SEC FILE NO 1- 4720 03--07 SIC 671 W 34 20 00 000

WESCO FINANCIAL CORP

10-K

AMS

CARD 1 MICROFICHE BY DISCLOSURE INCORPORATED FOR 12/31/76

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

ARS	For:	12/31/75
Proxy	Dated:	03/18/76
10-K	For:	12/31/75
10-Q	For:	03/31/76
10-Q	For:	06/30/76
10-Q	For:	09/30/76

W342000

PROCESSED BY DISCLOSURE INCORPORATED RECEIVED MAR 30 1977

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.
20549

RECD S.E.C. MAR 28 1977 3 (FEES RECEIVED)

FORM 10-K

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

37

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

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

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

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

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

This is an action filed by a borrower of Mutual on a large construction loan to build an apartment house claiming damages by reason of defective construction of the apartment house. The action is filed against the contractor of the apartment house and against Mutual. The theory as against Mutual is that Mutual's inspectors discovered the defective workmanship and failed to notify the plaintiffs of the defect. The facts do not justify or support these allegations. There was defective workmanship which caused a delay in the completion and an increase in the cost. However, Mutual was not aware of this until approximately the same time that the plaintiff was aware of it. Mutual cooperated fully with the plaintiff in efforts to correct the situation. There are eight causes of action in the complaint and only one is directed against Mutual. Damages claimed in the complaint as against Mutual, as alleged "will exceed the sum of $2,000,000". Plaintiffs are also claiming punitive damages in the amount of $1 million against Mutual. However, plaintiffs' lawyer has agreed to eliminate the claim for punitive damages. 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	**1,683,000**	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	24,420,000	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	9⅜
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	688,000	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)	(276,000)
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 *Peat, Marwick, Mitchell & Co*

BOARD OF DIRECTORS

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(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.

Schedule III

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.

END