SEC FILE NO 0- 3810 03--07

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BLUE CHIP STAMPS

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10-K

OTHER

CARD 1

MICROFICHE BY DISCLOSURE INC RPORATED

FOR 01/01/77

Blue Chip Stamps [Calif.] Co: B558000000
5801 South Eastern Avenue
Los Angeles, Calif. 90040
SEC File No: 0-3810 Exch: Other
IRS No: 94-1354687 CUSIP: 0953299
Fiscal Year Ends: 2/28 SIC No: 541
Auditor: Price Waterhouse & Co.

ARS	For:	02/28/76	
Proxy	Dated:	04/30/76	
10-K	For:	02/28/76	
10-Q	For:	05/29/76	
10-Q	For:	08/28/76	
8-K	For:	02/29/76	
8-K	For:	03/31/76	
8-K	For:	04/30/76	
8-K	For:	05/31/76	
8-K	For:	06/30/76	
8-K	For:	07/31/76	
8-K	For:	07/31/76	Amendment 1
8-K	For:	08/31/76	
8-K	For:	09/30/76	
8-K	For:	11/30/76	
8-K	For:	12/31/76	
8-K	For:	01/31/77	

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

105

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

For the fiscal year ended January 1, 1977 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 S. Eastern Ave., 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 and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report. 5,178,770 shares outstanding at January 1, 1977.

PART I

Item 1. Business.

The information set forth in the section entitled "Principal Business Activities" on pages 4 and 5 of the printed annual report of Blue Chip Stamps for the year ended January 1, 1977, a copy of which pages are 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.

In connection with the proposed acquisition of a newspaper discussed on page 5 of the aforementioned printed annual report, a formal market study was not prepared by or for the Company or its newly organized subsidiary.

Item 2. Summary of Operations.

The information set forth in the section entitled "Summary of Operations" on pages 6 and 7 of the printed annual report of Blue Chip Stamps for the year ended January 1, 1977, 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 63%. 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, a child of Mr. Buffett's and trusts of which he is trustee but has no beneficial interest	125,846
Subsidiaries of Diversified Retailing Company, Inc. ("Diversified") (a)	841,900
Berkshire Hathaway Inc. ("Berkshire") and subsidiaries (b)	1,720,709

(a) Mr. and Mrs. Buffett own 56% of the common stock of Diversified, which through a subsidiary is principally engaged in operating women's apparel stores. Mr. Buffett is Chairman of the Board of Diversified.

(b) Mr. and Mrs. Buffett own 36% of the common stock of Berkshire, a textile manufacturer also engaged through subsidiaries in banking and insurance. In addition, Diversified and subsidiaries, referred to in (a) above, own 17% of such stock. Mr. Buffett is Chairman of the Board and Chief Executive Officer of Berkshire.

Under the Bank Holding Company Act of 1956, as amended, Berkshire is deemed to be a bank holding company and the Company is presumed to be controlled by a bank holding company due to Berkshire's ownership of approximately 98% of the capital stock of a bank and more than 25% of the Company's outstanding common stock. Consequently, prior to any acquisition by the Company of a going business (such as the proposed newspaper acquisition discussed in Item 1), or investment in more than 5% of the voting stock of any company, notice must be given to the Federal Reserve Board.

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 have been included in the Company's consolidated financial statements from date of acquisition in January 1972.

The Company owns 80% 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.

Item 5. Legal Proceedings.

(a) 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., Thriftimart, 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 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. The federal action was concluded on June 9, 1975, when the United States Supreme Court held that the purported class did not have standing to bring such an action. On June 21, 1971, a substantially identical action based on California law was filed in Los Angeles County Superior Court. On August 13, 1976 an order was entered by the court granting the Company's motion to dismiss the action based on the ground that plaintiffs had not complied with the requirements of California law to bring the action to trial within five years from the date of its filing. Plaintiff has filed notice of appeal from the court's ruling. In the opinion of counsel, on the current state of the record and the law, the appeal should be defended successfully and, in the unlikely event that the plaintiff should prevail on the appeal, there would be substantial defenses on the merits.

(b) 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 purported class action sought to recover for stamp savers monies collected by the Company as reimbursement for California sales taxes on redemption of stamps. In December 1976 an order of the California Supreme Court dismissing the state action portion of the suit became final. Any further proceedings by plaintiffs would involve immaterial amounts.

(c) The information set forth in Item 5 of the Form 10-K Annual Report for the year ended December 31, 1976 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 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 January 1, 1977:

Balance, beginning of year	$6,392,000
Debentures purchased and applied against sinking fund obligations -	
Invitation for tenders, March and April 1976	(681,000)
Notice of redemption, December 1976	(729,000)
Open market or private purchases, April, July, August, September and December 1976	(695,000)
Balance, end of year	$4,287,000

There were 5,178,770 shares of $1 par value common stock outstanding throughout the fiscal year ended January 1, 1977.

Item 7 Approximate Number of Equity Security Holders.

Title of class	Number of record holders as of March 10, 1977
Common stock, par value $1.00 per share	2,338

Item 8. Executive Officers of the Registrant.

Following is a list of the Company's executive officers:

Name	Age	Positions	Since
Charles T. Munger	53	Chairman of the Board	1976
Donald A. Koeppel	59	President and Director	1976
William F. Ramsey	49	Executive Vice President and Director	1969
Raymond H. Allen	46	Vice President, Information Systems	1971
Robert H. Bird	45	Vice President, Secretary and Treasurer	1974
William K. Klepper	49	Vice President, Merchandise	1970
Kenneth E. Wittmeyer	47	Vice President, Industrial Relations	1974

The principal business experience of each such officer during the portion of the past five years that occurred prior to his election to his current positions is as follows:

Mr. Munger - January to June 1976, management of personal investments; prior thereto, managing general partner of Wheeler, Munger & Co., an investment firm.

Mr. Koeppel - Chairman of the Board and President of the Company.

Mr. Bird - Secretary and Treasurer of the Company.

Mr. Wittmeyer - Industrial Relations Manager of the Company.

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 1976 -

3.1-4 Amendment to articles of incorporation effective May 27, 1976 fixing number of directors at not less than six nor more than nine

3.2-6 Amendment to bylaws effective May 27, 1976 fixing number of directors at eight within a range of six to nine

(2) Incorporated by reference to Form 8-K Current Report of Blue Chip Stamps for January 1977 -

3.2-7 Amendment to bylaws effective January 4, 1977 changing date of annual meeting of stockholders from fourth Thursday in May to fourth Thursday in April

(3) Incorporated by reference to Form 8-K Current Report of Blue Chip Stamps for February 1977 -

13.12 Purchase Agreement covering newspaper assets of Buffalo Evening News, Inc.

(4) Filed herewith -

3.2-8 Amendment to bylaws effective March 3, 1977 fixing number of directors at seven

11.1-5 Blue Chip Stamps Employees' Pension Plan and Trust Agreement as amended effective January 1, 1976 (incorporating modifications agreed to with Internal Revenue Service)

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 April 28, 1977.

SIGNATURE

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

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

March 29, 1977

BLUE CHIP STAMPS

INDEX TO FINANCIAL STATEMENTS

The consolidated financial statements for the years ended January 1, 1977 and February 28, 1976, together with the report thereon of Price Waterhouse & Co. dated March 10, 1977, appearing on pages 8 to 16 of the Company's annual report to stockholders for the year ended January 1, 1977, 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, information contained in such annual report to stockholders is not to be deemed filed as part of this report.

The December 31, 1976 and 1975 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 February 3, 1977, are incorporated herein by reference to the Form 10-K Annual Report filed by Wesco Financial Corporation for the year ended December 31, 1976, a copy of which is attached. With the exception of the aforementioned information and data referred to in paragraph (c) of Item 5 hereof, the 10-K Annual Report of Wesco Financial Corporation 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 January 1, 1977.

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.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the application of our report, which appears on page 16 of the Blue Chip Stamps annual report to stockholders for the year ended January 1, 1977, to the additional financial data listed in the foregoing index when this data is read in conjunction with the consolidated financial statements in such annual report; our report and the consolidated financial statements have been incorporated in this annual report on Form 10-K. The examinations referred to in our report included examinations of the additional financial data.

PRICE WATERHOUSE & CO.

Los Angeles, California
March 10, 1977

BLUE CHIP STAMPS

SUPPLEMENTARY INFORMATION TO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At January 1, 1977 and February 28, 1976, accounts receivable include approximately $1,075,000 and $180,000 relating to the sale of marketable securities.

Beginning and ending inventories for the fiscal years ended January 1, 1977 and February 28, 1976, are as follows:

	Redemption merchandise	Candy and related inventories	Total
Inventory at December 27, 1975	$6,130,000	$2,016,000	$ 8,146,000
Inventory at January 1, 1977	3,501,000	2,992,000	6,493,000
Inventory at March 1, 1975	8,599,000	3,168,000	11,767,000
Inventory at February 28, 1976	5,173,000	2,122,000	7,295,000

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

Buildings	10 to 40 years
Furniture, fixtures and equipment	3 to 20 years
Leasehold improvements	The shorter of the term of the lease or the useful life of the asset

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.

Following is a summary of intangibles and related accumulated amortization for the Company's consolidated subsidiary, See's Candy Shops, Inc. ("See's"), and its unconsolidated subsidiary, Wesco Financial Corporation ("Wesco"), at the beginning and end of the two most recent fiscal yearends:

	January 1, 1977	February 28, 1976	December 27, 1975	March 1, 1975
See's				
Excess of cost over equity in net assets	$17,262,000	$17,262,000	$17,262,000	$17,227,000
Accumulated amortization	2,134,000	1,775,000	1,703,000	1,344,000
Wesco				
Excess of equity in net assets over cost	23,115,000	19,298,000	19,298,000	18,699,000
Accumulated amortization	1,593,000	1,167,000	1,085,000	675,000

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

	January 1, 1977	February 28, 1976
Accounts payable	$4,748,000	$3,840,000
Accrued compensation	1,098,000	1,259,000
Taxes other than income	834,000	1,128,000
	$6,680,000	$6,227,000

Income from marketable securities is broken down as follows:

	Fiscal year ended	
	January 1, 1977	February 28, 1976
Interest	$ 635,000	$ 871,000
Dividends	4,576,000	4,042,000
	$5,211,000	$4,913,000

Included in interest and discount amortization is amortization of debenture discount amounting to $147,000 and $212,000 for the fiscal years ended January 1, 1977 and February 28, 1976. Debenture discount is being amortized over the term of the debentures by use of the debentures outstanding method. Unamortized debenture discount of $204,000 and $379,000 at January 1, 1977 and February 28, 1976 is included in prepaid expenses.

Rental commitments apply primarily to redemption stores and candy shops.

The Company has a short-term line of credit in the maximum amount of $10,000,000. 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 January 1, 1977 or February 28, 1976, and the maximum outstanding monthend balances during the fiscal years ended January 1, 1977 and February 28, 1976 were $2,000,000 and $500,000, respectively. Interest, which is at prime rate, averaged 7.0% and 7.6% during the fiscal years ended January 1, 1977 and February 28, 1976 based on average daily balances of $460,000 and $55,000, respectively.

Under the Company's qualified stock option plan, options for 18,000 shares were granted in March 1972 at $15.1875 per share, fair market value at date granted. At January 1, 1977 and February 28, 1976, 239,200 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:

	Fiscal year ended	
	January 1, 1977	February 28, 1976
Options which became exercisable during the period:		
Number of shares	None	2,875
Option price - Per share	Not applicable	$15.1875
Total	Not applicable	$43,664
Market price at date first exercisable - Per share	Not applicable	$ 7.375
Total	Not applicable	$21,203
Options exercised during the period	None	None

At January 1, 1977 an option to purchase 4,000 shares was outstanding and currently exercisable at an aggregate price of $60,750. This option was not exercised and lapsed on March 24, 1977.

BLUE CHIP STAMPS

SCHEDULE I - MARKETABLE SECURITIES
JANUARY 1, 1977

Name of issuer and title of issue	Number of shares or units - principal amount of bonds or notes	Amount at which shown in balance sheet (cost)	Value based on market quotations at balance sheet date
Short-term investments, at cost			
U.S. Treasury Bills	$11,700,000	$11,636,000	$11,676,000
Marketable equity securities, at the lower of aggregate cost or market			
Preferred and common stocks:			
Baybanks, Inc.	105,480	$ 3,456,000	$ 3,164,000
CleveTrust Corporation	38,598	1,211,000	1,487,000
Hartford National Corporation	74,844	2,272,000	1,010,000
Manufacturers National Corporation	109,470	3,706,000	3,503,000
National Detroit Corporation	414,160	9,941,000	11,545,000
Northeast Bancorp, Inc.	34,650	1,117,000	918,000
Pinkerton's, Inc.	500,196	16,752,000	17,382,000
Pittsburgh National Corporation	256,500	8,721,000	10,773,000
San Jose Water Works	43,100	1,462,000	1,665,000
Shawmut Association, Inc.	68,423	3,533,000	1,659,000
Source Capital, Inc.	1,257,127	6,223,000	16,028,000
State Street Boston Financial Corporation	41,239	1,693,000	1,124,000
Other	182,943	3,056,000	2,982,000
Total marketable equity securities		$63,143,000	$73,240,000

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 (March 1, 1975 and December 27, 1975) (4) — Number of shares	Balance at beginning of period — Amounts in dollars	Additions — Equity taken up in earnings of affiliate for the period	Additions — Purchases	Additions — Other	Deductions — Distributions of earnings by person in which earnings were taken up	Balance at end of period (February 28, 1976 and January 1, 1977) (4) — Number of shares	Balance at end of period — Amounts in dollars
Fiscal year ended February 28, 1976:								
Investment in common stock of Wesco Financial Corporation ("Wesco")	1,527,299	$26,307,000	$3,092,000 (1)		$ 76,000 (2)	$887,000	1,527,299 (3)	$28,588,000
Fiscal year ended January 1, 1977:								
Investment in common stock of Wesco	1,527,299	$28,773,000	$4,459,000 (1)	$6,306,000	$116,000 (2)	$993,000	1,840,863 (3)	$38,661,000

(1) Net of income taxes of $76,000 and $67,000 for the fiscal years ended January 1, 1977 and February 28, 1976, respectively.

(2) Represents an adjustment to acquisition cost.

(3) Represents 77.6% and 64.4% of Wesco's outstanding stock at January 1, 1977 and February 28, 1976, respectively.

(4) See Note 1 to the consolidated financial statements for explanation of the Company's change in fiscal yearend from approximately February 28 to approximately December 31.

BLUE CHIP STAMPS

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

Classification	Balance at beginning of period (March 1, 1975 and December 27, 1975)*	Additions at cost	Retirements	Balance at end of period (February 28, 1976 and January 1, 1977)*
Fiscal year ended February 28, 1976:				
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	3,893,000	252,000	278,000	3,867,000
	$19,866,000	$1,196,000	$ 886,000	$20,176,000
Fiscal year ended January 1, 1977:				
Land	$ 2,323,000	$ 75,000	$ 215,000	$ 2,183,000
Buildings	4,061,000	300,000	136,000	4,225,000
Furniture, fixtures and equipment	10,116,000	680,000	632,000	10,164,000
Leasehold improvements	3,888,000	301,000	159,000	4,030,000
	$20,388,000	$1,356,000	$1,142,000	$20,602,000

* See Note 1 to the consolidated financial statements for explanation of the Company's change in fiscal yearend from approximately February 28 to approximately December 31.

BLUE CHIP STAMPS

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

Description	Balance at beginning of period (March 1, 1975 and December 27, 1975)*	Additions charged to costs and expenses	Retirements	Balance at end of period (February 28, 1976 and January 1, 1977)*
Fiscal year ended February 28, 1976:				
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	2,088,000	310,000	171,000	2,227,000
	$11,593,000	$1,047,000	$754,000	$11,886,000
Fiscal year ended January 1, 1977:				
Buildings	$ 2,491,000	$ 226,000	$ 86,000	$ 2,631,000
Furniture, fixtures and equipment	7,321,000	449,000	576,000	7,194,000
Leasehold improvements	2,236,000	252,000	128,000	2,360,000
	$12,048,000	$ 927,000	$790,000	$12,185,000

* See Note 1 to the consolidated financial statements for explanation of Company's change in fiscal yearend from approximately February 28 to approximately December 31.

BLUE CHIP STAMPS

SCHEDULE XVI - SUPPLEMENTARY INCOME STATEMENT INFORMATION

Item	Charged to costs and expenses
Fiscal year ended February 28, 1976:	
Maintenance and repairs	$1,291,000
Taxes other than income taxes -	
Payroll	1,456,000
Other	606,000
Advertising costs	818,000
Fiscal year ended January 1, 1977:	
Maintenance and repairs	$2,099,000
Taxes other than income taxes -	
Payroll	1,767,000
Other	633,000
Advertising costs	950,000

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 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 candy (primarily boxed chocolates) and other confectionery products of the highest quality in two fully equipped kitchens in California. See's is believed to be one of the largest candy manufacturers distributing through its own chain of retail shops; it now has 173 in nine western states including Hawaii.

See's registered slogan "Quality Without Compromise" reflects its attitude. In order to carefully control shelf life of the candy, which contains no significant artificial preservatives, See's does not sell through department stores, drug stores, etc. Cocoa, sugar and certain other ingredients are generally available but subject to wide price fluctuations from time to time. Emphasis on quality has helped make See's the predominant fresh candy business entity in California.

A substantial portion of each year's candy sales are generated during the Christmas and Easter seasons, when the high shop volume is augmented to an increasing degree by quantity sales to organizations at reduced prices. See's finances its seasonal inventory buildup by liquidating short-term investments. At Christmas the number of employees peaks at about three times the full-time base of approximately 1,000.

(2) **The trading stamp business.** Blue Chip Stamps 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-four redemption stores.

Stamp service revenues have declined from a historical peak of $124,180,000 for the fiscal year ended February 28, 1970 to $17,208,000 for the fiscal year ended January 1, 1977. 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: two Southern California supermarket chains, Stater Bros. Markets Division of Petrolane Incorporated and The Boy's Markets, Inc., accounted for 38% of stamp volume during the fiscal year ended January 1, 1977 as compared with 29% the preceding fiscal year. Over the past five years the Company has reduced the number of redemption stores from a peak of 90 to 44 at present. There has been a commensurate reduction of full-time employees to less than 300 currently.

(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. With the decline of the trading stamp business, incentive programs have become more difficult to sell, because stamp awards do not enjoy their former popularity. Approximately 20 employees are involved in this operation.

This division, until recently, also developed, 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. In the summer of 1976, the Company decided not to seek any new business of this type, as profit margins had proved to be unsatisfactory.

(4) **The savings and loan business.** Wesco Financial Corporation, an 80%-owned, unconsolidated subsidiary controlled since late 1973, owns all of the outstanding stock of Mutual Savings and Loan Association, which operates at sixteen locations in Southern California. The association is engaged primarily in the business of lending money, principally secured by first liens against real estate, to enable borrowers to purchase, construct or refinance real property. In addition, investments in preferred stocks, municipal bonds and other securities have become increasingly important in recent years as a secondary source of income. Approximately 160 employees are employed in this line of business.

The following table sets forth the contribution, in thousands of dollars, of each line of business accounting for, during either of the last two fiscal years, ten per cent or more of total (consolidated) revenues or of total income before income taxes, securities gains (losses) and extraordinary items for five fiscal years ended as follows:

	Jan. 1, 1977	Feb. 28, 1976	Mar. 1, 1975	Mar. 2, 1974	Mar. 3, 1973
Revenues—					
Candy business	$56,648	$51,679	$43,370	$36,033	$32,591
Trading stamp service	22,786	25,755	34,973	59,925	96,108
Incentive and merchandise promotions	8,888	15,210	11,022	6,261	3,624
Income (loss) before income taxes, securities gains (losses) and extraordinary items—					
Candy business	11,059	10,968	6,783	4,153	4,597
Trading stamp service	2,600	438	(34)	4,533	7,115
Incentive and merchandise promotions	(1,479)	(1,079)	(592)	(66)	224
Savings and loan business	4,216	3,292	2,832	1,673	—

Set forth below is the relative contribution of each such line of business for the same fiscal years:

	Jan. 1, 1977	Feb. 28, 1976	Mar. 1, 1975	Mar. 2, 1974	Mar. 3, 1973
Revenues—					
Candy business	64%	56%	49%	35%	25%
Trading stamp service	26	28	39	59	73
Incentive and merchandise promotions	10	16	12	6	2
Income (loss) before income taxes, securities gains (losses) and extraordinary items—					
Candy business	67	81	76	40	38
Trading stamp service	16	3	—	44	60
Incentive and merchandise promotions	(9)	(8)	(7)	—	2
Savings and loan business	26	24	31	16	—

SUBSEQUENT EVENT

In February 1977, Blue Chip Stamps, through a newly organized, wholly owned subsidiary, agreed to buy the newspaper assets, subject to certain liabilities, of the Buffalo Evening News, Inc., publisher of the more successful of two daily newspapers in Buffalo, New York for approximately $33,000,000 cash plus assumption of certain pension obligations. The transaction is subject to approval of the Federal Reserve Board and is also contingent upon other matters. Consummation is expected to occur in April 1977. For further information, please refer to Note 11 to the accompanying financial statements.

Summary of Operations

(In thousands except for amounts per share)	53 weeks ended Jan. 1, 1977	52 weeks ended Feb. 28, 1976	Mar. 1, 1975	Mar. 2, 1974	Mar. 3, 1973
Revenues:					
Candy sales	$56,333	$51,342	$42,907	$ 35,780	$ 32,049
Stamp service revenues	17,208	20,361	25,564	51,375	88,736
Merchandise promotions and incentive sales	8,888	15,210	11,022	6,261	3,624
Dividends and interest	5,211	4,913	7,738	8,260	7,315
Other	682	818	2,134	543	599
	88,322	92,644	89,365	102,219	132,323
Costs and expenses:					
Cost of sales and redemptions	46,358	52,116	54,912	68,156	95,662
Selling, general and administrative expenses	29,190	29,552	23,940	21,481	21,729
Interest	410	437	4,050	3,597	2,638
Discount amortization	184	212	306	365	358
	76,142	82,317	83,208	93,599	120,387
Income before income taxes, equity in net income of Wesco Financial Corporation, securities gains (losses) and extraordinary items	12,180	10,327	6,157	8,620	11,936
Provision for income taxes	(4,859)	(4,374)	(1,237)	(2,071)	(3,828)
Equity in net income of Wesco Financial Corporation	4,459	3,092	2,588	1,641	—
Income before securities gains (losses) and extraordinary items	11,780	9,045	7,508	8,190	8,108
Realized securities gains (losses), less taxes	(77)	8	254	(185)	(82)
Income before extraordinary items	11,703	9,053	7,762	8,005	8,026
Extraordinary credit (charges)	—	—	903	—	(925)
Net income	$11,703	$ 9,053	$ 8,665	$ 8,005	$ 7,101
Per share:					
Income before securities gains (losses) and extraordinary items	$2.27	$1.75	$1.45	$1.58	$1.58
Realized securities gains (losses)	(.01)	—	.05	(.03)	(.02)
Income before extraordinary items	2.26	1.75	1.50	1.55	1.56
Extraordinary credit (charges)	—	—	.17	—	(.18)
Net income	$2.26	$1.75	$1.67	$1.55	$1.38
Dividends declared	$ .24	$ .24	$ .24	$ .24	$ .24

NOTES TO SUMMARY OF OPERATIONS

In December 1976 the Company changed its 52-53 week fiscal yearend from approximately February 28 to approximately December 31.

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, to 64.4% in August 1974 and to the present 80.1% in January 1977.

The extraordinary charges for fiscal 1973 represented settlements 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.

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.

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 have been 5,179,000 since fiscal 1974; 5,180,000 shares were used in fiscal 1974, including 1,000 dilution, and 5,129,000 shares in fiscal 1973, including 60,000 dilution.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Candy sales increased substantially from the year ended March 1, 1975 to the year ended February 28, 1976; approximately 60% of the increase resulted from an increase in average selling price per pound, and approximately 40% was due to an increase in the number of pounds sold. Of the more moderate increase in candy sales from the year ended February 28, 1976 to the year ended January 1, 1977, approximately 60% resulted from a further increase in pounds sold and approximately 40% from continued pricing improvement.

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

Revenues from merchandise promotions and incentive sales increased from the year ended March 1, 1975 to the year ended February 28, 1976 due to expansion of the merchandise promotion business, under which the Company developed, for oil companies and other large issuers of credit cards, complete merchandise packages for their credit card-holders. In the summer of 1976, the Company decided not to seek any more business of this type, and revenues for the year ended January 1, 1977 dropped accordingly.

The drop in dividend and interest income from the year ended March 1, 1975 to the year ended February 28, 1976 was caused mainly by the sale of marketable securities in fiscal 1975 to repay $40,000,000 of bank loans.

Cost of sales and redemptions during the two most recent fiscal years decreased as a percentage of related revenues, principally due to adjustments of the liability for unredeemed trading stamps, which the Company revises periodically as changing conditions warrant. In February 1976, the stamp liability account was adjusted to reflect a reduction in the total number of stamps expected to be redeemed in the future as well as the likelihood that future redemption service expenses would increase materially on a per-stamp basis. In August 1976, due to favorable current experience in controlling costs, the stamp liability account was adjusted further to reflect a lower estimated future redemption service expense requirement per stamp.

The sharp increase in selling, general and administrative expenses from the year ended March 1, 1975 to the year ended February 28, 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. In the year ended January 1, 1977 merchandise promotion expenses dropped notably with discontinuance of the program, more than offsetting other increases in this expense category.

Interest expense dropped sharply in the year ended February 28, 1976 due to the repayment of bank loans late in the prior fiscal year.

The provision for income taxes jumped as a percentage of pre-tax income from 20% for the year ended March 1, 1975 to 42% in the year ended February 28, 1976 primarily because of a sharp increase in See's pre-tax income, taxed at a relatively high effective rate. The effective rate subsequently decreased to 40% in the year ended January 1, 1977 because See's pre-tax income represented a slightly lower proportion of income before taxes.

The Company's equity in net income of Wesco Financial Corporation increased during the two most recent fiscal years primarily as a result of an improvement in the subsidiary's earnings. A secondary factor in the year ended January 1, 1977 was the reversal of estimated provisions for income taxes on Wesco's undistributed earnings; such provisions are no longer required because the Company's ownership of Wesco now exceeds 80% and Wesco's earnings will be included in consolidated federal tax returns in future years.

Realized securities gains and losses fluctuate from year to year and accordingly are set out separately. The after-tax changes from net gains of $254,000 in the year ended March 1, 1975 and $8,000 in the year ended February 28, 1976 to net losses of $77,000 in the year ended January 1, 1977, although significant, were not abnormal to the business.

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. In particular, a significant part of the earnings for the year ended January 1, 1977—the reversal of income tax accruals on Wesco's earnings which amounted to $319,000 (see Note 8 to the accompanying financial statements), and the adjustments of the stamp liability account totalling $1,046,000 (see Note 3 to the accompanying financial statements)—does not reflect any real or permanent increase in earning power.

Consolidated Balance Sheet

Blue Chip Stamps

(Notes 1 and 2)

ASSETS	January 1, 1977	February 28, 1976
Cash	$ 2,526,000	$ 2,032,000
Short-term investments, at cost which approximates market	11,636,000	24,695,000
Marketable equity securities, at the lower of cost or market (Note 4)	63,143,000	56,712,000
Accounts receivable	4,633,000	7,894,000
Merchandise and supplies inventories, at the lower of cost (principally first-in, first-out) or market	6,493,000	7,295,000
Prepaid expenses, principally income taxes (Note 8)	12,337,000	14,462,000
Property, fixtures and equipment, net (Note 5)	8,417,000	8,290,000
Investment in Wesco Financial Corporation (Note 2)	38,661,000	28,588,000
Excess of cost over equity in net assets of See's Candy Shops, Incorporated, less accumulated amortization (Note 2)	15,128,000	15,487,000
Other equity securities (Note 4)	4,163,000	—
	$167,137,000	$165,455,000

LIABILITIES AND STOCKHOLDERS' EQUITY	January 1, 1977	February 28, 1976
Accounts payable and accrued expenses	$ 6,680,000	$ 6,227,000
Income taxes payable (Note 8)	3,315,000	11,560,000
Liability for unredeemed trading stamps (Note 3)	66,867,000	71,135,000
6¾% Subordinated Debentures due 1978 (Note 6)	4,287,000	6,392,000
	81,149,000	95,314,000
Stockholders' equity (Notes 6 and 10):		
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	79,230,000	68,361,000
Net unrealized loss on marketable equity securities (Note 4)	—	(4,97[illegible]
Total stockholders' equity	85,988,000	70,141,0[illegible]
	$167,137,000	$165,455,000

See accompanying notes to consolidated financial statements

Consolidated Statement of Income and Retained Earnings

Blue Chip Stamps

(Notes 1 and 2)

	53 weeks ended January 1, 1977	52 weeks ended February 28, 1976
Revenues:		
Candy sales	$56,333,000	$51,342,000
Stamp service revenues (Note 3)	17,208,000	20,361,000
Merchandise promotions and incentive sales	8,888,000	15,210,000
Dividends and interest	5,211,000	4,913,000
Other revenues	682,000	818,000
	88,322,000	92,644,000
Costs and expenses:		
Cost of sales and redemptions (Note 3)	46,358,000	52,116,000
Selling, general and administrative expenses	29,190,000	29,552,000
Interest and discount amortization	594,000	649,000
	76,142,000	82,317,000
Income before income taxes, equity in net income of Wesco Financial Corporation and securities gains (losses)	12,180,000	10,327,000
Provision for income taxes (Note 8)	(4,859,000)	(4,374,000)
Equity in net income of Wesco Financial Corporation (Notes 2 and 8)	4,459,000	3,092,000
Income before securities gains (losses)	11,780,000	9,045,000
Realized securities gains (losses), less income tax effect (Notes 4 and 8)	(77,000)	8,000
Net income	11,703,000	9,053,000
Retained earnings at February 28, 1976 and March 1, 1975	68,361,000	60,551,000
Add net loss for the nine weeks ended February 28, 1976 (Note 1)	98,000	—
Cash dividends of $.18 for the 44 weeks ended January 1, 1977 and $.24 for the 52 weeks ended February 28, 1976 (Note 6)	(932,000)	(1,243,000)
Retained earnings at end of year	$79,230,000	$68,361,000
Amounts per share based on weighted average shares outstanding:		
Income before securities gains (losses)	$2.27	$1.75
Realized securities gains (losses)	(.01)	—
Net income	$2.26	$1.75

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Financial Position

Blue Chip Stamps

(Notes 1 and 2)	53 weeks ended January 1, 1977	52 weeks ended February 28, 1976
Sources (uses) of cash, including short-term investments, from operations:		
Income before realized securities gains (losses)	$ 11,780,000	$ 9,045,000
Add (deduct):		
Depreciation and amortization	1,358,000	1,478,000
Decrease (increase) in trade accounts receivable	3,667,000	(4,105,000)
Decrease in inventories	1,653,000	4,472,000
Increase in prepaid expenses, principally income taxes	(5,384,000)	(7,773,000)
Equity in net income of Wesco Financial Corporation less dividends received, net of income taxes	(3,469,000)	(2,204,000)
Increase (decrease) in trade accounts payable and other accruals	(484,000)	628,000
Increase (decrease) in income taxes payable	(1,681,000)	9,558,000
Decrease in liability for unredeemed trading stamps	(2,900,000)	(1,048,000)
Cash provided by operations before realized securities gains (losses)	4,540,000	10,051,000
Other sources of cash:		
Decrease in marketable equity securities (net of $4,978,000 net unrealized loss deducted from stockholders' equity at February 28, 1976)	—	10,469,000
Decrease (increase) in accounts receivable from securities transactions	(1,085,000)	1,740,000
Proceeds from disposal of property, fixtures and equipment, net of income taxes and gains on sales	352,000	131,000
Increase in accounts payable from securities transactions	—	110,000
	3,807,000	22,501,000
Other uses of cash:		
Increase in marketable equity securities (net of reversal of $15,560,000 unrealized loss deducted from stockholders' equity at December 27, 1975)	416,000	—
Additions to property, fixtures and equipment	1,357,000	1,195,000
Purchase of stock of Wesco Financial Corporation	6,422,000	—
Purchase of other equity securities	4,163,000	—
Purchase of debentures for retirement	2,105,000	120,000
Payment of dividends	1,243,000	1,243,000
Realized securities (gains) losses net of income tax effect	77,000	(8,000)
Other	(48,000)	112,000
	15,735,000	2,662,000
Increase (decrease) in cash, including short-term investments	$ (11,928,000)	$ 19,839,000
Increase (decrease) in—		
Cash	$ 82,000	$ 526,000
Short-term investments	(12,010,000)	19,313,000
	$ (11,928,000)	$ 19,839,000

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

NOTE 1—Change in fiscal year end:

In December 1976 the Company changed the end of its 52-53 week fiscal year from approximately February 28 to approximately December 31. The results of operations for the nine weeks ended February 28, 1976 are included in the amounts shown for both fiscal years presented in the statement of income—the year ended January 1, 1977 as well as the year ended February 28, 1976. Summarized results of operations for the nine week period ended February 28, 1976 are as follows:

Total revenues	$15,669,000
Loss before securities gains	$ (107,000)
Realized securities gains, net of income taxes	9,000
Net loss	$ (98,000)

Because of the change in yearend, the amounts reflected in the consolidated statement of changes in financial position for the fiscal year ended January 1, 1977 are not the same as the changes between the amounts presented in the accompanying consolidated balance sheets, the dates of which are only ten months apart.

NOTE 2—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 January 1, 1977 and February 28, 1976.

The Company's investment in Wesco Financial Corporation (Wesco), a savings and loan holding company, has increased from 64.4% at March 1, 1975 and February 28, 1976 to 77.6% at January 1, 1977 and to 80.1% in January 1977. The investment is recorded at cost plus equity in Wesco's calendar-year net income, less taxes; the $21,522,000 and $18,131,000 unamortized excess of equity in the net assets of Wesco over cost at January 1, 1977 and February 28, 1976, respectively, is being amortized over 40 years. Summarized consolidated financial information of Wesco and subsidiaries for the years ended December 31, 1976 and 1975 follows:

	December 31, 1976	December 31, 1975
Assets—		
Cash and marketable securities	$155,153,000	$ 77,417,000
Loans receivable, less unearned loan fees, unrealized profit and loans in process	347,194,000	373,059,000
Other assets	21,001,000	19,651,000
	$523,348,000	$470,127,000
Liabilities and stockholders' equity—		
Savings deposits	$404,996,000	$360,070,000
Other liabilities	41,280,000	36,839,000
Total liabilities	446,276,000	396,909,000
Stockholders' equity, partially appropriated	77,072,000	73,218,000
	$523,348,000	$470,127,000
Total revenues	$ 39,391,000	$ 36,610,000
Net income	$ 5,516,000	$ 4,351,000
Blue Chip Stamps' share of net income	$ 3,708,000	$ 2,800,000
Income tax (provision) benefit thereon (Note 8)	243,000	(200,000)
Amortization of excess of equity over cost	508,000	492,000
Equity in net income	$ 4,459,000	$ 3,092,000

Wesco's appropriated retained earnings at December 31, 1976 and 1975 include approximately $45,578,000 and $44,940,000, 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, 1976 and 1975.

NOTE 3—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.

The Company periodically reevaluates both factors affecting the estimated cost of future redemptions and as a result has made the following revisions:

For the fiscal year ended February 28, 1976—

(1) The Company reduced its liability for unredeemed trading stamps and increased net income 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 would 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 reflected the Company's estimate (unchanged) 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 would 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 estimate that a lower volume of redemptions would cause these expenses to increase materially on a per-stamp basis.

For the fiscal year ended January 1, 1977—

(1) The revisions discussed in (1) and (2) above, recorded at February 28, 1976, were considered properly includable in the fiscal year ended January 1, 1977.

(2) The Company in August 1976 reduced its provision for future redemption service expenses per stamp due to favorable experience in controlling such costs.

The effect of the foregoing revisions after federal and state income taxes was to increase net income $573,000 or $.11 per share for the fiscal year ended February 28, 1976 and $1,046,000 or $.20 per share for the fiscal year ended January 1, 1977.

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

NOTE 4—Equity securities:

Marketable equity securities are carried at the lower of aggregate cost (first-in, first-out) or market. Cost and market value for the securities are set forth below:

	January 1, 1977	February 28, 1976
Cost	$63,143,000	$61,690,000
Market value	73,240,000	56,712,000

At February 28, 1976 the Company established a $4,978,000 valuation allowance to reduce the amount of marketable equity securities reflected in its balance sheet from historical cost to the lower of aggregate cost or market. The valuation allowance was charged directly to stockholders' equity. At January 1, 1977 the market value of the portfolio of marketable equity securities had recovered to an amount in excess of the aggregate cost and accordingly the valuation allowance was reversed with no effect on income. At January 1, 1977, gross unrealized gains and losses were $14,729,000 and $4,632,000 respectively.

Other equity securities of $4,163,000 represent an investment in Pinkerton Holding Corporation non-voting common stock. Through this holding and a direct investment of $16,752,000 in non-voting common stock of Pinkerton's, Inc., carried in marketable equity securities, the Company beneficially owns 25% of the equity in Pinkerton's, Inc. The Company considers its influence at Pinkerton's, Inc. to be insignificant because it has no vote as a stockholder and only one representative on the eleven-man board of directors.

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 5—Property, fixtures and equipment:

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

	January 1, 1977	February 28, 1976
Land	$ 2,183,000	$ 2,315,000
Buildings	4,225,000	4,186,000
Furniture, fixtures and equipment	10,164,000	9,808,000
Leasehold improvements	4,030,000	3,867,000
	20,602,000	20,176,000
Less accumulated depreciation and amortization	12,185,000	11,886,000
	$ 8,417,000	$ 8,290,000

Depreciation and amortization of property, fixtures and equipment are provided by straight-line and accelerated methods over the estimated useful lives of the assets. Total provisions amounted to $927,000 and $1,047,000 for the fiscal years ended January 1, 1977 and February 28, 1976.

NOTE 6—Debentures:

The indenture underlying the debentures requires sinking fund payments of approximately $2,000,000 in November 1977 and 1978. 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 7—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 January 1, 1977 and February 28, 1976 approximated $397,000 and $375,000 respectively. The total market value of the plans' assets exceeded the actuarially computed value of vested benefits at January 1, 1977 by approximately $1,000,000. The Company amended its plan to comply with the Employee Retirement Income Security Act of 1974 and has received a favorable determination from the Internal Revenue Service. The amendments did not have a material effect on the Company's consolidated financial position or results of operations.

NOTE 8—Taxes on income:

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

	Fiscal year ended January 1, 1977	Fiscal year ended February 28, 1976
Provision for income taxes	$ 4,859,000	$ 4,374,000
Charged against (credited to) equity in net income of Wesco	(243,000)	200,000
Charged against (credited to) securities gains (losses)	(42,000)	4,000
Total taxes charged in income statement	$ 4,574,000	$ 4,578,000

These taxes are payable or recoverable as follows:

	Fiscal year ended January 1, 1977	Fiscal year ended February 28, 1976
Payable currently—		
Federal	$ 4,714,000	$ 6,472,000
State	1,340,000	1,572,000
	6,054,000	8,044,000
Recoverable in the future—		
Federal	(1,231,000)	(2,839,000)
State	(249,000)	(627,000)
	(1,480,000)	(3,466,000)
Total taxes charged in income statement	$ 4,574,000	$ 4,578,000

Of the above taxes, the amounts currently payable are included in income taxes payable on the consolidated balance sheet, net of prepayments. The amounts recoverable in the future are included in prepaid income taxes or investment in Wesco 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 January 1, 1977	Fiscal year ended February 28, 1976
Deductible California franchise taxes over (under) those accrued on the books	$ 483,000	$ (101,000)
Deductible redemption expenses under those accrued on the books	(1,203,000)	(3,240,000)
Deferred taxes provided (reversed) on undistributed earnings of Wesco	(319,000)	133,000
Other timing differences	(441,000)	(258,000)
Total taxes recoverable in the future	$ (1,480,000)	$ (3,466,000)

Because the Company's ownership of Wesco now exceeds 80%, the earnings of Wesco will be included in consolidated federal tax returns in future years. Consequently, deferred taxes on undistributed earnings of Wesco, provided in prior years, have been reversed as of January 1, 1977.

The provision for income taxes of $4,859,000 for the fiscal year ended January 1, 1977 amounted to 39.9% of pre-tax income of $12,180,000; the provision of $4,374,000 for the prior fiscal year represented

42.4% of pre-tax income of $10,327,000. Following is a summary of the differences between the federal statutory rate and these effective percentages:

	Fiscal year ended	
	January 1, 1977	February 28, 1976
Statutory federal income tax rate	48.0%	48.0%
Federal tax benefit from dividend exclusion	(12.6)	(13.7)
State income taxes net of federal income tax benefit	4.8	4.8
All other, net	(.3)	3.3
Effective income tax rate	39.9%	42.4%

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 $11,176,000 and $12,935,000 at January 1, 1977 and February 28, 1976, 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) 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 issued. The effect of the settlement was reflected in the financial statements for the fiscal year ended February 28, 1976. In the fiscal year ended January 1, 1977 the Company was assessed additional California franchise taxes based upon the federal settlement. The settlements had no effect on the consolidated statement of income, as the tax deficiencies constituted timing, rather than permanent, differences.

NOTE 9—Lease commitments and rental expense:

At January 1, 1977 minimum rental commitments are as follows:

For the fiscal year ending approximately December 31—	
1977	$2,319,000
1978	1,985,000
1979	1,804,000
1980	1,502,000
1981	1,083,000
For the five fiscal years ending approximately December 31—	
1986	$3,007,000
1991	1,140,000
1996	105,000

Net rental expenses were $4,845,000 and $4,420,000 for the fiscal years ended January 1, 1977 and February 28, 1976. 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 $1,504,000 and $1,547,000 for the fiscal years ended January 1, 1977 and February 28, 1976.

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 $15,950,000 and $12,602,000 at January 1, 1977 and February 28, 1976. 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 effects on net income assuming the leases had been capitalized at inception, would not have been material.

NOTE 10—Legal proceedings:

The Company was 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. In December 1976 an order of the California Supreme Court dismissing the class action portion of the suit became final. Any further proceedings by plaintiffs would involve immaterial amounts.

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. The federal action was concluded on June 9, 1975, when the United States Supreme Court held that the purported class did not have standing to bring such an action. On June 21, 1971 a substantially identical action based on California law was filed in Los Angeles County Superior Court. On August 13, 1976 an order was entered by the court granting the Company's motion to dismiss the action based on the ground that plaintiffs had not complied with the requirements of California law to bring the action to trial within five years from the date of its filing. Plaintiff has filed notice of appeal from the Court's ruling. In the opinion of counsel, on the current state of the record and the law, the appeal should be defended successfully and, in the unlikely event that the plaintiff should prevail on the appeal, there would be substantial defenses on the merits.

NOTE 11—Event subsequent to January 1, 1977:

On February 17, 1977 the Company, through a newly organized, wholly owned subsidiary, entered into an agreement to purchase the newspaper assets, subject to certain liabilities, of the Buffalo (New York) Evening News for approximately $33,000,000 in cash plus assumption of certain pension obligations. The transaction is subject to approval by the Federal Reserve Board and is also contingent upon other matters.

The Company has not provided pro-forma financial information based on the assumption that the transaction had occurred as of the beginning of the current fiscal year for the following principal reasons. First, the Company expects that, if the transaction is approved, it will finance the purchase mainly by a term bank loan which may be supplemented in part by use of the Company's available resources. Although negotiations are in process, no agreement has been reached as to loan amount, terms of payment or interest rate. Consequently, the cost of financing the purchase, either in interest or in the form of reduced income from existing investments, cannot be accurately estimated. Second, the purchase price significantly exceeds the seller's aggregate depreciated cost of the assets acquired less the liabilities assumed. It will be necessary to make a study to allocate portions of the price paid among assets acquired as well as to estimate useful lives of various items of plant and equipment for the purpose of computing depreciation. It is anticipated (i) that a substantial writeup of the tangible assets acquired will occur, (ii) that some portion of the total cost of all acquired assets will be allocated to subscription lists and goodwill, and (iii) that an additional liability will be recorded in an amount requiring complex actuarial computations of pension obligations.

Because specific information concerning the foregoing is not available, any estimate of what the impact on the Company's earnings would have been if the newspaper assets had been acquired at the beginning of the fiscal year is tentative, approximate and very likely inaccurate. However, management estimates—after considering additional depreciation expense and financing costs, net of applicable income tax benefit, and amortization of goodwill—that if the Company had acquired the newspaper at the beginning of its fiscal year ended January 1, 1977 such an acquisition would have resulted in a detrimental effect on the Company's pro-forma net income (including net income of the newspaper operation) of something between $500,000 and $1,500,000, or $.10 and $.29 per share, respectively.

For the year ended December 31, 1976, unaudited total revenues and net income, as reported by the seller, from the operations of the newspaper assets to be acquired were approximately $39,600,000 and $700,000, respectively. The assets, net of liabilities, which are to be acquired for approximately $33,000,000, are recorded in the accounts of the seller as of December 31, 1976 at approximately $20,300,000. The Company's subsidiary will also take over pension plans for which seller estimates that vested benefits are approximately $4,000,000 in excess of plan assets.

NOTE 12—Quarterly financial information—unaudited:

The following interim financial information is furnished pursuant to a new rule of the Securities and Exchange Commission. It has not been audited by the Company's independent accountants in accordance with generally accepted auditing standards and accordingly they express no opinion thereon.

	14 weeks ended	13 weeks ended		
	January 1, 1977	September 25, 1976	June 26, 1976	March 27, 1976
Total revenues	$32,901,000	$13,718,000	$20,777,000	$20,926,000
Cost of sales and redemptions	15,708,000	6,760,000	10,607,000	13,283,000
Equity in net income of Wesco	1,664,000	1,018,000	979,000	798,000
Net income	5,915,000	2,186,000	2,729,000	873,000
Net income per share	$1.14	$.42	$.53	$.17

The amounts shown for the first and second quarters have not previously been reported due to the change in fiscal yearend explained in Note 1.

Report of Independent Accountants

Price Waterhouse & Co.

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

March 10, 1977

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 January 1, 1977 and February 28, 1976, 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 2). 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.

In our opinion, based on our examinations and the report of other independent accountants, the consolidated financial statements present fairly the financial position of Blue Chip Stamps and its consolidated subsidiary at January 1, 1977 and February 28, 1976, 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.

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, 1976 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, $1 par value	New York Stock Exchange Pacific Stock Exchange

There were 2,373,269 shares of Capital Stock outstanding December 31, 1976

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 twelve months (or for such shorter period that the registrant was required to file such reports),

Yes X No

and

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

Yes X No

Item 1. Business

(a) Wesco Financial Corporation (Wesco) was incorporated on March 18, 1959. Its principal business is the ownership of all of the outstanding Guarantee Stock of Mutual Savings and Loan Association (Mutual) which serves the Southern California area through 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 $44,926,000 in 1976 compared to an increase of $26,953,000 in 1975. In 1976, Mutual's loan portfolio decreased $25,865,000 compared to a decrease of $16,006,000 in 1975.

(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 160 persons at December 31, 1976.

(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, 1976 and four prior years is incorporated by reference to the annual report included in Item 10.

Dividends declared (based on 2,373,269 shares outstanding before the announced 3-for-1 stock split) by Wesco Financial Corporation for the year ended December 31, 1976 and four prior years were as follows:

	Year ended December 31				
Description	1976	1975	1974	1973	1972
Cash dividends	$1,662,000	1,424,000	1,187,000	1,075,000	--
Stock dividends - market value at declaration date	--	--	--	1,780,000	1,883,000

(b) Not applicable.

Item 3. Properties

(a) 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.

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 with one ten-year and two five-year options, the last of which will expire June 12, 1981.

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, 1980. The options to May 31, 1980 have been executed and four additional consecutive five-year options to May 31, 2000 have been agreed upon.

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 570 Camino de Estrella, San Clemente, California 92672, leased by Mutual under a twenty-year lease with options for three additional five-year terms which will run through December 4, 2010.

Vista Office is presently located at 1020 East Vista Way, California 92083. The present lease runs through November 9, 1977 with six month options to May 10, 1979. Negotiations have been completed and this office will move to a new location in an existing building adjacent to the present one at 1010 East Vista Way.

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 17900 Magnolia Street, Fountain Valley, California 92708, leased by Mutual under a lease to 1991 with options to 2006.

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 Boulevard, Upland, California 91786, was acquired by foreclosure in 1976 and is now owned in fee simple.

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 is presently located at 119 East Ivy, Fallbrook, California 92101. The present lease runs to October 31, 1977 with additional options to October 31, 1981. Mutual has acquired property at 116 through 124½ South Main Street in Fallbrook, where it will build a permanent office.

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

(b) Not applicable.

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 was filed November 3, 1972 by American against Mutual and those claiming interests in the property covered by the alleged easement. Wesco is named as a defendant only because it is a trustee on several deeds of trust on portions of the property. 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. A settlement of this matter, and of Item (b) which follows, has been orally agreed to with counsel for American Savings and Loan Association and settlement documents have been prepared and forwarded to said counsel. Said settlement involves Mutual granting an easement to American through a portion of the property which it has in the Friendly Valley area and putting in a road on the portion of this easement up to Mutual's property line.

(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 Item (a) above, plus the Title Insurance and Trust Company issued policies of title insurance to the individual homeowners without referring to American's alleged easement and Mutual idemnified the Title Company in connection with the issuance of such policies. This case has been consolidated with that described in Item (a) above.

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

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

(d) <u>Kern County Superior Court Case No. 123271 - Gabriel W. Solomon et al. vs. United Savings and Loan Association et al.</u>

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 <u>Westminster vs. Mutual</u> case (listed in Item (c) above). The case is pending.

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

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. This matter is being handled by Mutual's insurance carrier. The case is pending.

(f) Conde Investment Corp. vs. Mutual Savings and Loan Association
San Diego Superior Court -- Case No. 363798

Cesco Development Corp. vs. Mutual Savings and Loan Association
San Diego Superior Court -- Case No. 363799

These two actions brought by two corporate purchasers, which apparently are owned by the same principals who purchased unimproved land from Mutual Savings in the Lake San Marcos Area, San Diego County and gave back to Mutual Savings as part of the purchase price, promissory notes secured by deeds of trust. The actions claim a violation of the Subdivision Map Act in the sale of the parcels to these two plaintiffs. These cases seek a total aggregate sum of $1,800,000 in money damages. A demand has been made on Mutual Savings' liability carrier and on the Title Insurance Company to defend this case.

Mutual's counsel believes there are meritorious defenses to these actions and, based on the facts presently available, Mutual believes that losses, if any, would not be material.

Item 6. Increases and Decreases in Outstanding Equity Securities

(a) As of December 31, 1976, 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, 1976

(1) Title of class	(2) Number of record holders
Capital stock par value $1	1,779

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.

Name	Age	Position
Louis R. Vincenti	71	Chairman of the Board since January, 1973; also President since July, 1961.
Bette Deckard	57	Secretary-Treasurer since April, 1975.
John R. Armetta	56	Vice President, Property Development since April, 1973.
H. R. Dettmann	54	Vice President, Operations since October, 1976.
P. E. Lynn	64	Vice President, Loan Processing since April, 1969
Robert E. Sahm	49	Vice President, Building Management since July, 1971.

Item 9. Idemnification 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 Schedule

WESCO 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, 1976 and 1975 (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, 1976 and 1975
Statements of Earnings - Years ended December 31, 1976 and 1975
Statements of Changes in Financial Position - Years ended December 31, 1976 and 1975

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

By Louis R. Vincenti
Louis R. Vincenti, President

Date March 18, 1977

WESCO FINANCIAL CORPORATION

Annual report 1976

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

TO THE STOCKHOLDERS OF WESCO FINANCIAL CORPORATION

Consolidated net earnings of Wesco Financial Corporation and its subsidiaries for 1976 amounted to $5,516,000 ($2.32 per share) compared to $4,351,000 ($1.83 per share) in 1975. Quarterly earnings per share were:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1976	$ .48	.60	.63	.61	2.32
1975	.36	.36	.54	.57	1.83

Total savings in Mutual Savings increased $44,926,000 in 1976 compared with an increase of $26,953,000 in 1975. Out-of-state savings were $52,508,000 (13% of total savings) at December 31, 1976 compared with $52,313,000 (14.5% of total savings) in 1975. Substantial growth of savings in 1977 is expected.

Cost of savings and cost of funds (savings and borrowings) continued to increase in 1976 as did the yield on the loan portfolio of Mutual Savings.

	1976	1975	1974	1973	1972
Cost of Savings	6.35%	6.29	6.00	5.60	5.56
Cost of all funds	6.43	6.41	6.25	5.69	5.59
Yield on loans at year end	7.70	7.55	7.36	7.17	7.03

Real estate loans made during 1976 totaled $42,386,000 compared with $36,317,000 in 1975. Loans in process and firm loan commitments, which at December 31, 1975 were $1,643,000, increased to $3,260,000 at December 31, 1976.

On December 29, 1976, Wesco, the parent company, borrowed the sum of $5,500,000 payable in monthly installments, including interest at 9¼%, for a period of thirty years. At December 31, 1976, Wesco's cash and short-term securities, at the parent company level, were $21,070,000, compared with $14,458,000 at December 31, 1975. Search for suitable opportunities for investment of a substantial portion of these funds has been underway for sometime and may result in a major corporate acquisition.

Mutual Savings in 1976 continued its program to diversify its assets by investing an additional $2,009,000 in public utility preferred stocks, $2,142,000 in municipal bonds and $14,809,000 in the purchase of 1,044,900 shares of common stock of Federal National Mortgage Association (FNMA).

At year end 1976 the amount invested in stocks and bonds by Wesco and Mutual Savings on a consolidated basis and their market value and unrealized gain were:

	Cost	Market Value	Unrealized Gain
Preferred stocks	$25,215,000	28,488,000	3,273,000
Common stocks	14,809,000	17,763,000	2,954,000
Municipal bonds	6,696,000	7,738,000	1,042,000
Total	$46,720,000	53,989,000	7,269,000

Wesco and Mutual Savings have increased cash and short-term marketable securities due in one year or less. Total investment of the stocks, bonds, cash and short-term marketable securities at year end is:

	1976	1975
Stocks and bonds	$ 46,720,000	29,613,000
Cash and marketable securities	108,433,000	47,804,000
Total	$155,153,000	77,417,000

Further information concerning these assets and income therefrom is included in Management's Discussion in this Annual Report.

Properties acquired by foreclosure were $3,321,000 at December 31, 1976 compared with $3,286,000 at December 31, 1975. A commercial property, acquired in 1975 with a book cost of $289,000, has been sold with the escrow scheduled to close in 1977 at a profit of approximately $160,000. Property at Upland, California, occupied by our branch office, was acquired by foreclosure in 1976 at a book cost of $293,000. We expect to retain ownership of this parcel. Our occupancy expense will be less than was being paid under a prior rental arrangement. A one-half interest in a modern shopping center, motel and restaurant at Lake San Marcos, acquired by foreclosure, has a book value at December 31, 1976 of $816,000 and in 1976 produced a net profit of $144,000, a return of 18% on cost.

The remaining balance of the foreclosed property account at December 31, 1976 was $1,923,000 and consists of vacant land at Santa Barbara, Friendly Valley in Los Angeles county and Lake San Marcos in San Diego County, with book values of $955,000, $621,000 and $347,000 respectively. We are processing development plans for the vacant land at Santa Barbara and Friendly Valley and hope to commence construction of residences at Santa Barbara in the fall of 1978 and at Friendly Valley in the fall of 1977. No profit will be realized from these developments during 1977. We believe it will be possible to dispose of the remaining vacant land at Lake San Marcos during 1977 and 1978.

Blue Chip Stamps, by a tender offer expiring January 27, 1977, acquired 373,730 shares of Wesco and is now the owner of 1,901,029 shares (80.1% of all shares). This resulted in delisting by the New York Stock Exchange. Trading of Wesco stock commenced on March 7, 1977 on the American Stock Exchange.

On January 18, 1977, Wesco increased its regular quarterly cash dividend from $.17½ per share to $.21½ per share payable March 10, 1977 to shareholders of record at the close of business on February 18, 1977 on 2,373,269 shares then outstanding. A 3-for-1 stock split in the form of a 200% stock dividend was declared by Wesco with distribution to be made on April 4, 1977 to shareholders of record on March 18, 1977.

Mutual Savings, which has sixteen offices, did not open any new branch offices during the year 1976. Applications are pending for satellite branch offices in a proposed retail shopping center in Pasadena and in an existing new shopping center in Glendale.

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, 1976 and four prior years

	1976	1975	1974	1973	1972
Revenues:					
Interest on loans	**$ 27,521,000**	28,438,000	28,463,000	27,450,000	25,318,000
Loan fees and service charges	**1,663,000**	1,362,000	1,542,000	1,786,000	2,662,000
Interest on marketable securities	**5,135,000**	3,171,000	3,202,000	2,950,000	2,362,000
Dividends on common and preferred stocks	**3,108,000**	1,953,000	974,000	463,000	185,000
Interest and dividends on investments required by law	**486,000**	519,000	533,000	462,000	251,000
Net gains (losses) on sales of marketable securities	**26,000**	(62,000)	(429,000)	(72,000)	2,000
Operations and net gains from sales of real property	**1,082,000**	909,000	593,000	831,000	622,000
Other income, net	**370,000**	320,000	302,000	419,000	385,000
	39,391,000	36,610,000	35,180,000	34,289,000	31,787,000
Expenses:					
General and administrative expenses	**4,944,000**	4,710,000	4,208,000	3,702,000	3,436,000
Interest on savings deposits	**24,428,000**	21,844,000	20,419,000	20,001,000	19,304,000
Interest on notes payable	**1,962,000**	2,628,000	3,364,000	1,313,000	611,000
	31,334,000	29,182,000	27,991,000	25,016,000	23,351,000
Earnings before taxes on income	**8,057,000**	7,428,000	7,189,000	9,273,000	8,436,000
Taxes on income:					
Current	**2,283,000**	3,735,000	3,262,000	4,263,000	3,018,000
Deferred	**258,000**	(658,000)	—	402,000	1,082,000
	2,541,000	3,077,000	3,262,000	4,665,000	4,100,000
Net earnings	**$ 5,516,000**	4,351,000	3,927,000	4,608,000	4,336,000
Earnings per capital share					
Based on 2,373,269 shares outstanding before announced 3-for-1 stock split	**$ 2.32**	1.83	1.65	1.94	1.83
Based on 7,119,807 shares outstanding adjusted for announced 3-for-1 stock split	**$ .77**	.61	.55	.65	.61
Cash dividends per capital share					
Based on 2,373,269 shares outstanding before announced 3-for-1 stock split	**$ .70**	.60	.50	.453	—
Based on 7,119,807 shares outstanding adjusted for announced 3-for-1 stock split	**$ .233**	.20	.167	.151	—
FINANCIAL DATA AT YEAR END					
Total assets	**$523,348,000**	470,127,000	465,646,000	451,980,000	448,240,000
Real estate loans	**$344,567,000**	371,041,000	386,398,000	387,165,000	367,679,000
Savings deposits	**$404,996,000**	360,070,000	333,117,000	345,530,000	361,272,000
Shareholders' equity	**$ 77,072,000**	73,218,000	70,291,000	67,551,000	64,018,000
Book value per share*	**$ 32.48**	30.85	29.62	28.46	26.98

*Book value per share is based on 2,373,269 shares outstanding at December 31, 1976.

Management's Discussion and Analysis of Summary of Operations

The accompanying Summary of Operations covers the five years ended December 31, 1976.

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, the parent company, invests its cash funds in short-term marketable securities. Mutual Savings' principal business is the lending of money secured by first liens on real estate (principally residential) to enable borrowers to purchase, construct, or refinance real property. Funds are provided by savings deposits, principal payments on existing loans, borrowings from banks and operations.

INTEREST ON LOANS. This source of income is dependent upon the amount of loans and the yield thereon. The yields at December 31, 1976, 1975 and 1974 were 7.70%, 7.55% and 7.36% respectively. Total real estate loans outstanding at the end of such years were $347,244,000, $374,011,000 and $389,167,000.

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

	1976	1975	1974
Loan fees	$ 701,000	721,000	858,000
Commitment fees	—	—	89,000
Escrow and clerical fees	130,000	47,000	102,000
Prepayment charges	568,000	314,000	334,000
Late charges	70,000	82,000	59,000
Other charges	194,000	198,000	100,000
	$1,663,000	1,362,000	1,542,000

Loan fees consist of fees currently earned plus transfer of unearned fees to earnings. Unearned loan fees at year end have decreased from $1,075,000 in 1974 to $812,000 in 1975 and to $648,000 in 1976 and was caused by transfer to earnings of an amount considerably in excess of additions to the unearned loan fee account. Transfer to earnings was $409,000 in 1974, $342,000 in 1975 and $245,000 in 1976.

INTEREST ON MARKETABLE SECURITIES. Investments have consisted principally of certificates of deposit of major banks, short-term bank obligations, banker's acceptances, United States Government bonds, notes, bills and agency securities and state municipal bonds. Maturity of these marketable securities, other than municipal bonds, has been less than one year. 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.

Mutual Savings increased its holdings of state and municipal bonds by approximately $2,142,000 during 1976 to a total on December 31, 1976 of $6,696,000 at cost and $7,738,000 at market value. The unrealized appreciation included in the latter figure of $1,042,000, up from $78,000 at the previous year end, reflects the favorable conditions which existed in the tax-exempt bond market in 1976. The average maturity of Mutual Savings' tax-exempt bond portfolio is just over twelve years, the current return on our investment is 7.84%, and interest income for 1976 was $486,000 compared with $54,000 for 1975. The amount invested in all such marketable securities at December 31 for the years indicated is as follows:

	1976	1975	1974
Municipal bonds	$ 6,696,000	4,554,000	—
Other marketable securities	106,912,000	44,220,000	34,019,000

DIVIDENDS ON COMMON AND PREFERRED STOCK. During 1976, Mutual Savings invested $14,809,000 by purchase of 1,044,900 shares of common stock of Federal National Mortgage Association (FNMA). At December 31, 1976, the market value of the stock was $2,954,000 in excess of cost. In 1976 FNMA paid quarterly dividends of $.22 per share, a return of 6.57% on cost. The dividend rate was increased to $.25 per share for the first quarter of 1977. During 1977 to March 3, Mutual Savings has purchased an additional 605,100 shares at a cost of $9,706,000, resulting in a total investment of $24,-736,000. The investment in stock of FNMA by Mutual Savings is, by law, limited to 5% of its assets which at December 31, 1976 was approximately $25,000,000. FNMA is a U. S. Government sponsored corporation whose primary function is providing a secondary market for FHA and VA mortgages. Its stock is listed on the New York Stock Exchange.

During 1976, $2,009,000 of additional funds were invested in public utility preferred stocks increasing the holdings of Mutual Savings and Wesco to $25,215,000 ($267,000 in Wesco) at cost on December 31, 1976 with an annual yield of 10.10%. Reflecting the strength in the market for preferred stocks, the market value of these securities at year end was $28,488,000, including unrealized appreciation of $3,273,000 up from $619,000 a year earlier. Mutual Savings' portfolio of preferreds is limited by regulation to 5% of its assets, which at December 31, 1976 was approximately $25,000,000. It is the present intention of management to maintain that position. Instances may arise from time to time in which the Company's position can best be protected by selling some of these preferred stocks in the market resulting in the realization of a portion of the difference between the cost and the market value of these securities. In particular, the redemption features, which apply to all these preferreds, are being considered carefully with regard to the continued retention of the holdings.

The amounts invested at year end were:

	1976	1975	1974
Common stocks	$ 14,809,000	1,853,000	5,079,000
Preferred stocks	25,215,000	23,206,000	12,900,000
Total	$ 40,024,000	25,059,000	17,979,000

The annual dividend income from such investments was:

	1976	1975	1974
Common stocks	$ 671,000	194,000	745,000
Preferred stocks	2,437,000	1,759,000	229,000
Total	$ 3,108,000	1,953,000	974,000

85% of the dividend income from stocks is deductible in computing Federal income taxes. Dividend income will increase in 1977 because of planned additional investment and the increased dividend by FNMA.

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 $229,000 was declared in 1974, $198,000 in 1975 and $171,000 in 1976 all in the fourth quarter. The variation in amount of interest on the secondary reserve has been nominal.

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 and the gain of $26,000 in 1976 is due principally to sales of securities with the proceeds being used to purchase more desirable issues.

OTHER INCOME. The principal portion of other income is rentals derived from the Pasadena business block, owned by Wesco, in which the head office of Mutual Savings is located. This income, reported on a net basis after applicable expenses, was $255,000 for the year 1976, $288,000 for the year 1975 and $206,000 for the year 1974. All rentable space has been now leased and full occupancy will occur by May 1, 1978. Leases contain a provision for increase of rents as costs of operation and maintenance increase. Some improvement in net rental income will occur in 1977 and future years.

OPERATIONS AND NET GAINS FROM SALES OF REAL PROPERTY. Mutual Savings, over a period of years, has acquired real property by foreclosure. Some of the vacant land so acquired was disposed of from time to time and, on other occasions, residential units were built thereon. No construction occurred during 1976. Operations and net gains from the sale of real property and the sources thereof was as follows:

	1976	1975	1974
Gain on sales taken directly into income	$ 81,000	106,000	181,000
Amortization of unrealized profit	962,000	814,000	410,000
Rental income	136,000	151,000	108,000
Maintenance and sales expense	(97,000)	(162,000)	(106,000)
Total	$1,082,000	909,000	593,000

Unrealized profit on the sales of real property at year end was:

1976	1975	1974
$ 276,000	1,025,000	1,404,000

During the next several years income from sales will be limited to that realized from sales then made and no addition to earnings is expected from the unrealized profit of $276,000 on hand at December 31, 1976. Rental income from operations should continue in future years. Maintenance and sales expenses will decrease as vacant land is disposed of.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased $502,000 in 1975 and $234,000 in 1976 as compared to the respective prior years. Business expenses were 12.6% of gross income in 1976, 12.9% in 1975 and 12% in 1974. 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.

INTEREST ON SAVINGS DEPOSITS. Total savings and interest paid thereon for the past three years were:

	1976	1975	1974
Total savings	$404,996,000	360,070,000	333,117,000
Interest on savings	24,428,000	21,844,000	20,419,000

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

	1976	1975	1974
5¼%	37%	38	36
5½	1	1	2
5¾	4	3	3
6	5	10	23
6½	12	11	8
6¾	3	4	3
7	1	1	1
7½	29	27	22
7¾	8	5	—
Over 7¾	—	—	2
	100%	100	100

Total savings are expected to increase during 1977 with a slight increase in the percentage of higher rate accounts.

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 1976 from 7¼% to 9¼%, in 1975 from 7¼% to 10½% and in 1974 from 7½% to 12%. The total of notes payable at year end for the past three years and the interest paid in each year was:

	1976	1975	1974
Notes payable	$ 31,356,000	26,210,000	50,975,000
Interest thereon	1,962,000	2,628,000	3,364,000

TAXES ON INCOME. Taxes on income were 31.5% of earnings before taxes on income in 1976, 41.4% in 1975 and 45.4% in 1974. Total tax expense varies with the increase or decrease in pre-tax accounting income adjusted for permanent differences (generally non-taxable revenue or non-deductible expense items). 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. In addition, in 1976 and 1975, income earned on municipal obligations was tax exempt and gains on sales of foreclosed property increased compared to 1975 and 1974.

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:

	1976	1975	1974
Computed "expected" Federal taxes	$3,867,000	3,565,000	3,451,000
Increase (reductions) in taxes resulting from:			
Net gains on sales of foreclosed real property	(459,000)	(278,000)	(219,000)
State franchise tax net of Federal income tax benefit	484,000	418,000	422,000
Dividends received deduction on common and preferred stocks	(1,268,000)	(796,000)	(397,000)
Interest on municipal obligations	(233,000)	(25,000)	—
Other permanent differences	150,000	193,000	5,000
Taxes on income	$2,541,000	3,077,000	3,262,000

Deferred tax expense was $258,000 in 1976, ($658,000) in 1975 and nil in 1974. The primary reasons for the changes in deferred taxes are deferred loan fees and accrued investment income. Recognition of loan fee income has been greater for tax purposes than for financial statement purposes the past three years. Recognition of investment income was greater for tax purposes than for financial statement purposes in 1975 and 1974; however, in 1976, investment income recognized for financial statement purposes was greater.

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 three years.

	1976		1975		1974	
Quarter Ended	High	Low	High	Low	High	Low
March 31	15⅝	10	11¾	8⅜	15	11⅛
June 30	15¼	13¼	12	10⅞	15	9⅝
September 30	15½	13⅜	11⅞	9	13½	6¼
December 31	20	15½	10⅛	8⅞	9¾	7½

A copy of Form 10-K for 1976, 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, 1976 and 1975

ASSETS	1976	1975
Cash	$ 1,521,000	3,584,000
Short-term bank obligations	16,700,000	—
Certificates of deposit and banker's acceptances, at amortized identified cost, which approximates market	80,262,000	40,000
United States Government and agency obligations, at amortized identified cost (quoted market, $9,908,000 in 1976 and $44,291,000 in 1975) (note 3)	9,950,000	44,180,000
Municipal obligations, at amortized identified cost (quoted market, $7,738,000 in 1976 and $4,632,000 in 1975)	6,696,000	4,554,000
Investment in common stocks (quoted market, $17,763,000 in 1976 and $1,567,000 in 1975) (note 11)	14,809,000	1,853,000
Investment in preferred stocks (quoted market, $28,488,000 in 1976 and $23,825,000 in 1975) (note 11)	25,215,000	23,206,000
Loans receivable, less unearned loan fees, unrealized profit and loans in process (notes 2 and 3)	347,194,000	373,059,000
Accrued interest and dividends receivable	3,074,000	1,581,000
Properties purchased and held for investment, at cost	89,000	288,000
Properties acquired through foreclosure by Mutual Savings and held for sale, at cost, less allowance for losses of $192,000 in 1976 and $251,000 in 1975	3,321,000	3,286,000
Investments required by law:		
Investment in stock of Federal Home Loan Bank, at cost (note 3)	3,593,000	3,967,000
Prepayments to FSLIC secondary reserve	4,608,000	4,792,000
Office properties and equipment, net (notes 3 and 5)	5,059,000	5,080,000
Prepaid expenses and sundry assets, at cost	1,257,000	657,000
	$523,348,000	470,127,000

LIABILITIES AND STOCKHOLDERS' EQUITY	1976	1975
Savings deposits	$404,996,000	360,070,000
Notes payable (note 3)	31,356,000	26,210,000
Advances by borrowers for taxes and insurance	479,000	779,000
Accounts payable and sundry accrued expenses	1,099,000	1,032,000
Cash disbursements to be funded at bank	668,000	646,000
Taxes on income (note 4):		
Current	229,000	981,000
Deferred	7,449,000	7,191,000
Total liabilities	446,276,000	396,909,000
Stockholders' equity (notes 4, 7, 8 and 13):		
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	46,633,000	42,779,000
Total stockholders' equity	77,072,000	73,218,000
Commitment, contingent liabilities and subsequent event (notes 6, 10 and 13)		
	$523,348,000	470,127,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

Years ended December 31, 1976 and 1975

	1976	1975
Revenues:		
Interest on loans	$ 27,521,000	28,438,000
Loan fees and service charges	1,663,000	1,362,000
Interest on marketable securities	5,135,000	3,171,000
Dividends on common and preferred stocks	3,108,000	1,953,000
Interest and dividends on investments required by law	486,000	519,000
Net gains (losses) on sales of marketable securities	26,000	(62,000)
Operations and net gains from sales of real property (note 9)	1,082,000	909,000
Other income, net	370,000	320,000
	39,391,000	36,610,000
Expenses:		
General and administrative expenses	4,944,000	4,710,000
Interest on savings deposits	24,428,000	21,844,000
Interest on notes payable	1,962,000	2,628,000
	31,334,000	29,182,000
Earnings before taxes on income	8,057,000	7,428,000
Taxes on income (note 4):		
Current	2,283,000	3,735,000
Deferred	258,000	(658,000)
	2,541,000	3,077,000
Net earnings	$ 5,516,000	4,351,000
Earnings per capital share (note 13):		
Based on 2,373,269 shares outstanding before announced three-for-one stock split	$ 2.32	1.83
Based on 7,119,807 shares outstanding, adjusted for announced three-for-one stock split	$ .77	.61
Cash dividends per share (note 13):		
Based on 2,373,269 shares outstanding before announced three-for-one stock split	$ .70	.60
Based on 7,119,807 shares outstanding, adjusted for announced three-for-one stock split	$ .233	.20

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1976 and 1975

	1976	1975
Capital stock (note 13)	$ 2,373,000	2,373,000
Capital surplus arising from stock dividends (note 13)	28,066,000	28,066,000
Retained earnings:		
Appropriated (notes 4 and 8):		
Beginning of year	44,130,000	43,042,000
Allocation of net earnings	638,000	1,088,000
End of year	44,768,000	44,130,000
Unappropriated (note 7):		
Beginning of year	27,888,000	26,049,000
Cash dividends declared and paid	(1,662,000)	(1,424,000)
Allocation of net earnings	4,878,000	3,263,000
End of year	31,104,000	27,888,000
Less stock dividends at market value	(29,239,000)	(29,239,000)
Total retained earnings	46,633,000	42,779,000
Total stockholders' equity	$ 77,072,000	73,218,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1976 and 1975

	1976	1975
Funds provided:		
Net earnings	$ 5,516,000	4,351,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	344,000	335,000
Interest on savings deposits credited to savings accounts	18,537,000	16,611,000
FSLIC primary premium transferred from secondary reserve	96,000	88,000
Deferred income taxes (note 4)	258,000	(658,000)
Amortization of fees and discounts	(245,000)	(342,000)
Recognition of unrealized profit on real property	(962,000)	(814,000)
Interest income on FSLIC secondary reserve	(313,000)	(320,000)
Funds provided from operations	23,231,000	19,251,000
Principal payments on real estate loans	69,216,000	51,419,000
Additions to deferred loan fees	81,000	79,000
Sales of real property, net of gains	556,000	4,423,000
Increase in notes payable	5,146,000	—
Increase in loans in process	620,000	843,000
Additions to unrealized profit on real property	159,000	489,000
Increase in savings deposits	26,389,000	10,342,000
Decrease in stock of Federal Home Loan Bank	374,000	—
Decrease in cash	2,085,000	—
Other, net	—	3,222,000
Total funds provided	$127,857,000	90,068,000
Funds used:		
Cash dividends declared and paid (note 7)	1,662,000	1,424,000
Decrease in notes payable	—	24,765,000
Investment in real estate loans	42,386,000	36,317,000
Investment in buildings and other assets	330,000	275,000
Additions to real property	406,000	1,626,000
Increase in stock of Federal Home Loan Bank	—	222,000
Decrease in advances by borrowers for taxes and insurance	300,000	350,000
Increase in marketable securities	79,799,000	21,970,000
Increase in cash	—	3,119,000
Other, net	2,974,000	—
Total funds used	$127,857,000	90,068,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1976 and 1975

(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

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

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 nonconstruction 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 5% 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:

	1976	1975
Real estate loans on residential property of:		
One to four units (home loans)	$259,307,000	273,496,000
More than four units	76,184,000	87,250,000
Real estate loans on other properties	11,753,000	13,265,000
	347,244,000	374,011,000
Less:		
Unearned loan fees	(648,000)	(812,000)
Unrealized profit on sales of real property	(276,000)	(1,025,000)
Loans in process	(1,753,000)	(1,133,000)
	344,567,000	371,041,000
Loans on savings deposits	2,627,000	2,018,000
	$347,194,000	373,059,000

(3) **Notes Payable**

The following is a summary of notes payable:

	1976	1975
Federal Home Loan Bank advances, secured by certain real estate loans amounting to $59,586,000 and Federal Home Loan Bank stock, with interest at 7.50%	$ 25,856,000	26,200,000
Note payable, secured by main office land, buildings, and assignment of leases, with interest at 9.25%	5,500,000	—
Bank notes due on demand with interest principally at prime secured by certain marketable securities and real estate loans	—	10,000
	$ 31,356,000	26,210,000

Notes payable mature as follows:

1977	$ 3,524,000
1978	3,533,000
1979	3,537,000
1980	3,541,000
1981	3,545,000
Thereafter	13,676,000
	$ 31,356,000

(4) **Taxes on Income**

If certain conditions are met, savings and loan associations, in determining taxable income, are allowed special bad debt deductions based on specified experience formulas or on a percentage of taxable income before such deduction. The bad debt deduction must be within certain limitations based on outstanding loans and the ratio of reserves 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, 1976 and 1975 include approximately $45,578,000 and $44,940,000, 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 1976 and 1975 include the following components:

	1976		1975	
	Current	Deferred	Current	Deferred
Federal	$1,482,000	129,000	2,867,000	(594,000)
State	801,000	129,000	868,000	(64,000)
Total	$2,283,000	258,000	3,735,000	(658,000)

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 1976 and 1975 and the tax effect of each were as follows:

	1976	1975
Financial statement recognition of loan fees less than tax recognition	$ (611,000)	(290,000)
California franchise tax recognized for financial statement purposes on accrual basis, but on cash basis for tax purposes	(25,000)	(128,000)
FSLIC secondary reserve interest income recognized on the financial statements, but deferred for tax purposes	55,000	45,000
Investment income recognized for financial statement purposes on accrual basis, but on cash basis for tax purposes	857,000	(150,000)
Other timing differences	(18,000)	(135,000)
	$ 258,000	(658,000)

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

	1976	1975
Computed "expected" Federal taxes	$3,867,000	3,565,000
Increases (reductions) in taxes resulting from:		
Net gains on sales of foreclosed real property	(459,000)	(278,000)
State franchise tax, net of Federal income tax benefit	484,000	418,000
Dividends received deduction on common and preferred stocks	(1,268,000)	(796,000)
Interest on municipal obligations	(233,000)	(25,000)
Other permanent differences	150,000	193,000
	$2,541,000	3,077,000

(5) Office Properties and Equipment, Net

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

	1976	1975
Land	$1,569,000	1,509,000
Office buildings and leasehold improvements	6,134,000	5,989,000
Furniture, fixtures and equipment	986,000	919,000
	8,689,000	8,417,000
Accumulated depreciation and amortization	(3,630,000)	(3,337,000)
	$5,059,000	5,080,000

(6) Retirement Plan

A noncontributory retirement plan is in effect for all eligible employees of the Company and its subsidiaries. Employer contributions are computed utilizing the aggregate cost funding method. The contributions for 1976 and 1975 approximated $111,000 and $87,000, respectively. The actuarially computed value of vested benefits as of December 31, 1976 did not exceed the market value of the assets of the retirement fund.

The retirement plan has been changed effective July 1, 1976 to comply with the provisions of the Employee Retirement Income Security Act of 1974. Changes were made to various plan provisions and actuarial assumptions; however, the effect of such changes was immaterial.

(7) Dividends

Quarterly cash dividends of $.17½ per share declared and paid during 1976 amounted to $1,662,000. Cash dividends declared and paid during 1975 amounted to $1,424,000.

(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, 1976 and 1975.

(9) Real Estate Operations

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

	1976	1975
Recognized net gains from sales	$1,043,000	920,000
Income from rentals	136,000	151,000
	1,179,000	1,071,000
Less maintenance and sales expense	(97,000)	(162,000)
	$1,082,000	909,000

(10) Contingent Liabilities

Mutual Savings is named as one of the defendants in several class actions relating to certain common practices in the mortgage lending field. The outcome of this litigation cannot be predicted; however, based on the facts presently available, the Association believes there are substantial defenses to these actions and that losses, if any, would not be material.

In addition, Mutual Savings is involved in litigation arising in the normal course of business. In the opinion of management, this litigation in the aggregate will not have a material effect on the accompanying consolidated financial statements.

(11) Marketable Equity Securities

The investment in preferred stocks of $25,215,000 in 1976 and $23,206,000 in 1975 includes marketable equity securities amounting to $12,474,000 and $10,500,000, respectively, at cost. All common stocks amounting to $14,809,000 in 1976 and $1,853,000 in 1975 at cost, are marketable equity securities. At December 31, 1976, market value of such marketable equity securities was $3,959,000 in excess of cost representing gross unrealized gains. At December 31, 1975, the difference between cost and market value was not material.

(12) Interim Period Consolidated Operating Highlights

Consolidated operating highlights for the respective interim three-month reporting periods for the year ended December 31, 1976 are as follows:

	Three-month reporting period ended			
	Mar. 31, 1976	Jun. 30, 1976	Sept. 30, 30, 1976	Dec. 31, 1976
	(Unaudited)			
Revenues	$9,370,000	9,767,000	10,178,000	10,076,000
Expenses	8,241,000	8,334,000	8,679,000	8,621,000
Net earnings	$1,129,000	1,433,000	1,499,000	1,455,000
Earnings per share based on 2,373,269 shares	$ .48	.60	.63	.61

(13) Subsequent Event

On January 18, 1977, the Company announced a three-for-one stock split to be effected in the form of a 200% stock dividend. To accomplish this stock split, the Company's Articles of Incorporation must be amended to increase the authorized number of shares from 2,500,000 shares to 7,500,000 shares. Subject to majority approval by shareholders of the amendment to the Articles of Incorporation, the stock dividend will be distributed on April 4, 1977 to shareholders of record at the close of business on March 18, 1977.

ACCOUNTANTS' REPORT

The Board of Directors
Wesco Financial Corporation:

We have examined the consolidated balance sheets of Wesco Financial Corporation and subsidiaries as of December 31, 1976 and 1975 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, 1976 and 1975 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Los Angeles, California
February 3, 1977

BOARD OF DIRECTORS

LOUIS R. VINCENTI
Chairman of the Board and President

WILLIAM T. CASPERS
Vice President

DAVID K. ROBINSON
Partner of Hahn & Hahn, Attorneys at Law

JAMES N. GAMBLE
Investment Counselling and Trust Administration

ELIZABETH CASPERS PETERS
Personal Investments

WARREN E. BUFFETT
Chairman of the Board and Chief Executive Officer, Berkshire Hathaway, Inc.
(textile manufacturing, and through subsidiaries, banking and insurance)

CHARLES T. MUNGER
Chairman of the Board, Blue Chip Stamps
(trading stamps and control of subsidiaries, See's Candy Shops, Incorporated and Wesco Financial Corporation)

BETTE DECKARD
Secretary and Treasurer

SUBSIDIARY, MUTUAL SAVINGS, EXECUTIVE OFFICERS

LOUIS R. VINCENTI
President

JOHN R. ARMETTA
Senior Vice President, Property Development

H. R. DETTMANN
Senior Vice President, Operations

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

American Stock Exchange
Pacific Stock Exchange

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

WESCO FINANCIAL CORPORATION

Annual Report for Corporations - Form 10-K
Year ended December 31, 1976

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, 1976 and 1975 (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, 1976 and 1975
Statements of Earnings - Years ended December 31, 1976 and 1975
Statements of Changes in Financial Position - Years ended December 31, 1976 and 1975

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, 1976 and 1975, 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, 1976 and 1975, and the results of its operations and the changes in its financial position for the years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis; and the supplemental information to notes and the supporting schedule, in our opinion, present fairly the information set forth therein.

Peat, Marwick, Mitchell & Co.

Los Angeles, California
February 3, 1977

WESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Parent Company Financial Statements

Following are the balance sheets of Wesco Financial Corporation (parent only) at December 31, 1976 and 1975 and the related statements of earnings and changes in financial position for the years then ended:

Balance Sheets

Assets	1976	1975
Cash	$ 4,130,000	698,000
Certificates of deposit and banker's acceptances, at amortized identified cost, which approximates market	16,940,000	-
U.S. Government and agency obligations, at amortized identified cost (quoted market, $11,939,000 in 1975)	-	11,907,000
Investment in common stocks (quoted market, $1,567,000 in 1975)	-	1,853,000
Investment in preferred stocks (quoted market, $279,000 in 1976 and $250,000 in 1975)	267,000	267,000
Real estate loans receivable	202,000	242,000
Accrued interest and dividends receivable	241,000	353,000
Properties purchased and held for investment, at cost	89,000	89,000
Investments in subsidiaries, at equity	57,064,000	56,731,000
Office properties and equipment, net	3,990,000	4,200,000
Prepaid expenses and sundry assets, at cost	497,000	88,000
	$ 83,420,000	76,428,000

Liabilities and Stockholders' Equity	1976	1975
Note payable	$ 5,500,000	-
Loan payable to Mutual Savings	-	2,430,000
Accounts payable and sundry accrued expenses	790,000	768,000
Taxes on income:		
Current	223,000	134,000
Deferred	(165,000)	(122,000)
Total liabilities	6,348,000	3,210,000
Stockholders' equity:		
Capital stock of $1 par value per share. Authorized 2,500,000 shares; issued 2,373,269 shares	2,373,000	2,373,000
Capital surplus arising from stock dividends	28,066,000	28,066,000
Retained earnings:		
Appropriated	44,768,000	44,130,000
Unappropriated	31,104,000	27,888,000
Less stock dividends at market value	(29,239,000)	(29,239,000)
	46,633,000	42,779,000
Total stockholders' equity	77,072,000	73,218,000
Commitments, contingent liabilities and subsequent event		
	$ 83,420,000	76,428,000

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

WESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Parent Company Financial Statements, Continued

Statements of Earnings

	1976	1975
Revenues:		
Equity in earnings of subsidiaries before taxes on income	$ 7,173,000	6,474,000
Interest on loans	23,000	25,000
Loan fees and service charges	85,000	58,000
Interest on marketable securities, including interest on deposits in Mutual Savings, $75,000 ($37,000 in 1975)	1,022,000	807,000
Dividends on common and preferred stocks	24,000	217,000
Net gain (loss) on sales of marketable securities	(78,000)	3,000
Rental of office premises, net	255,000	288,000
Other income, net	-	1,000
	8,504,000	7,873,000
Expenses:		
General and administrative expenses	321,000	301,000
Interest on notes payable, including interest on loan payable to Mutual Savings, $126,000 ($142,000 in 1975)	126,000	144,000
	447,000	445,000
Earnings before taxes on income	8,057,000	7,428,000
Taxes on income	2,541,000	3,077,000
Net earnings	$ 5,516,000	4,351,000

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

WESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Parent Company Financial Statements, Continued

Statements of Changes in Financial Position

	1976	1975
Funds provided:		
Net earnings	$ 5,516,000	4,351,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	227,000	221,000
Deferred income taxes	(43,000)	(42,000)
Equity in net earnings of subsidiary	(5,133,000)	(3,813,000)
Funds provided from operations	567,000	717,000
Dividends from Mutual Savings	4,800,000	3,000,000
Principal payments on real estate loans	40,000	29,000
Issuance of notes payable	5,500,000	-
Total funds provided	$ 10,907,000	3,746,000
Funds used:		
Cash dividends declared and paid	$ 1,662,000	1,424,000
Investment in building and other assets	17,000	105,000
Decrease in loan payable to Mutual Savings	2,430,000	278,000
Investment in real estate loans	-	50,000
Increase in cash	3,432,000	581,000
Increase in investments in marketable securities	3,180,000	1,228,000
Other, net	186,000	80,000
Total funds used	$ 10,907,000	3,746,000

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

WESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Supplemental Information to
Notes to Consolidated Financial Statements

Supplementary Profit and Loss Information

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

	Year ended December 31			
	1976		1975	
	Company	Consolidated	Company	Consolidated
Maintenance and repairs	$ 398,000	438,000	346,000	378,000
Depreciation and amortization of office properties and equipment	227,000	344,000	221,000	335,000
Taxes, other than taxes on income:				
Payroll taxes	11,000	125,000	9,000	105,000
Property taxes	205,000	292,000	199,000	316,000
Advertising	-	520,000	-	504,000

Note Payable

The note payable to the Policemen and Firemen Retirement System of the City of Detroit is secured by main office land, buildings and assignment of leases, with interest at 9.25% and monthly installments of $45,284, including principal and interest, and matures as follows:

1977	$ 30,000
1978	39,000
1979	43,000
1980	47,000
1981	51,000
Thereafter	5,290,000
	$ 5,500,000

Deferred Taxes on Income

Based upon currently anticipated operations, it is expected that the deferred income tax balance will not substantially decrease through 1979.

WESCO FINANCIAL CORPORATION
AND SUBSIDIARIES

Supplemental Information to Notes to Consolidated
Financial Statements, Continued

Office Properties and Equipment, Net

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

	Parent company only	
	1976	1975
Land	$ 1,386,000	1,386,000
Office buildings and leasehold improvements	5,123,000	5,106,000
Furniture, fixtures and equipment	6,000	6,000
	6,515,000	6,498,000
Accumulated depreciation and amortization	2,525,000	2,298,000
	$ 3,990,000	4,200,000

Total additions amounted to $17,000 in 1976 and $105,000 in 1975. There were no sales or retirements in 1976 or 1975. Total additions during 1976 and 1975 did not amount to more than 10% of the ending balance for the respective period.

WESCO FINANCIAL CORPORATION

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

Years ended December 31, 1976 and 1975

COLUMN A	COLUMN B		COLUMN C		COLUMN D		COLUMN E		COLUMN F
	BALANCE AT BEGINNING OF PERIOD		ADDITIONS		DEDUCTIONS		BALANCE AT END OF PERIOD		
NAME OF ISSUER AND DESCRIPTION OF INVESTMENT	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Equity Taken Up in Earnings (Losses) of Affiliates and Other Persons For the Period	(2) Other	(1) Distribution of Earnings by Persons In Which Earnings (Losses) Were Taken Up	(2) Other	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	Dividends Received During the Period From Investments Not Accounted For By the Equity Method
Mutual Savings and Loan Association: Guarantee stock of $100 par value:									
1975	600(1)	$ 55,918,000	3,813,000	-	3,000,000	-	600(1)	$ 56,731,000	
1976	600(1)	$ 56,731,000	5,133,000	-	4,800,000	-	600(1)	$ 57,064,000	

(1) 100% of the outstanding shares.

BLUE CHIP STAMPS

COMMISSION FILE NUMBER 0-3810

EXHIBITS TO FORM 10-K

FOR THE FISCAL YEAR ENDED JANUARY 1, 1977

CERTIFICATE OF SECRETARY RE

RESOLUTION AMENDING BY-LAWS

I, R. H. Bird, hereby certify that on March 3, 1977, I was the duly qualified Secretary of Blue Chip Stamps and that on said day at the regular meeting of the board of directors of the Company the following resolution was duly adopted:

RESOLVED, that effective March 3, 1977 the second paragraph of Section 2 of Article III of the By-laws is hereby amended to read as follows: "The exact number of directors shall be seven until changed as provided in the foregoing paragraph of this Section 2."

DATED: March 25, 1977

R. H. Bird, Secretary

BLUE CHIP STAMPS

EMPLOYEES' PENSION PLAN

AND

TRUST AGREEMENT

AS AMENDED
EFFECTIVE ON JANUARY 1, 1976

I.R.S. Favorable Determination
Letter - February 28, 1977

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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, February 26, 1976 and March 3, 1977 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 in which there were good faith negotiations regarding retirement benefits 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 a Participant's or Inactive Participant'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; provided that, such period shall include one full year for the year in which such person was first hired as a full-time employee;

(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, severence 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 have his monthly retirement benefit commence; provided that, such Early Retirement Date shall occur on or after the Effective Date hereof and, provided further, that the Participant shall have:

(1) terminated his service with the Company, and

(2) attained his fifty-fifth (55th) birthday, but not his Normal Retirement Date, and

(3) completed at least ten (10) years of Vesting Service, and

(4) 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 Monthly Retirement Benefit commencing on his Normal Retirement Date or his Early Retirement Date when his Vesting Service is broken prior to his Normal Retirement Date.

Such Vested Deferred Monthly 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 Early Retirement Date or Normal Retirement Date (as applicable) 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, Late 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 Security Benefit" shall mean the monthly primary benefit, if any, actually payable to a Participant under the Social Security law in effect upon the date of his separation from service 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 upon the date of his separation from service; 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.

Section 1.38 - Hours of Service

"Hour of Service" shall mean each hour, determined from the employment records of the Company or pursuant to any alternative for non-hourly employees allowed by applicable rule or regulations, during which an Employee is directly or indirectly compensated (or entitled to be compensated) by the Company for performing duties, plus each hour for which credit is not otherwise given with respect to which back pay is awarded or agreed to by the Company, computed without regard to any mitigation of damages. In addition, an Employee will be credited with Hours of Service for any customary period of work, based on a forty-hour week (or such other regular working schedule as shall apply to the Employee on the date the following periods commenced) or pro rate portion thereof, for any period described in Section 1.15 (3) through (7).

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 Anniversay 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 Participate 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 - Payment of Benefits

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.

No benefit payable under this Plan shall be decreased because of any change, after a Participant's final separation from service, in the Social Security Benefit levels payable under Title 11 of the Social Security Act or because of any increase in the Social Security wage base under Title 11 of the Social Security Act.

For all purposes under this Plan, a Participant's or former Participant's benefits shall commence not later than sixty (60) days after the close of the Plan Year in which the latest of the following occurs:

(1) Reaching age sixty-five (65) (Normal Retirement Date); or

(2) Reaching the tenth (10th) year of Vesting Service; or

(3) Termination of service with the Company.

Section 5.02 - Standard Form of Benefit

In lieu of the normal form of benefit set forth in Section 5.04, 5.05, 5.06, 5.07, and 5.08, unless declined in writing in advance of his Retirement Date (or Normal Retirement Date in the case of Total and Permanent Disability) or by a Participant terminating service with a Vested Right, 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

(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 93-406 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 who has severed his employment 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;

Age at Early Retirement Date	Factor
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 the date he severs his employment 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 who severs his employment prior to his sixty-second (62nd) birthday but applies 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 on the date he severs his employment 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 Early Retirement Date	Factor	Age at Early Retirement Date	Factor
65	1.000	59	.633
64	.933	58	.600
63	.867	57	.567
62	.800	56	.533
61	.733	55	.500
60	.667		

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 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 then 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.

<u>Section 5.08</u> - <u>Vested Deferred Monthly Retirement Benefit</u>

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 advisible; 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 respresentatives.

(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 there is a complete or partial termination of the Plan, the entire interest of each affected Participant shall vest one hundred percent (100%) immediately and the assets shall be allocated in accordance with Section 7.06 hereof. The Plan shall be considered partially terminated only after a final determination initiated by the Secretary of the Treasury or the Pension Benefit Guaranty Corporation. 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 rate 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 of discontinuance of contributions first occurred.

<u>Section 7.06</u> - <u>Liquidation of Trust Fund</u>

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 corpor tion 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.

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 11th day of March, 1977.

(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

/S/ R. Michael Wilkinson
Attorney for Blue Chip Stamps

UNION BANK

By /S/ E. W. Ford
Vice President

(SEAL)

By /S/ Brent W. Carr
Trust Officer

Exhibit A

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.)

END