claim either against the Trust Fund, except to the extent provided for herein, or against the Company. All benefits payable hereunder shall be provided solely from the Fund, and the Company assumes no responsibility for the acts of the Trustee.

11.3 Receipt of Release. Any payment to any Participant or his legal representative or beneficiary, in accordance with the provisions of this Agreement, shall, to the extent thereof, be in full satisfaction of all claims against the Trustee, the Committee, and the Company, and the Trustee may require such Participant, legal representative or beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

11.4 Non-Assignability. None of the benefits, payments, proceeds or claims of any Participant shall be subject to any claim of any creditor of any Participant and, in particular, the same shall not be subject to attachment or garnishment or other legal process by any legal creditor of any Participant, nor shall any such Participant have any right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits of payments or proceeds which he may expect to receive, contingently or otherwise, under this Agreement.

11.5 Governing Law. All legal questions pertaining to the Plan shall be determined in accordance with the

Employee Retirement Income Security Act of 1974, and to the extent applicable, in accordance with the laws of the State of California. All contributions made hereunder shall be deemed to have been made in the State of California.

11.6 Time Limit. Pursuant to Section 715.3 of the Civil Code of the State of California, this Trust shall continue in perpetuity unless sooner terminated as provided herein.

11.7 Relinquishment to Fund. If the Committee acting in good faith, and with due diligence upon information available to it, cannot locate a person entitled to any benefit under this Plan within a period of two (2) years, such interest shall be relinquished at the end of such period and shall be allocated among the profit sharing accounts existing as of the close of the next preceding Plan Quarter, in the manner provided in Section 4.5.

11.8 Headings, Etc., No Part of Agreement. Headings and subheadings in this Agreement are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

11.9 Successors and Assigns. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their successors and assigns.

11.10 Notices. Any notice, demand or other writing which may be given hereunder to either party hereto or to the Committee shall be given by registered mail directed as follows:

See's Candies, Inc.
El Camino Real at Spruce Avenue
South San Francisco, California 94080

See's Candies, Inc.
Profit Sharing Plan Committee
El Camino Real at Spruce Avenue
South San Francisco, California 94080

Crocker National Bank
611 West 6th Street
Los Angeles, California 90014

Each such notice shall be deposited in the United States mail as registered matter, postage prepaid, and shall be deemed to be given on the day following the date of mailing. Any of the above parties may at any time or from time to time by notice in writing to the remaining parties change the address to which such notices, demands, or other writings are to be mailed.

ARTICLE XII

Liability and Indemnification

12.1 Indemnification. To the extent permitted by law, the Company may indemnify any Committee member or such other persons as the Committee may specify, who was or is a party, or is threatened to be a party to any threatened, pending or completed action or suit, where such action or suit alleges an act or omission in connection with administration, management, or investment activity under the Plan. The Company may also purchase liability insurance for such persons in the case of any such action or threatened action or suit.

12.2 Fidelity Bonds. Fidelity bonds covering those persons having authority to handle Plan assets shall

be purchased with Plan funds unless the Company shall elect to bear the expense of such purchase.

ARTICLE XIII

Application for Benefits

13.1 Application for Benefits. The Committee may require any person claiming benefits under the Plan to submit an application therefor, together with such documents and information as the Committee may require. In the case of any person suffering from a disability which prevents such claimant from making personal application for benefits, the Committee may, in its discretion, permit application to be made by another person acting on his behalf.

13.2 Action on Application. Within sixty (60) days following receipt of an application and all necessary documents and information, the Committee, or its authorized delegate, shall furnish the claimant with written notice, by mail, of the decision rendered with respect to such application. Such written notice shall set forth specific reasons for the decision, with reference to Plan provisions upon which the decision is based, a description of any additional information or material necessary for perfection of the application, if necessary (together with an explanation why such material or information is necessary), and an explanation of the Plan's claim review procedure.

13.3 Appeals. A claimant who does not agree with the decision rendered with respect to his application, may

appeal such decision to the Committee. Such appeal shall be made, in writing, within ninety (90) days after the date of notice of the decision with respect to the application, or if the application has neither been approved nor denied within the sixty (60) day period provided in Section 11.2 above, then such appeal shall be made within ninety (90) days after the expiration of such sixty (60) day period. Such claimant may request that his application be given full and fair review by the Committee. Such claimant may review all pertinent documents and submit issues and comments in writing in connection with the appeal. The decision of the Committee shall be made promptly, and not later than sixty (60) days after the Plan's receipt of a request for review, unless special circumstances require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later than one hundred twenty (120) days after receipt of a request for review. The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant with specific reference to the pertinent Plan provisions upon which the decision is based.

ARTICLE XIV

Merger

Notwithstanding any other provision in this Plan, this Plan shall not in whole or in part merge or consolidate

with, or transfer its assets or liabilities to, any other plan unless each affected Participant in this Plan would (if the Plan had then terminated) receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if the Plan had then terminated).

EXECUTED this 19th day of May, 1976.

CROCKER NATIONAL BANK

SEE'S CANDIES, INC.

By _____

BY Barbara L. Higgins PRESIDENT

By _____

BY Alvin J. [unclear] ASST. SEC. TREAS.

3423 SOUTH LA CIENEGA BOULEVARD
LOS ANGELES, CALIFORNIA 90016
(213) 559-4911 - 670-3761

EXHIBIT A

EL CAMINO REAL AT SPRUCE AVENUE
SOUTH SAN FRANCISCO, CALIFORNIA 94080
(415) 761-2490 - 583-7307

See's CANDIES

Exhibit 6(a), to
Blue Chip Stamps' Form 10-K
for year ended February 28, 1975

KITCHENS AND SHOPS CONVENIENTLY LOCATED

AMENDMENT TO AGREEMENT

Agreement made this 15th day of July, 1975 between SEE'S CANDIES, INC., a California corporation ("the COMPANY") and EDWARD G. PECK ("PECK").

WHEREAS, the parties have entered into an Agreement dated August 14, 1964 and have amended said Agreement of August 14, 1964 by an Agreement dated August 18, 1969 and have extended the term of employment pursuant to said Agreement by letters dated April 15, 1970 and April 29, 1971; (the aforesaid Agreement as amended and extended being hereinafter referred to as "the Agreement").

WHEREAS, pursuant to the Agreement, the COMPANY was to pay PECK additional compensation in the total amount of \$300,000.00 payable in 72 monthly installments of \$4,166.67 commencing September 1, 1972;

WHEREAS, there was remaining unpaid to PECK as of February 28, 1975 and prior to the payment due on March 1, 1975 a balance of \$175,000;

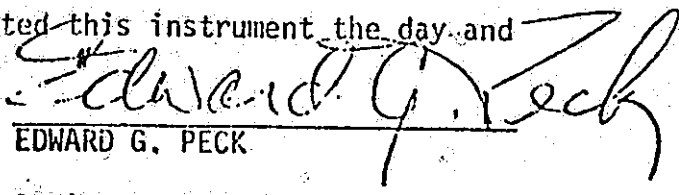
WHEREAS, the parties desire to change the amount of said monthly installments:

IT IS THEREFORE AGREED:

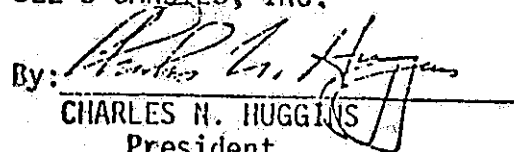
1. That effective with the monthly payment due on March 1, 1975 the balance to be paid PECK under the Agreement shall be paid in monthly installments of \$2,500.00, with the last installment payable on December 1, 1980.
2. To make adjustment for the fact that payments made for March 1, April 1, May 1, June 1 and July 1, 1975 have been paid at the prior rate, no payments will be made on August 1, 1975 or September 1, 1975 or October 1, 1975 and an appropriate reduction will be made in the payment due November 1, 1975 so as to give effect to the new rate of payment as of March 1, 1975.

IN WITNESS WHEREOF, the parties have executed this instrument the day and year first hereinabove written.


Qualitest
a division of
Qualitest
since 1921


EDWARD G. PECK

SEE'S CANDIES, INC.

By: 
CHARLES N. HUGGINS
President

BLUE CHIP STAMPS

EMPLOYEES' PENSION PLAN

AND

TRUST AGREEMENT

AS AMENDED
EFFECTIVE ON JANUARY 1, 1976

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BLUE CHIP STAMPS
EMPLOYEES' PENSION PLAN
AND
TRUST AGREEMENT

Blue Chip Stamp Company, pursuant to resolutions of its Board of Directors, adopted the Blue Chip Stamps Employees' Pension Plan and Trust Agreement on February 11, 1965 to be effective January 1, 1965. Effective thereafter on July 16, 1968 Blue Chip Stamp Company was merged by statutory merger into Blue Chip Stamps, which Company adopted the Plan of the predecessor organization. Subsequently at various times the Plan was amended by Amendments Nos. 1 and 2, the most recent such amendment being effective on January 1, 1970. Such Plan together with such Amendments shall hereinafter be designated the "Prior Plan".

Blue Chip Stamps pursuant to resolutions of its Board of Directors adopted at meetings held December 18, 1975 and February 26, 1976 elected to comprehensively amend the Prior Plan to be effective on January 1, 1976. Such comprehensive amendment hereinafter called the "Plan" shall be applicable to employees in the service of the Company on and after January 1, 1976. It is not the intent of this comprehensive amendment to in any way alter the retirement or other vested benefits of former employees whose service with the Company terminated prior to January 1, 1976, nor to diminish the accrued benefits as of December 31, 1975, for those employees participating in the Prior Plan on such date.

This Agreement, made and entered into by and between Blue Chip Stamps, a California corporation, and Union Bank, a California corporation, sets forth the terms of a pension plan and trust for qualified employees of Blue Chip Stamps.

ARTICLE I

DEFINITIONS

As used herein the masculine gender shall include the feminine and the singular shall include the plural. The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

Section 1.01 - Plan

"Plan" shall mean the Plan described herein and designated as Blue Chip Stamps Employees' Pension Plan and Trust Agreement, as presently constituted or as it may, from time to time hereafter, be amended.

Section 1.02 - Effective Date

"Effective Date" of this Plan shall mean January 1, 1965.

Section 1.03 - Anniversary Date

"Anniversary Date" of this Plan shall mean the annual anniversaries of the Effective Date and for purposes of the Plan shall include the Effective Date.

Section 1.04 - Plan Year

"Plan Year" shall mean any calendar year during the existence of the Plan. The first Plan Year shall commence with the Effective Date.

Section 1.05 - Company

"Company" shall mean Blue Chip Stamps and such of its present or future wholly owned subsidiaries or affiliated corporations as may, by resolutions of their respective Boards of Directors, approved by the Board of Directors of Blue Chip Stamps, at their own expense elect to adopt this Plan for the benefit of their respective employees, and any successor corporation of Blue Chip Stamps or of any such subsidiary or affiliated corporation resulting from merger, consolidation or transfer of assets substantially as a whole, which successor shall expressly agree in writing to continue the Plan.

Section 1.06 - Committee

"Committee" shall mean the Pension Plan Committee provided for in Article II hereof.

Section 1.07 - Plan Administrator

"Plan Administrator" shall mean the person or persons designated by the Committee, whose responsibility it shall be to file with the Secretary of Labor the reports, descriptions, and summaries required by the Employee Retirement Income Security Act of 1974 (Public Law 93-406), and who shall be responsible for determining the Premiums payable to the Pension Benefit Guaranty Corporation.

Section 1.08 - Trust

"Trust" shall mean the Trust created by this agreement for the benefit of the Participants.

Section 1.09 - Trust Fund

"Trust Fund" shall mean the assets of the Trust established pursuant to this agreement.

Section 1.10 - Trustee

"Trustee" shall mean the original Trustee of the Trust Fund and any successor Trustee. Any company into which the Trustee may be merged or with which it may be consolidated, or any company resulting from any merger or consolidation to which the Trustee may be a party, or any company succeeding to the business of the Trustee, shall be the successor Trustee hereunder without the execution of any papers or further action on the part of the parties hereto.

Section 1.11 - Enrolled Actuary

"Enrolled Actuary" shall mean a person designated by the Joint Board established by the Secretary of Labor and the Secretary of the Treasury as a person qualified to perform actuarial services and certifications as set forth in Subtitle C, Title III of Public Law 93-406.

Section 1.12 - Investment Manager

"Investment Manager", shall mean the original investment advisor of the Trust Fund or any successor investment advisor. The Executive Committee of the Board of Directors of the Company ("Executive Committee") shall appoint such Investment Manager, who shall be an investment advisor registered under the Investment Advisors Act of 1940 or a bank or insurance company as defined in such Act, and the Investment Manager shall acknowledge in writing that he is a Plan fiduciary. The Investment Manager shall be responsible for managing, investing and disposing of the assets of the Trust Fund.

Section 1.13 - Named Fiduciary and Fiduciary

"Named Fiduciary" shall have the following meanings:

- (1) The Executive Committee shall be the "Named Fiduciary" whose responsibilities shall include the appointment of the Committee, the establishment of the broad investment goals and objectives of the Trust Fund, the selection of the Trustee and the appointment of the Investment Manager.
- (2) The Committee shall be the "Named Fiduciary" designated to manage and administer the Plan, and to monitor, review and report at annual intervals to the Executive Committee, or at such other times as the Executive Committee in its discretion shall direct, on the effectiveness of the Investment Manager in achieving objectives set forth by the Executive Committee.

"Fiduciary" shall have the following meanings:

- (3) The Trustee shall be the "Fiduciary" designated to act as custodian of any funds contributed by the Company and any earnings on such funds, in accordance with the terms of this agreement. Unless appointed by the Executive Committee to be the Investment Manager, the Trustee shall have no responsibilities in respect of the investment or management of the assets of the Trust Fund.
- (4) The Investment Manager shall be the "Fiduciary" designated to manage and invest the Trust Fund assets.

Section 1.14 - Employee

"Employee" shall mean any person in the employment of the Company provided that "Employee" shall not include:

- (1) Any person employed by the Company who is covered under any other deferred private pension, profit-sharing or other retirement plan to which the Company contributes, or
- (2) Any person whose conditions of employment are subject to collective bargaining and whose collective bargaining agent has not expressly agreed in writing to the inclusion of said person in the Plan.
- (3) Any person hired for the first time on or after January 1, 1976 after having attained the age of sixty (60).

Section 1.15 - Vesting Service

"Vesting Service" shall mean an Employee's period of service with the Company commencing with his most recent hire date or subsequent to his attainment of age twenty-two (22), if later, and shall be deemed to include the following:

- (1) Any period of Continuous Service prior to January 1, 1976, as such is defined in the Prior Plan;
- (2) any calendar year beginning on or after January 1, 1976 during which an Employee shall have been paid directly or indirectly (as set forth hereinafter in this Section) for at least one thousand (1,000) hours by the Company and which shall constitute one (1) full year of Vesting Service; provided that, for purposes of establishing an Employee's Eligibility Date such period may mean the twelve (12) month period beginning on his employment date;
- (3) any period of time during which an Employee is absent from such service for active service in the Armed Forces of the United States in time of war or national emergency, or in compulsory service required under the laws of the United States of America or in voluntary service during a period when laws of the United States of America requiring compulsory service are in effect whether during time of war or otherwise, provided that such Employee returns to employment with the Company within ninety (90) days or such longer period as may be set by the laws of the United States of America following the date when he is first eligible for discharge or severance from active service in the Armed Forces of the United States;

- (4) leave of absence with or without pay granted by the Company in writing for any purpose, provided that such leave of absence is followed by a return to work before or at the expiration of such leave of absence or any extension thereof;
- (5) any period during which an employee is an Inactive Participant as set forth in Section 1.21, provided that his seniority is not broken;
- (6) any period during which an Employee shall be disabled in accordance with the provisions of Section 5.07; and,
- (7) any other absence from employment not covered by the foregoing provisions of this Section which shall be determined by the Committee not to be a break in Vesting Service.

In determining an Employee's Vesting Service the Committee shall treat all Employees in similar circumstances alike and in no event shall a determination be made which shall discriminate in favor of or against any Employee.

An unauthorized absence shall be considered a termination of employment seven (7) calendar days after the commencement of such absence.

For the purposes of the foregoing sub-paragraphs (3) through (7) Vesting Service shall be credited at the rate of forty (40) hours per week during such period or such other regular working schedule as shall apply to the Employee on the date such period commences.

Subject to the foregoing considerations, an Employee's Vesting Service shall be deemed to be broken if he is paid directly or indirectly for fewer than five hundred (500) hours during any calendar year (Plan Year). In the event that a break in an Employee's Vesting Service occurs, his service with the Company shall be deemed terminated for Plan purposes on January 1 of the year in which the break occurred. If such an employee again becomes an Employee as defined in Section 1.14, he may be considered as a new Employee or as a reinstated Participant in accordance with the terms of Section 3.06 hereof.

Section 1.16 - Eligibility Date

"Eligibility Date" shall have the following meanings:

- (1) As respects a Participant in the Prior Plan on January 1, 1976, "Eligibility Date" shall mean the January 1, or, if earlier, the July 1 coinciding with or, otherwise, next following the date the Employee completed one (1) full year of Continuous Service, as defined under the Prior Plan, and had attained age twenty-five (25).

- (2) As respects an Employee becoming a Participant in the Plan after January 1, 1976, Eligibility Date shall mean the Anniversary Date, or, if earlier, the July 1 coinciding with or otherwise, next following the date the Employee completes one (1) year of Vesting Service, as defined herein; provided that the Employee shall then have attained at least age twenty-five (25).

Section 1.17 - Participant

"Participant" shall mean an Employee who has attained his Eligibility Date and who thereupon participates and continues to participate in the Plan.

Section 1.18 - Earnings

"Earnings" shall mean the amounts paid by the Company to an Employee as basic salary and/or wages, but does not include any overtime, commission, bonuses, shift differentials, expense allowances, severance pay, incentive payments or any other form of contingent compensation, or any compensation paid to an employee whose participation has been terminated by reason of his becoming an Inactive Participant.

Section 1.19 - Average Monthly Earnings

"Average Monthly Earnings" during a Participant's Benefit Service shall mean one twelfth (1/12th) of the average of the Annualized Earnings received by a Participant during his years of participation after December 31, 1964. Annualized Earnings for each Plan Year in such period shall mean the Participant's Earnings during the Plan Year divided by his Benefit Service earned in such Plan Year. Average Monthly Earnings as of a particular date shall be obtained by summing the Participant's Annualized Earnings after December 31, 1964 and by dividing by the number of months included in the period of his participation after December 31, 1964 to such date. Any partial month for which pay shall be received in the year of retirement or termination shall be excluded in determining Average Monthly Earnings. "Month" in such case shall mean the fiscal month used by the Company for payroll purposes.

Section 1.20 - Premiums

"Premiums" shall mean the amounts paid by the Company to the Pension Benefit Guaranty Corporation, established under Public Law 93-406, such Premiums being applied to establish funds for the purpose of guaranteeing the payment of certain basic and non-basic benefits accrued under plans which are not multi-employer plans.

Section 1.21 - Inactive Participant

"Inactive Participant" shall mean a former Participant whose conditions of employment have been changed, without an intervening break in his Vesting Service, such that he is no longer an Employee, as described in Section 1.14(1).

Section 1.22 - Benefit Service

"Benefit Service" shall mean the sum of a Participant's Prior Benefit Service and his Future Benefit Service. Benefit Service is the period of service used in determining the amount of the Participant's Plan benefits.

Section 1.23 - Prior Benefit Service

"Prior Benefit Service" shall mean a Participant's Continuous Service, as defined in the Prior Plan, measured from his Eligibility Date through December 31, 1975.

Section 1.24 - Future Benefit Service

"Future Benefit Service" shall mean the Benefit Service a Participant accrues after December 31, 1975. A year of Future Benefit Service shall be granted for each calendar year in which a Participant shall be paid directly or indirectly for two-thousand (2,000) or more hours. For any other year of service a Participant shall be credited with a fractional year of Benefit Service equal to the ratio (carried to four (4) places after the decimal) of his directly or indirectly paid hours during such calendar year to two-thousand (2,000) hours; provided that, except in the calendar years in which his participation begins or he becomes a reinstated Participant and the calendar year in which his Retirement Date shall occur, no Benefit Service shall accrue for any calendar year during which an Employee shall be directly or indirectly paid for fewer than one-thousand (1,000) hours. In the event that a Participant shall be granted a back-pay award, the hours related to such award shall be credited to the period to which the award applies rather than to the period during which the back-pay shall have been received.

Section 1.25 - Retirement Date

"Retirement Date" shall mean either a Participant's Early, Normal or Late Retirement Date, whichever the context shall indicate as being applicable.

Section 1.26 - Normal Retirement Date

A Participant's "Normal Retirement Date" shall mean the first day of the month coinciding with or, otherwise, next following his sixty-fifth (65th) birthday.

Section 1.27 - Early Retirement Date

A Participant's "Early Retirement Date" shall mean the first day of the month as of which the Participant shall elect, with the consent of the Chief Executive Officer of the Company (or if he is the Participant, with the consent of the Board of Directors of the Company) to retire following his termination of employment with the Company, provided that such Early Retirement Date shall occur on or after the Effective Date hereof and, provided further, that the Participant shall have:

- (1) attained his fifty-fifth (55th) birthday, but not his Normal Retirement Date,
- (2) completed at least ten (10) years of Vesting Service, and
- (3) filed his application for retirement with the Committee at least thirty (30) days in advance of the commencement of his retirement benefit payments on his Early Retirement Date.

Section 1.28 - Late Retirement Date

A Participant's "Late Retirement Date" shall mean the first day of the month as of which the Participant shall elect to terminate his employment with the Company and retire, provided that;

- (1) such Late Retirement Date shall occur subsequent to the Participant's Normal Retirement Date, and
- (2) the Participant shall have filed his application for retirement with the Committee at least thirty (30) days in advance of his Late Retirement Date.

The election by a Participant to defer his retirement beyond his Normal Retirement Date shall be subject in every case to the continuing approval of the Chief Executive Officer of the Company (or if he is the Participant, with the consent of the Board of Directors of the Company). Such approval may be withdrawn with respect to the further deferment of a Participant's retirement at any time. In such event the foregoing filing requirement shall not be applicable and the Participant shall be retired as of a date determined by the Committee.

Section 1.29 - Total and Permanent Disability

"Total and Permanent Disability" shall mean a physical or mental condition, as determined in accordance with Section 5.07, which it is presumed will permanently prevent a Participant from engaging in any regular employment with the Company.

Section 1.30 - Disability Date

"Disability Date" shall mean the first day of the month which coincides with or, otherwise, which next follows the date when a Participant shall become totally and permanently disabled.

Section 1.31 - Vested Right

"Vested Right" shall mean the right that a former Participant has to a Vested Deferred Retirement Benefit commencing on his Normal Retirement Date when his Vesting Service is broken prior to his Normal Retirement Date.

Such Vested Deferred Retirement Benefit, described in Section 5.08 hereof, shall be payable only:

- (1) if the former Participant had accrued at least ten (10) years of Vesting Service at the date his employment with the Company terminated, and
- (2) if he does not become a reinstated Participant as set forth in Section 3.06 hereof, and
- (3) if he survives to his Normal Retirement Date and thereafter makes proper application for such benefit, as set forth in Section 5.08.

Section 1.32 - Contingent Annuitant

"Contingent Annuitant" shall mean the person designated by a Participant to receive benefits under a Contingent Annuitant Option, in accordance with the terms of Section 5.10, following the Participant's death on or after his Early or Normal Retirement Date.

Section 1.33 - Beneficiary

"Beneficiary" shall mean a person or persons designated by a Participant in accordance with the provision of Section 5.10 to receive any death benefit which shall be payable under this Plan.

Section 1.34 - Monthly Primary Social Security Benefit

"Monthly Primary Social Benefit" shall mean the monthly primary benefit, if any, actually payable to a Participant under the Social Security law in effect on his Retirement Date and shall include any such benefit which would have been payable had he not failed to make application therefor, or which would have been payable had his earnings not then or thereafter made him ineligible for such benefits.

Section 1.35 - Estimated Monthly Primary Social Security Benefit

"Estimated Monthly Primary Social Security Benefit" shall mean the monthly primary old-age benefit assumed payable to a Participant upon his

Normal Retirement Date when his service with the Company terminates prior to age sixty-five (65) under conditions such that he has a Vested Right, is eligible for Early Retirement or his spouse shall be eligible for a Survivor's Benefit, assuming the following conditions shall apply in computing such estimate:

- (1) The estimate shall be based upon the Social Security law in effect on the date his service with the Company shall terminate; and
- (2) His monthly Earnings on such date shall be assumed to continue in effect until the calendar year next preceding the year in which he shall attain the age of sixty-five (65); and
- (3) His monthly Earnings on such date shall be assumed to have been in effect from calendar year 1951 (or the calendar year next following his attainment of age twenty-one (21), if later) to such date for the purpose of determining his Social Security average monthly wage, giving full effect to Social Security Wage Bases which existed prior to such termination date.

The Participant's average monthly wage for Social Security purposes and his "Estimated Monthly Primary Social Security Benefit" shall be determined as though the Participant shall work to age sixty-five (65), based upon the foregoing conditions (1), (2) and (3).

Section 1.36 - Actuarial Equivalent

"Actuarial Equivalent" shall mean a form of benefit payment which is equal in value to some other form of benefit payment, based upon mortality and interest rate assumptions adopted from time to time by the Committee.

Section 1.37 - Prior Plan Accrued Monthly Benefit

"Prior Plan Accrued Monthly Benefit" shall mean a Participant's monthly benefit payable at Normal Retirement Date which was accrued under the Prior Plan for a Participant's Continuous Service from his Eligibility Date through December 31, 1975. Such benefits are listed for each

Participant in the Prior Plan on December 31, 1975 in Exhibit A attached hereto. Exhibit A, while a part hereof, shall not be distributed in full to the Plan Participants. However, each Participant shall be informed as to his own such benefits.

ARTICLE II

PENSION PLAN COMMITTEE

Section 2.01 - Appointment of Committee

The Committee shall consist of three (3) or more members appointed by the Executive Committee of the Company. The Committee shall include officers of the Company, at least one of which shall be a Vice President. Such members shall hold office until resignation, death or removal by said Executive Committee.

Section 2.02 - Resignation and Removal of Members

Any member of the Committee may resign at any time by giving written notice to the other members and to the Secretary of the Company, effective as therein stated. Any member who is an employee of the Company and who leaves the employ of the Company shall be deemed to have resigned as a member on the date of his termination of employment; provided that, with the employee's consent, the Executive Committee of the Company may direct that such employee shall be retained as a member of the Committee.

Any member of the Committee may, at any time, be removed by the Executive Committee of the Company.

Section 2.03 - Appointment of Successors

Upon the death, resignation, or removal of any member, the Executive Committee of the Company may, at its next regular meeting, or at a special meeting if so desired, appoint, by resolution, a successor. Notice of appointment of a successor member shall be given by the Secretary of the Company in writing to the Trustee and to the Committee. Until receipt by the Trustee of such written notice of any change in membership of the Committee, the Trustee shall not be charged with knowledge or notice of such change.

Section 2.04 - Administrative Powers

The Committee shall have full power to administer the Plan and to construe and apply all of its provisions. Any action taken in good faith by the Committee in the exercise of authority conferred upon it by this Plan shall be conclusive and binding upon all Participants, Beneficiaries and Contingent Annuitants. All discretionary powers conferred upon the Committee shall be absolute, provided, however, that no discretionary power shall be exercised in such manner as to cause or create discrimination in favor of Employees who are officers or shareholders of the Company or persons whose principal duties consist in supervising the work of other employees, or are highly compensated employees, or to discriminate in favor of any other employees. In amplification of its powers and duties, but not by way of limitation, it shall:

- (1) Decide all questions relating to the eligibility of Employees to become Participants, the continuity of service of any Employee or Participant, and the amount of benefits to which any Participant may be entitled by reason of his Benefit Service prior to or after the Effective Date hereof.
- (2) Be responsible for the compilation and maintenance of all records it determines to be necessary, appropriate or convenient in connection with the Plan.
- (3) Authorize the payment of all benefits as they become payable under the Plan, which payments, except to the extent that they

- may be made pursuant to Section 2.04(4), shall be made by the Trustee upon written instructions from the Committee and to prescribe procedures for affording any person eligible for benefits hereunder with a hearing in the event such person shall be dissatisfied with the Committee's determination of his rights under the Plan.
- (4) The Committee may also direct the Trustee to negotiate with a legal reserve life insurance company for a group annuity deposit administration contract or an immediate participation guaranteed contract, and to deposit with said life insurance company, from time to time, out of the funds of the Trust, such amounts as the Committee shall direct, and to cause benefits provided by the Plan to be paid by said life insurance company, pursuant to the terms of any such contract, which shall not be inconsistent with the Plan.
 - (5) Receive from the Company and Employees such information as shall be necessary for the proper administration of the Plan.
 - (6) Prepare and distribute, in such manner as the Committee or Plan Administrator determine to be appropriate, information explaining the Plan.
 - (7) Furnish the Company or the Executive Committee such annual reports with respect to the administration of the Plan as are reasonable and appropriate.
 - (8) Receive and review the annual valuation of the Plan made by an Enrolled Actuary.
 - (9) Delegate to one or more of the members of the Committee or the Plan Administrator the right to act in its behalf in all matters connected with the administration of the Plan and Trust.
 - (10) Engage such legal, actuarial, accounting and other professional services as it may deem proper and as may be required by existing law.
 - (11) Perform or cause to be performed such further acts as it may deem to be necessary, appropriate or convenient in the efficient administration of the Plan.
 - (12) Receive and review reports of the financial condition and of the receipts and disbursements of the Trust Fund from the Trustee and such reports as the Committee shall deem necessary from the Investment Manager.

Section 2.05 - Organization of Committee; Appointment of Agents, etc.

The Committee may establish such rules as it deems desirable for the conduct of its affairs, and may appoint such agents, who need not be members of the Committee, as it may deem necessary for the effective performance of its duties, and may delegate to such agents such powers and duties as the Committee may deem necessary or appropriate, excepting only that any dispute shall be determined by the Committee.

A majority of the members of the Committee as constituted at any time shall constitute a quorum, and any action by a majority of the members present at any meeting, or authorized by a majority of the members in writing without a meeting, shall constitute the action of the Committee. A member of the Committee who is also a Participant hereunder shall not vote on any question involving his own interest under the Plan, as distinguished from interests of others similarly situated. The Committee may authorize each or any one or more of its members to execute any document or documents on behalf of the Committee, in which event it shall notify the Trustee in writing of such action and the name or names of its members so designated, and the Trustee shall thereafter accept and rely upon any document executed by such member or members as representing action by the Committee until the Committee shall file with the Trustee a written revocation of such designation.

Section 2.06 - Compensation and Expenses of Committee

Any compensation paid to the members of the Committee shall be paid by the Company and the Company shall reimburse them for any necessary expenditures incurred in the discharge of their duties as such members. The compensation or fees, as the case may be, of all officers, agents, counsel, the Trustee, or other persons retained or employed by the Committee shall be fixed by the Committee and any such fees shall be paid by the Company unless the Committee shall otherwise determine that such payments shall be paid by the Trustee from the Trust Fund. Premiums payable to the Pension Benefit Guaranty Corporation, as set forth in Section 1.20, shall be paid by the Company.

Section 2.07 - Records

The Committee shall keep a record of all of its proceedings and shall keep, or cause to be kept, all such books, accounts, records or other data and prepare such statements and reports in accordance with the requirements of the Public Law 93-406 and any rulings or regulations issued pursuant thereof, or advisable in its judgment for the administration of the Plan and properly to reflect the affairs thereof.

Any person dealing with the Committee may rely on and shall be fully protected in relying on a certificate or memorandum in writing signed by any Committee member so authorized, or by the majority of the members of the Committee, as constituted as of the date of such certificate or memorandum, as evidence of any action taken or resolution adopted by the Committee.

ARTICLE III

PARTICIPATION IN THE PLAN

Section 3.01 - How Eligibility Determined

All eligible Employees are entitled to become Participants under this Plan. All questions of eligibility shall be determined by the Committee, without discrimination in favor of or against any individual or class of Employees, and its decision shall be binding upon all Employees and other persons interested in or affected by the terms of the Plan and Trust.

Section 3.02 - Effect of Absence

Any Employee becoming eligible to become a Participant during a period of absence which, under the terms of Section 1.15 hereof, is determined not to have resulted in a break in his Vesting Service, shall become eligible to participate on the Anniversary Date, or July 1 if earlier, next following his return to work.

Section 3.03 - Certification by Company

At least fifteen (15) days prior to each Anniversary Date and each July 1 the Company shall transmit to the Committee a certified list of all Employees of the Company whose Eligibility Dates, as defined in Section 1.16, shall occur on such Anniversary Date or July 1. Such certified list shall be in such form and contain such information as the Committee may desire, and, except in the case of an immediately obvious mistake, such certified list shall not be questioned by the Committee.

Section 3.04 - Notification to Employees

Every Employee entitled to participate in the Plan under the provisions hereof shall be so informed by the Committee as soon as practicable.

Section 3.05 - Inactive Participants

If a Participant shall become an Inactive Participant as provided in Section 1.21 hereof, he shall be entitled to receive, following his retirement as an Inactive Participant on or after his Retirement Date, the monthly retirement benefits attributable to his Benefit Service prior to the date when he became an Inactive Participant; provided that, on the date his service shall have been broken, he shall have completed at least ten (10) years of Vesting Service.

If an Inactive Participant's conditions of employment are changed such that he becomes an Employee as defined in Section 1.14, he shall again become a Participant on the July 1 or January 1, whichever first occurs, coinciding with, or otherwise next following the date that he again becomes an Employee. Any monthly retirement benefit which may accrue for his Benefit Service thereafter shall be in addition to the monthly retirement benefit attributable to his Benefit Service prior to the date when he became an Inactive Participant.

Section 3.06 - Cancellation and Reinstatement of Vesting Service and Benefit Service

If a former Participant who has suffered a break or breaks in Vesting Service, in accordance with the terms of the last paragraph of Section 1.15, shall be reemployed as an Employee and if such Employee had not acquired a Vested Right, as set forth in Section 1.31 hereof, prior to his last break in Vesting Service, then the following shall apply:

- (1) if his number of consecutive years of break in Vesting Service is equal to or greater than his years of Vesting Service, then all of his prior years of Vesting Service and Benefit Service shall no longer be credited to him, or
- (2) if his number of consecutive years of break in Vesting Service is less than his years of Vesting Service and he shall again have satisfied the conditions of Section 1.16 (2) hereof, then his prior years of Vesting Service and Benefit Service shall be credited to him and he shall be treated as a reinstated Participant for purposes of the Plan.

If a former Participant with a Vested Right, as defined in Section 1.31 shall be subsequently reemployed under conditions such that he shall have satisfied the requirements of Section 1.16 (2) then his Vesting Service and Benefit Service earned prior to the break in his Vesting Service shall be added to his Vesting Service and Benefit Service earned subsequent to such break for the purposes of determining his benefits under the Plan.

Section 3.07 - Persons Transferring Initially to "Employee"
Status After the Effective Date

If an employee of the Company becomes an Employee, as defined in Section 1.14, after the Effective Date without an intervening break in his seniority and his conditions of employment have theretofore been such that he has not qualified for such status, his Vesting Service shall be deemed to include his unbroken seniority as an employee and he shall be eligible to become a Participant on January 1 or July 1, whichever first occurs, coinciding with or, otherwise, next following the date he shall become an Employee; provided that, he shall then have complied with the requirements of Section 1.16 and he shall not then have reached his Normal Retirement Date.

ARTICLE IV

CONTRIBUTIONS TO THE TRUST

Section 4.01 - Company Contributions

As of January 1 of each year during which the Plan is in operation, the Committee shall have actuarial computations by an Enrolled Actuary to determine the sum to be deposited into the Trust by the Company to carry out the purposes of the Plan, and such contributions shall be made at such time or times as the Company shall determine, subject, however, to the funding requirements set forth in the Public Law 93-406 and any rulings or regulations issued pursuant thereto. Contributions shall be transmitted to the Trustee by the Company. Subject to the terms of Section 8.08 hereof, all contributions made by the Company to the Trust shall be used to pay benefits under the Plan or to pay expenses of the Plan and Trust and shall be irrevocable, except for any residual amounts after satisfying all liabilities of the Plan. Forfeitures arising because of severance of employment before an Employee acquires a Vested Right or for any other reason, shall be applied to reduce the costs of the Plan and not to increase the benefits otherwise payable to the Employees.

Section 4.02 - Employee Contributions

Employees are neither required nor permitted to make contributions under the Plan.

ARTICLE V

BENEFITS

Section 5.01 - Procedure at Retirement

After receipt of a Participant's application for monthly retirement benefit payments hereunder and one (1) month prior to the date such payments are to commence, or as soon thereafter as possible, the Committee shall in writing instruct the Trustee or, if applicable, the life insurance company under whose contract his monthly retirement benefits shall be payable, as to the benefits to which such Participant is entitled under the Plan and the Trustee or insurance company shall take the necessary steps to provide such Participant with said benefits.

Section 5.02 - Standard Form of Benefit

In lieu of the normal form of benefit set forth in Sections 5.04, 5.05, 5.06 and 5.07, unless declined in writing in advance of his Retirement Date or Normal Retirement Date in the case of Total and Permanent Disability, the Standard Form of Benefit may be payable to the Participant or his spouse. Such Standard Form of Benefit shall be the Contingent Annuitant Option described in Section 5.10 (1) (c) hereof, and shall be the Actuarial Equivalent of the normal form of benefit adjusted as set forth in Section 5.02 (3) hereof. In the absence of such formal declination in writing, eligibility for and the amount of such benefit shall be subject to the following terms and conditions:

- (1) The Standard Form of Benefit shall not be available prior to the later of:
 - (a) the date as of which the Participant would first qualify for an Early Monthly Retirement Benefit, or
 - (b) the date ten (10) completed years in advance of the Participant's Normal Retirement Date.
- (2) For his spouse to be entitled to benefits hereunder:
 - (a) the Participant and his spouse must have been legally married for a period of at least twelve (12) months immediately preceding the date of the Participant's death, and

(b) in the event the Participant shall have retired, the Participant and his spouse must have been legally married prior to the Participant's Retirement Date.

(3) The foregoing Actuarial Equivalent of the normal form shall be further reduced by one half of one percent (0.5%) for every consecutive twelve (12) month period (with further pro rata reductions for fractions of such periods) between

(a) the first day of the month coinciding with or next following the date the Participant first elects or reelects such Standard Form of Benefit (but not before his earliest Early Retirement Date), and

(b) the date such benefit is payable to his spouse (but not later than his Normal Retirement Date).

If a married Participant, who has not declined the Standard Form of Benefit, shall retire before having been married at least twelve (12) months, the normal form of benefit shall be paid to him while living until the first day of the month coinciding with or next following the completion of such period and thereafter if his spouse is not then living. If both the Participant and his spouse at retirement are living at the end of such period, the Standard Form of Benefit thereafter shall be payable.

Within one hundred and eighty (180) days (or such other period as the law shall require) of each Anniversary Date after the Participant has satisfied the Early Retirement Date conditions, the Committee shall give the Participant a written statement showing his approximate Early Monthly Retirement Benefit accrued at the beginning of such Plan Year and the equivalent Standard Form of Benefit. The Participant shall then have the opportunity to decline the Standard Form of Benefit by filing such an election with the Committee within ninety (90) days (or such other period as the law shall require) of the receipt of the foregoing statement from the Committee. Such election by the Participant shall be provided on a form furnished by the Committee. If a written declination is not received by the Committee within such period it shall be assumed that the Participant elected the Standard Form of Benefit.

Section 5.03 - Maximum Normal Form of Benefit

In no event shall the annual normal form of benefit payable under the terms of Sections 5.04, 5.05, 5.06, 5.07 or 5.08 exceed the lesser of

- (1) 100% of the Participant's average annual earnings over the three (3) consecutive calendar years of highest pay while an active Participant in the Plan, or

(2) Thirty-five thousand dollars (\$35,000);

reduced proportionately for years of Benefit Service less than ten (10). In no event, however, shall the foregoing limitation in sub-section (1) apply to reduce such annual normal forms of benefit below ten thousand dollars (\$10,000) if the Participant has 10 or more years of Benefit Service. Such ten thousand dollars (\$10,000) shall be proportionately reduced for years of Benefit Service less than ten (10).

It shall be understood that the Maximum Normal Form of Benefit payable under this Plan shall be reduced to the extent required under Public Law 95-406 in the event that the Participant shall be covered under one or more other tax qualified defined benefit or defined contribution plans sponsored by the Company.

Section 5.04 - Normal Monthly Retirement Benefit

A Participant's Normal Monthly Retirement Benefit, commencing with the payment due on his Normal Retirement Date and terminating with the payment due on the first day of the month in which his death shall occur, shall be equal to the greater of;

(1) (a) the product obtained by multiplying one and three-quarters percent (1-3/4%) of the Participant's Average Monthly Earnings by his Benefit Service, less

(b) the product obtained by multiplying one and one-half percent (1-1/2%) of the Participant's Monthly Primary Social Security Benefit payable to the Participant on his Retirement Date, multiplied by his period of Vesting Service; provided that, such product shall not exceed fifty percent (50%) of such Monthly Primary Social Security Benefit, or

(2) Seven dollars (\$7.00) times the Participant's Benefit Service, or

(3) The Participant's Prior Plan Accrued Monthly Benefit, if any.

The Normal Monthly Retirement Benefit as computed above shall not be affected by any post-retirement Social Security benefit changes.

Section 5.05 - Early Monthly Retirement Benefit

A Participant's Early Monthly Retirement Benefit, commencing with the payment due on his Early Retirement Date and terminating with the payment due on the first day of the month in which his death shall occur shall be computed as follows:

(1) As to a Participant retiring on or after his sixty-second (62nd) birthday but prior to his attainment of age sixty-five (65), such Participant shall be entitled to an Early Monthly Retirement Benefit equal to the greater of;

(a) (i) the product obtained by multiplying one and three-quarters percent (1-3/4%) of the Participant's Average Monthly Earnings by his Benefit Service, reduced by the factor determined by straight-line interpolation in the following Table based upon the Participant's age in terms of years and completed months;

<u>Age at Retirement Date</u>	<u>Factor</u>
65	1.000
64	.933
63	.867
62	.800

(ii) less the product obtained by multiplying one and one-half percent (1-1/2%) of the Participant's Monthly Primary Social Security Benefit payable to the Participant on his Retirement Date multiplied by his period of Vesting Service, provided that, such product shall not exceed fifty percent (50%) of such Monthly Primary Social Security Benefit.

or

(b) the greater of;

(i) seven dollars (\$7.00) times the Participant's Benefit Service, or

(ii) the Participant's Prior Plan Accrued Monthly Benefit, if any,

after application of the proper factor determined in accordance with the table set forth in Section 5.05 (1)(a)(i) hereof.

(2) As to a Participant retiring prior to his sixty-second (62nd) birthday but on or after his attainment of age fifty-five (55), such Participant shall be entitled to an Early Monthly Retirement Benefit equal to the greater of;

- (a) (i) the product obtained by multiplying one and three-quarters percent (1-3/4%) of the Participant's Average Monthly Earnings by his Benefit Service, less
- (ii) the product obtained by multiplying one and one-half percent (1-1/2%) of the Participant's Estimated Monthly Primary Social Security Benefit by his period of Vesting Service, provided that such product shall not exceed fifty percent (50%) of such Estimated Monthly Primary Social Security Benefit;

reduced by the factor determined by straight-line interpolation in the following Table based upon his age in years and completed months:

Age at Retirement Date	Factor	Age at Retirement Date	Factor
62	.800	58	.600
61	.733	57	.567
60	.667	56	.533
59	.633	55	.500

or

- (b) the greater of;
- (i) seven dollars (\$7.00) times the Participant's Benefit Service, or
- (ii) the Participant's Prior Plan Accrued Monthly Benefit, if any,
- after application of the proper factor determined in accordance with the table set forth in Section 5.05(2)(a)(ii) hereof.

Section 5.06 - Late Monthly Retirement Benefit

If a Participant remains in service beyond his Normal Retirement Date, monthly benefit payments shall be deferred until he actually retires on a Late Retirement Date, at which time the Participant shall be entitled to a Late Monthly Retirement Benefit computed in the same manner as set forth in Section 5.04 hereof, based upon the Participant's Benefit Service and his Vesting Service to Late Retirement Date.

Section 5.07 - Disability Monthly Retirement Benefit

In the event that a Participant's service is terminated by reason of his reaching his Disability Date after having completed ten (10) years of Vesting Service and after having satisfied the applicable requirements described in this Section 5.07, the Participant shall be entitled to a Disability Monthly

Retirement Benefit commencing on the first day of the month coinciding with, or next following his attainment of age sixty-five (65); provided that he is then totally and permanently disabled. Such Participant's Disability Monthly Retirement Benefit shall be equal to the greater of;

- (1) (a) The product obtained by multiplying one and three-quarters percent (1-3/4%) of the Participant's Average Monthly Earnings by his Benefit Service, less
- (b) the product obtained by multiplying one and one-half percent (1-1/2%) of the Participant's monthly disability benefit payable to him, excluding any such payments payable in respect of dependents, under the Social Security law in effect on his Disability Date (or which would otherwise have been payable had he made application therefor) by his period of Vesting Service at Normal Retirement Date; provided that, such product shall not exceed fifty percent (50%) of such Social Security benefit

or

- (2) Seven dollars (\$7.00) times the Participant's Benefit Service, or
- (3) The Participant's Prior Plan Accrued Monthly Benefit, if any.

For the purposes of this Section 5.07 only it shall be assumed that the Participant shall continue to accrue one (1) year of Vesting Service and one (1) year of Benefit Service for each calendar year during his period of continuing Total and Permanent Disability and it shall further be assumed that the Participant's monthly pay rate in effect immediately prior to his becoming totally and permanently disabled shall continue in effect until he attains age sixty-five (65) or until his earlier recovery or death and such pay rate shall be assumed to be the Participant's Average Monthly Earnings.

In the event of the Participant's recovery from Total and Permanent Disability before age sixty-five (65), if the Participant returns to work with the Company within 30 days of such recovery without any intervening period of employment elsewhere and if the Participant thereafter does not voluntarily terminate his employment with the Company for a period of at least six (6) months, then upon his subsequent retirement or other termination of service his Vesting Service and Benefit Service earned while totally and permanently disabled shall be included with other Vesting and Benefit Service earned for the purposes of Sections 5.04, 5.05, 5.06, 5.07 and 5.08 hereunder.

The payment of such Disability Monthly Retirement Benefit shall be subject further to the following conditions, exceptions and limitations:

- (4) If a Participant makes application for disability benefits under the Social Security Act, as now in effect or as hereafter amended, and qualifies for such benefits, he shall be presumed to qualify for a Disability Monthly Retirement Benefit hereunder if such disablement continues to age sixty-five (65).

If a Participant fails to qualify for disability benefits under the Social Security Act he shall be presumed to be ineligible for a Disability Monthly Retirement Benefit hereunder.

For purposes of this Plan a Participant shall be considered totally and permanently disabled only if he incurs a medically determinable physical or mental impairment, including blindness, and which it is presumed will permanently prevent the Participant from engaging in any regular employment with the Company.

- (5) A Participant's Disability Monthly Retirement Benefit computed in accordance with this Section 5.07 and commencing at age sixty-five (65) shall be reduced by any Workmen's Compensation payments received after age sixty-five (65).
- (6) If the Participant refuses to undergo a medical examination ordered by the Committee, provided that the Participant may not be required to undergo a medical examination more often than every twelve (12) months, his Vesting Service and Benefit Service shall cease to accrue 30 days after his receipt of notice from the Committee ordering the medical examination and the Participant shall be considered to have voluntarily terminated his service with the Company as of the date of such cessation, and benefits shall be payable only in accordance with the provisions of Section 5.08 hereof.

The foregoing provisions of this Section 5.07 notwithstanding, if the Committee has reason to question the findings of the Social Security Board as to the nature of the disability, or if the Committee has reason to question whether a condition of Total and Permanent Disability continues to exist, or if the Participant fails to make application for disability benefits under the Social Security Act, the Committee may require that the Participant submit to an examination by a competent physician or a medical clinic selected by the Committee. On the basis of such medical evidence, the determination of the Committee as to whether or not a condition of Total and Permanent Disability exists, shall be conclusive.

Section 5.08 - Vested Deferred Monthly Retirement Benefit

In the event that a Participant's Vesting Service shall be broken in accordance with the provisions of Section 1.31 hereof, the Participant shall be entitled to a Vested Deferred Monthly Retirement Benefit commencing on the date which otherwise would have been his Normal Retirement Date or, if later, the first day of the month next following the date that he shall make proper application for such benefits.

Such Vested Deferred Monthly Retirement Benefit to commence at Normal Retirement Date shall be equal to the greater of:

- (1) (a) The product obtained by multiplying one and three-quarters percent (1-3/4%) of the Participant's Average Monthly Earnings by his Benefit Service, less
- (b) The product obtained by multiplying one and one-half percent (1-1/2%) of the Participant's Estimated Monthly Primary Social Security Benefit by his Vesting Service; provided that, such product shall not exceed fifty (50%) of such Estimated Monthly Primary Social Security Benefit;

or

- (2) Seven dollars (\$7.00) times the Participant's Benefit Service,
- or
- (3) The Participant's Prior Plan Accrued Monthly Benefit, if any.

The Participant shall have sole responsibility for the proper filing of such application and neither the Company nor the Committee shall have any obligation to remind the Participant of his rights hereunder. Should the Participant fail to file his application on or prior to the date five (5) years after the date which would have been his Normal Retirement Date had his Vesting Service not been broken, he shall forfeit all rights to benefits under the Plan, and any amounts otherwise available to provide such benefits shall be applied to reduce Company contributions to the Plan in accordance with Section 4.01 hereof.

Section 5.09 - Termination of Employment Prior to Acquiring a Vested Right

If an Employee's Vesting Service is broken prior to his having acquired a Vested Right as set forth in Section 1.31, he shall forfeit any and all rights and benefits under the Plan, subject to the terms of Section 3.06.

Section 5.10 - Optional Forms of Benefit

In lieu of a Normal Monthly Retirement Benefit, an Early Monthly Retirement Benefit, or a Late Monthly Retirement Benefit, a Participant may, subject to the conditions set forth in this Section 5.10, elect to receive one of the optional forms described below which are the Actuarial Equivalent of such normal form.

(1) Contingent Annuitant Options

- (a) An actuarially reduced joint and survivor monthly retirement benefit with provision for continuation of payments of such actuarially reduced amount after his death to a Contingent Annuitant designated by him, or
- (b) an actuarially reduced joint and survivor monthly retirement benefit with provision for continuation of three-quarters (3/4ths) thereof after his death to a Contingent Annuitant designated by him, or
- (c) an actuarially reduced joint and survivor monthly retirement benefit with provision for continuation of one-half (1/2) thereof after his death to a Contingent Annuitant designated by him.

No such election shall be permitted if it shall result in monthly retirement benefit payments to the Participant, or to his Contingent Annuitant after the Participant's death, of less than fifteen dollars (\$15.00), nor shall any such election be permitted if the Contingent Annuitant is other than the Participant's spouse unless the single sum value of the payments to be made to the Participant is more than fifty percent (50%) of the single sum value of the total payments to be made to the Participant and his Contingent Annuitant.

(2) Fifteen Year Certain and Life Option

An actuarially reduced monthly retirement benefit payable to the retired Participant during his remaining lifetime after his Retirement Date and in the event of his death within a period of fifteen (15) years after his Retirement Date, payable for the remainder of such fifteen (15) year period to his designated Beneficiary, successor Beneficiary or, if there is no surviving Beneficiary the single sum Actuarial Equivalent of such payments shall be paid to his estate.

Similarly, if a Beneficiary receiving payments shall die, the single sum Actuarial Equivalent of the remaining payments shall be paid to such Beneficiary's estate.

Such Optional Forms of Benefit shall further provide as follows:

- (3) That in the event of the death of the Contingent Annuitant or Beneficiary before the date when the option is to become effective, if said effective date is not later than the Participant's Normal Retirement Date, the Participant shall receive the normal form of benefit at Retirement Date;
- (4) That in the event of the death of the Participant before the date when the option is to become effective, if said effective date is not later than the Participant's Normal Retirement Date, the designated Contingent Annuitant or Beneficiary shall receive no retirement benefits under this Section 5.10, but if such Contingent Annuitant or Beneficiary is the Participant's spouse said spouse may be entitled to a Standard Form of Benefit as set forth in Section 5.02 hereof;
- (5) That in the event of the death of either the Participant or his designated Contingent Annuitant or Beneficiary after the Participant's Normal Retirement Date and prior to his Late Retirement Date, then the survivor of them shall receive payments in accordance with the terms of the option elected.

Unless one (1) of the foregoing optional forms of benefit is elected at least ninety (90) days prior to the Participant's Early or Normal Retirement Date, whichever is applicable, such election may be made only upon presentation of evidence satisfactory to the Committee as to the Participant's good health, provided that, if a joint and survivor option has been elected by a Participant at least ninety (90) days prior to his Normal Retirement Date and he shall retire on an Early Retirement Date which is less than ninety (90) days after the date of his election and shall be unable on such Early Retirement Date to present evidence of his good health satisfactory to the Committee, the Contingent Annuitant option shall become effective on his Normal Retirement Date if he is living on said date.

In no event, however, shall any of the foregoing Optional Forms of Benefit be available to a Participant receiving or eligible to receive a Disability Monthly Retirement Benefit.

Section 5.11 - Death Benefits

In the event that a Participant shall die prior to actual retirement on his Early or Normal Retirement Date, no benefit shall be payable under this Plan as a result of his prior participation in the Plan except as such shall be provided under the terms of Section 5.02 hereof. In the event that a Participant shall die after his actual retirement on his Early or Normal Retirement Date and such Participant shall not have elected to receive a retirement benefit under the term of Section 5.02 or 5.10 hereof or in the event of his death while totally and permanently disabled, no retirement benefits shall be payable as a result of his prior participation in the Plan.

Section 5.12 - Payment at Other Than Monthly Intervals

If a Participant's monthly retirement benefit shall be less than ten dollars (\$10.00), the Committee may instruct the Trustee or insurance company, whichever shall be applicable, to pay the Actuarial Equivalent of the retirement benefit to which the Participant is entitled in a single sum.

Section 5.13 - Proof of Age

Each Participant shall be required to furnish proof as to his age, his marital status and, if applicable, his Contingent Annuitant's age satisfactory to the Committee and to any insurance company under whose contract his monthly retirement benefit shall be paid, prior to the date such benefit shall become payable.

ARTICLE VI

THE TRUSTEE

Section 6.01 - Acceptance of Trust

The Trustee hereby agrees to continue to act as Trustee under the Trust heretofore created and to perform the obligations imposed upon the Trustee by the terms of the Plan and Trust Agreement.

Section 6.02 - General Duties of the Trustee

It shall be the duty of the Trustee to hold the funds from time to time received by it from the Company, to manage, invest and reinvest the Trust Fund pursuant to the provisions hereinafter set forth, to collect the income therefrom, which, upon receipt by the Trustee, shall thereupon become a part of the corpus of the Trust Fund, and be invested and reinvested as such, and to make payments from the Trust Fund pursuant to the directions of the Committee as hereinafter provided. The Trustee shall be responsible only for such sums as shall actually be received by it as Trustee, and it shall not be the duty of the Trustee to collect any sum from the Company. The Trustee shall not be concerned with the determination of the benefits payable to any Participant or his Beneficiary or Contingent Annuitant under the Plan.

The Trustee shall use ordinary care and reasonable diligence in the exercise of its powers and the performance of its duties as Trustee herein. It shall not be liable for any mistake of judgment or other action taken in good faith subject, however, to the applicable responsibilities imposed upon the Trustee under Public Law 93-406.

Section 6.03 - Investment of the Trust Fund

- (1) Powers and Responsibilities - The Trustee, unless otherwise directed in writing by the Committee, shall have the full power and authority to invest the funds of the Trust in any investment permitted by law for the investment of the assets of an employee benefit trust. The Executive Committee may appoint an Investment Manager as defined in the Plan, to direct the investment and management of all or a portion of the Trust Fund. The Committee shall notify the Trustee in writing of the appointment

of an Investment Manager and may revoke any such appointment by giving written notice thereof to the Trustee. The appointment, selection and retention of a qualified Investment Manager shall be solely the responsibility of the Executive Committee. The Trustee is authorized and entitled to rely upon the fact that said Investment Manager is at all times a qualified Investment Manager, as defined in the Plan, until such time as the Trustee has received a written notice from the Committee to the contrary or otherwise has knowledge of the disqualification of the Investment Manager, as well as to rely upon the fact that said Investment Manager is authorized to direct the investment and management of the assets of the Trust until such time as the Committee shall notify the Trustee in writing that another Investment Manager has been appointed in the place and stead of the Investment Manager named or, in the alternative, that the Investment Manager named has been removed and the responsibility for the investment and management of the Trust assets has been assumed by the Committee or has been transferred back to the Trustee, as the case may be.

In the event the Committee or an Investment Manager shall direct the Trustee with respect to the investment and management of all or a portion of the assets of the Trust Fund, the Trustee shall not be liable nor responsible for losses or unfavorable results arising from the Trustee's compliance with proper directions of the Committee or the Investment Manager which are made in accordance with the terms of the Plan and Trust and which are not contrary to the provisions of any applicable Federal or State statute regulating such investment and management of the assets of an employee benefits trust. All directions concerning investments made by the Committee or the Investment Manager shall be signed by such person or persons, acting on behalf of the Committee or the Investment Manager, as the case may be, as may be duly authorized in writing. The Trustee shall be under no duty to question any directions of the Investment Manager nor to review any securities or other property of the Trust

constituting assets thereof with respect to which an Investment Manager has investment responsibility, nor to make any suggestions to such Investment Manager in connection therewith. The Trustee shall, as promptly as possible, comply with any written directions given by the Committee or an Investment Manager hereunder. The Trustee shall not be liable, in any manner nor for any reason, for the making or retention of any investment pursuant to such directions of the Investment Manager. Neither the Committee nor any Investment Manager referred to above shall direct the purchase, sale or retention of any assets of the Trust Fund if such directions are not in compliance with any applicable Federal or State statute regulating such investment and management of the assets of an employee benefit trust.

Whether or not the Trustee, the Committee or an Investment Manager has the responsibility for the investment and management of Trust assets, the following types of investment, in addition to any other investments authorized hereunder, are specifically authorized:

- (a) Any savings accounts or other interest bearing deposits at any bank including the commercial division of the Trustee;
- (b) Any common or collective trust fund or pooled investment fund maintained by the Trustee; and
- (c) Upon written direction of the Committee single premium or group annuity contracts issued by a life insurance company authorized to do business in the State of California, to provide the retirement or other benefits to which a Participant shall be entitled under the terms of the Plan. However, the Trustee shall not be liable for the truth of any statements contained in any application for any such contract, which statements cover information beyond the Trustee's knowledge.

In the event that the Company shall determine to fund the Plan solely by insurance contracts or contract, the Trustee, upon the direction of the Committee shall transfer all assets of this Trust to the insurance company or companies issuing such contract

or contracts and the Trust shall terminate. In such event after settlement of all accounts, the Trustee shall be fully discharged of all claims and obligations hereunder.

(2) Insurance Companies Protected in Dealing With Trustee -

Insurance companies issuing single premium or master group annuity contracts to the Trustee under this Agreement may deal with the Trustee alone in accordance with the terms and conditions of such contracts, and shall be fully protected in accepting and acting upon the request, advice or representation of, or any instrument executed by, the Trustee. For all such purposes, the Trustee shall be regarded as sole owner of such contracts. No insurance company shall be required to inquire into the terms of this Agreement, or to determine whether action taken by the Trustee is authorized thereby. No insurance company dealing with the Trustee shall have any obligation to determine that any person upon whose life the Trustee makes application for any contract is, in fact, an employee of the Company or is otherwise eligible for retirement benefits or other participation in the Plan, nor shall any such company be responsible for the validity of this Trust, or for the acts of any person or of the Company in its establishment, maintenance or administration, or for the proper application or disposition of any money paid by such insurance company, either as dividends or as annuity payments or as death proceeds under contracts, or under pledge or pursuant to surrender thereof. It shall be conclusively presumed in favor of insurance companies and others dealing with the Trust in good faith, that any and all actions taken by the Trustee in connection with any matter or thing connected with this Trust has been duly authorized pursuant to the terms of this Agreement.

Section 6.04 - Rights, Powers and Duties of the Trustee

- (1) Administration of Plan by Committee - The Committee shall have the duty, authority and responsibility to direct the administration of the Plan and, to the extent herein and in said Plan provided, the Trust, and the Trustee shall follow the written directions of the Committee when regularly adopted by the Committee in accordance with the provisions of the Plan and this Trust Agreement. The Trustee shall be under no duty or responsibility to inquire into the acts or omissions of the Committee or the Company, nor shall the Trustee have any liability therefor. Should it be necessary to perform some act hereunder and there is neither direction in the Plan nor direction of the Committee on file with the Trustee, and no direction of the Committee can be obtained after reasonable inquiry, the Trustee shall have full power and discretion to act or not to act as it deems appropriate, and in so acting or in following any direction of the Committee, the Trustee shall be fully protected and shall be indemnified by the Company for all liability, except for its fraud, wilful misconduct or gross negligence.

When so directed in writing by the Committee, the Trustee shall segregate the Trust Fund, set up special trust accounts and disburse the Trust Fund when disbursement becomes proper under the terms of the Plan. Except as provided in Section 8.08 of this Plan and Trust Agreement, the Committee may not direct that any payments be made either during the existence or upon discontinuance of the Plan which would cause any portion of the Trust Fund to be used for or diverted to purposes other than for the exclusive benefit of the Participants or their Beneficiaries or Contingent Annuitants.

- (2) Third Persons Dealing with Trustee - With respect to any action whatsoever concerning the money, funds, or property in the hands of the Trustee, the signature of the Trustee shall be sufficient as to any person not a party hereto, and no person not a party hereto shall be required to interpret the terms and conditions of the Plan or of this Trust Agreement as to the authority of the Trustee, or be responsible to see that any action of the Trustee is authorized by the terms of the Plan or of this Trust Agreement.

(3) Specific Powers of Trustee - Except for those of the following powers which are investment powers and which shall have been delegated specifically by the Executive Committee to an Investment Manager separate from the Trustee and subject to all limitations stated elsewhere in the Plan and Trust Agreement, the Trustee shall have the following powers affecting the Trust and Trust Fund:

- (a) To hold, invest and reinvest the principal or income of the Trust Fund in bonds, common or preferred stock, other securities, or property (personal, real or mixed, improved or unimproved, and tangible or intangible), to acquire an interest as a limited partner in any partnership or joint venture, and, after approval of the Internal Revenue Service, to hold, invest and reinvest the principal or income of the Trust Fund in common or preferred stocks, bonds, or other securities of the Company, to loan money to the Company, and to purchase from and loan to the Company any property, whether real, personal or mixed, all in accordance with the provisions of Public Law 93-406 and any regulations issued pursuant thereto;
- (b) To manage, control, purchase, sell, convey, exchange, partition, divide, subdivide, improve, or repair any or all property of the Trust Fund; in connection with any disposal of property, to grant options and sell upon deferred payments; upon terminations of the Trust, forthwith to sell any or all property of the Trust Fund and convert the same into cash;
- (c) To borrow or raise money for the purpose of the Trust upon such terms as the Trustee may determine;
- (d) If the Trust Fund shall at any time contain any real property, to lease such property or any part thereof, for terms within or exceeding the duration of the Trust, and to grant for like terms the right to mine or drill for and remove therefrom gas, oil and other minerals; to create restrictions, easements, and other servitudes thereon;

- (e) To have, respecting bonds, shares of stock, and other securities, all the rights, powers, and privileges of an owner, including, though without limiting the foregoing, the power of voting, giving proxies, payment of calls, assessments, and other powers deemed expedient for the protection of the interests of the Trust Funds; participating in voting trusts, pooling agreements, assenting to corporate sales, leases and encumbrances; regardless of limitations, if any, elsewhere in the Plan and this Trust Agreement relative to investments by the Trustee, to have the power of selling or exercising stock subscription or conversion rights, participating in foreclosures, reorganizations, consolidations, mergers, and liquidations; and, in connection with any such proceedings, to deposit securities with and transfer titles to any protective or other committee, under such terms respecting deposit thereof as the Trustee shall determine;
- (f) To hold, sell, collect, sue for, or change any investments in its own name or in its name as Trustee or in the name of its nominee or nominees, with or without disclosure of fiduciary relationship, the Trustee being responsible for the acts of any such nominee affecting such property, but the books of the Trustee shall at all times show that all such investments are part of the Trust Fund.
- (g) To retain all or any portion of the Trust Fund in cash temporarily awaiting investment without liability for interest thereon and to retain in cash without liability for interest thereon so much of the Trust Fund as the Trustee may deem advisable for the purpose of meeting contemplated payments under the Plan;
- (h) To abandon, compromise, contest and arbitrate claims and demands; to institute, compromise and defend actions at law or equity (but without obligation so to do); and to employ such counsel (who may be counsel for the Company) as the Trustee shall deem advisable; all at the risk and expense of the Trust Fund;

- (i) To advance its own funds to the Trust for any Trust purpose, such advances with legal interest thereon to be a first lien on the principal and the gross income of the Trust Fund, and to be first repaid out of the gross income and/or principal of the Trust Fund;
- (j) Upon any division, or partial or final distribution of the Trust Fund, to partition, allot and distribute the Trust Fund in undivided interests or in kind, or partly in money and partly in kind, at fair market values determined by the Committee; and to sell such property as the Committee may deem necessary to make division or distribution.

The Investment Manager, which may be the Trustee, shall invest and manage the Trust Fund assets, having regard to the requirements of Public-Law 93-406 that the Trust Fund shall be managed for the exclusive benefit of the Employees with due consideration to the requirements that the assets be diversified and that the Prudent Man Standard shall be applied in the selection of investments of the Trust.

All discretions in this Trust Agreement conferred upon the Trustee, shall, unless specifically limited, be absolute. The enumeration of certain powers and discretions of the Trustee is not to be construed as limiting its general powers and discretions, the Trustee being hereby vested with and having, as to the Trust Fund and in the execution of this Trust Agreement (but subject at all times to any specific provisions and limitations in the Plan and this Trust Agreement contained), all the powers and discretions that any absolute owner of property has or may have.

- (4) Records to be Maintained by Trustee - The Trustee shall maintain full and complete records of its transactions for, and funds held for the account of, the Trust. Its books and records relating thereto shall be open to inspection and audit at all reasonable times by the Company, the Committee, or their duly authorized representatives.
- (5) Reports to be Furnished by the Trustee - Within thirty (30) days after the end of each calendar quarter, the Trustee shall file with the Company and the Committee a written statement of account setting forth all investments, transactions, receipts and

disbursements effected by it during the said period and containing an exact description of all property purchased and sold, and the cost or proceeds of sale, and showing the investments held on the last day thereof, and the cost of each item thereof as carried on the books of the Trustee, and on such date, the fair market value thereof.

- (6) Compensation of the Trustee, Payment of Taxes, etc. - All expenses of administering the Plan and Trust, including reasonable compensation to the Trustee for its services, or compensation as may from time to time be agreed upon, shall be paid by the Company. Unless otherwise specifically authorized by the Committee other expenses, including taxes, fees, and investment and other expenses incurred in connection with the administration of the Trust Fund, or for which the Trust or the Trustee in discharge of its duties as Trustee thereunder may become liable, shall be paid by the Company. If the Trust or any part of it shall become liable for the payment of any property, estate, inheritance, income or other charge, tax, or assessment which the Trustee shall be required to pay, the Trustee shall be authorized to pay such item out of any monies or other property in its hands for the account of the person whose interest hereunder is liable therefor, but at least ten (10) days prior to making any such payment, the Trustee shall give the Committee written notice of its intention so to do. Also, prior to making any transfers or distributions from the Trust Fund, the Trustee may require such releases or other documents from any lawful taxing authority as it shall deem necessary or advisable.

Any amount hereunder due the Trustee, or for which the Trustee may become liable as Trustee under the Plan and this Trust Agreement, which has not been paid by the Company within a reasonable time shall become a lien on the Trust Fund and said amount may be paid by the Trustee from the Trust Fund as an expense thereof.

If any of the distributions to Participants and/or their Beneficiaries and/or their Contingent Annuitants shall constitute taxable wages to such Participants and/or Beneficiaries and/or Contingent Annuitants under the Federal Insurance Contributions Act or the Federal Unemployment Tax Act, or any amendments thereto, or under the laws of any State, at the time distribution is made to them, then, in that event, any tax due thereon payable by the Participant and/or his Beneficiary and/or his Contingent Annuitant shall be, upon direction of the Committee to the Trustee, withheld from any distributions made to the Participant and/or his Beneficiary and/or his Contingent Annuitant, and the amount so withheld by the Trustee shall be paid to the respective Federal and/or State governments.

(7) Resignation - The Trustee may resign by mailing to the Company at the last address known to the Trustee written notice of resignation, which shall become effective upon the expiration of thirty (30) days following the date of mailing or upon written acceptance of the resignation by the Company prior to that time. The affidavit of any officer of the Trust as to the mailing of such notice shall sufficiently establish that such notice has been given.

(8) Removal - Upon direction of the Executive Committee of the Company the Committee may remove the Trustee by mailing to the Trustee thirty (30) days' written notice of removal (which notice may be waived by the Trustee). The Trustee, in the event of its resignation or removal, shall transfer, assign and deliver the Trust Estate to the successor Trustee. Such reasonable amount as it and the Committee has agreed to by separate agreement to provide for its termination or closing fee and any taxes or advances chargeable against or payable out of the Trust Fund shall be paid by the Company. Upon acceptance of the Trust, the successor, without further assignment or transfer, shall become vested with all the title, estate, rights, and powers (including discretionary powers), and be subject to all the duties and obligations of the Trustee originally appointed, and the resigned or removed Trustee shall have no further liability hereunder except as to a final accounting.

- (9) Filling of Vacancies - Vacancies occurring in the Trusteeship, however caused, shall be filled by written designation by the Executive Committee of a successor Trustee and its written acceptance of the Trust, provided, always, that the successor Trustee shall be a corporation qualified and doing business in California and subject to the jurisdiction of the California Superintendent of Banks or the United States Controller of the Currency or a bank that is a member of the Federal Reserve System. Any vacancy not filled under the foregoing provisions within thirty (30) days after its occurrence, may be filled by appointment of a Trustee by a court of competent jurisdiction on application of the Company or any person interested in the Trust.
- (10) Effect of Committee's Approval - The approval by the Committee of any report or accounting by the Trustee, including an accounting by any resigned or removed Trustee, shall be a complete release and discharge to the Trustee, or to such resigned or removed Trustee, as the case may be, as to the matters covered by any such report, and shall be binding upon all Participants and their Beneficiaries. Failure of the Committee to object to the Trustee in writing within sixty (60) days after the receipt of any such report or accounting from the Trustee shall constitute approval by the Committee of such report or accounting. No successor Trustee shall be liable or responsible for anything done or omitted in the administration of the Trust to the date it shall have become such successor Trustee, nor, except upon the Company's written direction, shall it be required to inquire into or take any action concerning the acts of any predecessor Trustee.
- (11) Interpleader, Etc., in Case of Disputes - The Trustee, in the event that any dispute shall arise as to the person or persons to whom payment or delivery of any funds, contracts, or property shall be made, may retain such funds, contracts, or property without liability for interests, and may decline to make delivery until an agreement satisfactory to the Trustee covering such dispute, or a final adjudication concerning it, shall have been made. In such event, the Trustee may file an appropriate action in interpleader, the costs of same to be borne by Participants, or their Beneficiaries or Contingent Annuitants, or the Company, and not by the Trustee.

- (12) Court Proceedings - In any application to or proceeding or action in the courts, only the Company and the Trustee shall be necessary parties and no Participant or other persons other than the Investment Manager shall be entitled to any notice or service of process. Any judgment entered in such a proceeding or action shall be conclusive upon all persons claiming under this Trust.
- (13) Adequacy of Trust Fund - The Trustee shall not be responsible for the adequacy of the Trust Fund to meet and discharge any or all payments and liabilities under the Plan. All persons dealing with the Trustee, excepting the Committee, are released from the necessity of inquiry into the decision or authority of the Trustee to act, and from responsibility for the application of any monies, securities or other property paid or delivered to the Trustee.
- (14) Trust Irrevocable - The Trust hereby created shall be irrevocable, it being the intent and purpose hereof that, except as provided in Section 7.01 of this Plan, no part of the corpus or income of the Trust Fund shall be used for or diverted to any purpose other than the exclusive benefit of the Trust's beneficiaries as herein provided. However, nothing herein contained shall prevent the Company from terminating the Trust in the manner provided in Section 7.01 hereof.
- (15) Limitation on Duration of Trust - The Plan and the Trust hereby created shall continue in effect indefinitely; provided, however, that the Trust shall terminate upon the death of the last survivor of such persons receiving benefits hereunder, who were living at the time of the creation of this Trust, provided, further, however, that if, as and when this Trust, without the benefit of the preceding provisions, shall not offend against either the Rule against perpetuities or the provisions of Section 715.2 of the Civil Code of the State of California, then such provision of this Section 6.04 (15) shall have no force or effect, and this Trust shall continue in perpetuity unless otherwise terminated as herein provided.

ARTICLE VII

DISCONTINUANCE AND AMENDMENT OF THE PLAN

Section 7.01 - Discontinuance of the Plan

It is the expectation of the Company that it will continue the Plan indefinitely, but the continuance thereof is not assumed as a contractual obligation by the Company and the right is reserved to the Company by action of its Board of Directors at any time to discontinue it. Such discontinuance of the Plan shall not have the effect of revesting in the Company any part of the Trust Fund, except as to any amounts which the Company shall have contributed as the result of actuarial overestimates.

Prior to discontinuance of the Plan the Company shall give the Pension Benefit Guaranty Corporation notice of such discontinuance at least ten (10) days prior to the effective date thereof. The Pension Benefit Guaranty Corporation shall have at least 90 days in which to determine whether the assets of the Plan are sufficient to provide the basic benefits of the Plan when due. During such time no benefits shall be paid from the Trust Fund until notice of sufficiency is obtained. If the Pension Benefit Guaranty Corporation finds that the assets are sufficient and therefore permits the Company to discontinue the Plan, the Plan assets shall then be allocated in accordance with Section 4044 of Public Law 93-406 or any successor statutes or regulations issued pursuant thereto.

Plan discontinuance or termination may be instituted by the Pension Benefit Guaranty Corporation as specified in Section 4042 of Public Law 93-406 and such Corporation may establish procedures governing the distribution of the assets.

Section 7.02 - Continuance of the Plan by a Successor Corporation

In the event of the consolidation or merger of the Company with or into any other corporation, or the sale by the Company of its assets, the resulting successor corporation may continue the Plan by adopting the same by resolution of its Board of Directors, by appointing a new Committee, and by executing a proper supplemental agreement to the Trust Agreement

with the Trustee. If, within ninety (90) days from the effective date of such consolidation, merger or sale of assets, such new corporation does not adopt the Plan, the Plan shall be automatically terminated.

If any wholly owned subsidiary or affiliated corporation of the Company which shall have elected to adopt the Plan for the benefit of its Employees shall be merged into or consolidated with, or shall transfer its assets or business to, any corporation other than the Company, the Plan shall not be terminated but shall continue in effect as to the Employees of the Company and its remaining wholly owned subsidiaries or affiliated corporations, if any, which shall have adopted the Plan for the benefit of their respective Employees. In addition, the resulting successor corporation or corporations to the said subsidiary or affiliated corporation, by action of its Board of Directors, may elect to continue the Plan in effect as to the Employees of such subsidiary or affiliated corporation who continue to be employed by such successor corporation or corporations; provided, however, that the Plan may not be so continued as to such Employees of such successor corporation or corporations without the express approval of the Board of Directors of the Company. If the election by the Board of Directors of such successor corporation or corporations so to continue the Plan and such approval by the Board of the Company is not made within ninety (90) days from the effective date of such merger, consolidation or transfer of the assets or business by such subsidiary or affiliated corporation, or if such subsidiary or affiliated corporation shall be legally declared bankrupt or insolvent, the Plan shall automatically terminate as to the Employees of such subsidiary or affiliated corporation. In that event, the interests of such employees of such subsidiary or affiliated corporation who were Participants at the time of such termination will be determined pursuant to the provisions of Section 7.04 hereof.

If any wholly owned subsidiary or affiliated corporation of the Company which shall have elected to adopt the Plan for the benefit of its Employees shall be merged into or consolidated with, or shall transfer its assets or business to, the Company, the Plan shall automatically continue in effect as to the Employees of such subsidiary or affiliated corporation, who as a result of such merger or consolidation or transfer of assets or business become Employees of the Company.

In the event that this Plan shall be merged and consolidated with any other plan or its assets transferred to any other plan, the Plan Administrator shall file with the Secretary of the Treasury, at least 30 days in advance of the date such action is to take place, a certification by an Enrolled Actuary that each Participant's benefits as determined immediately after such action shall not be less than such Participant's benefits as determined immediately prior to such action and each such Participant shall be so informed.

Section 7.03 - Termination of the Plan on Dissolution of the Company

In the event the Company is legally dissolved or liquidated by any procedure other than by a consolidation or merger or sale of its assets, the Plan shall be automatically terminated.

In the event any wholly owned subsidiary or affiliated corporation of the Company which shall have elected to adopt the Plan for the benefits of its Employees is legally dissolved or liquidated by any procedure other than by a consolidation or merger or transfer of its assets or business, the Plan shall automatically terminate as to its Employees. In that event, the interest of such Employees of such subsidiary or affiliated corporation who were Participants at the time of such termination, will be determined pursuant to the provisions of Section 7.04

Section 7.04 - Vesting and Distribution on Discontinuance

If the Plan shall be discontinued or terminated, the entire interest of each Participant concerned shall vest one hundred percent (100%) immediately and the assets shall be allocated in accordance with Section 7.06 hereof. Any further liability of the Company, in the event that the assets are insufficient to cover the accrued benefits, shall be subject to the applicable provision of Section 4062 of Public Law 93-406. However, in the event of such termination, presuming the assets are adequate therefor, the maximum amount payable to a Participant shall be the benefits accrued to date of termination as if his employment then terminated, which benefits shall be payable at Normal Retirement Date, or a lesser amount, being the Actuarial Equivalent thereof, shall be paid in the event of earlier distribution.

Notwithstanding anything in this Plan to the contrary, if the full current costs of the Plan attributable to the Employees of the Company have not been met by the Company at any time within ten (10) years from

January 1, 1970, benefit limitations shall apply as respects any of the twenty-five (25) highest paid Employees of the Company on January 1, 1970 whose annual retirement benefits under this Plan shall exceed one thousand five hundred dollars (\$1,500.00). Such an Employee shall be entitled to a benefit valued as the largest of the following amounts:

- (1) The Company contributions (or funds attributable thereto) which would have been applied to provide the benefits for the Employee if the Plan as constituted prior to January 1, 1970, had been continued without change;
- (2) Twenty thousand dollars (\$20,000); or
- (3) The sum of (i) the Company contributions (or funds attributable thereto) which would have been applied to provide benefits for the Employee under the Plan if it had been terminated on December 31, 1969, and (ii) the amount computed by multiplying the number of years for which the current costs of the Plan after that date are met by twenty percent (20%) of the first \$50,000 of the Employee's annual compensation after December 31, 1969.

The foregoing limitations shall also apply to the 25 highest paid Employees of each subsidiary or affiliated corporation upon termination of the Plan prior to ten (10) years from January 1, 1970, or prior to ten (10) years from the date when the Plan shall have become effective as to such subsidiary or affiliated corporation, if later.

Nothing herein contained shall restrict the full payment of any insurance, death or survivor's benefits on behalf of an Employee of the Company who dies while the Plan is in full effect and its full current costs have been met, or restrict the current payment of full retirement benefits called for by the Plan for any retired Employee of the Company, while the Plan is in full effect and its full costs have been met. Any sums reverting to the Trustee by reason of the restrictions herein contained shall be distributed or used pro rata for the benefit of the then participating and retired Employees of the Company concerned, other than the Employees to whom such restrictions apply, in proportion to the credits to which they are entitled as of such time.

The terms of this Section 7.04 shall be inoperative if the full current costs of the Plan have been met during the period commencing on January 1, 1970, and ending on the date the Plan is terminated, and in any event shall be inoperative at the time the provisions of Treasury Regulation §1.401-4(c) or any substitute therefor are no longer effective or applicable. In the event the Plan is terminated within the period during which this Section 7.04 is operative and during which full current costs have not been met, excess reserves arising from application of the restrictions contained in this Section 7.04 shall be applied first to meet the full current costs of Employees not restricted by this Section 7.04, in the following manner: to each such Employee in the ratio that the reserve liability then attributable to him bears to the total reserve liability under the Plan. After providing for the full current cost of benefits for Employees not subject to this Section 7.04, the remaining excess reserve arising from this Section 7.04 shall be reallocated to the Employees subject to this Section 7.04 in the following manner: to each such Employee in the ratio that the undiminished excess reserve attributable to him bears to the total undiminished excess reserve arising by application of this Section 7.04.

Section 7.05 - No Discontinuance of Plan by Failure to Contribute

A failure to contribute to the Trust in a year when no contribution by the Company is required under Article IV hereof shall not operate to discontinue the Plan or the Trust. If suspension or discontinuance by the Company of contributions to the Trust shall at any time affect the benefits to be paid or made available under the Plan or cause the unfunded past service cost at any time (including any unfunded prior normal cost and any unfunded interest on any unfunded cost) to exceed the unfunded past service cost as of the Effective Date of the Plan plus any additional past service or supplemental costs added as the result of any amendment made to the Plan after its Effective Date, such suspension or discontinuance of the contributions shall have the effect of fully vesting the interest of any Participant who terminates his employment with the Company during any such suspension or following the discontinuance of contributions by the Company. In such event the vested interest of any such Participant shall be determined and distribution thereof shall be made as provided in Section 7.04 hereof. Provided, however, that if the Company should, within two (2) years following the close of the taxable year in which

contributions were due, but not made, by it to the Trust resume contributions thereto in an amount sufficient to cover the current costs of the Plan based upon the benefits to be provided under the Plan, then and in that event the interest of a Participant who terminated during the aforesaid period of suspension or discontinuance of contributions to the Trust shall not be vested as provided in Section 7.04, but shall be vested as provided in Section 1.31 and 5.08 hereof, and in the event of such, contributions shall be made up including interest at the rate earned by the Trust from the dates of such suspended contributions.

Provided further, that in the event the aforesaid suspension or discontinuance by the Company of contributions to the Trust is followed by termination of the Plan, the vested interest of all Participants in the Plan, including those who may have terminated their employment with the Company during such period of suspension or discontinuance of contributions, shall be determined pursuant to Section 7.04 hereof as of the time such suspension or discontinuance of contributions first occurred.

Section 7.06 - Liquidation of Trust Fund

Upon termination of the Plan the assets of the Trust Fund shall be liquidated after provision shall be made for the expenses of administration, termination and liquidation, by the payment (or provision for the payment) of benefits accrued prior to the date of termination in the following order of precedence:

- (1) Benefits to Employees, Beneficiaries or Contingent Annuitants who began receiving benefits at least three (3) years before the termination date of the Plan (including those benefits which would have been received for at least three (3) years if the Employee had retired) based on Plan provisions in effect during the five (5) years next preceding termination which produce the smallest benefits;
- (2) all other benefits insured by the Pension Benefit Guaranty Corporation (including benefits that would be guaranteed except for the special limitation on coverage of a "substantial owner");
- (3) all other non-forfeitable benefits under the Plan;
- (4) all other benefits under the Plan;

as set forth in Public Law 93-406 or any regulations issued pursuant thereto.

Section 7.07 - Amendments

The Company by action of its Board of Directors, may at any time and from time to time amend the Plan; provided, however, that no amendment shall be made at any time, the effect of which would be:

- (1) To divert the Trust Fund to purposes other than for the exclusive benefit of the Participants and their Beneficiaries and Contingent Annuitants;
- (2) to cause any part of the assets of the Trust to revert to or become the property of the Company;
- (3) to increase the duties and liabilities of the Trustee without its written consent; or
- (4) to alter retroactively or impair the rights of Participants or their Beneficiaries, Contingent Annuitants or estates insofar as they exist at the time of such amendment.

Notwithstanding anything herein to the contrary, the Plan may be amended at any time, if necessary, to conform to the provisions of the Internal Revenue Code with respect to Employees' Trust or any amendment thereto or regulations issued pursuant thereto.

ARTICLE VIII

MISCELLANEOUS

Section 8.01 - Right of Company to Dismiss Employees

Neither the action of the Company in establishing the Plan nor any action by it or by the Committee under the provisions hereof nor any provision of the Plan shall be construed as giving to any Employee of the Company the right to be retained in its employ or any right to any payment whatsoever, except to the extent of the benefits provided for by the Plan to be paid from the Trust Fund or under the terms of an insurance company contract. The Company expressly reserves the right at any time to dismiss any Employee without any liability for any claim either against the Trust Fund for any payment whatsoever except to the extent provided for in the Plan, or against the Company. Termination of actual employment shall constitute termination of participation under the Plan.

Section 8.02 - Company's Responsibility Limited

All benefits payable under the Plan shall be paid or provided for solely from the Trust Fund or under the terms of any applicable insurance contract, and the Company assumes no responsibility for the acts of the Committee or of the Trustee, except as herein expressly provided, and shall not be liable for any losses of the Trust Fund, subject to requirements of Public Law 93-406.

Section 8.03 - Notices of Participants to be Filed with the Committee

Whenever any action shall be taken hereunder by a Participant with respect to the exercise of any option or the designation of any Beneficiary, he shall give written notice thereof on a form furnished by the Committee for such purpose and filed with Committee.

Section 8.04 - Plan Intended to Conform to Internal Revenue Code Provisions Relative to Employees' Trusts

It is the intention of the Company that it shall be impossible for any part of the Trust Fund to be used for or diverted to purposes other than for the exclusive benefit of the Employees of the Company and their Beneficiaries and Contingent Annuitants, except in the case of actuarial error. It is further the intention of the Company that this Section shall be construed to follow the spirit and intent of the present Federal Income Tax Law and regulations or any future Federal Tax Law or regulation governing trusts for the exclusive benefit of Employees, to the end that the Trust Fund shall be incapable of diversion by any means whatsoever.

Section 8.05 - Spendthrift and Loan Clause

None of the benefits, payments, proceeds, claims or rights of any Participant, Beneficiary or Contingent Annuitant hereunder shall be subject to any claim or any creditor of any such Participant, Beneficiary or Contingent Annuitant and in particular the same shall not be subject to attachment or garnishment or other legal process by any creditor of any such Participant, Beneficiary or Contingent Annuitant nor shall any such Participant, Beneficiary or Contingent Annuitant have any right to alienate, anticipate, commute, pledge, encumber, or assign any of the benefits or payments or proceeds which he may expect to receive, contingently or otherwise, under the Plan. No Participant or spouse of a Participant shall have the right to borrow from the Plan under any circumstances.

Section 8.06 - Validity

If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective. The provisions hereof shall be construed, administered, and enforced according to the laws of the State of California to the extent not preempted by the laws of the United States. All actions regarding the Plan and Trust or fiduciary obligations related thereto, shall be brought in a court convened in the State of California. All contributions to the Trust shall be deemed to take place in the State of California.

Section 8.07 - Employees of Newly Acquired Companies

In the event that a company or corporation shall be acquired by Blue Chip Stamps and shall become a division, or a wholly owned subsidiary, or an affiliated company of Blue Chip Stamps, the Board of Directors of Blue Chip Stamps, shall determine whether or not the employees of said acquired company or corporation shall participate in the Plan. If the Board of Directors of Blue Chip Stamps determines that the employees of said acquired company or corporation shall be eligible to participate in the Plan, the Board shall further determine how much, if any, of the continuous service of each such employee prior to the date of acquisition of said company or corporation shall be considered as Vesting Service and Benefit Service for the purposes of the Plan and shall determine all other matters related to the benefits provided by the Plan for such employee for such periods of Vesting Service and Benefit Service, provided that, subject to the terms of Section 1.14, such determination shall not discriminate in favor of or against any employee or class of employees of said company or corporation.

Section 8.08 - Return of Company Contributions

The Company has no beneficial interest in the Trust Fund, and no part of the Trust Fund shall revert or be repaid to the Company directly or indirectly, except as provided in Section 4.01 hereof and except that, upon the Company's request, a contribution which was based upon a factual error, or conditioned upon qualification of the Plan or any amendment thereof or upon the deductibility of contributions under Section 404 of the Internal Revenue Code, shall be returned to the Employer within one year after the payment of such contributions, the denial of the qualification or the disallowance of the deduction (to the extent disallowed), whichever shall be applicable.

Section 8.09 - Headings

Headings of Articles and Sections are inserted solely for convenience and reference. They constitute no part of the Plan.

Dated this 3rd day of March, 1976.

(SEAL)

BLUE CHIP STAMPS

By S/ Wm. F. Ramsey
Executive Vice President

By S/ R. H. Bird
Vice President, Secretary
and Treasurer

Approved as to form

UNION BANK

S/ R. Michael Wilkinson
Attorney for
Blue Chip Stamps

By S/ Eugene W. Ford
Vice President

(SEAL)

By S/ Helen Morrison
Trust Officer

BLUE CHIP STAMPS
EMPLOYEES' PENSION PLAN
AND
TRUST AGREEMENT
PRIOR PLAN ACCRUED MONTHLY BENEFITS
AS OF DECEMBER 31, 1975

Name

Accrued
Monthly Benefits

(Names and amounts omitted.)

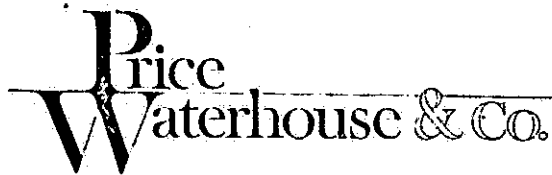


Exhibit 14.1 to
Blue Chip Stamps'
Form 10-K for year ended
February 28, 1976

606 SOUTH OLIVE STREET
LOS ANGELES, CALIFORNIA 90014
213-625-4400

May 24, 1976

To the Board of Directors of
Blue Chip Stamps

Dear Sirs:

The consolidated financial statements included in your Form 10-K for the fiscal year ended February 28, 1976 describe a change in the method of accounting for marketable equity securities as of February 28, 1976, which change is described and approved by our report dated April 12, 1976 included in such Form 10-K. We believe that such change, which was required by Statement of Financial Accounting Standards No. 12 issued by the Financial Accounting Standards Board, represents adoption of a preferable accounting principle in conformity with Accounting Principles Board Opinion No. 20.

Yours very truly,

/s/ PRICE WATERHOUSE & CO.

END