SEC FILE NO 0- 3810 03--07 SIC 541 B 55 80 00 000

BLUE CHIP STAMPS **10-K**

OTHER

CARD 1 DISCLOSURE INC BETHESDA MARYLAND 20014 FOR 12/31/77

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:	01/01/77
Proxy	Dated:	03/31/77
10-K	For:	01/01/77
10-Q	For:	04/02/77
10-Q	For:	07/02/77
10-Q	For:	10/01/77
8-K	For:	04/15/77
8-K	For:	05/31/77
8-K	For:	06/30/77
8-K	For:	09/30/77
8-K	For:	10/18/77
8-K	For:	10/31/77

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

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FORM 10-K

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

For the fiscal year
ended December 31, 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

PART I

Item 1. Business.

The information set forth in the section entitled "Principal Business Activities" on pages 7 and 8 of the printed annual report of Blue Chip Stamps for the year ended December 31, 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 2 and on page S-1 hereof, information contained in said annual report is not to be deemed filed as part of this report.

Item 2. Summary of Operations.

The information set forth in the section entitled "Summary of Operations" on pages 9 and 10 of the printed annual report of Blue Chip Stamps for the year ended December 31, 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 newspaper publishing subsidiary owns a five-story office building in Buffalo containing approximately 220,000 square feet and an adjacent two-story, 180,000 square-foot building which houses the printing presses and distribution equipment.

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 2008.

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 66%. 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)	1,917,903

(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 18% 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, 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 100% of the outstanding capital stock of Buffalo Evening News, Inc. ("the News"), a New York corporation incorporated in February 1977, which, effective April 15, 1977, acquired the newspaper assets, subject to certain liabilities, of the Buffalo Evening News. Financial statements of the News have been included in the Company's consolidated financial statements since date of activation.

The Company owns 80% of the outstanding capital 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 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) Buffalo Courier-Express, Inc. v. Buffalo Evening News, Inc. United States District Court, Western District of New York, Civil Action No. CIV-77-582 filed October 28, 1977.

This action was filed by the principal competitor of the Buffalo Evening News (published by the Company's subsidiary, Buffalo Evening News, Inc.) in the Buffalo metropolitan area under federal antitrust laws and sought to enjoin certain practices allegedly engaged in by the News in connection with its proposed expansion by transfer of its weekend edition from Saturday to Sunday, providing competition for the existing Sunday edition of the Courier-Express. In addition to seeking an injunction, the complaint seeks treble damages in an unspecified amount, attorneys' fees and costs. On November 9, 1977, the court issued a preliminary order granting in part and denying in part a motion for preliminary injunction. Among other things, the order required the News to maintain its proposed subscription pricing structure, to shorten a proposed promotional subscription pricing plan, to withdraw certain circulation guarantees and to limit free sampling. The order is subject to modification as circumstances may warrant pending trial, and is not final on any of the issues raised in the litigation. Plaintiff has moved to have defendant held in contempt for alleged violation of the preliminary injunction and seeks modification of the injunction to impose further restrictions on defendant. Defendant has also moved for modification of the injunction. Hearings on these motions have not been completed. Defendant is resisting plaintiff's motions and has reserved defendant's right to appeal the granting of the preliminary injunction to the Court of Appeals for the Second Circuit. In addition, the defendant has filed an answer and counterclaim denying all liability and seeking affirmative relief of treble damages in an unspecified amount, injunction, attorneys' fees and costs against plaintiff on the ground that plaintiff seeks to monopolize the daily newspaper business in the Buffalo metropolitan area. With discovery incomplete, the outcome of the action and defendant's potential exposure, if any, are uncertain.

(b) The information set forth in Item 5 of the Form 10-K Annual Report for the year ended December 31, 1977 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 and Indebtedness.

Following is an analysis of changes in the amount of the Company's 6-3/4% Subordinated Debentures due December 1978 outstanding during the fiscal year ended December 31, 1977:

Balance, beginning of year	$4,287,000
Debentures purchased and applied against sinking fund obligations -	
Notice of redemption, December 1977	(2,008,000)
Open market purchases, February, May and August 1977	(111,000)
Balance, end of year	$2,168,000

There were 5,178,770 shares of $1 par value common stock outstanding throughout the fiscal year ended December 31, 1977.

Reference is made to Item 5 of the Company's Form 10-Q Quarterly Report for the quarter ended April 2, 1977 relative to the borrowing of $30,000,000 from a bank in April 1977, and to Item 6 of its Form 10-Q Quarterly Report for the quarter ended July 2, 1977 relative to the repayment of $15,000,000 of such loan in July 1977. In October 1977 the Company repaid an additional $1,500,000, reducing the balance of the loan to $13,500,000 at December 31, 1977.

Item 7. Changes in Securities and Changes in Security for Registered Securities.

None.

Item 8. Defaults Upon Senior Securities.

None.

Item 9. Approximate Number of Equity Security Holders.

Title of class	Number of record holders as of February 24, 1978
Common stock, par value $1.00 per share	2,203

Item 10. Submission of Matters to a Vote of Security Holders.

None.

Item 11. Executive Officers of the Registrant.

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

Name	Age	Positions	Since
Charles T. Munger	54	Chairman of the Board	1976
Donald A. Koeppel	60	President and Director	1976
Robert H. Bird	46	Vice President and Chief Financial Officer	1977
Claude G. Gelineau	38	Vice President, Sales	1977
Paul F. Holzapfel	44	Vice President, Motivation	1977
William K. Klepper	50	Vice President, Merchandise	1970
Jackson B. Reed	55	Vice President, Operations	1977
Kenneth E. Wittmeyer	48	Vice President, Industrial Relations	1974
Jeffrey L. Jacobson	30	Treasurer	1977
Ernest P. Paulson	56	Secretary and Controller	1977

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 - 1974 to April 1977, Vice President, Secretary and Treasurer of the Company; prior thereto, Secretary and Treasurer of the Company.

Mr. Gelineau - 1974 to August 1977, General Sales Manager of the Company; prior thereto, a district store supervisor of the Company.

Mr. Holzapfel - Various managerial positions in the Incentives Division (now the Motivation Division) of the Company.

Mr. Reed - April 1977, Operations Manager of the Company; prior thereto, Store Operations Manager of the Company.

Mr. Wittmeyer - Industrial Relations Manager of the Company.

Mr. Jacobson - July to August 1977, Financial Officer of the Company; prior thereto, an audit manager and audit senior with Price Waterhouse & Co., an accounting firm.

Mr. Paulson - Controller of the Company.

Item 12. Indemnification of Directors and Officers.

Section 317 of the California Corporations Code provides for indemnification of directors and officers under certain conditions. Its scope may not be expanded by the articles of incorporation (charter), bylaws or otherwise although such scope can be reduced. It does not apply to any director, officer or employee in relation to his function as fiduciary of a benefit plan. The Company has not acted to alter the indemnification provided by the statute; however, it has adopted a resolution specifically indemnifying directors, officers and employees with respect to their function as fiduciaries for benefit plans of the Company. The statute also permits the purchase of insurance against liability which may provide coverage beyond the power of the Company to indemnify. The Company has purchased and maintains such insurance for directors and officers.

Item 13. Financial Statements, Exhibits
<u>Filed and Reports on Form 8-K.</u>

(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 dated April 28, 1977 (for event dated April 15, 1977) -

13.13 Copy of Loan Agreement dated April 13, 1977 between Blue Chip Stamps and Bank of America National Trust and Savings Association in amount of $30,000,000

(2) Incorporated by reference to Form 10-Q Quarterly Report of Blue Chip Stamps for the quarter ended April 2, 1977 -

3.2-9 Copy of bylaws of Blue Chip Stamps as amended May 5, 1977

(3) Incorporated by reference to Form 8-K Current Report of Wesco Financial Corporation dated October 4, 1977 (for event dated September 30, 1977) -

Offer to purchase stock of Detroit International Bridge Company dated September 30, 1977

Related letter of transmittal

(4) Incorporated by reference to Form 8-K Current Report of Wesco Financial Corporation dated October 28, 1977 (for event dated October 18, 1977) -

Letter to Stockholders of Detroit International Bridge Company dated October 18, 1977 with attached Offer to Purchase (Supplemented as of October 17, 1977)

(5) Filed herewith: None.

(c) Reports of Blue Chip Stamps on Form 8-K during quarter ended December 31, 1977:

Report dated October 12, 1977 (for event dated September 30, 1977). Items reported: 5 and 6. Financial statements filed: None.

Report dated October 28, 1977 (for event dated October 18, 1977). Items reported: 5 and 6. Financial statements filed: None.

Report dated November 11, 1977 (for event dated October 31, 1977). Item reported: 1. Financial statements filed: None.

PART II

Items 14 to 18 Inclusive.

These items are omitted pursuant to General Instruction H to Form 10-K. The Company will file with the Securities and Exchange Commission not later than 120 days after December 31, 1977, its latest yearend, a definitive proxy statement pursuant to Regulation 14A for its annual meeting of stockholders scheduled for April 20, 1978.

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 and
Chief Financial Officer

March 30, 1978

BLUE CHIP STAMPS

INDEX TO FINANCIAL STATEMENTS

The December 31, 1977, and January 1, 1977 consolidated financial statements of Blue Chip Stamps, together with the report thereon of Price Waterhouse & Co. dated February 24, 1978, appearing on pages 11 to 20 of the Company's December 31, 1977 printed annual report to stockholders, copies of which pages are attached, are incorporated in this Form 10-K annual report. With the exception of the aforementioned information and the information incorporated in Items 1 and 2 hereof, information contained in such annual report to stockholders is not to be deemed filed as part of this report.

The December 31, 1977 and 1976 consolidated and unconsolidated balance sheets and related statements of earnings, stockholders' equity and changes in financial position of Wesco Financial Corporation, the notes thereto and the supplemental information to the notes to such consolidated financial statements, and the supporting schedules, together with the report thereon of Peat, Marwick, Mitchell & Co. dated January 27, 1978 are incorporated herein by reference to the Form 10-K Annual Report filed by Wesco Financial Corporation for the year ended December 31, 1977, a copy of which is attached exclusive of exhibits. With the exception of the aforementioned information and data referred to in paragraph (b) of Item 5 hereof, such Form 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 aggregate of minority equity interests and indebtednesses of its consolidated subsidiaries to unaffiliated parties, other than short-term indebtedness incurred in the ordinary course of business which is not overdue, is five per cent or less of total consolidated assets at December 31, 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 20 of the December 31, 1977 printed annual report to stockholders of Blue Chip Stamps, to the additional financial data listed in the foregoing index when this data is read in conjunction with the consolidated financial statements in such 1977 annual report to stockholders; 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
February 24, 1978

BLUE CHIP STAMPS

SUPPLEMENTARY INFORMATION TO NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Beginning and ending merchandise and supplies inventories for the three fiscal years ended December 31, 1977, broken down by major business segment, are as follows:

	December 31, 1977	January 1, 1977	December 27, 1975
Candy business	$3,650,000	$2,992,000	$2,016,000
Newspaper business	1,058,000	-	-
Trading stamp and motivation businesses	2,624,000	3,501,000	6,130,000
	$7,332,000	$6,493,000	$8,146,000

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

Buildings	10 to 40 years
Property, plant and equipment	3 to 15 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, plant 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 subsidiaries, See's Candy Shops, Inc. ("See's") and Buffalo Evening News, Inc.

("the News"), and its unconsolidated subsidiary, Wesco Financial Corporation ("Wesco"), at the beginning and end of the two most recent fiscal years:

	December 31, 1977	January 1, 1977	December 27, 1975
See's			
Excess of cost over equity in net assets	$17,262,000	$17,262,000	$17,262,000
Accumulated amortization	2,567,000	2,134,000	1,703,000
The News			
Excess of cost over equity in net assets	754,000	-	-
Accumulated amortization	10,000	-	-
Wesco			
Excess of equity in net assets over cost	23,866,000	23,115,000	19,298,000
Accumulated amortization	2,142,000	1,593,000	1,085,000

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

	December 31, 1977	January 1, 1977
Accounts payable	$ 8,557,000	$4,748,000
Accrued compensation	3,315,000	1,098,000
Taxes other than income	894,000	834,000
Pension liability, net of income tax benefit	1,433,000	-
	$14,199,000	$6,680,000

Income from marketable securities comprises:

	Fiscal year ended	
	December 31, 1977	January 1, 1977
Dividends	$3,246,000	$4,576,000
Interest	390,000	635,000
	$3,636,000	$5,211,000

Included in interest and discount amortization is amortization of debenture discount amounting to $136,000 and $184,000 for the fiscal years ended December 31, 1977 and January 1, 1977, respectively. Debenture discount is being amortized over the term of the debentures by use of the debentures outstanding method. Unamortized debenture discount of $66,000 and $204,000 at December 31, 1977 and January 1, 1977, respectively, is included in prepaid expenses.

The Company has a short-term line of credit which it reduced from $10,000,000 to $5,000,000 in 1977. Marketable securities having a market value of at least 150% of the outstanding borrowings must be maintained as collateral. The maximum outstanding monthend balances during the fiscal years ended December 31, 1977 and January 1, 1977 were $6,000,000 and $2,000,000, respectively. Interest, which is at the prime rate, averaged 6.9% and 7.0% during the respective fiscal years based on average daily balances of $2,014,000 and $460,000, respectively.

Based on the most recent actuarial valuations, unfunded prior service costs of the Company's pension plans approximated $6,500,000 at December 31, 1977.

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, an option for 4,000 such shares remained outstanding and 239,200 shares were available for grant. The outstanding option lapsed and in April 1977 the Board of Directors of the Company formally terminated the plan.

BLUE CHIP STAMPS

SCHEDULE I - MARKETABLE SECURITIES
DECEMBER 31, 1977

Name of issuer and title of each issue	Number of shares or units - principal amount of bonds or notes	Cost of each issue	Market value of each issue at balance sheet date
Short-term investments, at cost			
U.S. Treasury bills	$ 2,500,000	$ 2,472,000	$ 2,472,000
Commercial paper	6,000,000	5,977,000	5,977,000
Bankers acceptances	2,800,000	2,775,000	2,775,000
Total short-term investments	$11,300,000	$11,224,000(1)	$11,224,000
Marketable equity securities, at the lower of aggregate cost or market			
Preferred and common stocks:			
American Waterworks	86,000	$ 1,062,000	$ 1,172,000
Capital Cities Communications	33,000	1,653,000	1,984,000
Cleveland Cliffs Iron	90,800	5,108,000	5,176,000
CleveTrust Corporation	42,897	1,211,000	1,426,000
Manufacturers National Corporation	109,470	3,706,000	3,613,000
National Detroit Corporation	414,160	9,941,000	10,872,000
Pinkerton's, Inc.	557,396	18,453,000	14,492,000
Pittsburgh National Corporation	256,500	8,721,000	9,041,000
San Jose Water Works	86,200	1,462,000	1,465,000
Other	-	3,869,000	3,769,000
Total marketable equity securities		$55,186,000	$53,010,000(1)

(1) Balance sheet value.

BLUE CHIP STAMPS

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

Name of issuer and description of investment	Balance at beginning of period		Additions			Deductions	Balance at end of period	
	Number of shares	Amounts in dollars	Equity taken up in earnings of affiliate for the period	Purchases	Other	Distributions of earnings by person in which earnings were taken up	Number of shares	Amounts in dollars
Investment in common stock of Wesco Financial Corporation ("Wesco"):								
Fiscal year ended January 1, 1977	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
Fiscal year ended December 31, 1977	1,840,863	$38,661,000	$5,715,000	$1,208,000		$1,692,000	5,703,087 (3)	$43,892,000

(1) Net of income taxes of $76,000 for the fiscal year ended January 1, 1977.

(2) Represents an adjustment to acquisition cost.

(3) Represents 80.1% and 77.6% of Wesco's outstanding stock at December 31, 1977 and January 1, 1977, respectively, and adjusted for a 3-for-1 stock split in fiscal 1977.

BLUE CHIP STAMPS

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

Classification	Balance at beginning of period	Additions at cost	Retirements	Balance at end of period
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
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
Fiscal year ended December 31, 1977:				
Land	$ 2,183,000	$ 866,000	$ -	$ 3,049,000
Buildings	4,225,000	6,935,000	-	11,160,000
Fixtures and equipment	10,164,000	26,169,000	330,000	36,003,000
Leasehold improvements	4,030,000	583,000	85,000	4,528,000
	$20,602,000	$34,553,000(1)	$ 415,000	$54,740,000

(1) Includes $31,900,000 relating to acquisition of newspaper assets. See Note 2 to the consolidated financial statements for further information.

BLUE CHIP STAMPS

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

Description	Balance at beginning of period	Additions charged to costs and expenses	Retirements	Balance at end of period
Fiscal year ended January 1, 1977:				
Buildings	$ 2,491,000	$ 226,000	$ 86,000	$ 2,631,000
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
Fiscal year ended December 31, 1977:				
Buildings	$ 2,631,000	$ 346,000	$ -	$ 2,977,000
Fixtures and equipment	7,194,000	1,819,000	250,000	8,763,000
Leasehold improvements	2,360,000	273,000	47,000	2,586,000
	$12,185,000	$2,438,000	$297,000	$14,326,000

BLUE CHIP STAMPS

SCHEDULE XVI - SUPPLEMENTARY INCOME STATEMENT INFORMATION

Item	Charged to costs and expenses
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
Fiscal year ended December 31, 1977:	
Maintenance and repairs	$2,694,000
Taxes other than income taxes -	
Payroll	2,448,000
Other	1,251,000
Advertising costs	1,491,000

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 five 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 confectionary 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 179 in nine western states including Hawaii.

See's registered slogan "Quality Without Compromise" reflects its attitude. In order to 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 newspaper business.** Buffalo Evening News, Inc., whose assets, subject to certain liabilities, were purchased in April 1977 through a newly organized, wholly owned subsidiary, is publisher of the most widely read daily newspaper in Upstate New York. More than 4,000 paper carriers deliver the News to over two-thirds of the households in Buffalo and Erie counties.

In October 1977 the News' principal competitor brought suit under federal antitrust laws seeking to enjoin the News from engaging in certain alleged practices, and seeking to obtain damages, in connection with the News' expansion of publication to add a Sunday edition. For further information, please refer to Note 10 to the accompanying consolidated financial statements.

Most of the News' revenues are based on advertising volume, which peaks during the fourth fiscal quarter. Newsprint is generally purchased under long-term contracts from Canadian suppliers. The newspaper employs approximately 1,100 full-time employees.

(3) **The trading stamp business.** Blue Chip Stamps provides for retail merchants and their customers in California and Nevada the predominant trading stamp service in that area. 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 redemption stores.

Stamp service revenues have declined from a historical peak of $124,180,000 for the fiscal year ended February 28, 1970 to $15,723,000 for the fiscal year ended December 31, 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 47% of stamp volume during the fiscal year ended December 31, 1977 as compared with 38% the preceding fiscal year. Over the past six years the Company has reduced the number of redemption stores from a peak of 90 to 42 at present. There has been a commensurate reduction of full-time employees to less than 250 currently.

(4) **The motivation and merchandise promotion business.** Blue Chip Motivation, a separate division, operates on a nationwide basis, sharing headquarters and merchandise distribution facilities with the trading stamp business. The name of this division was changed from Blue Chip Incentives during the year in order to describe its activities more accurately. It tailors motivation programs for businesses. These programs use awards of merchandise, travel 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. The motivation business is competitive. Moreover, with the decline of the trading stamp business, motivation programs have become more difficult to sell, because stamp awards do not enjoy their former popularity. Approximately 30 employees are involved in this operation.

This division, for several years, also developed, for oil companies and other large issuers of credit cards, complete merchandise packages for their credit cardholders. 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.

(5) **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 and is believed to be among the 30 largest savings and loan associations in the state. The association competes 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 consolidated revenues or of consolidated income before income taxes, securities gains (losses) and extraordinary items for five fiscal years ended as follows:

	Dec. 31, 1977	Jan. 1, 1977*	Feb. 28, 1976	Mar. 1, 1975	Mar. 2, 1974
Revenues—					
Candy business	$63,115	$56,648	$51,679	$43,370	$36,033
Newspaper business	31,833	—	—	—	—
Trading stamp service	19,740	22,786	25,755	34,973	59,925
Motivation and merchandise promotion business	2,485	8,888	15,210	11,022	6,261
Income (loss) before income taxes, securities gains (losses) and extraordinary items—					
Candy business	12,352	11,059	10,968	6,783	4,153
Newspaper business	751	—	—	—	—
Trading stamp service	185	2,600	438	(34)	4,533
Motivation and merchandise promotion business	(634)	(1,479)	(1,079)	(592)	(66)
Savings and loan business (equity only)	5,715	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:

	Dec. 31, 1977	Jan. 1, 1977*	Feb. 28, 1976	Mar. 1, 1975	Mar. 2, 1974
Revenues—					
Candy business	54%	64%	56%	49%	35%
Newspaper business	27	—	—	—	—
Trading stamp service	17	26	28	39	59
Motivation and merchandise promotion business	2	10	16	12	6
Income (loss) before income taxes, securities gains (losses) and extraordinary items—					
Candy business	67	67	81	76	40
Newspaper business	4	—	—	—	—
Trading stamp service	1	16	3	—	44
Motivation and merchandise promotion business	(3)	(9)	(8)	(7)	—
Savings and loan business (equity only)	31	26	24	31	16

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

Summary of Operations

(In thousands except for amounts per share)	52 weeks ended Dec. 31. 1977	53 weeks ended Jan 1. 1977	52 weeks ended Feb. 28. 1976	Mar. 1. 1975	Mar. 2. 1974
Revenues:					
Candy	$ 62,886	$56,333	$51,342	$42,907	$ 35,780
Newspaper	31,786	—	—	—	—
Stamp service	15,723	17,208	20,361	25,564	51,375
Merchandise promotions and motivation service	2,485	8,888	15,210	11,022	6,261
Dividends and interest	3,636	5,211	4,913	7,738	8,260
Other	657	682	818	2,134	543
	117,173	88,322	92,644	89,365	102,219
Costs and expenses:					
Cost of sales and services	61,592	46,358	52,116	54,912	68,156
Selling, general and administrative expenses	41,387	29,190	29,552	23,940	21,481
Interest	1,404	410	437	4,050	3,597
Discount amortization	136	184	212	306	365
	104,519	76,142	82,317	83,208	93,599
Income before income taxes, equity in net income of Wesco Financial Corporation, securities gains (losses) and extraordinary items	12,654	12,180	10,327	6,157	8,620
Provision for income taxes	(5,476)	(4,859)	(4,374)	(1,237)	(2,071)
Equity in net income of Wesco Financial Corporation	5,715	4,459	3,092	2,588	1,641
Income before securities gains (losses) and extraordinary items	12,893	11,780	9,045	7,508	8,190
Realized securities gains (losses), less taxes	4,100	(77)	8	254	(185)
Income before extraordinary items	16,993	11,703	9,053	7,762	8,005
Extraordinary credit	—	—	—	903	—
Net income	$ 16,993	$11,703	$ 9,053	$ 8,665	$ 8,005
Per share:					
Income before securities gains (losses) and extraordinary items	$2.49	$2.27	$1.75	$1.45	$1.58
Realized securities gains (losses)	.79	(.01)	—	.05	(.03)
Income before extraordinary items	3.28	2.26	1.75	1.50	1.55
Extraordinary credit	—	—	—	.17	—
Net income	$3.28	$2.26	$1.75	$1.67	$1.55
Dividends declared*	$ .30	$ .24	$ .24	$ .24	$ .24

*Dividends of $.06 per share per quarter or $.24 per share per year have been *paid*. No change in annual dividend rate occurred in 1977.

See notes and management's discussion and analysis on page 10

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.

Newspaper revenues and other accounts of the Buffalo Evening News, Inc. are included on a consolidated basis from acquisition on April 15, 1977.

The Company's equity in Wesco Financial Corporation's net income is included under the equity method. Ownership of the savings and loan holding company increased from 21.9% at the start of the fiscal year ended in 1974 to 44.6% at March 2, 1974, to 64.4% in August 1974 and to the present 80.1% in January 1977.

The extraordinary credit in fiscal 1975 represents federal income tax not payable due to offset of capital loss carry-forwards.

Other revenues in fiscal 1975 include 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 5,179,000 shares of common stock outstanding throughout the five fiscal years, increased by 1,000 in 1974 to reflect the dilutive effect of outstanding stock options.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Candy sales increased during the fiscal year ended December 31, 1977 due, about 85%, to an increase in average selling price per pound; improved volume accounted for the remainder. Of the increase in candy sales which occurred the preceding fiscal year, approximately 60% resulted from an increase in pounds sold and 40% from pricing improvement.

The decline in stamp service revenues in recent years has been caused by various factors as explained above under Principal Business Activities.

Revenues from merchandise promotions and motivation service have decreased notably since the year ended February 28, 1976 due mainly to the Company's decision, in the summer of 1976, not to seek any more merchandise promotion business, under which the Company had developed, for oil companies and other large issuers of credit cards, complete merchandise packages for their credit cardholders.

The decline in dividend and interest income during the latest fiscal year was caused mainly by a drop in dividends on shares of Source Capital, Inc., which were sold in July 1977.

Cost of sales and services during the two most recent fiscal years was somewhat lower as a percentage of related revenues than in fiscal 1976, 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 ratio of cost to revenues on an overall basis was not significantly affected by either the acquisition of the newspaper or the discontinuance of merchandise promotion business.

The sharp increase in selling, general and administrative expenses during the most recent fiscal year was the result of the newspaper acquisition in April 1977.

Interest expense increased sharply in the latest fiscal year as a result of financing the newspaper acquisition.

The provision for income taxes varied slightly as a percentage of pre-tax income from 42% in fiscal 1976 to 40% in the fiscal year ended January 1, 1977 and to 43% in the year ended December 31, 1977 due primarily to fluctuations in dividend income, which is substantially exempt from federal taxation.

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, coupled in the later year with an increase in average ownership from 67.2% to 80.1%. Part of Wesco's earnings improvement represented an increase in realized capital gains; the Company's share amounted to $612,000. Another factor in the earlier year 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 henceforth be included in consolidated federal tax returns.

Realized securities gains and losses fluctuate from year to year and accordingly are set out separately. The exceptionally large net gains in the most recent fiscal year resulted from a profit of approximately $7,000,000, net of taxes, on sale of the Company's shares of Source Capital, Inc. in July 1977, reduced in part by net losses on other securities dispositions.

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 increase in earnings for the year ended December 31, 1977 compared to the prior year represented unusually large capital gains (see preceding two paragraphs).

Consolidated Statement of Income and Retained Earnings

Blue Chip Stamps

	52 weeks ended December 31, 1977	53 weeks ended January 1, 1977
Revenues:		
Candy	$ 62,886,000	$56,333,000
Newspaper (Note 2)	31,786,000	—
Stamp service (Note 3)	15,723,000	17,208,000
Merchandise promotions and motivation service	2,485,000	8,888,000
Dividends and interest	3,636,000	5,211,000
Other	657,000	682,000
	117,173,000	88,322,000
Costs and expenses:		
Cost of sales and services (Note 3)	61,592,000	46,358,000
Selling, general and administrative expenses	41,387,000	29,190,000
Interest and discount amortization	1,540,000	594,000
	104,519,000	76,142,000
Income before income taxes, equity in net income of Wesco Financial Corporation and securities gains (losses)	12,654,000	12,180,000
Provision for income taxes (Note 7)	(5,476,000)	(4,859,000)
Equity in net income of Wesco Financial Corporation (Notes 1 and 7)	5,715,000	4,459,000
Income before securities gains (losses)	12,893,000	11,780,000
Realized securities gains (losses), less income tax effect (Notes 4 and 7)	4,100,000	(77,000)
Net income	16,993,000	11,703,000
Retained earnings at beginning of year	79,230,000	68,770,000
Dividends declared of $.30* and $.24	(1,554,000)	(1,243,000)
Retained earnings at end of year	$ 94,669,000	$79,230,000
Amounts per share based on average shares outstanding:		
Income before securities gains (losses)	$2.49	$2.27
Realized securities gains (losses)	.79	(.01)
Net income	$3.28	$2.26

*Dividends of $.06 per share per quarter or $.24 per share per year have been *paid*. No change in annual dividend rate occurred in 1977.

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet

Blue Chip Stamps

ASSETS	December 31, 1977	January 1, 1977
Cash (Note 6)	$ 5,335,000	$ 2,526,000
Short-term investments, at cost which approximates market	11,224,000	11,636,000
Marketable equity securities, at the lower of cost or market (Note 4)	53,010,000	63,143,000
Accounts receivable	6,155,000	4,633,000
Merchandise and supplies inventories, at the lower of cost (principally average) or market	7,332,000	6,493,000
Prepaid expenses, principally income taxes (Note 7)	13,142,000	12,337,000
Property, plant and equipment, net (Note 5)	40,414,000	8,417,000
Investment in Wesco Financial Corporation (Note 1)	43,892,000	38,661,000
Excess of cost over equity in net assets of consolidated subsidiaries, less accumulated amortization (Notes 1 and 2)	15,439,000	15,128,000
Other equity securities (Note 4)	4,163,000	4,163,000
	$200,106,000	$167,137,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$ 14,199,000	$ 6,680,000
Income taxes payable (Note 7)	4,779,000	3,315,000
Liability for unredeemed trading stamps (Note 3)	66,209,000	66,867,000
6¾% Subordinated Debentures due December 1, 1978	2,168,000	4,287,000
Note payable to bank (Note 6)	13,500,000	—
	100,855,000	81,149,000
Stockholders' equity (Note 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	94,669,000	79,230,000
Net unrealized loss on marketable equity securities (Note 4)	(2,176,000)	—
Total stockholders' equity	99,251,000	85,988,000
	$200,106,000	$167,137,000

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Financial Position

Blue Chip Stamps

	52 weeks ended December 31, 1977	53 weeks ended January 1 1977
Sources (uses) of cash, including short-term investments, from operations:		
Income before realized securities gains (losses)	$12,893,000	$ 11,780,000
Add (deduct):		
Depreciation and amortization	2,881,000	1,358,000
Decrease (increase) in trade accounts receivable	(3,081,000)	3,667,000
Decrease (increase) in inventories	(839,000)	1,653,000
Increase in prepaid expenses, principally income taxes	(805,000)	(5,384,000)
Equity in net income of Wesco Financial Corporation, less dividends received	(4,023,000)	(3,469,000)
Increase (decrease) in trade accounts payable and accrued expenses	6,086,000	(484,000)
Increase (decrease) in income taxes payable	1,464,000	(1,681,000)
Decrease in liability for unredeemed trading stamps	(658,000)	(2,900,000)
Cash provided by operations before realized securities gains (losses)	13,918,000	4,540,000
Other sources of cash:		
Bank loan for acquisition of newspaper	30,000,000	—
Realized securities gains (losses), less income tax effect	4,100,000	(77,000)
Decrease (increase) in marketable equity securities, net of $2,176,000 net unrealized loss deducted from stockholders' equity at December 31, 1977, and net of reversal of similar provision of $15,560,000 deducted from stockholders' equity at December 27, 1975	7,957,000	(416,000)
Decrease (increase) in accounts receivable from securities transactions	1,559,000	(1,085,000)
Assumption of pension liability upon acquisition of newspaper	1,433,000	—
Disposals of property, plant and equipment	118,000	352,000
Other	—	48,000
	59,085,000	3,362,000
Other uses of cash:		
Additions to property, plant and equipment, including $31,900,000 in the fiscal year ended December 31, 1977 relating to acquisition of newspaper	34,553,000	1,357,000
Purchase of stock of Wesco Financial Corporation	1,208,000	6,422,000
Excess of cost over equity in net assets of newspaper acquired	754,000	—
Purchase of other equity securities	—	4,163,000
Reduction of bank loan	16,500,000	—
Purchase of debentures for retirement	2,119,000	2,105,000
Declaration of cash dividends	1,554,000	1,243,000
	56,688,000	15,290,000
Increase (decrease) in cash, including short-term investments	$ 2,397,000	$ (11,928,000)
Increase (decrease) in—		
Cash	$ 2,809,000	$ 82,000
Short-term investments	(412,000)	(12,010,000)
	$ 2,397,000	$ (11,928,000)

See accompanying notes to consolidated financial statements

NOTE 1—Subsidiary Companies:

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries: See's Candy Shops, Incorporated (See's), 99%-owned, and Buffalo Evening News, Inc. (the News), wholly owned (see Note 2). The excess of cost over equity in the net assets of See's and the News is being amortized over 40 years; amortization of $443,000 and $431,000 has been charged to selling, general and administrative expenses in the fiscal years ended December 31, 1977 and January 1, 1977, respectively.

The Company's investment in Wesco Financial Corporation (Wesco), a savings and loan holding company, has increased from 64.4% at December 27, 1975 to 77.6% at January 1, 1977 and to the present 80.1% in January 1977. The investment is recorded at cost plus equity in Wesco's calendar-year net income; the $21,725,000 and $21,522,000 unamortized excess of equity in the net assets of Wesco over cost at December 31, 1977 and January 1, 1977, respectively, is being amortized over 40 years. Summarized consolidated financial information of Wesco and subsidiaries for the years ended December 31, 1977 and 1976 follows:

	December 31, 1977	December 31, 1976
Assets—		
Cash and marketable securities	$162,098,000	$155,153,000
Loans receivable, less unearned loan fees, unrealized profit and loans in process	394,125,000	347,194,000
Other assets	24,871,000	21,001,000
	$581,094,000	$523,348,000
Liabilities and stockholders' equity—		
Savings deposits	$459,908,000	$404,996,000
Other liabilities	39,777,000	41,280,000
Total liabilities	499,685,000	446,276,000
Stockholders' equity, partially appropriated	81,409,000	77,072,000
	$581,094,000	$523,348,000
Total revenues	$ 44,423,000	$ 39,391,000
Net income	$ 6,449,000	$ 5,516,000
Blue Chip Stamps' share of net income	$ 5,166,000	$ 3,708,000
Income tax benefit thereon (Note 7)	—	243,000
Amortization of excess of equity over cost	549,000	508,000
Equity in net income	$ 5,715,000	$ 4,459,000

Wesco's appropriated retained earnings at December 31, 1977 and 1976 include approximately $45,832,000 and $45,578,000, 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, 1977 and 1976.

NOTE 2—Acquisition:

Effective April 15, 1977, the Company acquired the newspaper assets, subject to certain liabilities, of the Buffalo (New York) Evening News, for approximately $34,000,000 in cash plus assumption of certain pension obligations. The acquisition has been accounted for by the purchase method, and the cost of net assets acquired exceeded their fair value by $754,000. The results of operations of the News have been included with those of the Company since the date of acquisition.

The following data present the unaudited consolidated results of operations of the Company on a pro forma basis as if the Company had owned the News throughout each of the last two fiscal years:

	Fiscal year ended	
	December 31, 1977	January 1, 1977
Total revenues	$127,816,000	$127,930,000
Income before securities gains or losses	12,392,000	10,811,000
Net income	16,492,000	10,734,000
Pro forma per share—		
Income before securities gains or losses	2.39	2.08
Net income	3.18	2.07
Actual per share—		
Net income	3.28	2.26

The above unaudited pro forma results of operations, insofar as they pertain to newspaper operations occurring prior to the acquisition of the News, are based upon unaudited financial information furnished by the former owners and reflect, among other things, additional financing costs and depreciation, net of applicable income tax benefits, and amortization of the excess of cost of net assets acquired over underlying value.

The above data are not necessarily indicative of what may be expected in the future.

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. For the fiscal year ended December 31, 1977, no adjustments were made to the liability for unredeemed stamps. During the fiscal year ended January 1, 1977, the Company reduced its liability for unredeemed trading stamps to reflect a reduction in the total estimated number of stamps expected to be redeemed in the future from 97.5% to 97% for stamps issued before March 1974, and 93% thereafter. Additionally, the Company increased its provision for future redemption service expenses per stamp to reflect its estimate that these expenses would increase materially on a per-stamp basis. The net effect of the foregoing revisions, after federal and state income taxes, was to increase net income $1,046,000 or $.20 per share for the fiscal year ended January 1, 1977.

The Company, with additional experience, will probably make further revisions of its redemption expectancy and estimated future redemption costs as circumstances warrant.

NOTE 4—Equity securities:

Cost (first-in, first-out) and market value of marketable equity securities at December 31, 1977 and at January 1, 1977 are set forth below:

	December 31 1977	January 1, 1977
Cost	$55,186,000	$63,143,000
Market value	53,010,000	73,240,000

In order to reduce marketable equity securities to the lower of cost or market on the consolidated balance sheet, a $2,176,000 valuation allowance was required at December 31, 1977. The valuation allowance, which represented the excess of $4,545,000 of unrealized losses over $2,369,000 of unrealized gains, was charged directly to stockholders' equity (i.e., not included in the determination of net income) without reduction for the tax benefit that would result if losses were ultimately realized and offset by capital gains. As of February 24, 1978 market value of these securities has declined approximately $1,000,000 further.

Approximately $4,000,000 of the unrealized losses at December 31, 1977 relates to an investment in non-voting stock of Pinkerton's, Inc. at cost of $18,453,000. In addition, an investment of $4,163,000 in non-voting stock of Pinkerton Holding Corporation (PHC), for which there is no trading market, is carried at cost in other equity securities; because PHC's principal assets are equity securities of Pinkerton's, Inc., the amount that could be realized if the Company's investment in PHC were sold may also be below cost. Although the Company beneficially owns 28% of the equity in Pinkerton's, Inc. as of February 24, 1978, it does not account for its investment in Pinkerton's, Inc. under the equity method inasmuch as 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 twelve-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 are expected to be presented for redemption over a number of years.

NOTE 5—Property, plant and equipment:

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

	December 31, 1977	January 1, 1977
Land	$ 3,049,000	$ 2,183,000
Buildings	11,160,000	4,225,000
Fixtures and equipment	36,003,000	10,164,000
Leasehold improvements	4,528,000	4,030,000
	54,740,000	20,602,000
Less accumulated depreciation and amortization	14,326,000	12,185,000
	$40,414,000	$ 8,417,000

Depreciation and amortization of property, plant and equipment are provided by the straight-line method over the estimated useful lives of the assets. Total provisions amounted to $2,438,000 and $927,000 for the fiscal years ended December 31, 1977 and January 1, 1977, respectively.

NOTE 6—Debt:

In April 1977 the Company borrowed $30,000,000 from a bank. As a result of prepayments, the loan has subsequently been reduced to $13,500,000, repayable $3,500,000 on April 30, 1981, and $5,000,000 each on April 30, 1982 and 1983. Interest is payable monthly at rates increasing over the term from prime (7¾% at December 31, 1977) to one-half per cent above prime. The loan requires compensating balances of 10 per cent of the average outstanding principal amount initially, increasing to 15% in 1978 and 20% in 1979. All of the Company's shares of See's and the News are pledged as collateral.

The Company has a short-term line of credit of $5,000,000 requiring compensating balances of $500,000 plus 10% of any amount borrowed. At December 31, 1977, there were no borrowings under the line of credit.

NOTE 7—Taxes on income:

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

	Fiscal year ended	
	December 31, 1977	January 1, 1977
Provision for income taxes	$ 5,476,000	$ 4,859,000
Credited to equity in net income of Wesco	—	(243,000)
Charged against (credited to) securities gains (losses)	2,179,000	(42,000)
Total taxes charged in income statement	$ 7,655,000	$ 4,574,000

These taxes are payable or recoverable as follows:

	Fiscal year ended	
	December 31 1977	January 1, 1977
Payable currently—		
Federal	$ 6,416,000	$ 4,714,000
State	1,634,000	1,340,000
	8,050,000	6,054,000
Recoverable in the future—		
Federal	(384,000)	(1,231,000)
State	(11,000)	(249,000)
	(395,000)	(1,480,000)
Total taxes charged in income statement	$ 7,655,000	$ 4,574,000

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 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	
	December 31, 1977	January 1, 1977
Deductible California franchise taxes over (under) those accrued on the books	$ (360,000)	$ 483,000
Deductible redemption expenses under those accrued on the books	(324,000)	(1,203,000)
Deferred taxes reversed on undistributed earnings of Wesco	—	(319,000)
Other timing differences	289,000	(441,000)
Total taxes recoverable in the future	$ (395,000)	$ (1,480,000)

The Company increased its ownership of Wesco to 80% in January 1977. Accordingly, the earnings of Wesco will be included in consolidated federal tax returns beginning with the fiscal year ended December 31, 1977. Consequently, deferred taxes on undistributed earnings of Wesco, provided in prior years, were reversed as of January 1, 1977.

The provision for income taxes of $5,476,000 for the fiscal year ended December 31, 1977 amounted to 43.3% of pre-tax income of $12,654,000; the provision of $4,859,000 for the prior fiscal year represented 39.9% of pre-tax income of $12,180,000. Following is a summary of the differences between the federal statutory rate and these effective percentages:

	Fiscal year ended	
	December 31, 1977	January 1, 1977
Statutory federal income tax rate	48.0%	48.0%
Federal tax benefit from dividend exclusion	(10.2)	(12.6)
State income taxes net of federal income tax benefit	4.4	4.8
All other, net	1.1	(.3)
Effective income tax rate	43.3%	39.9%

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 $11,622,000 and $11,176,000 at December 31, 1977 and January 1, 1977, 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.

The Company's Federal income tax returns through the fiscal year ended in 1974 have been examined by and settled with the Internal Revenue Service.

NOTE 8—Lease commitments and rental expense:

At December 31, 1977 minimum rental commitments, net of $134,000 minimum sublease rental income commitments, are as follows: 1978, $2,556,000; 1979, $2,272,000; 1980, $1,807,000; 1981, $1,307,000; 1982, $1,081,000; thereafter, $4,445,000.

Rentals and rental commitments apply primarily to a merchandise warehouse, redemption stores and candy shops. All leased facilities are classified as operating leases. Many of the leases contain options permitting the Company at the end of the initial lease term to renew its lease at an increased monthly rate for one or more five-year periods. Portions of store and warehouse space are sublet. Rentals applicable to candy operations are generally determined on the basis of a fixed percentage of sales subject to a specific minimum rental. Rental expense is summarized as follows:

	Fiscal year ended	
	December 31, 1977	January 1, 1977
Minimum rental expense	$3,121,000	$3,444,000
Contingent rental expense in excess of minimum rentals	1,573,000	1,504,000
Sublease rental income	(134,000)	(103,000)
	$4,560,000	$4,845,000

NOTE 9—Pension and profit sharing plans:

Employees of the Company and of its consolidated subsidiaries 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 at amounts sufficient to amortize prior service costs over a 30-year period. Pension costs for the fiscal years ended December 31, 1977 and January 1, 1977 of $1,479,000 and $397,000, respectively, included $1,061,000 in the fiscal year ended December 31, 1977 attributable to the News.

After considering amounts accrued on the consolidated balance sheet and expected future income tax savings related thereto, the total market value of the plans' assets exceeded the actuarially computed value of vested benefits at December 31, 1977 by approximately $1,750,000.

NOTE 10—Legal proceedings:

On October 28, 1977, the Buffalo Courier-Express, Inc., the principal competitor of the Buffalo Evening News (published by the Company's subsidiary, Buffalo Evening News, Inc.) in the Buffalo metropolitan area, filed an action against such subsidiary in the United States District Court under federal antitrust laws seeking to enjoin certain practices allegedly engaged in by the News in connection with its proposed expansion by transfer of its weekend edition from Saturday to Sunday, providing competition for the existing Sunday edition of the Courier-Express. In addition to seeking an injunction, the complaint seeks treble damages in an unspecified amount, attorneys' fees and costs. On November 9, 1977, the court issued a preliminary order granting in part and denying in part a motion for preliminary injunction. Among other things, the order required the News to maintain its proposed subscription pricing structure, to shorten a proposed promotional subscription pricing plan, to withdraw certain circulation guarantees and to limit free sampling. The order is subject to modification as circumstances may warrant pending trial, and is not final on any of the issues raised in the litigation. Plaintiff has moved to have defendant held in contempt for alleged violation of the preliminary injunction and seeks modification of the injunction to impose further restrictions on defendant. Defendant has also moved for modification of the injunction. Hearings on these motions have not been completed. Defendant is resisting plaintiff's motions and has reserved defendant's right to appeal the granting of the preliminary injunction to the Court of Appeals for the Second Circuit. In addition, the defendant has filed an answer and counterclaim denying all liability and seeking affirmative relief of treble damages in an unspecified amount, injunction, attorneys' fees and costs against plaintiff on the ground that plaintiff seeks to monopolize the daily newspaper business in the Buffalo metropolitan area. With discovery incomplete, the outcome of the action and defendant's potential exposure, if any, are uncertain.

NOTE 11—Major business segments:

The following information by Company segment for the fiscal year ended December 31, 1977 is furnished pursuant to a new requirement of the Financial Accounting Standards Board:

	Candy business	Newspaper business	Trading stamp and motivation businesses	Total
Revenues	$63,115,000	$31,833,000	$22,225,000*	$117,173,000*
Operating profit	$12,352,000	$ 751,000	$ 1,091,000*	$ 14,194,000*
Interest and discount amortization				(1,540,000)
Income before income taxes, equity in net income of Wesco and securities gains				$ 12,654,000*
Depreciation and amortization	$ 1,255,000	$ 1,517,000	$ 109,000	$ 2,881,000
Capital expenditures	$ 2,114,000	$32,437,000	$ 2,000	$ 34,553,000
Assets at December 31, 1977	$39,183,000	$39,798,000	$77,233,000	$156,214,000
Investment in net assets of Wesco				43,892,000
Consolidated assets at December 31, 1977				$200,106,000

*Does not include net realized securities gains of $6,279,000 which are set forth separately, after income tax effect, in the consolidated statement of income.

NOTE 12—Quarterly financial information—unaudited:

The following table sets forth certain unaudited quarterly financial information for the two fiscal years ended December 31, 1977:

	Quarter ended			
	December 31, 1977	October 1, 1977	July 2, 1977	April 2, 1977
Total revenues	$48,093,000	$22,510,000	$28,148,000	$18,422,000
Cost of sales and services	24,362,000	12,997,000	14,806,000	9,427,000
Equity in net income of Wesco	1,905,000	1,405,000	1,251,000	1,154,000
Income before securities gains or losses	6,568,000	1,228,000	2,630,000	2,467,000
Per share	1.27	.24	.50	.48
Net income	6,561,000	7,267,000	698,000	2,467,000
Per share	1.27	1.40	.13	.48

	Quarter 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 services	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
Income before securities gains or losses	5,948,000	2,153,000	2,815,000	864,000
Per share	1.14	.42	.54	.17
Net income	5,915,000	2,186,000	2,729,000	873,000
Per share	1.14	.42	.53	.17

During the fiscal year ended December 31, 1977, the Company changed its method of calculating the provision for income taxes during interim periods to comply with a new Financial Accounting Standards Board requirement. If the new method had been in effect for the fiscal year ended January 1, 1977, earnings and earnings per share would have been increased (reduced) by the following amounts:

	Quarter ended			
	January 1, 1977	September 25, 1976	June 26, 1976	March 27, 1976
Income before securities gains or losses, and net income	$ 600,000	$ (300,000)	$ 114,000	$ (414,000)
Per share	.12	(.06)	.02	(.08)

Report of Independent Accountants

Price Waterhouse & Co.

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

February 24, 1978

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 subsidiaries as of December 31, 1977 and January 1, 1977, and the related consolidated statements of income and retained earnings and of changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Wesco Financial Corporation which is accounted for on the equity method in the consolidated financial statements (Note 1). These statements were examined by other independent accountants whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for Wesco Financial Corporation, is based solely upon such report.

As explained in Note 10 to the accompanying consolidated financial statements, during 1977 a consolidated subsidiary of the Company was named a defendant in an action seeking damages for alleged violations of the antitrust laws. The outcome of this action and the potential liability, if any, cannot currently be determined. If this action should ultimately result in a liability, appropriate provision will be made in the consolidated financial statements at the time such liability is ascertained, and the 1977 consolidated financial statements will not be restated.

In our opinion, based on our examinations and the report of other independent accountants, and, in 1977, subject to the effects of such adjustments, if any, as might have been required had the outcome of the matter discussed in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the financial position of Blue Chip Stamps and its consolidated subsidiaries at December 31, 1977 and January 1, 1977, 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.

WESCO FINANCIAL CORPORATION

Annual report 1977

Form 10-K Annual report 1977

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 1977 amounted to $6,449,000 ($.91 per share) compared to $5,516,000 ($.77 per share) in 1976. Quarterly earnings per share were:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1977	$ .19	.19	.22	.31	.91
1976	.16	.20	.21	.20	.77

The increase in earnings is due to the growth of total earning assets chiefly provided by savings growth.

Total savings in Mutual Savings increased $54,912,000 in 1977 compared to an increase of $44,926,000 in 1976. Out-of-state savings were $52,648,000 (11.4% of total savings) compared with $52,508,000 (13.3% of total savings) in 1976.

Cost of savings and cost of funds (savings and borrowings) continued to increase in 1977 due to increased deposits in certificates at a higher yield than the 5¼% passbook rate. The yield on the loan portfolio continues to rise.

	1977	1976	1975	1974	1973
Cost of savings	6.46%	6.35	6.29	6.00	5.60
Cost of all funds	6.51	6.43	6.41	6.25	5.69
Yield on loans at year end	8.02	7.70	7.55	7.36	7.17

At December 31, 1977, real estate loans were $390,569,000 compared with $347,244,000 at December 31, 1976. Real estate loans made and purchased in 1977 amounted to $107,546,000 compared to $42,386,000 made in 1976. In the second half of 1977, Mutual Savings purchased for $43,661,000 a 90% participation interest in loans from the portfolios of four large California-based savings and loan associations who service the loans. Loans in process and firm loan commitments, which were $3,260,000 at December 31, 1976, increased to $9,396,000 at December 31, 1977.

Wesco and Mutual Savings have decreased cash and short-term marketable securities by $11,156,000 in 1977 and increased the investment in common and preferred stocks by $18,101,000.

	1977	1976
Stocks and bonds	$ 64,821,000	46,720,000
Cash and marketable securities	97,277,000	108,433,000
	$162,098,000	155,153,000

The increase is in common stocks. Common stock of Federal National Mortgage Association (FNMA) was increased from 1,044,900 shares at a cost of $14,809,000 to 1,730,000 shares at a cost of $26,011,000. During the third quarter of 1977, Wesco purchased 67,500 shares of Cleveland-Cliffs Iron Company for a cost of $3,680,000. Cleveland-Cliffs Iron Company manages 13% of North American iron ore production, operates fourteen cargo vessels on the Great Lakes, sells forest products, explores for minerals and has interest in Australian iron ore production. The holdings in this Company had been increased to 152,500 shares with an investment of $8,246,000 at December 31, 1977. Wesco purchased an additional 20,000 shares in February 1978 and may continue to make additional purchases depending upon market conditions. Other securities are also being purchased in 1978.

During the second and third quarters of 1977, Wesco invested $1,580,000 at the holding company level in 92,242 shares of Detroit International Bridge Company, which owns and operates a toll bridge between Detroit, Michigan, and Windsor, Ontario, Canada. Later in the year Wesco, with the approval of the Directors of Detroit International Bridge Company, made a tender offer to purchase for cash all the remaining outstanding shares at $20 per share. The tender offer expired on October 25, 1977. At December 31, 1977, as a result of the tender offer, Wesco had increased its holding to 272,908 shares with a total cost of $5,330,000. Companies affiliated with Wesco own an additional 42,020 shares, purchased several years ago as part of insurance company portfolios. The Wesco portion represents 21.5% of the total stock outstanding, and one of Wesco's directors, Charles T. Munger, has been elected a director of Detroit International Bridge Company. After acquiring 21.5%, Wesco has accounted for its investment on the equity basis as required by accounting convention. The current annual dividend being paid by Detroit International Bridge Company amounts to approximately 7.5% on Wesco's aggregate cost.

Properties acquired by foreclosure were $2,095,000 at December 31, 1977 compared with $3,321,000 at December 31, 1976. The last vacant land at Lake San Marcos was sold in 1977 and the one-half interest in the shopping center, motel and restaurant at Lake San Marcos was sold at an unrealized profit of $890,000. The property occupied by the Upland Branch was acquired through foreclosure in 1976. $228,000 of the total cost of this property has been transferred to branch premises as it is anticipated Mutual Savings will retain ownership. The remainder of the Upland property, having a current book cost of $78,000, will be developed with retail stores to be rented for income. Construction will commence early in 1978. Negotiations are currently in progress for the sale of the commercial property in Pacoima. This property has a book cost of $289,000. The remaining balance of the foreclosed property account at December 31, 1977 was $1,728,000 and consists of vacant land at Santa Barbara and at Friendly Valley in Los Angeles County with book values of $1,042,000 and $686,000 respectively. Zoning and other plans are being processed for both parcels and it is anticipated that construction of residences will be permissible in mid-1978 at Friendly Valley and mid-1979 at Santa Barbara.

The 3-for-1 stock split in the form of a 200% stock distribution of the stock of Wesco Financial Corporation was made on April 4, 1977. The number of shares outstanding are 7,119,807. The Blue Chip Stamp Company, at the expiration of their tender offer in January of 1977, owned 80.1% of the Wesco stock. This permits a consolidated Federal income tax return to be filed.

Mutual Savings did not open any new offices in 1977 to add to their sixteen branch offices. A satellite branch office has been approved for a retail shopping center, which is scheduled for opening late 1979, in downtown Pasadena close to the main office.

On January 17, 1978, Wesco increased its regular quarterly cash dividend from $.07½ per share to $.08½ per share payable March 15, 1978 to shareholders of record at the close of business on February 20, 1978.

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

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, 1977 — 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	American Stock Exchange Pacific Stock Exchange

There were 7,119,807 shares of Capital Stock outstanding December 31, 1977

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 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 and investing in marketable securities. Mutual also owns an inactive service corporation. Funds are provided by savings deposits, principal payments on existing 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.

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. Wesco also has a wholly owned subsidiary which acts as an insurance agent, principally for fire and extended coverage property insurance and mortgage life insurance.

(b) (1) Mutual's savings deposits and loans increased compared to prior years.

(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, 1977.

(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

The following consolidated summary of operations for the five years ended December 31, 1977 should be read in conjunction with the related financial statements and notes thereto included under item 13.

	1977	1976	1975	1974	1973
Revenues:					
Interest on loans	$ 28,482,000	27,521,000	28,438,000	28,463,000	27,450,000
Loan fees and service charges	1,963,000	1,663,000	1,362,000	1,542,000	1,786,000
Interest and dividends on investments	11,646,000	8,729,000	5,643,000	4,709,000	3,875,000
Other income, net	2,332,000	1,478,000	1,167,000	466,000	1,178,000
	44,423,000	39,391,000	36,610,000	35,180,000	34,289,000
Expenses:					
General and administrative expenses	5,161,000	4,944,000	4,710,000	4,208,000	3,702,000
Interest on savings deposits	28,070,000	24,428,000	21,844,000	20,419,000	20,001,000
Interest on notes payable	2,312,000	1,962,000	2,628,000	3,364,000	1,313,000
	35,543,000	31,334,000	29,182,000	27,991,000	25,016,000
Earnings before taxes on income	8,880,000	8,057,000	7,428,000	7,189,000	9,273,000
Taxes on income	2,431,000	2,541,000	3,077,000	3,262,000	4,665,000
Net earnings	$ 6,449,000	5,516,000	4,351,000	3,927,000	4,608,000
Earnings per capital share*	$ .91	.77	.61	.55	.65
Cash dividends per capital share*	$ .297	.233	.20	.167	.151
FINANCIAL DATA AT YEAR END					
Total assets	$581,094,000	523,348,000	470,127,000	465,646,000	451,980,000
Real estate loans	$387,015,000	344,567,000	371,041,000	386,398,000	387,165,000
Savings deposits	$459,908,000	404,996,000	360,070,000	333,117,000	345,530,000
Shareholders' equity	$ 81,409,000	77,072,000	73,218,000	70,291,000	67,551,000
Book value per share*	$ 11.43	10.82	10.28	9.87	9.49

*Based on 7,119,807 shares outstanding at December 31, 1977.

Management's Discussion and Analysis of Summary of Operations

Interest on Loans

This source of income is dependent upon the amount of loans and the yield thereon. The yields at December 31, 1977, 1976 and 1975 were 8.02%, 7.70% and 7.55% respectively. Total real estate loans outstanding at the end of such years were $390,569,000, $347,244,000 and $374,011,000.

Loan Fees and Service Charges

This income was derived from the following sources:

	1977	1976	1975
Loan fees	$ 849,000	701,000	721,000
Commitment fees	226,000	—	—
Escrow and clerical fees	133,000	130,000	47,000
Prepayment charges	521,000	568,000	314,000
Late charges	76,000	70,000	82,000
Other charges	158,000	194,000	198,000
	$ 1,963,000	1,663,000	1,362,000

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.

Municipal bonds in Mutual Savings showed an unrealized appreciation of $1,084,000 at December 31, 1977 compared to $1,042,000 the previous year. The current return on the tax exempt bond portfolio is 7.84%.

The amount invested in all marketable securities at December 31 for the years indicated is as follows:

	1977	1976	1975
Municipal bonds	$ 6,685,000	6,696,000	4,554,000
Other marketable securities	95,663,000	106,912,000	44,220,000

Dividends on Common and Preferred Stock

The increase in dividends on common and preferred stock is due to the increase in common stocks as shown on this three year schedule:

	1977	1976	1975
Common stocks	$ 34,257,000	14,809,000	1,853,000
Preferred stocks	23,879,000	25,215,000	23,206,000
	$ 58,136,000	40,024,000	25,059,000

The annual dividend income from such investments was:

	1977	1976	1975
Common stocks	$ 1,812,000	671,000	194,000
Preferred stocks	2,559,000	2,437,000	1,759,000
	$ 4,371,000	3,108,000	1,953,000

Federal National Mortgage Association (FNMA) holdings increased from $14,809,000, 1,044,900 shares to $26,011,000, 1,730,000 shares in 1977. The quarterly dividend in 1977 was $.25 per share compared to $.22 per share. Wesco, at the holding company level, invested $8,246,000 in 152,500 shares of Cleveland-Cliffs Iron Company.

Mutual Savings investments in preferred stocks are limited by regulation to 5% of assets. Although the preferred stocks were below this level at December 31, 1977 due to the call of a large issue in December, the portfolio has been increased by purchases of additional issues to a book value of $28,371,000 at February 22, 1978. 85% of the dividend income from stocks is deductible in computing Federal income taxes.

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 $133,000 was declared in 1977, $171,000 in 1976 and $198,000 in 1975 all in the fourth quarter. The variation in the secondary reserve has been nominal.

Net Gains (Losses) on Sales of Marketable Securities

The net gain of $608,000 in 1977 is accounted for by aggregate net gains on sales of securities of $208,000 and a gain of $400,000 on one issue of preferred stock called in the fourth quarter. The $26,000 net gain in 1976 and the $62,000 net gain in 1975 were the result of net gains on sales with proceeds used to purchase other issues considered more desirable.

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 $316,000 for the year 1977, $255,000 for the year 1976 and $288,000 for the year 1975. All rentable space has been leased and fully occupied since May 1977. Leases contain a provision for increase of rents as costs of operation and maintenance increase. Some improvements in net rental income will occur in 1978 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. Operations and net gains from sales of real property were as follows:

	1977	1976	1975
Gain on sales taken directly into income	$ 662,000	81,000	106,000
Amortization of unrealized profit	426,000	962,000	814,000
Rental income	148,000	136,000	151,000
Maintenance and sales expense ..	(82,000)	(97,000)	(162,000)
	$ 1,154,000	1,082,000	909,000
Unrealized profit on sales of real property at year end	$ 890,000	276,000	1,025,000

Income from sales in the next few years will be limited to that from sales of vacant land in Friendly Valley, Santa Barbara and one property in Pacoima. Rental income will decrease as the commercial property producing most of this income was sold in 1977. The unrealized profit from this sale is $890,000. The note on this property is fully due and payable in 1979. When it is paid the profit can be taken into income, which may occur before 1979 if the note is repaid before maturity. Maintenance and sales expense will decrease as Mutual disposes of the vacant land.

General and Administrative Expenses

Although general and administrative expenses increased $217,000 in 1977, $234,000 in 1976 and $502,000 in 1975, the percentage to gross income decreased from 12.9% in 1975, 12.6% in 1976 to 11.6% in 1977. The increased expense was principally caused by inflation and continued cost of computerizing our accounting system.

Interest on Savings Deposits

Total savings and interest paid for the last three years were:

	1977	1976	1975
Total savings	$459,908,000	404,996,000	360,070,000
Interest on savings	28,070,000	24,428,000	21,844,000

The increase in the interest on savings is due not only to an increase in total savings, but an increase to the higher rates of certificates of deposit. Savings deposits are summarized by interest in Note 7 of Notes to Consolidated Financial Statements.

Interest on Notes Payable

In 1977 and 1976, a 7½% rate was paid on advances made by the Federal Home Loan Bank and a 9¼% rate was paid on a note of $5,500,000 secured by the main office building and business block. Variation in rate in 1975 fluctuated from 7¼% to 10½%. Total of notes payable at year end and interest paid for each year was:

	1977	1976	1975
Notes payable	$ 27,830,000	31,356,000	26,210,000
Interest paid	2,312,000	1,962,000	2,628,000

Taxes on Income

Taxes on income were 27.4% of earnings before taxes on income in 1977, 31.5% in 1976 and 41.4% in 1975. 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% dividend received deduction on common and preferred stock. This deduction has increased as the investment in common and preferred stocks has increased. In addition, income earned on municipal obligations is tax exempt. See Note 9 of Notes to Consolidated Financial Statements for additional information.

Equity in Earnings of Affiliate

During 1977, Wesco acquired an interest in Detroit International Bridge Company. This investment is accounted for on the equity basis. See Note 6 of Notes to Consolidated Financial Statements for additional information.

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 years 1975 and 1976. The New York Stock Exchange suspended trading Wesco stock on March 4, 1977 and Wesco stock began trading on the American Stock Exchange March 7, 1977. Therefore, the quarterly high and low prices for part of March and the remaining three quarters of 1977 reflect trading on the American Stock Exchange. Wesco issued a 3-for-1 stock split on April 4, 1977 which is reflected during the quarter ended June 30, 1977.

	1977		1976		1975	
Quarter Ended	High	Low	High	Low	High	Low
March 31	20⅛	19¾	15⅝	10	11¾	8⅜
June 30*	19¾	19⅜	15¼	13¼	12	10⅞
June 30**	7⅝	5⅞				
September 30	8	6¼	15½	13⅜	11⅞	9
December 31	8⅛	6¾	20	15½	10⅛	8⅞

*Before 3-for-1 split in 1977
**After 3-for-1 split in 1977

Item 3. PROPERTIES

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

Head Office located at 315 East Colorado Boulevard, Pasadena, California 91109, leased by Mutual from Wesco, which is its parent company, under lease which expires June 14, 1984.

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 which will permit occupancy to June 10, 2001.

Corona Del Mar Office located at 2867 East Coast Highway, Corona del Mar, California 92625, leased by Mutual for a five-year period which expires July 14, 1979. Mutual has taken an option on a vacant corner near this location and presently intends to build a new building. The lease will be for an initial term of thirty years and grants Mutual six additional five-year options which will permit occupancy to May 1, 2038.

Canoga Park-Chatsworth Office located at 8393 Topanga Canyon Boulevard, Canoga Park, California 91304, leased by Mutual under a lease which expires May 31, 1980. Four consecutive five-year options to May 31, 2000 have been granted to Mutual.

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 to March 31, 1998.

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 located at 1010 East Vista Way, Suite A, Vista, California 92083, leased by Mutual under a lease which runs through May 1, 1982 with options to extend to May 1, 2002.

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, 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 four additional five-year options to November 30, 1999.

Upland Office located at 160 West Foothill Boulevard, Upland, California 91786, owned in fee simple by Mutual.

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 May 31, 1985.

Fallbrook Office is presently located at 119 East Ivy, Fallbrook, California 92028. The present lease runs to April 30, 1978 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.

Item 4. PARENTS AND SUBSIDIARIES

Blue Chip Stamps, a California corporation, owns 80.1% of the outstanding stock of Wesco. At December 31, 1977, Wesco owned 100% of the voting securities of the following subsidiaries, both of which are incorporated in California and are included in its consolidated financial statements herein.

Mutual Savings and Loan Association
WSC Insurance Agency

Mutual owns 100% of the voting securities of Wes-Fin Service Corp., a California corporation, which is included in the consolidated financial statements.

Wesco owns 21.5% of Detroit International Bridge Company, which is incorporated in Michigan. Wesco accounts for this investment on the equity basis. Detroit International Bridge Company files separate consolidated financial statements with its wholly owned subsidiary, The Canadian Transit Company.

Item 5. PENDING LEGAL PROCEEDINGS

During recent years, a number of class actions against numerous savings and loan associations and other lenders in California have been pending regarding interest on impound accounts, late charges, prepayment fees and due-on-sale clauses (a clause which permits the entire balance of the loan to become due upon the sale of the mortgaged property). Mutual Savings was at one time a named defendant in several of these actions. However, at the present time, there are only two such class actions in which Mutual Savings is a named defendant, both of which have been in a dormant status for over four years. In one of these, the case of Gabriel W. Solomon et al. vs. United Savings and Loan Association et al., Kern County Superior Court Case No. 123271, filed on May 18, 1973 against 175 savings and loan associations in California seeking refunds of late charges as invalid under Civil Code Sections 1670 and 1671, Mutual has not been served. The action was removed to the U. S. District Court for the Eastern District of California (U. S. District Court No. F887-Civil) on November 1, 1973.

The other such action is the Los Angeles Superior Court Case No. 66361, Martin S. Stolzoff dba Westminster Investment Company et al. vs. Mutual Savings and Loan Association filed on September 5, 1973 which makes a similar charge with regard to late charges collected on delinquent loans by Mutual Savings. It seeks refund of the late charges with estimates exceeding $1,000,000.

In Wesco's opinion, these aforementioned actions will not have a material effect on its financial statements.

Wesco Financial Corporation and Blue Chip Stamps have been named as defendants in two lawsuits brought by Jerry D. Luptak. Both of these cases, which relate to a tender offer made by Wesco for shares of Detroit International Bridge Company, are described below.

(1) Jerry D. Luptak v. Wesco Financial Corporation, Blue Chip Stamps, and Detroit International Bridge Company, United States District Court for the Eastern District of Michigan, No. 772460; (2) Jerry D. Luptak v. Central Cartage Co., Centra, Inc., Wesco Financial Corporation, Blue Chip Stamps, Joseph W. Bower, Robert A. Bower, Philip L. Carret, Charles J. Clark, Q.C., Arthur H. Lamborn, Roy G. Lancaster, Harold A. Ruemenapp, H. Peter Schaub, Jr. and Detroit International Bridge Company (DIBC), United States District Court for the Eastern District of Michigan, No. 870068.

In the first case, plaintiff sought injunctive relief prohibiting Wesco from proceeding with its tender offer for DIBC, requiring it to divest the shares obtained through the tender offer, and prohibiting it from voting shares of DIBC held by it. The Complaint alleged violations of federal securities laws in connection with the disclosures and alleged failures to disclose made in the offer to purchase and information statement that was circulated to DIBC shareholders, particularly, but not exclusively, in connection with the description of the operation and effect of the Canadian Foreign Investment Review Act. The United States District Court for the Eastern District of Michigan, on November 2, 1977, issued an "Order Denying Motion for Preliminary Injunction and Order Dismission Complaint". The plaintiff moved for a new trial and, on December 28, 1977, the court issued an "Order Denying Motion for New Trial and Reconsideration". Plaintiff has now filed a notice of appeal from these orders with the United States Court of Appeals for the Sixth District.

In the second case, filed on January 10, 1978, plaintiff purports to sue individually, and on behalf of all other shareholders of DIBC, and derivatively on behalf of DIBC. The Complaint alleges violations of federal securities laws in connection with the disclosures and alleged failures to disclose in the offer to purchase and information statement circulated to DIBC shareholders in connection with Wesco's tender offer. The Complaint seeks to enjoin defendants from acquiring any further shares of DIBC and from voting any shares acquired by them since September 30, 1977. It also seeks to require the return or divestment of all shares acquired since September 30, 1977, and a judgment in favor of plaintiff for "such damages as are attributable to the illegal actions of defendants". Wesco Financial Corporation and Blue Chip Stamps expect to contest this action vigorously.

Item 6. INCREASES AND DECREASES IN OUTSTANDING SECURITIES AND INDEBTEDNESS

Capital stock $1 par value	
Total shares outstanding at December 31, 1976	2,373,269
Total shares issued in connection with 3-for-1 stock split in the form of a 200% stock dividend on April 4, 1977	4,746,538
Total shares outstanding at December 31, 1977	7,119,807

Authorized shares were increased from 2,500,000 to 7,500,000. The 4,746,538 shares issued in connection with the stock split were not registered under the Securities Act of 1933 because, in the opinion of Wesco's counsel, the issuance of said shares did not constitute a sale within the meaning of Section 2(3) of the Act.

Item 7. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

Not applicable.

Item 8. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 9. APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

Title of Class	Number of Record Holders
Capital stock $1 par value	1,57[illegible]

Item 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Notice of Annual Meeting of Stockholders, held April 19, 1977, and proxy soliciting the vote of stockholders for the election of directors were mailed to all stockholders on March 18, 1977. The following directors were elected to hold office until the next annual meeting of stockholders and until their respective successors shall have been duly elected and qualified:

Louis R. Vincenti
William T. Caspers
David K. Robinson
James N. Gamble
Elizabeth Caspers Peters
Warren E. Buffett (Resigned October 18, 1977)
Charles T. Munger

A Consent Statement and Consent Form soliciting the written consent of stockholders to the amendment of Wesco's Certificate of Incorporation to increase the authorized number of shares which Wesco shall have the authorization to issue from 2,500,000 shares to 7,500,000 shares, was mailed to all stockholders on February 2, 1977. 2,248,500 affirmative consents were received, 124,769 consents were not executed, and no negative votes were cast.

Item 11. EXECUTIVE OFFICERS OF THE REGISTRANT

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 and Position	Age
LOUIS R. VINCENTI	72

Chairman of the Board and President
Mr. Vincenti has served as Chairman of the Board for Wesco and Mutual Savings since 1973. He has served as President of Wesco and Mutual Savings since 1961.

BETTE DECKARD	58

Secretary-Treasurer
Mrs. Deckard has served as Secretary-Treasurer of Wesco and Mutual Savings since 1975. From 1974 to 1975, she served as Vice President and Treasurer for Mutual Savings. From 1971 to 1974, Mrs. Deckard held the position of Vice President and Assistant Treasurer of Mutual Savings.

JOHN R. ARMETTA	57

Vice President, Property Development
Mr. Armetta has served as Vice President in charge of Property Development for Wesco since 1973 and has served as a Senior Vice President for Mutual Savings since 1969.

HAROLD R. DETTMANN	55

Vice President, Operations
Mr. Dettmann has served as Vice President in charge of Operations for Wesco since 1976 and as Senior Vice President for Mutual Savings since 1974. From 1971 to 1974, he served as Vice President and Operations Officer for Mutual Savings.

PHILIP E. LYNN	65

Vice President, Loan Processing
Mr. Lynn has served as Vice President in charge of Loan Processing for Wesco since 1969 and as Senior Vice President for Mutual Savings since 1967.

ROBERT E. SAHM	50

Vice President, Building Management
Mr. Sahm has served as Vice President in charge of Building Management since 1971 and as Building Manager since 1967.

Item 12. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section NINTH (6) and (7) of Wesco's Articles of Incorporation provides, under certain conditions and subject to certain limitation, that Wesco, its subsidiaries Mutual Savings and Loan Association, WSC Insurance Agency, Wes-Fin Service Corp., and agents of said subsidiaries, shall be eligible for indemnification by Wesco under the provisions of Section 145 of Chapter 1 of Title 8 of the Delaware Code, as amended.

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 13. FINANCIAL STATEMENTS, EXHIBITS FILED AND REPORTS ON FORM 8-K

(a) Index to financial statements, schedules, and exhibit filed with this report:

Accountants' Report

Financial Statements

- Consolidated Balance Sheets — December 31, 1977 and 1976
- Consolidated Statements of Earnings — Years ended December 31, 1977 and 1976
- Consolidated Statements of Stockholders' Equity — Years ended December 31, 1977 and 1976
- Consolidated Statements of Changes in Financial Position — Years ended December 31, 1977 and 1976
- Notes to Consolidated Financial Statements

Schedules

- I — Marketable Securities — Other Security Investments
- III — Investments in, equity in earnings of, and dividends received from affiliates and other persons
- XV — Supplementary income statement information

All other schedules have been omitted as the required information is inapplicable or is presented in the consolidated financial statements or related notes.

Parent company financial information, including Balance Sheets, Statements of Earnings and Statements of Changes in Financial Position are contained in Note 2 of Notes to Consolidated Financial Statements.

Exhibits

Exhibit I — Resolution of Board of Directors Amending By-Laws

(b) Form 8-K — September, 1977 reporting tender offer for the outstanding stock of Detroit International Bridge Company filed October 4, 1977

Form 8-K — October, 1977 reporting Revised Offer to Purchase to the stockholders of Detroit International Bridge Company filed October 31, 1977.

ACCOUNTANTS' REPORT

The Board of Directors
Wesco Financial Corporation:

We have examined the balance sheets of Wesco Financial Corporation and Wesco Financial Corporation and subsidiaries as of December 31, 1977 and 1976 and the related statements of earnings, stockholders' equity and changes in financial position for the years then ended. We have also examined the schedules listed in the accompanying index. 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.

In our opinion, the aforementioned financial statements present fairly the financial position of Wesco Financial Corporation and Wesco Financial Corporation and subsidiaries at December 31, 1977 and 1976 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; and the supporting schedules, in our opinion, present fairly the information set forth therein.

Peat, Marwick, Mitchell & Co.

Los Angeles, California
January 27, 1978

Consolidated Balance Sheets

December 31, 1977 and 1976

ASSETS	1977	1976
Cash	$ 1,614,000	1,521,000
Short-term bank obligations	21,800,000	16,700,000
Certificates of deposit and banker's acceptances, at amortized identified cost, which approximates market	65,863,000	80,262,000
United States Government and agency obligations and other securities, at amortized identified cost (quoted market, $7,983,000 in 1977 and $9,908,000 in 1976)	8,000,000	9,950,000
Municipal obligations, at amortized identified cost (quoted market, $7,769,000 in 1977 and $7,738,000 in 1976)	6,685,000	6,696,000
Investment in common stocks (quoted market, $34,426,000 in 1977 and $17,763,000 in 1976) (note 3)	34,257,000	14,809,000
Investment in preferred stocks (quoted market, $25,904,000 in 1977 and $28,488,000 in 1976) (note 3)	23,879,000	25,215,000
Loans receivable, less unearned loan fees, unrealized profit and loans in process (notes 4 and 8)	394,125,000	347,194,000
Accrued interest and dividends receivable	3,338,000	3,074,000
Properties purchased and held for investment, at cost	—	89,000
Properties acquired through foreclosure by Mutual Savings and held for sale, at cost, less allowance for losses of $192,000 in 1977 and 1976	2,095,000	3,321,000
Investments required by law:		
Investment in stock of Federal Home Loan Bank, at cost (note 8)	3,337,000	3,593,000
Prepayments to FSLIC secondary reserve	4,331,000	4,608,000
Investment in affiliated company (note 6)	5,330,000	—
Office properties and equipment, net (notes 5 and 8)	5,389,000	5,059,000
Prepaid expenses and sundry assets, at cost	1,051,000	1,257,000
	$581,094,000	523,348,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Savings deposits (note 7)	$459,908,000	404,996,000
Notes payable (note 8)	27,830,000	31,356,000
Advances by borrowers for taxes and insurance	600,000	479,000
Accounts payable and sundry accrued expenses	1,146,000	1,099,000
Cash disbursements to be funded at bank	723,000	668,000
Taxes on income (note 9):		
Current	2,128,000	229,000
Deferred	7,350,000	7,449,000
Total liabilities	499,685,000	446,276,000
Stockholders' equity (notes 9, 10, 13 and 14):		
Capital stock of $1 par value per share. Authorized 7,500,000 shares; issued 7,119,807 shares	7,120,000	2,373,000
Capital surplus arising from stock dividends	23,319,000	28,066,000
Retained earnings	50,970,000	46,633,000
Total stockholders' equity	81,409,000	77,072,000
Commitments and contingent liabilities (notes 11 and 15)		
	$581,094,000	523,348,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

Years ended December 31, 1977 and 1976

	1977	1976
Revenues:		
Interest on loans	$ 28,482,000	27,521,000
Loan fees and service charges	1,963,000	1,663,000
Interest on marketable securities	6,840,000	5,135,000
Dividends on common and preferred stocks	4,371,000	3,108,000
Interest and dividends on investments required by law	435,000	486,000
Net gains (losses) on sales of marketable securities	608,000	26,000
Equity in earnings of affiliate (note 6)	150,000	—
Operations and net gains from sales of real property (note 12)	1,154,000	1,082,000
Other income, net	420,000	370,000
	44,423,000	39,391,000
Expenses:		
General and administrative expenses	5,161,000	4,944,000
Interest on savings deposits	28,070,000	24,428,000
Interest on notes payable	2,312,000	1,962,000
	35,543,000	31,334,000
Earnings before taxes on income	8,880,000	8,057,000
Taxes on income (note 9):		
Current	2,530,000	2,283,000
Deferred	(99,000)	258,000
	2,431,000	2,541,000
Net earnings	$ 6,449,000	5,516,000
Earnings per capital share based on 7,119,807 shares (note 10)	$ .91	.77
Cash dividends per share based on 7,119,807 share (note 10)	$ .297	.233

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1977 and 1976

	1977	1976
Capital stock (note 10)	$ 7,120,000	2,373,000
Capital surplus arising from stock dividends (note 10)	23,319,000	28,066,000
Retained earnings:		
Appropriated (notes 9 and 13):		
Beginning of year	44,768,000	44,130,000
Allocation of net earnings	254,000	638,000
End of year	45,022,000	44,768,000
Unappropriated (note 14):		
Beginning of year	31,104,000	27,888,000
Cash dividends declared and paid	(2,112,000)	(1,662,000)
Allocation of net earnings	6,195,000	4,878,000
End of year	35,187,000	31,104,000
Less stock dividends at market value	(29,239,000)	(29,239,000)
Total retained earnings	50,970,000	46,633,000
Total stockholders' equity	$ 81,409,000	77,072,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1977 and 1976

	1977	1976
Funds provided:		
Net earnings	$ 6,449,000	5,516,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	414,000	344,000
Interest on savings deposits credited to savings accounts	21,670,000	18,537,000
FSLIC primary premium transferred from secondary reserve	108,000	96,000
Deferred income taxes (note 9)	(99,000)	258,000
Equity in net earnings of affiliate	(125,000)	—
Amortization of fees and discounts	(210,000)	(245,000)
Recognition of unrealized profit on real property	(426,000)	(962,000)
Interest income on FSLIC secondary reserve	(302,000)	(313,000)
Funds provided from operations	27,479,000	23,231,000
Principal payments on real estate loans	64,230,000	69,216,000
Additions to deferred loan fees	153,000	81,000
Sales of real property, net of gains	1,488,000	556,000
Increase in notes payable	—	5,146,000
Increase in loans in process	320,000	620,000
Additions to unrealized profit on real property	1,040,000	159,000
Increase in savings deposits	33,242,000	26,389,000
Decrease in stock of Federal Home Loan Bank	256,000	374,000
Increase in advances by borrowers for taxes and insurance	121,000	—
Decrease in cash	—	2,085,000
Other, net	2,415,000	—
Total funds provided	$130,744,000	127,857,000
Funds used:		
Cash dividends declared and paid (note 15)	$ 2,112,000	1,662,000
Decrease in notes payable	3,526,000	—
Investment in real estate loans	107,546,000	42,386,000
Increase in loans on savings accounts	4,483,000	609,000
Investment in buildings and other assets	795,000	330,000
Additions to real property	187,000	406,000
Investment in affiliated company, net (note 6)	5,205,000	—
Decrease in advances by borrowers for taxes and insurance	—	300,000
Increase in marketable securities	6,852,000	79,799,000
Increase in cash	38,000	—
Other, net	—	2,365,000
Total funds used	$130,744,000	127,857,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1977 and 1976

(1) Summary of Significant Accounting Policies

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

Principles of Consolidation

The 1977 consolidated financial statements include the accounts of Wesco Financial Corporation (the Company) and its wholly owned subsidiaries, WSC Insurance Agency, and Mutual Savings and Loan Association and its wholly owned subsidiary (Mutual Savings). The 1976 consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Mutual Savings and Loan Association and its wholly owned subsidiaries (Note 6). All material intercompany transactions have been eliminated.

The Company's investment in the common stock of an affiliated company is stated at cost as adjusted for the Company's share of reported earnings or losses less amortization of excess cost.

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 3 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) Parent Company Financial Information (Wesco Financial Corporation)

ASSETS

	1977	1976
Cash	$ 11,580,000	4,130,000
Certificates of deposit and banker's acceptances, at amortized identified cost, which approximates market	—	16,940,000
Investment in common stocks (quoted market, $8,692,000 in 1977)	8,246,000	—
Investment in preferred stocks (quoted market, $276,000 in 1977 and $279,000 in 1976)	267,000	267,000
Real estate loans receivable	604,000	202,000
Accrued interest and dividends receivable	4,000	241,000
Properties purchased and held for investment, at cost	—	89,000
Investments in subsidiaries and affiliated company at equity	63,182,000	57,064,000
Office properties and equipment, net	3,920,000	3,990,000
Prepaid expenses and sundry assets, at cost	235,000	497,000
	$ 88,038,000	83,420,000

LIABILITIES AND STOCKHOLDERS' EQUITY

	1977	1976
Note payable	$ 5,467,000	5,500,000
Accounts payable and sundry accrued expenses	780,000	790,000
Taxes on income:		
Current	361,000	223,000
Deferred	21,000	(165,000)
Total liabilities	6,629,000	6,348,000
Stockholders' equity:		
Capital stock of $1 par value per share. Authorized 7,500,000 shares; issued 7,119,807 shares	7,120,000	2,373,000
Capital surplus arising from stock dividends	23,319,000	28,066,000
Retained earnings:		
Appropriated	45,022,000	44,768,000
Unappropriated	35,187,000	31,104,000
Less stock dividends at market value	(29,239,000)	(29,239,000)
	50,970,000	46,633,000
Total stockholders' equity	81,409,000	77,072,000
Commitments and contingent liabilities		
	$ 88,038,000	83,420,000

STATEMENTS OF EARNINGS
Year ended December 31

	1977	1976
Revenues:		
Dividends from consolidated subsidiaries	$ 5,209,000	4,800,000
Dividends from affiliate	74,000	—
Interest on loans	47,000	23,000
Loan fees and service charges	57,000	85,000
Interest on marketable securities, including interest on deposits in Mutual Savings of $304,000 in 1977 and $75,000 in 1976	1,085,000	1,022,000

STATEMENTS OF EARNINGS (Continued)

	1977	1976
Dividends on common and preferred stocks	134,000	24,000
Net gain (loss) on sales of marketable securities	19,000	(78,000)
Rental of office premises, net	316,000	255,000
Gain on sale of real estate owned	599,000	—
	7,540,000	6,131,000
Expenses:		
General and administrative expenses	382,000	321,000
Interest on notes payable, including interest on loan payable to Mutual Savings of $126,000 in 1976	513,000	126,000
	895,000	447,000
Earnings before items shown below	6,645,000	5,684,000
Taxes on income	651,000	501,000
Equity in undistributed earnings of subsidiaries and affiliate		
Subsidiaries	379,000	333,000
Affiliate	76,000	—
Net Earnings	$ 6,449,000	5,516,000

STATEMENTS OF CHANGES IN FINANCIAL POSITION
Year ended December 31

	1977	1976
Funds provided:		
Net earnings	$ 6,449,000	5,516,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	227,000	227,000
Deferred income taxes	186,000	(43,000)
Recognition of unrealized profit on real property	(54,000)	—
Undistributed earnings of subsidiaries and affiliate	(455,000)	(333,000)
Funds provided from operations	6,353,000	5,367,000
Principal payments on real estate loans	178,000	40,000
Sales of real property, net of gains	100,000	—
Issuance of notes payable	—	5,500,000
Decrease in marketable securities	8,693,000	—
Other, net	627,000	—
Total funds provided	$ 15,951,000	10,907,000
Funds used:		
Cash dividends declared and paid	$ 2,112,000	1,662,000
Investment in affiliated company	5,663,000	—
Investment in buildings and other assets	167,000	17,000
Decrease in notes payable	33,000	2,430,000
Investment in real estate loans	526,000	—
Increase in cash	7,450,000	3,432,000
Increase in investments in marketable securities	—	3,180,000
Other, net	—	186,000
Total funds used	$ 15,951,000	10,907,000

(3) Marketable Equity Securities

The investment in preferred stocks of $23,879,000 in 1977 and $25,215,000 in 1976 includes marketable equity securities amounting to $13,167,000 and $12,474,000, respectively, at cost. All common stocks, amounting to $34,257,000 in 1977 and $14,809,000 in 1976 at cost, are marketable equity securities. Gross unrealized gains and losses are as follows:

	1977	1976
Gross unrealized gains	$ 1,173,000	3,959,000
Gross unrealized losses	(277,000)	—
	$ 896,000	3,959,000

(4) Loans Receivable

Loans receivable are summarized as follows:

	1977	1976
Real estate loans on residential property of:		
One to four units (home loans)	$304,760,000	259,307,000
More than four units	72,869,000	76,184,000
Real estate loans on other properties	12,940,000	11,753,000
	390,569,000	347,244,000
Less:		
Unearned loan fees	(591,000)	(648,000)
Unrealized profit on sales of real property	(890,000)	(276,000)
Loans in process	(2,073,000)	(1,753,000)
	387,015,000	344,567,000
Loans on savings deposits	7,110,000	2,627,000
	$394,125,000	347,194,000
Number of loans	14,188	13,382

Included in real estate loans on residential property are insured FHA and partially guaranteed VA loans aggregating $2,612,000 for 1977 and $3,104,000 for 1976.

(5) Office Properties and Equipment, Net

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

1977	Company	Consolidated
Land	$ 1,386,000	1,650,000
Office buildings and leasehold improvements	5,280,000	6,418,000
Furniture, fixtures and equipment	6,000	1,265,000
	6,672,000	9,333,000
Accumulated depreciation and amortization	(2,752,000)	(3,944,000)
	$ 3,920,000	5,389,000

1976	Company	Consolidated
Land	$ 1,386,000	1,569,000
Office buildings and leasehold improvements	5,123,000	6,134,000
Furniture, fixtures and equipment	6,000	986,000
	6,515,000	8,689,000
Accumulated depreciation and amortization	(2,525,000)	(3,630,000)
	$ 3,990,000	5,059,000

(6) Investment in Affiliated Companies

During 1977 the Company acquired 21.5% of the common stock of Detroit International Bridge Company. The excess of cost over equity in net assets of $3,104,000 is being amortized over the period expected to be benefited which is 40 years.

At June 30, 1977 the Company received all issued and outstanding capital stock of WSC Insurance Agency as a dividend from Mutual Savings and Loan Association.

(7) Savings Deposits

Savings account balances at December 31 are summarized as follows:

	Stated Rate	1977	%	1976	%
Passbook	5¼ %	$158,347,000	35	149,093,000	37
Bonus	5½	2,293,000	—	3,011,000	1
	5¾	16,205,000	4	15,786,000	4
	6	982,000	—	993,000	—
		19,480,000	4	19,790,000	5
Certificates	5¾	3,881,000	1	1,829,000	1
	6	10,433,000	2	16,992,000	4
	6½	56,614,000	12	48,420,000	12
	6¾	13,395,000	3	12,432,000	3
	7	656,000	—	2,514,000	1
	7½	129,511,000	28	118,363,000	29
	7¾	67,107,000	15	33,805,000	8
$100,000 Minimum Certificates	6½ - 7¾	484,000	—	1,758,000	—
		282,081,000	61	236,113,000	58
		$459,908,000	100	404,996,000	100

(8) Notes Payable

The following is a summary of notes payable:

	1977	1976
Company:		
Note payable, secured by main office land, buildings, and assignment of leases, with interest at 9.25%	$ 5,467,000	5,500,000
Mutual:		
Federal Home Loan Bank advances, secured by certain real estate loans amounting to $50,905,000 in 1977 and $59,586,000 in 1976 and Federal Home Loan Bank stock, with interest at 7.50%	22,363,000	25,856,000
	$ 27,830,000	31,356,000

Notes payable mature as follows:

	Company	Consolidated
1978	$ 39,000	3,533,000
1979	43,000	3,537,000
1980	47,000	3,541,000
1981	51,000	3,545,000
1982	56,000	3,550,000
Thereafter	5,231,000	10,124,000
	$ 5,467,000	27,830,000

(9) 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, 1977 and 1976 include approximately $45,832,000 and $45,578,000, respectively (before elimination of $810,000 in consolidation), of tax reserves for which no provision for Federal income taxes has been made. If in the future these appropriations are used for any purpose other than to absorb bad debt losses, Federal income taxes will be imposed at the then applicable rates.

Federal income tax returns of the Company and Mutual Savings for 1972 through 1976 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 1977 and 1976 include the following components:

	1977		1976	
	Current	Deferred	Current	Deferred
Federal	$1,548,000	(132,000)	1,482,000	129,000
State	982,000	33,000	801,000	129,000
Total	$2,530,000	(99,000)	2,283,000	258,000

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 1977 and 1976 and the tax effect of each were as follows:

	1977	1976
Gain on sale of property, recognized on installment basis for taxes .... $	127,000	23,000
Financial statement recognition of loan fees less than tax recognition	(277,000)	(611,000)
California franchise tax recognized for financial statement purposes on accrual basis, but on cash basis for tax purposes	(94,000)	(25,000)
FSLIC secondary reserve interest income recognized on the financial statements, but deferred for tax purposes	12,000	55,000
Investment income recognized for financial statement purposes on accrual basis, but on cash basis for tax purposes ...	209,000	857,000
Other timing differences	(76,000)	(41,000)
	$ (99,000)	258,000

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:

	1977	1976
Computed "expected" Federal taxes .... $	4,262,000	3,867,000
Increases (reductions) in taxes resulting from:		
Net gains on sales of foreclosed real property	(187,000)	(459,000)
State franchise tax, net of Federal income tax benefit	528,000	484,000
Tax benefit on capital gain items, taxed at a lower rate .	(183,000)	(4,000)
Dividends received deduction on common and preferred stocks	(1,831,000)	(1,268,000)
Interest on municipal obligations	(253,000)	(233,000)
Other permanent differences .	95,000	154,000
	$ 2,431,000	2,541,000

(10) Capital Stock

On January 18, 1977, the Company announced a three-for-one stock split to be effected in the form of a 200% stock dividend. The Company's Articles of Incorporation were amended to increase the authorized number of shares from 2,500,000 shares to 7,500,000 shares. The stock dividend was distributed on April 4, 1977 to shareholders of record at the close of business on March 18, 1977. The number of shares issued increased from 2,373,269 to 7,119,807 shares. The par value of the 4,746,538 shares issued was transferred to common stock from capital surplus. Per share amounts have been restated giving retroactive effect to the stock split.

(11) Retirement Plan

A noncontributory retirement plan is in effect for all eligible employees of the Company and its subsidiaries. Eligibility is based on age and certain minimum working hour requirements. Employer contributions are computed utilizing the aggregate cost funding method. The contributions for 1977 and 1976 approximated $114,000 and $111,000, respectively. The actuarially computed value of vested benefits as of December 31, 1977 did not exceed the market value of the assets of the retirement fund.

The retirement plan was 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.

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(12) Real Estate Operations

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

	1977	1976
Recognized net gains from sales	$ 1,088,000	1,043,000
Income from rentals	148,000	136,000
	1,236,000	1,179,000
Less maintenance and sales expense	(82,000)	(97,000)
	$ 1,154,000	1,082,000

(13) 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, 1977 and 1976.

(14) Dividends

Quarterly cash dividends declared and paid during 1977 amounted to $2,112,000. Quarterly cash dividends declared and paid during 1976 amounted to $1,662,000.

(15) 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 acitons 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.

(16) Interim Period Consolidated Operating Highlights

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

	Three-month reporting period ended			
	Mar. 31, 1977	Jun. 30, 1977	Sept. 30, 1977	Dec. 31, 1977
	(Unaudited)			
Revenues	$10,307,000	10,399,000	11,182,000	12,535,000
Expenses	8,966,000	9,033,000	9,623,000	10,352,000
Net earnings	$ 1,341,000	1,366,000	1,559,000	2,183,000
Earnings per share based on 7,119,807 shares	$ .19	.19	.22	.31
	Mar. 31, 1976	Jun. 30, 1976	Sept. 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 7,119,807 shares	$ .16	.20	.21	.20

WESCO FINANCIAL CORPORATION

Schedule III

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

Years ended December 31, 1977 and 1976

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	Number of Shares or Units. Principal Amount of Bonds and Notes	Amount in Dollars	Equity Taken Up in Earnings (Losses) of Affiliates and Other Persons For the Period	Other	Distribution of Earnings by Persons In Which Earnings (Losses) Were Taken Up	Other	Number of Shares or Units. Principal Amount of Bonds and Notes	Amount in Dollars	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:									
1976	600(1)	$ 56,731,000	5,133,000	—	4,800,000	—	600(1)	$ 57,064,000	
1977	600(1)	$ 57,064,000	5,578,000	—	4,800,000	409,000(3)	600(1)	$ 57,433,000	
WSC Insurance Agency Capital stock of $1 par value:									
1976	—	$ —	—	—	—	—	—	$ —	
1977	—	$ —	10,000	409,000(3)	—	—	10,000(1)	$ 419,000	
Detroit International Bridge Company $1 par value:									
1976	—	$ —	—	—	—	—	—	$ —	
1977	—	$ —	150,000	5,279,000	74,000	25,000(4)	272,908(2)	$ 5,330,000	

(1) 100% of the outstanding shares.

(2) 21.5% of the outstanding shares.

(3) Wesco received 100% of the outstanding common stock of WSC Insurance Agency as a dividend from Mutual Savings and Loan Association, a wholly owned subsidiary, on June 30, 1977.

(4) Amortization of excess purchase price.

WESCO FINANCIAL CORPORATION

Schedule I

MARKETABLE SECURITIES — OTHER SECURITY INVESTMENTS

December 31, 1977

COLUMN A	COLUMN B	COLUMN C and E	COLUMN D
NAME OF ISSUER AND TITLE OF EACH ISSUE	NUMBER OF SHARES OR PAR VALUE	COST OF EACH ISSUE AND AMOUNT ON THE BALANCE SHEET	VALUE BASED ON MARKET QUOTATIONS AT BALANCE SHEET DATE
United States Government	$ 5,000,000	$ 5,000,000	$ 4,983,000
General Motors Acceptance Corporation	3,000,000	3,000,000	3,000,000
	$ 8,000,000	$ 8,000,000	$ 7,983,000
Securities issued by States & Municipalities	$ 6,685,000	$ 6,685,000	$ 7,769,000
Common Stocks:			
FNMA	1,730,000	$ 26,011,000	$ 25,734,000
Cleveland-Cliffs Iron Company ...	152,500	8,246,000	8,692,000
	1,882,500	$ 34,257,000	$ 34,426,000
Preferred Stocks:			
Pacific Gas and Electric	188,600	$ 4,560,000	$ 4,800,000
Southern California Edison	41,700	3,945,000	4,229,000
Columbia Gas System Inc.	60,200	3,048,000	3,449,000
Consolidated Natural Gas	25,000	2,589,000	2,900,000
Issued by others	198,251	9,737,000	10,526,000
	513,751	$ 23,879,000	$ 25,904,000

WESCO FINANCIAL CORPORATION

Schedule XV

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years ended December 31, 1977 and 1976

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

	Year ended December 31			
	1977		1976	
	Company	Consolidated	Company	Consolidated
Maintenance and repairs	$ 501,000	557,000	398,000	438,000
Depreciation and amortization of office properties and equipment	227,000	414,000	227,000	344,000
Taxes, other than taxes on income:				
Payroll taxes	10,000	126,000	11,000	125,000
Property taxes	177,000	295,000	205,000	292,000
Advertising	—	552,000	—	520,000

PART II

Wesco has filed with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A involving the election of directors within 120 days after the close of its fiscal year ended December 31, 1977. Pursuant to the Rules of the Commission by virtue of such filing the information called for in Items 14-18 of this Form 10-K Annual Report has been omitted.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

WESCO FINANCIAL CORPORATION
(Registrant)

Louis R. Vincenti

By: Louis R. Vincenti, President

Date: March 30, 1978

BOARD OF DIRECTORS

LOUIS R. VINCENTI
Chairman of the Board and President

***WILLIAM T. CASPERS**
Personal Investments

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

***JAMES N. GAMBLE**
Investment Counselling and Trust Administration

ELIZABETH CASPERS PETERS
Personal Investments

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

*Audit Committee Member

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

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