SEC FILE NO 0-3810 03--07 SIC 206 B 55 80 00 000

BLUE CHIP STAMPS 10-K

OTHER

CARD 1 DISCLOSURE INC WASHINGTON D. C. 20014 FOR 12/30/78

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

ARS	FOR:	12/31/77
PROXY	DATED:	04/04/78
10-K	FOR:	12/31/77
10-Q	FOR	04/01/78
10-Q	FOR	07/01/78
10-Q	FOR	09/30/78
8-K	FOR:	05/31/78
8-K	FOR:	08/31/78

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

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

65

For the fiscal year
ended December 30, 1978

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)

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 4 and 5 of the printed annual report of Blue Chip Stamps (the "Company") for the year ended December 30, 1978, including the reference therein to Note 10 to the consolidated financial statements, 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.

The information relative to businesses acquired by Wesco Financial Corporation, a subsidiary of the Company, in February 1979, contained in Item 1 of the Form 10-K Annual Report for the year ended December 31, 1978 filed by Wesco Financial Corporation, a copy of which report is attached for convenience, is incorporated herein by reference. With the exception of the aforementioned information and data referred to in Items 3, 4 and 5 and on page S-1 hereof, information contained in said 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 6 and 7 of the Company's printed annual report for the year ended December 30, 1978, 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 245,000 square feet of fully equipped kitchen facilities which it owns in Los Angeles and South San Francisco. These facilities are subject to trust deeds.

The newspaper publishing subsidiary owns a five-story office building in Buffalo containing approximately 220,000 square feet of space and an adjacent two-story, 180,000 square-foot building which houses the printing presses and distribution equipment.

Redemption stores and candy shops are normally leased. The leases expire on various dates, none later than 1995.

The information set forth in Item 3 of the Form 10-K Annual Report for the year ended December 31, 1978 filed by Wesco Financial Corporation, a subsidiary of the Company, a copy of which report is attached for convenience, is incorporated herein by reference. With the exception of the aforementioned information and data referred to in Items 1, 4 and 5 and on page S-1 hereof, information contained in said report is not to be deemed filed as part of this report.

Item 4. Parents and Subsidiaries.

Mr. Warren E. Buffett, a director of the Company, holds beneficially 10.6% of the Company's 5,178,770 shares of common stock outstanding. Mr. Buffett may also be considered to be a beneficial owner, sharing voting and investment power, with respect to 2.4% of the Company's stock owned by Mr. Buffett's wife and trusts of which he is trustee but in which he has no beneficial interest. In addition, Berkshire Hathaway Inc. ("Berkshire") and certain of its subsidiaries, whose investments and voting are directed by Mr. Buffett and which may be deemed to be controlled by him, hold beneficially 57.7% of the Company's common stock. The beneficial holdings of Mr. Buffett, Berkshire and its subsidiaries thus aggregate 70.7%. Mr. Buffett may be deemed to be in ultimate control of the Company. Mr. Buffett, his wife and entities with which they are associated own shares of the Company's common stock, as follows (a):

Warren E. Buffett	550,090
Susan T. Buffett, spouse, and trusts of which Mr. Buffett is trustee but in which he has no beneficial interest	125,606
Berkshire and subsidiaries (b)	2,987,903

(a) Does not include 240 shares owned by a child of Mr. Buffett's.

(b) Mr. Buffett, his wife and trusts of which he is trustee but in which he has no beneficial interest own 47.4% of the common stock of Berkshire, which, with subsidiaries, is engaged in the underwriting of property and casualty insurance, in the manufacture of woven textiles, in the retailing of women's and children's apparel and in commercial banking. 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 or a subsidiary 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 100% of the outstanding common stock of See's Candy Shops, Incorporated, which, in turn, owns 100% of the common stock of See's Candies, Inc., both California corporations. Financial statements of both companies are included in the Company's consolidated financial statements.

The Company owns 100% of the outstanding capital stock of Buffalo Evening News, Inc., a New York corporation. Financial statements of this company are included in the Company's consolidated financial statements.

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 (1) Mutual Savings and Loan Association and its inactive, wholly owned subsidiary, Wes-Fin Service Corp., both California corporations; (2) Precision Steel Warehouse, Inc., an Illinois corporation, and its wholly owned subsidiaries, Precision Brand Products, Inc. and Precision Steel Warehouse, Inc. - Charlotte Service Center, both Delaware corporations, and DuPage Manufacturing Company, an Illinois corporation; and (3) WSC Insurance Agency, an insignificant California corporation. The Company, through 1978, accounted for Wesco under the equity method inasmuch as the savings and loan business constituted its only significant activity. The businesses referred to in (2) above were acquired by inactive predecessor subsidiaries in February 1979 (see next paragraph). Separate consolidated and unconsolidated financial statements of Wesco are incorporated herein by reference, as explained in the Index to Financial Statements on page S-1.

The information relative to Precision Steel Warehouse, Inc. and DuPage Manufacturing Company, and their inactive predecessors, Wesco Acquisition, Inc. and Wesco DuPage, Inc., contained in Item 4 of the Form 10-K Annual Report for the year ended December 31, 1978 filed by Wesco Financial Corporation, a subsidiary of the Company, a copy of which report is attached for convenience, is incorporated herein by reference. With the exception of the aforementioned information and data referred to in Items 1, 3 and 5 and on page S-1 hereof, information contained in said report is not to be deemed filed as part of this report.

<u>Item 5. Legal Proceedings.</u>

(a) <u>Buffalo Courier-Express, Inc. v. Buffalo Evening News, Inc.</u>, 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 initiation of a Sunday edition in place of its Saturday weekend edition, and publication of Saturday and holiday editions, thus 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 District 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. A motion by the plaintiff (i) to have defendant held in contempt for alleged violations of the preliminary injunction and (ii) for modification of the preliminary injunction to impose further restrictions was denied by the District Court except for one finding that a News advertising salesman made a prediction to two advertisers regarding future circulation without full basis as required by the preliminary injunction; the issue of damages, if any, attributable to this alleged action by an advertising salesman, was deferred. The News also made a motion to modify the preliminary injunction to reduce restrictions, which was likewise denied. The News is appealing the granting of the preliminary injunction, the denial of its motion for modification thereof, and the one contempt holding to the Court of Appeals for the Second Circuit, which has heard argument on the appeal and taken the matter under submission. Additional motions filed by the plaintiff are pending in the trial court alleging that the News is in contempt of various aspects of the injunction. No hearing dates have been set with respect to these motions. In the main action in the trial court, 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, among others, that plaintiff seeks to monopolize the Sunday newspaper business in the Buffalo metropolitan area in violation of the federal antitrust laws. No trial date, pre-trial date, or discovery cut-off date has been set by the court. If the plaintiff is successful in obtaining the kinds of permanent injunctions it is seeking, the News probably will be forced to cease operations and liquidate; however, with discovery incomplete, the outcome of the action and defendant's potential exposure, if any, are uncertain.

(b) The Company, one of its subsidiaries, See's Candy Shops, Incorporated ("See's"), and certain of the present and past directors of these companies have been named as defendants in certain actions relating to a short-form merger of See's.

Prior to June 1978, the Company owned 99.12% of the 1,000,000 shares of See's common stock outstanding, minority shareholders holding .88%. In June 1978, See's was merged into a wholly owned subsidiary of the Company, and the interest of the minority shareholders was eliminated in the process.

Several of the minority shareholders dissented or attempted to dissent to the merger. Three former shareholders, holding a total of 561 shares, filed actions seeking determinations by the court of the fair market value of those shares. In addition, each sought costs relating to the appraisal actions.

Two other actions were filed on November 15, 1978 by a former holder of 15 shares. These are Pearl J. Deutsch, Individually and on behalf of all others similarly situated, v. Blue Chip Stamps, Seesparent Corp., See's Candy Shops Incorporated, Charles T. Munger, W. E. Buffett, Z. W. Griffin, D. A. Koeppel, W. F. Ramsey, R. Stever, A. J. Wolf, Charles N. Huggins, R. D. Albers, and Does 1-100, Los Angeles Superior Court No. CA 000524 (a purported class action), and Pearl J. Deutsch, on behalf of See's Candy Shops, Inc. v. Blue Chip Stamps, Seesparent Corp., See's Candy Shops, Inc., Charles T. Munger, W. E. Buffett, Z. W. Griffin, D. A. Koeppel, W. F. Ramsey, R. Stever, A. J. Wolf, Charles N. Huggins, R. D. Albers, and Does 1-100, Los Angeles Superior Court No. C 262140 (a purported derivative action). Both actions involve the same basic allegations and seek the same basic relief.

Both complaints allege that the defendants caused See's to pay excessive dividends to stockholders, which depressed the value of See's stock held by minority shareholders. The complaints make other allegations regarding breach of fiduciary duty in effecting the merger. The actions seek rescission of the merger of See's or, in the alternative, a determination of the fair market value of the dissenting shares; further damages according to proof; exemplary damages of $500,000 against each of the defendants; imposition of a constructive trust upon all the dividends of See's (and all the profits from such dividends) received by the Company, and distribution of such dividends to the class of persons who were minority shareholders; interest; counsel fees; costs of suit; and general relief.

Essentially three claims are asserted in the above-described actions. The first, asserted in all the actions, is that the price offered for the minority shares in connection with the merger was not adequate. Counsel for the Company have advised that, while they are not authorities on the valuation of shares or of companies, based on the information which they have, they believe it is unlikely that the Company or See's would suffer a loss material to the Company as a result of recoveries, if any, in these actions based on this theory.

The second claim, asserted only in the two Deutsch actions, is that the merger is subject to rescission. Even if this remedy were obtained (which is not expected), the Company would not expect rescission of the merger to have a material effect upon it, since the Company would still own 99.12% of See's.

The third claim, asserted only in the Deutsch actions, is that dividends paid by See's were excessive. Recovery is sought of all dividends paid to the Company (but not to the minority shareholders), and plaintiff requests that these dividends, and the profits therefrom, be distributed entirely to the persons who were minority shareholders of See's. Counsel do not expect the court to accept such claim, and they have stated that they believe it is unlikely that the Company or See's will suffer a loss that is material to the Company as a result of the assertion of this claim.

(c) The information set forth in Item 5 of the Form 10-K Annual Report for the year ended December 31, 1978 filed by Wesco Financial Corporation, a subsidiary of the Company, a copy of which report is attached for convenience, is incorporated herein by reference. With the exception of the aforementioned information and data referred to in Items 1, 3 and 4 and 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 30, 1978:

Balance, beginning of year	$2,168,000
Decrease in debentures resulting from payment at maturity	(2,168,000)
Balance, end of year	$ - 0 -

There were 5,178,770 shares of $1 par value common stock outstanding throughout the fiscal year ended December 30, 1978.

With respect to the bank loan referred to in Item 6 of the Company's Form 10-K Annual Report for the year ended December 31, 1977, the principal balance remained unchanged at $13,500,000 throughout 1978.

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 23, 1979
Common stock, par value $1.00 per share	2,044

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

None, other than election of directors, for which proxies were solicited pursuant to Regulation 14A.

Item 11. 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. Section 207 of the California Corporations Code permits indemnification of 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 maintained such insurance on a joint basis with majority-owned subsidiaries until February 1979, when the policy could not be renewed because the Company had become majority-owned by Berkshire Hathaway Inc. (see Item 4 hereof). Berkshire Hathaway Inc., which has not previously carried such coverage, is in process of obtaining quotations from insurance underwriters in order to determine the economic desirability of purchasing such coverage on a joint basis with all its majority-owned subsidiaries.

The boards of directors of the Company and a subsidiary have passed resolutions relative to the defense of two purported class and derivative actions filed against the Company, the subsidiary, a predecessor subsidiary and certain present or past directors of these companies by minority shareholders of the predecessor subsidiary (see Item 5 hereof). Under these resolutions, the Company and the subsidiary will, if necessary, advance funds to the individual defendants for their share of the cost of defense, upon the undertaking of the individuals to repay such advances in the event they are ultimately determined not to be entitled to indemnification. The Company's resolution applies to all present and former directors of the Company and the subsidiary, while the subsidiary's resolution applies to its own directors. In addition, the Company and its subsidiary stand ready to indemnify the individual defendants for such defense costs as well as any other expenses, judgments or settlements in the pending lawsuits (and any other actions that may be filed based on the same facts) upon the ultimate determination that they may be indemnified for same. It is not possible to predict the extent to which the Company or its subsidiary may be called upon to fulfill obligations under these resolutions; however, the Company believes that no material adverse financial impact would result in such event.

Item 12. Financial Statements, Exhibits Filed, and Reports on Form 8-K.

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

(b) Exhibits: None.

(c) Reports on Form 8-K by the Company during quarter ended December 30, 1978: None.

Executive Officers of the Registrant.

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

Name	Age	Positions	Since
Charles T. Munger	55	Chairman of the Board	1976
Donald A. Koeppel	61	President and a director	1976
Robert H. Bird	47	Vice President and Chief Financial Officer and a director	1977
Claude G. Gelineau	39	Vice President, Sales	1977
Paul F. Holzapfel	45	Vice President, Motivation	1977
William K. Klepper	51	Vice President, Merchandise	1970
Jackson B. Reed	56	Vice President, Operations	1977
Kenneth E. Wittmeyer	49	Vice President, Industrial Relations	1974
Jeffrey L. Jacobson	31	Treasurer	1977
Ernest P. Paulson	57	Secretary and Controller	1977

The principal business experience of each such officer during the past five years,other than that indicated above, is as follows:

Mr. Munger - Since December 1978, Vice Chairman of the Board of Berkshire Hathaway Inc. Throughout the period, a director of principal subsidiaries of the Company. Prior to 1976, general partner of Wheeler, Munger & Co., a member firm of the Pacific Stock Exchange, and a private investor.

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

Mr. Bird - Vice President, 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 - During 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.

PART II

Items 13 to 15 Inclusive.

These items are omitted pursuant to General Instruction H to Form 10-K. The Company has filed with the Securities and Exchange Commission a definitive proxy statement pursuant to Regulation 14A for its annual meeting of stockholders scheduled for April 19, 1979.

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 29, 1979

BLUE CHIP STAMPS

INDEX TO FINANCIAL STATEMENTS

The December 30, 1978, and December 31, 1977 consolidated financial statements of Blue Chip Stamps (the "Company"), together with the report thereon of Price Waterhouse & Co. dated February 28, 1979, appearing on pages 8 to 16 of the Company's 1978 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 data 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, 1978 and 1977 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., which is dated February 2, 1979 except as to Note 15 which is dated as of February 28, 1979, are incorporated herein by reference to the Form 10-K Annual Report filed by Wesco Financial Corporation for the year ended December 31, 1978, a copy of which is attached exclusive of exhibits. With the exception of the aforementioned information and data referred to in Items 1, 3, 4 and 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 the Company have been omitted since it is primarily an operating company and the aggregate of debts of its consolidated subsidiaries to unaffiliated parties, other than routine, non-delinquent, short-term indebtedness, and minority interests of such subsidiaries is five per cent or less of total consolidated assets at December 30, 1978.

The additional financial data listed on page S-2 should be read in conjunction with the financial statements of the Company referred to above and the consent of independent accountants appearing on page S-3. 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.

BLUE CHIP STAMPS

ADDITIONAL FINANCIAL DATA

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the application of our report, which appears on page 16 of the December 30, 1978 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 1978 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 28, 1979

BLUE CHIP STAMPS

SUPPLEMENTARY INFORMATION TO NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Beginning and ending merchandise and supplies inventories for the two fiscal years ended December 30, 1978, broken down by major business segment, are as follows:

	December 30, 1978	December 31, 1977	January 1, 1977
Candy business	$4,098,000	$3,650,000	$2,992,000
Newspaper business	617,000	1,058,000	-
Trading stamp and motivation businesses	3,245,000	2,624,000	3,501,000
	$7,960,000	$7,332,000	$6,493,000

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, Incorporated ("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 30, 1978	December 31, 1977	January 1, 1977
See's			
Excess of cost over equity in net assets	$17,583,000	$17,262,000	$17,262,000
Accumulated amortization	3,006,000	2,567,000	2,134,000
The News			
Excess of cost over equity in net assets	1,080,000	754,000	-
Accumulated amortization	42,000	10,000	-
Wesco			
Excess of equity in net assets over cost	23,866,000	23,866,000	23,115,000
Accumulated amortization	2,766,000	2,142,000	1,593,000

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

	December 30, 1978	December 31, 1977
Accounts payable	$ 7,514,000	$ 8,557,000
Accrued compensation	3,694,000	3,315,000
Taxes other than income	486,000	894,000
Pension liability, net of income tax benefit	1,361,000	1,433,000
	$13,055,000	$14,199,000

Income from securities comprises:

	Fiscal year ended	
	December 30, 1978	December 31, 1977
Dividends	$ 3,620,000	$ 3,246,000
Interest	482,000	390,000
	$ 4,102,000	$ 3,636,000

Included in interest and discount amortization is amortization of debenture discount amounting to $66,000 and $136,000 for the fiscal years ended December 30, 1978 and December 31, 1977, respectively. Debenture discount has been amortized over the term of the debentures by use of the debentures outstanding method. Debenture discount became fully amortized during 1978. Unamortized debenture discount at December 31, 1977 of $66,000 is included in prepaid expenses.

Under the Company's short-term bank line of credit, 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 years ended December 30, 1978 and December 31, 1977 were $8,000,000 and $6,000,000, respectively, including additional amounts borrowed under separate short-term notes. Interest under the line of credit is at prime rate and averaged 10.5% and 6.9% on total short-term borrowings during the respective years based on average daily balances of $1,432,000 and $2,014,000, respectively.

BLUE CHIP STAMPS

SCHEDULE I - MARKETABLE SECURITIES
DECEMBER 30, 1978

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			
Commercial paper	$ 8,000,000	$ 7,883,000	$ 7,883,000
Repurchase agreements	3,400,000	3,400,000	3,400,000
Bankers acceptances	3,000,000	2,955,000	2,955,000
Total short-term investments	$14,400,000	$14,238,000 (1)	$14,238,000
Marketable equity securities, at the lower of aggregate cost or market			
Preferred and common stocks:			
American Waterworks	86,800	$ 1,062,000	$ 955,000
Cleveland-Cliffs Iron Company	484,700	13,222,000	12,845,000
CleveTrust Corporation	42,897	1,211,000	1,362,000
Manufacturers National Corporation	164,205	3,706,000	4,146,000
National Detroit Corporation	414,160	9,941,000	11,752,000
Pinkerton's, Inc.	587,396	19,201,000	16,300,000
Pittsburgh National Corporation	256,500	8,721,000	9,234,000
San Jose Water Works	86,200	1,462,000	1,638,000
Other	-	3,869,000	4,024,000
Total marketable equity securities		$62,395,000	$62,256,000 (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 Number of shares	Balance at beginning of period Amount in dollars	Additions Equity taken up in earnings of affiliate	Additions Purchases of shares	Deductions Distributions of earnings by affiliate	Balance at end of period Number of shares	Balance at end of period Amount in dollars
Investment in common stock of Wesco Financial Corporation ("Wesco"):							
Year ended December 31, 1977	1,840,863	$38,661,000	$5,715,000	$1,208,000	$1,692,000	5,703,087(1)	$43,892,000
Year ended December 30, 1978	5,703,087	43,892,000	7,417,000	-	1,939,000	5,703,087(1)	49,370,000

(1) Represents 80.1% of Wesco's outstanding stock.

BLUE CHIP STAMPS

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

Classification	Balance at beginning of period	Additions at cost	Retirements	Balance at end of period
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
Year ended December 30, 1978:				
Land	$ 3,049,000	-	$ 31,000	$ 3,018,000
Buildings	11,160,000	$ 795,000	71,000	11,884,000
Fixtures and equipment	36,003,000	2,568,000	697,000	37,874,000
Leasehold improvements	4,528,000	677,000	104,000	5,101,000
	$54,740,000	$ 4,040,000	$ 903,000	$57,877,000

(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
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
Year ended December 30, 1978:				
Buildings	$ 2,977,000	$ 482,000	$ 51,000	$ 3,408,000
Fixtures and equipment	8,763,000	2,889,000	558,000	11,094,000
Leasehold improvements	2,586,000	286,000	100,000	2,772,000
	$14,326,000	$ 3,657,000	$ 709,000	$17,274,000

BLUE CHIP STAMPS

SCHEDULE XVI - SUPPLEMENTARY INCOME STATEMENT INFORMATION

Item	Charged to costs and expenses
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
Year ended December 30, 1978:	
Maintenance and repairs	$3,121,000
Taxes other than income taxes -	
Payroll	3,271,000
Other	1,362,000
Advertising costs	1,885,000

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 the following lines of business:

• **The candy business.** See's Candy Shops, Incorporated, a wholly owned subsidiary acquired in January 1972, produces candy (primarily boxed chocolates) and other confectionary products of higl 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 182 in twelve western and midwestern 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 ingredients are generally available but subject to wide price fluctuations. Emphasis on quality has helped make See's the predominant fresh candy business entity in California among those that sell through their own stores.

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 1,100.

• **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.

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 due to holiday advertising. Newsprint is generally purchased under long-term contracts from Canadian suppliers. The newspaper employs approximately 1,100 full-time employees.

• **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 $16,531,000 for the fiscal year ended December 30, 1978. 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 1973 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 50% of stamp volume during the fiscal year ended December 30, 1978 as compared with 47% the preceding fiscal year. Over the past seven years the Company has reduced the number of redemption stores from a peak of 90 to 41 at present. There has been a commensurate reduction of full-time employees to approximately 200 currently.

• **The motivation business.** Blue Chip Motivation, a separate division, operates on a nationwide basis, sharing headquarters and merchandise distribution facilities with the trading stamp business. 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 used in many of these programs. The motivation business is competitive. Corporate and part-time employees supplement as necessary the approximately 25 employees assigned to this operation on a full-time basis.

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.

• **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 rank approximately 30th among savings and loan associations in the state in assets. 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 regular employees are employed in this line of business.

MAJOR BUSINESS SEGMENTS. Information relating to the business activities described above is summarized below (in thousands):

	52 weeks ended		53 weeks ended	52 weeks ended	
	Dec. 30, 1978	Dec. 31, 1977	Jan. 1, 1977*4	Feb. 28, 1976	Mar. 1, 1975
Revenues:					
Candy business	$ 73,954	$ 63,115	$ 56,648	$ 51,679	$ 43,370
Newspaper business	44,791	31,833	—	—	—
Trading stamp and motivation businesses	24,841	22,225	31,674	40,965	45,995
Total*1	$143,586	$117,173	$ 88,322	$ 92,644	$ 89,365
Operating profit (loss):					
Candy business	$ 12,482	$ 12,352	$ 11,059	$ 10,968	$ 6,783
Newspaper business*2	(2,913)	751	—	—	—
Trading stamp and motivation businesses	2,133	1,091	1,715	8	3,730
Total*1	11,702	14,194	12,774	10,976	10,513
Interest and discount amortization	(1,679)	(1,540)	(594)	(649)	(4,356)
Equity in net income of Wesco*3	7,417	5,715	4,459	3,092	2,588
Income before income taxes and securities gains or losses*1	$ 17,440	$ 18,369	$ 16,639	$ 13,419	$ 8,745
Depreciation and amortization:					
Candy business	$ 1,446	$ 1,255	$ 1,217	$ 1,188	$ 1,176
Newspaper business	2,586	1,517	—	—	—
Trading stamp and motivation businesses	96	109	141	290	475
Total	$ 4,128	$ 2,881	$ 1,358	$ 1,478	$ 1,651
Capital expenditures:					
Candy business	$ 2,777	$ 2,114	$ 1,243	$ 1,133	$ 770
Newspaper business	1,131	32,437	—	—	—
Trading stamp and motivation businesses	132	2	113	63	137
Total	$ 4,040	$ 34,553	$ 1,356	$ 1,196	$ 907
Assets at end of period:					
Candy business	$ 44,177	$ 39,183	$ 35,340	$ 34,504	$ 32,696
Newspaper business	38,542	39,798	—	—	—
Trading stamp and motivation businesses	84,783	77,233	93,136	102,363	94,492
Total	167,502	156,214	128,476	136,867	127,188
Investment in net assets of Wesco*3	49,370	43,892	38,661	28,588	26,307
Consolidated assets at end of period	$216,872	$200,106	$167,137	$165,455	$153,495

*1 Does not include net realized securities gains (losses) of $1,114, $6,279, $(113), $12 and $538 before income taxes in the fiscal years ended December 30, 1978, December 31, 1977, January 1, 1977, February 28, 1976 and March 1, 1975, respectively.

*2 In 1978 includes substantial introductory and litigation expenses relating to new Sunday edition (see Note 10 to the accompanying consolidated financial statements).

*3 Revenues and other accounts of Wesco Financial Corporation ("Wesco") are included on an equity basis (i.e., not consolidated with those of other operations).

*4 In December 1976 the Company changed its fiscal yearend from approximately February 28 to approximately December 31.

Summary of Operations

(In thousands except for share-related amounts)	52 weeks ended Dec. 30, 1978	52 weeks ended Dec. 31, 1977	53 weeks ended Jan. 1, 1977	52 weeks ended Feb. 28, 1976	52 weeks ended Mar. 1, 1975
Revenues:					
Candy	$ 73,653	$ 62,886	$56,333	$51,342	$42,907
Newspaper	44,674	31,786	—	—	—
Stamp service	16,531	15,723	17,208	20,361	25,564
Merchandise promotions and motivation service	3,791	2,485	8,888	15,210	11,022
Dividends and interest	4,102	3,636	5,211	4,913	7,738
Other	835	657	682	818	2,134
	143,586	117,173	88,322	92,644	89,365
Costs and expenses:					
Cost of sales and services	80,343	61,592	46,358	52,116	54,912
Selling, general and administrative expenses	51,541	41,387	29,190	29,552	23,940
Interest	1,613	1,404	410	437	4,050
Discount amortization	66	136	184	212	306
	133,563	104,519	76,142	82,317	83,208
Income before income taxes, equity in net income of Wesco Financial Corporation, securities gains (losses) and extraordinary items	10,023	12,654	12,180	10,327	6,157
Provision for income taxes	(3,887)	(5,476)	(4,859)	(4,374)	(1,237)
Equity in net income of Wesco Financial Corporation	7,417	5,715	4,459	3,092	2,588
Income before securities gains (losses) and extraordinary items	13,553	12,893	11,780	9,045	7,508
Realized securities gains (losses), less taxes	727	4,100	(77)	8	254
Income before extraordinary items	14,280	16,993	11,703	9,053	7,762
Extraordinary credit	—	—	—	—	903
Net income	$ 14,280	$ 16,993	$11,703	$ 9,053	$ 8,665
Amounts per share based on 5,179,000 shares outstanding:					
Income before securities gains (losses) and extraordinary items	$2.62	$2.49	$2.27	$1.75	$1.45
Realized securities gains (losses)	.14	.79	(.01)	—	.05
Income before extraordinary items	2.76	3.28	2.26	1.75	1.50
Extraordinary credit	—	—	—	—	.17
Net income	$2.76	$3.28	$2.26	$1.75	$1.67
Dividends declared*	$ .24	$ .30	$ .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 7

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 44.6% at the start of the fiscal year ended in 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Candy sales increased in 1978 due, about 60%, to an increase in average selling price per pound; improved volume accounted for the remainder. Of the increase in candy sales which occurred in 1977, approximately 85% resulted from pricing improvement and 15% from an increase in pounds sold.

Newspaper revenues increased in 1978 mainly because there were no such revenues prior to acquisition of the newspaper in April 1977. These revenues were adversely affected as a result of a lawsuit filed against the newspaper by a competitor in late 1977 and by the publicity attendant thereto.

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

Motivation service and merchandise promotion revenues increased in 1978 primarily because an exceptionally large short-term program for a financial institution benefited 1978 revenues. Such revenues had decreased notably since 1976 due mainly to the Company's decision at that time not to seek any more merchandise promotion business, under which the Company had developed merchandise packages for holders of gasoline and other credit cards.

The increase in dividend and interest income in 1978 resulted mainly from an increase in yield on marketable equity securities. Dividend and interest income declined in 1977 due to the Company's sale of its investment in Source Capital, Inc. in July of that year.

Cost of sales and services during 1978 increased as a percentage of related revenues from the percentage in 1977 due mainly to escalating costs in the newspaper and candy businesses. The cost percentage was approximately the same in 1977 as in 1976, the latter having benefited from the effects of adjustments of the liability for unredeemed trading stamps, which the Company revises periodically as changing conditions warrant; these adjustments reflected 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 on a per-stamp basis.

Selling, general and administrative expenses increased in 1978 due to a great extent to the absence of newspaper expenses prior to April 1977. Of similar importance was an increase in operating expenses in the candy business resulting from increased employee compensation, percentage rent, etc. Another factor was the adverse effect on newspaper operations resulting from initiation of a Sunday edition in place of a Saturday weekend edition and the creation of a new Saturday morning edition, effective in November 1977, and legal fees and other expenses resulting from a lawsuit filed against it by a competitor. The sharp increase in selling, general and administrative expenses during 1977 was caused by the newspaper acquisition in April of that year.

Interest expense increased sharply in 1977 as a result of financing the newspaper acquisition.

The provision for income taxes varied slightly as a percentage of pre-tax income from 40% in 1976 to 43% in 1977 and to 39% in 1978 due primarily to fluctuations in the proportion of dividend income, which is substantially exempt from federal taxation, to total income before taxes.

The Company's equity in net income of Wesco Financial Corporation increased during the two most recent fiscal years primarily as a result of an improvement in the subsidiary's earnings, coupled with an increase in average ownership from 67.2% to 80.1% in the earlier year. Part of Wesco's earnings improvement in 1977 represented an increase in realized capital gains; the Company's share amounted to $612,000.

Realized securities gains and losses fluctuate from year to year and accordingly are set out separately. The exceptionally large net gains in 1977 resulted from a profit of approximately $7,000,000, net of taxes, on sale of the Company's shares of Source Capital, Inc., 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. For example, as noted above, a significant part of 1977's record earnings resulted from realization of capital gains, which are sporadic and unpredictable by nature.

Consolidated Balance Sheet

Blue Chip Stamps

ASSETS	December 30, 1978	December 31, 1977
Cash (Note 7)	$ 3,357,000	$ 5,335,000
Short-term investments, at cost which approximates market	14,238,000	11,224,000
Marketable equity securities, at the lower of cost or market (Note 4)	62,256,000	53,010,000
Accounts receivable	6,055,000	6,155,000
Merchandise and supplies inventories, at the lower of cost (principally average) or market	7,960,000	7,332,000
Prepaid expenses, principally income taxes (Note 6)	13,255,000	13,142,000
Property, plant and equipment, net (Note 5)	40,603,000	40,414,000
Investment in Wesco Financial Corporation (Note 1)	49,370,000	43,892,000
Excess of cost over equity in net assets of consolidated subsidiaries, less accumulated amortization (Note 1)	15,615,000	15,439,000
Other equity securities (Note 4)	4,163,000	4,163,000
	$216,872,000	$200,106,000

LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$ 13,055,000	$ 14,199,000
Income taxes payable (Note 6)	4,413,000	4,779,000
Liability for unredeemed trading stamps (Note 3)	66,832,000	66,209,000
6¾% Subordinated Debentures due December 1, 1978	—	2,168,000
Notes payable (Note 7)	18,247,000	13,500,000
	102,547,000	100,855,000
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	107,706,000	94,669,000
Net unrealized loss on marketable equity securities (Note 4)	(139,000)	(2,176,000)
Total stockholders' equity	114,325,000	99,251,000
	$216,872,000	$200,106,000

See accompanying notes to consolidated financial statements

Consolidated Statement of Income and Retained Earnings

Blue Chip Stamps

	52 weeks ended December 30, 1978	52 weeks ended December 31, 1977
Revenues:		
Candy	$ 73,653,000	$ 62,886,000
Newspaper (Note 2)	44,674,000	31,786,000
Stamp service (Note 3)	16,531,000	15,723,000
Motivation service	3,791,000	2,485,000
Dividends and interest	4,102,000	3,636,000
Other	835,000	657,000
	143,586,000	117,173,000
Costs and expenses:		
Cost of sales and services (Note 3)	80,343,000	61,592,000
Selling, general and administrative expenses	51,541,000	41,387,000
Interest and discount amortization	1,679,000	1,540,000
	133,563,000	104,519,000
Income before income taxes, equity in net income of Wesco Financial Corporation and securities gains	10,023,000	12,654,000
Provision for income taxes (Note 6)	(3,887,000)	(5,476,000)
Equity in net income of Wesco Financial Corporation (Note 1)	7,417,000	5,715,000
Income before securities gains	13,553,000	12,893,000
Realized securities gains, less income tax effect (Notes 4 and 6)	727,000	4,100,000
Net income	14,280,000	16,993,000
Retained earnings at beginning of year	94,669,000	79,230,000
Dividends declared of $.24 and $.30* per share	(1,243,000)	(1,554,000)
Retained earnings at end of year	$107,706,000	$ 94,669,000
Amounts per share based on average shares outstanding:		
Income before securities gains	$2.62	$2.49
Realized securities gains	.14	.79
Net income	$2.76	$3.28

*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 Statement of Changes in Financial Position

Blue Chip Stamps

	52 weeks ended	
	December 30, 1978	December 31, 1977
Sources (uses) of cash, including short-term investments, from operations:		
Income before realized securities gains	$13,553,000	$12,893,000
Add (deduct):		
Depreciation and amortization	4,128,000	2,881,000
Decrease (increase) in trade accounts receivable	93,000	(3,081,000)
Increase in inventories	(628,000)	(839,000)
Increase in prepaid expenses, principally income taxes	(113,000)	(805,000)
Equity in net income of Wesco Financial Corporation, less dividends received	(5,478,000)	(4,023,000)
Increase (decrease) in trade accounts payable and accrued expenses	(1,144,000)	6,086,000
Increase (decrease) in income taxes payable	(366,000)	1,464,000
Increase (decrease) in liability for unredeemed trading stamps	623,000	(658,000)
Cash provided by operations before realized securities gains	10,668,000	13,918,000
Other sources of cash:		
Realized securities gains, less income tax effect	727,000	4,100,000
Decrease in accounts receivable from securities transactions	7,000	1,559,000
Trust deed loan	4,750,000	—
Bank loan for acquisition of newspaper	—	30,000,000
Assumption of pension liability upon acquisition of newspaper	—	1,433,000
Disposals of property, plant and equipment	194,000	118,000
	16,346,000	51,128,000
Other uses of cash:		
Increase (decrease) in marketable equity securities, reduced in 1978 by $2,037,000, a partial reversal of a provision for net unrealized loss deducted from stockholders' equity at December 31, 1977, and reduced in 1977 by $2,176,000, the full amount of the provision at December 31, 1977	7,209,000	(7,957,000)
Additions to property, plant and equipment, including $31,900,000 in 1977 relating to acquisition of newspaper	4,040,000	34,553,000
Purchase of stock of Wesco Financial Corporation	—	1,208,000
Increase in excess of cost over equity in net assets of subsidiaries	647,000	754,000
Reduction of notes payable	3,000	16,500,000
Retirement of debentures	2,168,000	2,119,000
Declaration of cash dividends	1,243,000	1,554,000
	15,310,000	48,731,000
Increase in cash, including short-term investments	$ 1,036,000	$ 2,397,000
Increase (decrease) in—		
Cash	$ (1,978,000)	$ 2,809,000
Short-term investments	3,014,000	(412,000)
	$ 1,036,000	$ 2,397,000

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

NOTE 1—Subsidiary companies:

The consolidated financial statements include the accounts of Blue Chip Stamps (the "Company") and its wholly owned subsidiaries: See's Candy Shops, Incorporated ("See's") and Buffalo Evening News, Inc. (the "News"—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 $471,000 and $443,000 has been charged to selling, general and administrative expenses in the years ended December 30, 1978 and December 31, 1977, respectively.

The Company's investment in Wesco Financial Corporation ("Wesco"), a savings and loan holding company, increased from 77.6% to the present 80.1% during January 1977. The investment is recorded at cost plus undistributed equity in Wesco's net income; the $21,101,000 and $21,725,000 unamortized excess of equity in the net assets of Wesco over cost at December 30, 1978 and December 31, 1977, respectively, is being amortized over 40 years. Summarized consolidated financial information of Wesco and subsidiaries for the years ended December 31, 1978 and 1977 follows:

	December 31, 1978	December 31, 1977
Assets—		
Cash and marketable securities	$143,101,000	$162,098,000
Loans receivable, less unearned loan fees, unrealized profit and loans in process	477,597,000	394,125,000
Other assets	25,596,000	24,871,000
	$646,294,000	$581,094,000
Liabilities and stockholders' equity—		
Savings deposits	$488,328,000	$459,908,000
Other liabilities	70,497,000	39,777,000
Total liabilities	558,825,000	499,685,000
Stockholders' equity, partially appropriated	87,469,000	81,409,000
	$646,294,000	$581,094,000
Total revenues	$ 51,019,000	$ 44,423,000
Net income	$ 8,481,000	$ 6,449,000
Blue Chip Stamps' share of net income	$ 6,793,000	$ 5,166,000
Amortization of excess of equity over cost	624,000	549,000
Equity in net income	$ 7,417,000	$ 5,715,000

Wesco's retained earnings at December 31, 1978 include approximately $50,349,000 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, 1978.

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 was accounted for by the purchase method, and the cost of net assets acquired exceeded their fair value by $1,080,000. The results of operations of the News have been included with those of the Company since the date of acquisition.

Had the newspaper operations been combined with those of the Company throughout the entire 1977 fiscal year, unaudited pro forma revenues would have been $127,816,000 and unaudited pro forma net income $16,492,000 (or $3.18 pro forma per share versus $3.28 actual). The pro forma figures 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. (See Note 10 and the major business segment information set forth on page 5, including reference to the News' operating loss for the year ended December 30, 1978.)

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. In 1976, the Company (1) 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 to approximately 97% of the stamps issued before March 1974, and approximately 93% thereafter, and (2) increased its provision for future redemption service expenses per stamp to reflect its estimate that these expenses would increase on a per-stamp basis. No adjustments to the liability for unredeemed stamps were made during the years ended December 30, 1978 or December 31, 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:

Following is a schedule of marketable equity securities at December 30, 1978 having cost or market value of $5,000,000 or more, together with totals for all such securities at that date and at the prior yearend (in thousands):

	Cost	Market
Pinkerton's, Inc.	$19,201	$16,300
Cleveland-Cliffs Iron	13,222	12,845
National Detroit Corp.	9,941	11,752
Pittsburgh National Corp.	8,721	9,234
Other	11,310	12,125
Total, December 30, 1978	$62,395	$62,256
Total, December 31, 1977	$55,186	$53,010

Marketable equity securities are stated at the lower of cost (first-in, first-out) or market on the consolidated balance sheet. Whenever aggregate market value is less than aggregate cost, the Company records a valuation allowance, which is 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. Subsequently, if market value recovers completely or to some extent, the valuation allowance is fully or partially reversed, with no effect on income. Thus, of a $2,176,000 valuation allowance required to be provided during the year ended December 31, 1977, $2,037,000 was reversed during 1978, leaving a balance at December 30, 1978 of $139,000, which represented the excess of $3,763,000 of unrealized losses over $3,624,000 of unrealized gains.

In addition to the investments summarized above, the Company carries in other equity securities an investment in non-voting stock of Pinkerton Holding Corporation ("PHC"), for which there is no trading market, at cost of $4,163,000. Because PHC's principal assets are equity securities of Pinkerton's, Inc., whose market value has declined, the amount that could be realized if the Company's investment in PHC were sold may be below cost. Through this indirect holding and the direct investment shown in the schedule above, the Company beneficially owns 32% of the equity in Pinkerton's, Inc. as of February 22, 1979. The Company 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 eleven-member 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 30, 1978	December 31, 1977
Land	$ 3,018,000	$ 3,049,000
Buildings	11,884,000	11,160,000
Fixtures and equipment	37,874,000	36,003,000
Leasehold improvements	5,101,000	4,528,000
	57,877,000	54,740,000
Less accumulated depreciation and amortization	17,274,000	14,326,000
	$40,603,000	$40,414,000

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 $3,657,000 and $2,438,000 for the years ended December 30, 1978 and December 31, 1977, respectively.

NOTE 6—Taxes on income:

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

	Year ended	
	December 30, 1978	December 31, 1977
Provision for income taxes	$ 3,887,000	$ 5,476,000
Charged against securities gains	387,000	2,179,000
Total taxes charged in income statement	$ 4,274,000	$ 7,655,000

These taxes are payable or recoverable as follows:

	Year ended	
	December 30, 1978	December 31, 1977
Payable currently—		
Federal	$ 3,086,000	$ 6,416,000
State	1,400,000	1,634,000
	4,486,000	8,050,000
Recoverable in the future—		
Federal	(88,000)	(384,000)
State	(124,000)	(11,000)
	(212,000)	(395,000)
Total taxes charged in income statement	$ 4,274,000	$ 7,655,000

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:

	Year ended	
	December 30, 1978	December 31, 1977
Deductible California franchise taxes over (under) those accrued on the books	$ 490,000	$(360,000)
Deductible redemption expenses under those accrued on the books	(712,000)	(324,000)
Other timing differences	10,000	289,000
Total taxes recoverable in the future	$(212,000)	$(395,000)

The provision for income taxes of $3,887,000 for the year ended December 30, 1978 amounted to 38.8% of pre-tax income of $10,023,000; the provision of $5,476,000 for the prior year represented 43.3% of pre-tax income of $12,654,000. Following is a summary of the differences between the federal statutory rate and these effective percentages:

	Year ended	
	December 30, 1978	December 31, 1977
Statutory federal income tax rate	48.0%	48.0%
Federal tax benefit from dividend exclusion	(14.7)	(10.2)
State income taxes net of federal income tax benefit	6.1	4.4
All other, net	(.6)	1.1
Effective income tax rate	38.8%	43.3%

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 $11,834,000 and $11,622,000 at December 30, 1978 and December 31, 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 7—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 from the present one-quarter percent above prime (which was 12% at December 30, 1978) to one-half percent above prime beginning in May 1980. The loan currently requires compensating balances of 15% of the average outstanding principal amount, increasing to 20% in May 1979. All of the Company's shares of See's and the News are pledged as collateral.

In November 1978 a subsidiary of the Company borrowed $4,750,000 secured by manufacturing and warehousing facilities. The loan is repayable approximately $41,000 per month including interest at 9⅝%.

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 30, 1978, there were no borrowings under the line of credit.

NOTE 8—Lease commitments and rental expense:

At December 30, 1978 minimum rental commitments, net of $215,000 minimum sublease rental income commitments, are as follows: 1979, $2,555,000; 1980, $2,056,000; 1981, $1,584,000; 1982, $1,356,000; 1983, $1,269,000; thereafter, $4,557,000.

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 renewal 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:

	Year ended December 30, 1978	Year ended December 31, 1977
Minimum rental expense	$3,525,000	$3,121,000
Contingent rental expense in excess of minimum rentals	1,823,000	1,573,000
Sublease rental income	(155,000)	(134,000)
	$5,193,000	$4,560,000

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 employer-sponsored noncontributory pension or profit sharing plans or union-sponsored pension plans. The employer-sponsored plans are funded annually at amounts sufficient to amortize prior service costs over a 30-year period. Pension costs for the years ended December 30, 1978 and December 31, 1977 amounted to $1,831,000 and $1,479,000, respectively.

Based on the most recent actuarial valuations: (1) the market value of assets for one of the employer-sponsored plans exceeded the actuarially computed value of vested benefits by approximately $1,500,000, while the market value of assets for other employer-sponsored plans was approximately $1,900,000 less than the actuarially computed value of vested benefits after considering amounts accrued on the consolidated balance sheet and expected future income tax savings related thereto; and (2) unfunded prior service costs for all such plans approximated $6,250,000.

NOTE 10—Legal proceedings:

On October 28, 1977, the Buffalo Courier-Express, Inc., a 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 the proposed initiation of a Sunday edition in place of its Saturday weekend edition and publication of Saturday and holiday editions, thus 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 District 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. A motion by the plaintiff (1) to have defendant held in contempt for alleged violations of the preliminary injunction and (2) for modification of the preliminary injunction to impose further restrictions was denied by the District Court except for one finding that a News advertising salesman made a prediction to two advertisers regarding future circulation without full basis as required by the preliminary injunction; the issue of damages, if any, attributable to this alleged action by an advertising salesman, was deferred. The News also made a motion to modify the preliminary injunction to reduce restrictions, which was likewise denied. The News is appealing the granting of the preliminary injunction, the denial of its motion for modification thereof, and the one contempt holding, to the Court of Appeals for the Second Circuit. Additional motions filed by the plaintiff are pending in the trial court alleging that the News is in contempt of various aspects of the injunction. No hearing dates have been set with respect to these motions. In the main action in the trial court, 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, among others, that plaintiff seeks to monopolize the Sunday newspaper business in the Buffalo metropolitan area in violation of the federal antitrust laws. If the plaintiff is successful in obtaining the kind of permanent injunctions it is seeking, the News probably will be forced to cease operations and liquidate; however, with discovery incomplete, the outcome of the action and defendant's potential exposure, if any, are uncertain.

NOTE 11—Major business segments:

The information on major business segments set forth in the table on page 5 is an integral part of the financial statements.

NOTE 12—Quarterly financial information—unaudited:

The following table sets forth certain unaudited quarterly financial information for the years ended December 30, 1978 and December 31, 1977:

	Quarter ended			
	December 30, 1978	September 30, 1978	July 1, 1978	April 1, 1978
Total revenues	$54,334,000	$25,041,000	$28,122,000	$36,089,000
Cost of sales and services	28,557,000	15,234,000	16,276,000	20,276,000
Equity in net income of Wesco	2,240,000	1,554,000	2,249,000	1,374,000
Income before securities gains or losses	7,394,000	770,000	2,499,000	2,890,000
Per share	1.43	.15	.48	.56
Net income	8,121,000	770,000	2,499,000	2,890,000
Per share	1.57	.15	.48	.56
	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

Report of Independent Accountants

Price
Waterhouse & Co.

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

February 28, 1979

*To the Board of Directors and
Stockholders of Blue Chip Stamps*

We have examined the consolidated balance sheet of Blue Chip St',mps and its consolidated subsidiaries as of December 30, 1978 and December 31, 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 cannot currently be determined. If this action should ultimately result in a liability or in liquidation of the subsidiary, appropriate provision will be made in the consolidated financial statements at the time such liability or loss is ascertained, and prior years' consolidated financial statements will not be restated.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, and based upon the report of other independent accountants, the consolidated financial statements referred to above present fairly the financial position of Blue Chip Stamps and its consolidated subsidiaries at December 30, 1978 and December 31, 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 1978

Form 10-K Annual report 1978

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

MUTUAL SAVINGS AND LOAN ASSOCIATION **PASADENA**

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

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

TO THE STOCKHOLDERS OF WESCO FINANCIAL CORPORATION

Consolidated net earnings of Wesco Financial Corporation and its subsidiaries for 1978 amounted to $8,481,000 ($1.19 per share) compared to $6,449,000 ($.91 per share) in 1977. Quarterly earnings per share were:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1978	$ .21	.37	.25	.36	1.19
1977	.19	.19	.22	.31	.91

This substantial increase in earnings was due to the increase in net interest income on loans and to increased returns on other earning assets.

Total savings in Mutual Savings increased $28,420,000 in 1978 compared to an increase of $54,912,000 in 1977. At year end, out-of-state savings were $47,645,000 (9.8% of total savings) compared with $52,648,000 (11.4% of total savings) in 1977.

On June 1, 1978, savings and loan associations were authorized to issue money market certificates paying a rate of ¼% more than current six-month Treasury Bills. At year end, $55,259,000 of such certificates were outstanding, and by February 28, 1979 had increased to $83,509,000. Continuing increase is expected during 1979 resulting in rising cost of savings. The cost, on a yield basis, of these funds has varied from 7.621% to 10.328%.

Effective March 15, 1979, the yield on money market certificates was reduced by approximately .50%. This includes loss of differential of .25% over banks when rates are above 9%, and loss of the right to compound interest daily. Money market certificates will, as a result, be less competitive with Treasury bills.

Cost of savings and cost of funds (savings and borrowings) and the yield on the loan portfolio increased in 1978. The spread between the cost of funds and yield on loans has been favorable.

	1978	1977	1976	1975	1974
Cost of savings	6.57%	6.46	6.35	6.29	6.00
Cost of all funds	6.66	6.51	6.43	6.41	6.25
Yield on loans at year end	8.32	8.02	7.70	7.55	7.36
Spread (yield less cost of funds)	1.66	1.51	1.27	1.14	1.11

At December 31, 1978, real estate loans were $472,038,000 compared with $390,569,000 at December 31, 1977. Real estate loans made in 1978 were $146,440,000 including the purchase of certificates of Government National Mortgage Association in the amount of $51,532,000. Real estate loans made in 1977 amounted to $107,546,000 including the purchase of $43,661,000 in 90% participation interest in loans from four large California-based savings and loan associations who service the loans. Loans in process and firm loan commitments, which were $9,396,000 at December 31, 1977, increased to $9,752,000 at December 31, 1978.

During 1978, Wesco and Mutual Savings increased their investment in common and preferred stocks and municipal bonds by $24,718,000 and, at year end, had invested $89,539,000.

Common Stocks:		
Federal National Mortgage Association	2,044,000 shares	$30,862,000
Cleveland-Cliffs Iron Company	388,200 shares	10,545,000
Safeco Corporation	478,823 shares	11,730,000
Other Corporations	55,800 shares	923,000
		$54,060,000
Preferred Stocks:		28,809,000
Municipal Bonds:		6,670,000
		$89,539,000

At December 31, 1978, the market value of these securities was $4,857,000 in excess of cost.

Not included were 273,780 shares (21.6%) of Detroit International Bridge Company purchased in 1977 which were sold on March 12, 1979 at $24.00 per share resulting in a profit, net of Federal and State income taxes, of $1,039,000 ($.14½ per share).

On February 28, 1979, Wesco purchased all of the assets of Precision Steel Warehouse, Inc. of Franklin Park, Illinois for $15,081,876 and the assumption of its liabilities. Precision Steel is in the steel service center business specializing in cold rolled strip steel and has subsidiaries engaged in the manufacture and distribution of packaged tool room specialty products and hose clamps. For the fiscal year ended June 30, 1978, Precision Steel's net earnings after taxes were $1,918,000. This business will be operated through a wholly-owned subsidiary corporation chartered in the State of Illinois.

It is anticipated that marketable securities held in Wesco, at the parent company level, will eventually be sold to provide funds for one or more future corporate acquisitions similar or dissimilar to the Precision Steel acquisition.

Properties acquired by foreclosure were $1,824,000 at December 31, 1978, compared with $2,095,000 at December 31, 1977. Sale of the commercial property at Pacoima, with a cost basis of $289,000, is expected to close by May 30, 1979, resulting in a deferred profit of $255,000. A substantial portion of the Friendly Valley property was sold in 1978 resulting in a deferred profit of $457,000, which is expected to be taken into income by year end 1980. The remaining vacant land at Friendly Valley, with a cost basis of $97,000, will require several years for disposition. A planned development for houses at Santa Barbara, on 22 acres of vacant land on the ocean front adjacent to the Biltmore Hotel, is being processed. We expect approval by Santa Barbara County by April 30, 1979. The time thereafter required to process this project through the California Coastal Commission is indeterminate. Its cost basis is $1,074,000. Property at Upland, California, having an original cost basis of $78,000, is in the course of improvement with a commercial store building. Total investment at 1978 year end was $364,000 and final cost will be approximately $550,000. We plan to retain this property for income. All stores have been leased and should earn an annual pre-tax return of 13½% after expenses including depreciation.

Mutual Savings did not open any new offices in 1978 to add to its sixteen branch offices. A satellite branch office has been approved for a retail shopping center in Pasadena, which is scheduled for opening during 1980.

On January 16, 1979, Wesco increased its regular quarterly cash dividend from $.08½ per share to $.09½ per share payable March 15, 1979 to shareholders of record at the close of business on February 19, 1979.

A "Summary of Operations" for a five-year period is presented on page 4, 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, 1978 | 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

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 requirements for the past 90 days. Yes..X.. No......

There were 7,119,807 shares of Capital Stock outstanding December 31, 1978

Item 1. DESCRIPTION OF BUSINESS

Wesco Financial Corporation (Wesco) was incorporated on March 18, 1959. Its principal business is the savings and loan business through the ownership of all the outstanding Guarantee Stock of Mutual Savings and Loan Association (Mutual Savings), which serves the Southern California area through sixteen offices: six in Los Angeles County; four in Orange County; two in Ventura County; three in San Diego County; and one in San Bernardino County.

Wesco owns a business block in downtown Pasadena, in which the head office of its subsidiary, Mutual Savings, is located. The property is improved with a nine-story office building with a net rentable area of 123,732 square feet; four commercial store buildings; and a multi-story garage for the parking of 425 automobiles. Currently, the properties are fully rented with standard commercial leases expiring at varied dates to 1988. The leases contain provision for annual adjustments of rents based on either cost of living, or costs of operation of the properties.

Wesco also has a wholly-owned subsidiary, WSC Insurance Agency (WSC), whose principal business is that of an insurance agent for fire and extended coverage property, casualty, and mortgage life insurance.

In November 1978, Wesco Acquisition, Inc. was incorporated for the sole purpose of purchasing the business and assets of Precision Steel Warehouse, Inc. Wesco DuPage, Inc., a subsidiary of Wesco Acquisition, Inc., was incorporated to acquire the assets of DuPage Manufacturing Co., a subsidiary of Precision Steel Warehouse, Inc. These acquisitions were completed on February 28, 1979 and, at that time, Wesco Acquisition, Inc. assumed the name, Precision Steel Warehouse, Inc. and Wesco DuPage, Inc. changed its name to DuPage Manufacturing Co.

During the fiscal year, Wesco and its subsidiaries were engaged in only one line of business, with one industry segment, within the definition of this item. The amounts of revenue, operating profit or loss and identifiable assets for the past five years, that Wesco and its subsidiaries have been engaged in business, are stated in Item 2 — Summary of Operations, and in the related financial statements and notes included under Item 12.

In connection with its savings and loan business, Wesco acts as trustee under deeds of trust, owns and operates the Pasadena business block (where the head office of its subsidiary, Mutual Savings, is located), and a minor amount of other property.

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. Mutual Savings also invests in marketable securities which are permissible investments for a savings and loan company. Funds are provided by savings deposits, principal payments on existing loans, borrowings from banks and operations. The chief sources of income to Mutual Savings 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.

All phases of Mutual Savings' business are highly competitive. Competition exists with other savings and loans, banks, insurance companies, credit unions, loan companies and other lenders. There are approximately 164 savings and loan associations in California, many with branches. Mutual Savings ranks 29th in total assets among these associations, many of whom are in direct competition with Mutual Savings.

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

Including part-time and contingency workers, Wesco and its subsidiaries employed approximately 160 persons at December 31, 1978.

With the acquisition of the business of Precision Steel Warehouse, Inc. and DuPage Manufacturing Co. on February 28, 1979, Wesco will be engaged, through subsidiaries, in the steel service center business specializing in cold rolled strip steel and other materials, manufacturing and distributing of tool room and maintenance products, and manufacturing and distributing of hose clamps.

Item 2. SUMMARY OF OPERATIONS

The following consolidated summary of operations for the five years ended December 31, 1978 should be read in conjunction with the related financial statements and notes thereto included under item 13.

	1978	1977	1976	1975	1974
Revenues:					
Interest on loans	$ 34,446,000	28,482,000	27,521,000	26,438,000	28,463,000
Loan fees and service charges	1,808,000	1,963,000	1,663,000	1,362,000	1,542,000
Interest and dividends on investments	13,140,000	11,646,000	8,729,000	5,643,000	4,709,000
Other income, net	1,625,000	2,332,000	1,478,000	1,167,000	466,000
	51,019,000	44,423,000	39,391,000	36,610,000	35,180,000
Expenses:					
General and administrative expenses	5,592,000	5,161,000	4,944,000	4,710,000	4,208,000
Interest on savings deposits	31,038,000	28,070,000	24,428,000	21,844,000	20,419,000
Interest on notes payable	2,722,000	2,312,000	1,962,000	2,628,000	3,364,000
	39,352,000	35,543,000	31,334,000	29,182,000	27,991,000
Earnings before taxes on income	11,667,000	8,880,000	8,057,000	7,428,000	7,189,000
Taxes on income	3,186,000	2,431,000	2,541,000	3,077,000	3,262,000
Net earnings	$ 8,481,000	6,449,000	5,516,000	4,351,000	3,927,000
Earnings per capital share*	$ 1.19	.91	.77	.61	.55
Cash dividends per capital share*	$ .34	.30	.23	.20	.17
FINANCIAL DATA AT YEAR END					
Total assets	$646,294,000	581,094,000	523,348,000	470,127,000	465,646,000
Real estate loans	$465,079,000	387,015,000	344,567,000	371,041,000	386,398,000
Savings deposits	$488,328,000	459,908,000	404,996,000	360,070,000	333,117,000
Shareholders' equity	$ 87,469,000	81,409,000	77,072,000	73,218,000	70,291,000
Book value per share*	$ 12.28	11.43	10.82	10.28	9.87

*Based on 7,119,807 shares outstanding at December 31, 1978.

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, 1978, 1977 and 1976 were 8.32%, 8.02% and 7.70% respectively. Total real estate loans outstanding at the end of such years were $472,038,000, $390,569,000 and $347,244,000.

Loan Fees and Service Charges

This income was derived from the following sources:

	1978	1977	1976
Loan fees	$ 1,130,000	849,000	701,000
Commitment fees	50,000	226,000	—
Escrow and clerical fees	134,000	133,000	130,000
Prepayment charges	309,000	521,000	568,000
Late charges	83,000	76,000	70,000
Other charges	102,000	158,000	194,000
	$ 1,808,000	1,963,000	1,663,000

Interest and Dividends on Investments

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, state municipal bonds, and common and preferred stocks. 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. The investment detail at year end is reflected in the schedule below:

	1978	1977	1976
Municipal bonds	$ 6,670,000	6,685,000	6,696,000
Common stocks	54,060,000	34,257,000	14,809,000
Preferred stocks	28,809,000	23,879,000	25,215,000
Other marketable securities	51,246,000	95,663,000	106,912,000
Investments required by law	8,452,000	7,668,000	8,201,000
	$149,237,000	168,152,000	161,833,000

The income received on the above investments is as follows:

	1978	1977	1976
Municipal bonds	$ 522,000	528,000	486,000
Common stocks	3,036,000	1,812,000	671,000
Preferred stocks	2,658,000	2,559,000	2,437,000
Other marketable securities	6,391,000	6,312,000	4,649,000
Investments required by law	533,000	435,000	486,000
	$ 13,140,000	11,646,000	8,729,000

Federal National Mortgage Association (FNMA) holdings increased from 1,044,900 shares at a cost of $14,809,000 in 1976 to 1,730,000 shares at a cost of $26,011,000 in 1977 to 2,044,000 shares at a cost of $30,862,000 in 1978. The quarterly dividend has increased from $.22 per share in 1976 to $.25 per share in 1977, and to $.29 per share for three quarters in 1978, and $.32 per share for one quarter in 1978. Wesco, at the holding company level, had invested at December 31, 1978 $10,545,000 in 388,200 shares of Cleveland-Cliffs Iron Company, $11,730,000 in 319,215 shares of Safeco Corporation; and $923,000 in 55,800 shares of other corporations.

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, 1978, it is expected that additional purchases will be made in 1979. 85% of the dividend income from stocks is deductible in computing Federal income taxes.

Interest and dividends on investments required by law 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.

Other Income, Net

The principal portion of other income is from operations and net gains of real property, other than the Pasadena business block. Mutual Savings, over a period of years, has acquired real property by foreclosure. Both Wesco and Mutual Savings have in the past purchased properties for investment. Operations and net gains from sales of real property were as follows:

	1978	1977	1976
Gains on sales taken directly into income	$ 6,000	662,000	81,000
Amortization of unrealized profit	890,000	426,000	962,000
Rental income	19,000	148,000	136,000
Maintenance and sales expense	(67,000)	(82,000)	(97,000)
	$ 848,000	1,154,000	1,082,000
Unrealized profit on sales of real property at year end	$ 457,000	890,000	276,000

Income from sales in the next few years will be limited to that from sales of vacant land in Santa Barbara and one property in Pacoima. Rental income decreased as the commercial property producing most of this income was sold in 1977. The unrealized profit of $457,000 from the sale of vacant land in Friendly Valley is expected to be taken into income by year end 1980 when the related loan is paid off.

Rentals derived from the Pasadena business block, owned by Wesco, in which the head office of Mutual Savings is located, are reported on a net basis after applicable expenses. This income was $491,000 for the year 1978; $316,000 for the year 1977; and $255,000 for the year 1976.

The remainder of other income is made up of equity in earnings of affiliate, net gains (losses) on sales of marketable securities, and other miscellaneous income. During 1977, Wesco acquired a 21.6% interest in Detroit International Bridge Company. This investment is accounted for on the equity basis. In 1978 Wesco's equity share of Detroit International Bridge Company's income was $324,000 compared to $150,000 in 1977. This increase was due primarily to the fact that most of Wesco's shares of the Detroit International Bridge Company were acquired late in 1977, so that Wesco's equity for 1977 applied only to earnings for a portion of that year. On March 12, 1979, Wesco sold its 273,780 shares of Detroit International Bridge Company at $24.00 per share resulting in a profit, net of Federal and State income taxes, of $1,039,000 ($.14½ per share).

General and Administrative Expenses

Although general and administrative expenses increased $431,000 in 1978, $217,000 in 1977 and $234,000 in 1976, the percentage to gross income decreased from 12.6% in 1976, 11.6% in 1977 to 11% in 1978. 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:

	1978	1977	1976
Total savings	$488,328,000	459,908,000	404,996,000
Interest on savings .	31,038,000	28,070,000	24,428,000

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

The increase in interest on notes payable is due to both the increase in funds borrowed and the increase in interest rates. In November 1978, an additional advance was made from the Federal Home Loan Bank (FHLB) in the amount of $35,000,000 at a rate of 9½%. The remainder of the FHLB advances are at 7½%. In 1977 and 1976, a 7½% rate was paid on all advances made by the FHLB. In late December 1976, the company borrowed $5,500,000 at a rate of 9¼%. The note is secured by the main office building and business block. Principal payments have been made throughout 1977 and 1978. Total of notes payable at year end and interest paid for each year was:

	1978	1977	1976
Notes payable	$ 59,297,000	27,830,000	31,356,000
Interest paid	2,722,000	2,312,000	1,962,000

Taxes on Income

Taxes on income were 27.3% of earnings before taxes on income in 1978, 27.4% in 1977 and 31.5% in 1976. The rate varies because of the change in non-taxable revenue or non-deductible expense items. The main reason for 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.

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 year 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 1977, the remaining three quarters of 1977, and the year 1978 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.

	1978		1977		1976	
Quarter Ended	High	Low	High	Low	High	Low
March 31	7⅛	6⅛	20⅛	19¾	15⅝	10
June 30*			19¾	19⅜	15¼	13¼
June 30**	7¼	6¼	7⅝	5⅞		
September 30	8¾	6⅞	8	6¼	15½	13⅜
December 31	8	6⅜	8⅛	6¾	20	15½

*Before 3-for-1 split in 1977

**After 3-for-1 split in 1977

Item 3. PROPERTIES

Wesco owns a business block in downtown Pasadena. The property is improved with a nine-story office building with a net rentable area of 123,732 square feet. The head office of Wesco's subsidiary, Mutual Savings, is located in this building. This property also is improved with four commercial store buildings and a multi-story garage for the parking of 425 automobiles. Currently, the properties are fully rented with standard commercial leases expiring at varied dates to 1988. The leases contain provision for annual adjustments of rents based on either cost of living, or costs of operation of the properties.

The sale of the commercial property at Pacoima, owned by Mutual Savings, is expected to close by May 30, 1979. Mutual Savings also owns some vacant land at Friendly Valley and it is expected it will take several years for the disposition of this property. Mutual Savings owns 22 acres of vacant land on the ocean front in Santa Barbara. A planned development for houses on this property is being processed by applicable authorities.

Precision Steel Warehouse, Inc. and its subsidiary, own approximately 197,000 square feet of processing and storage facilities in Franklin Park, Illinois and Downers Grove, Illinois. A branch facility, located in Charlotte, North Carolina, is leased under a lease expiring January 1, 1981. These properties are used in connection with the business of Precision Steel Warehouse, Inc. and its subsidiaries.

Mutual Savings has sixteen offices, all serving Southern California, their occupancy 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 leased a vacant corner, near this location, and is building 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, 1979 with additional options to October 31, 1981. Mutual has acquired property at 116 through 124½ South Main Street in Fallbrook, where it has started construction of a permanent office.

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

Item. 4. PARENTS AND SUBSIDIARIES

Warren E. Buffett, Chairman of the Board and Chief Executive Officer of Berkshire Hathaway, Inc. (Berkshire), who may be deemed to be in ultimate control of Wesco, is the principal stockholder of Berkshire. Mr. Buffett, his wife, and trusts of which he is trustee but in which he has no beneficial interest, own 486,804 shares (47.4%) of the outstanding stock of Berkshire, and Mr. Buffett may be deemed to control Berkshire. Berkshire and its subsidiaries, Mr. Buffett, his wife, child, and a trust of which he is trustee but in which he has no beneficial interest, own 3,659,839 shares (70.7%) of the outstanding stock of Blue Chip Stamps. Mr. Buffett is also a Director of Blue Chip Stamps. Mr. Buffett may be deemed to control Blue Chip Stamps. Blue Chip Stamps owns 80.1% of the outstanding stock of Wesco.

At December 31, 1978, 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 and WSC Insurance Agency.

On November 2, 1978, Wesco Acquisition, Inc. (Wesco Acquisition) was incorporated under the laws of the State of Illinois. This company was formed for the sole purpose of acquiring the assets of Precision Steel Warehouse, Inc. (Precision). Wesco Acquisition had no assets or liabilities at the end of the fiscal year. Wesco DuPage, Inc. was also incorporated in 1978 under the laws of Illinois for the purpose of acquiring the assets of DuPage Manufacturing Co., a subsidiary of Precision.

On November 3, 1978, Wesco entered into a definitive agreement to purchase the business and assets of Precision Steel Warehouse, Inc., Franklin Park, Illinois, and the business and assets of DuPage Manufacturing Co., for a consideration consisting of the payment of approximately $15,000,000 in cash, and the assumption of the liabilities of Precision and DuPage. These acquisitions were completed on February 28, 1979 and, at that time, Wesco Acquisition assumed the name, Precision Steel Warehouse, Inc. and Wesco DuPage changed its name to DuPage Manufacturing Co. These acquisitions, completed in 1979, are not included in the 1978 consolidated financial statements, but will be included in future consolidated financial statements.

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

Until March 12, 1979, Wesco owned 21.6% of Detroit International Bridge Company, which is incorporated in Michigan. Wesco accounted 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. Wesco's interest in Detroit International Bridge Company was sold March 12, 1979 for $24.00 per share.

Item 5. PENDING LEGAL PROCEEDINGS

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 Dismissing 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 Circuit.

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 filed a motion to dismiss plaintiff's class and derivative action and a motion for summary judgment and dismissal of complaint. The court approved Wesco's motion regarding plaintiff's class and derivative standing, refusing to certify a class and dismissing the derivative aspects of the suit. The court granted in part and denied in part Wesco's motion for summary judgment, which had been filed on the grounds of **res judicata.** Thus, certain of the claims asserted against Wesco Financial Corporation and Blue Chip Stamps were ordered dismissed, while others were not dismissed. The Court's decision does not address the merits of the claims against Wesco Financial Corporation, but rather whether the claims had been previously disposed of in the first Luptak case.

Wesco Financial Corporation and Blue Chip Stamps expect to continue contesting these actions vigorously. All the shares of Detroit International Bridge Company owned by Wesco were sold on March 12, 1979.

Item 6. INCREASES AND DECREASES IN OUTSTANDING SECURITIES AND INDEBTEDNESS

As of December 31, 1978, there has been no change in the number of outstanding shares of Wesco's capital stock from the 7,119,807 shares reported at Item 6 of Wesco's Form 10-K for the year ended December 31, 1977.

During the year ended December 31, 1978, notes payable increased from $27,830,000 to $59,297,000 due to a borrowing of $35,000,000 from the Federal Home Loan Bank in the fourth quarter. The proceeds were used to invest in loans and marketable securities.

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
Capital stock	Holders at 12-31-78
$1 par value	1,541

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

Notice of Annual Meetings of Stockholders, held April 18, 1978, and proxy statement soliciting the vote of stockholders for the election of directors were mailed to all stockholders on March 30, 1978. Proxies were solicited pursuant to Regulation 14 under the Securities Exchange Act. 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

Charles T. Munger

Item 11. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section NINTH (6) and (7) of Wesco's Articles of Incorporation provides, under certain conditions and subject to certain limitations, that officers, directors and agents of Wesco 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, which permits indemnification of directors and officers under certain conditions.

A resolution adopted pursuant to this section of Wesco's Articles of Incorporation provides that officers, directors and agents of Mutual Savings and Loan Association, WSC Insurance Agency and Wes-Fin Service Corp., subsidiaries of Wesco, are eligible for indemnification pursuant to the indemnification provision of Wesco's Articles of Incorporation.

Section 145 of Chapter 1 of Title 8 of the Delaware Code also permits the purchase of insurance against liability which may provide coverage beyond the power of a company to indemnify. Wesco maintained such insurance on a joint basis with Blue Chip Stamps until February, 1979 when the policy could not be renewed because Blue Chip Stamps had become majority-owned by Berkshire Hathaway, Inc. (See Item 4.) Berkshire Hathaway, Inc., which has not previously carried such coverage, is in the process of obtaining quotations from insurance underwriters in order to determine the economic desirability of purchasing such coverage on a joint basis with all its majority-owned subsidiaries.

Item 12. FINANCIAL STATEMENTS, EXHIBITS FILED AND REPORTS ON FORM 8-K

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

Accountants' Report

Financial Statements

Consolidated Balance Sheets — December 31, 1978 and 1977

Consolidated Statements of Earnings — Years ended December 31, 1978 and 1977

Consolidated Statements of Stockholders' Equity — Years ended December 31, 1978 and 1977

Consolidated Statements of Changes in Financial Position — Years ended December 31, 1978 and 1977

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

(b) Form 8-K — November 2, 1978 reporting the incorporation of Wesco Acquisition, Inc. under the laws of the State of Illinois, filed January 4, 1979.

Form 8-K — November 3, 1978 reporting definitive agreement to acquire all of the assets of Precision Steel Warehouse, Inc., Franklin Park, Illinois, filed November 8, 1978.

Form 8-K — December 28, 1978 reporting merger of Diversified Retailing Co., Inc. into Berkshire Hathaway, Inc., filed January 30, 1979.

Form 8 — Amending Form 8-K dated December 28, 1978, filed February 8, 1979.

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, 1978 and 1977 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, 1978 and 1977 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
February 2, 1979
Except as to Note 15 to the consolidated financial statements which is as of February 28, 1979.

Consolidated Balance Sheets

December 31, 1978 and 1977

ASSETS	1978	1977
Cash	$ 2,316,000	1,614,000
Short-term bank obligations	17,100,000	21,800,000
Certificates of deposit and banker's acceptances, at amortized identified cost, which approximates market	34,146,000	65,863,000
United States Government and agency obligations and other securities, at amortized identified cost (quoted market, $7,983,000 in 1977)	—	8,000,000
Municipal obligations, at amortized identified cost (quoted market, $7,453,000 in 1978 and $7,769,000 in 1977)	6,670,000	6,685,000
Investment in common stocks (quoted market, $58,563,000 in 1978 and $34,426,000 in 1977) (note 3)	54,060,000	34,257,000
Investment in preferred stocks (quoted market, $28,380,000 in 1978 and $25,904,000 in 1977) (note 3)	28,809,000	23,879,000
Loans receivable, less unearned loan fees, unrealized profit and loans in process (notes 4 and 8)	477,597,000	394,125,000
Accrued interest and dividends receivable	3,706,000	3,338,000
Properties acquired through foreclosure by Mutual Savings and held for sale, at cost, less allowance for losses of $192,000	1,824,000	2,095,000
Investments required by law:		
Investment in stock of Federal Home Loan Bank, at cost (note 8)	4,489,000	3,337,000
Prepayments to FSLIC secondary reserve	3,963,000	4,331,000
Investment in affiliated company (note 6)	5,076,000	5,330,000
Office properties and equipment, net (notes 5 and 8)	5,175,000	5,389,000
Prepaid expenses and sundry assets, at cost	1,363,000	1,051,000
	$646,294,000	581,094,000

LIABILITIES AND STOCKHOLDERS' EQUITY		
Savings deposits (note 7)	$488,328,000	459,908,000
Notes payable (note 8)	59,297,000	27,830,000
Advances by borrowers for taxes and insurance	769,000	600,000
Accounts payable and sundry accrued expenses	1,485,000	1,146,000
Cash disbursements to be funded at bank	676,000	723,000
Taxes on income (note 9):		
Current	723,000	2,128,000
Deferred	7,547,000	7,350,000
Total liabilities	558,825,000	499,685,000
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	7,120,000
Capital surplus arising from stock dividends	23,319,000	23,319,000
Retained earnings — substantially restricted	57,030,000	50,970,000
Total stockholders' equity	87,469,000	81,409,000
Contingent liabilities and subsequent event (notes 11 and 15)		
	$646,294,000	581,094,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

Years ended December 31, 1978 and 1977

	1978	1977
Revenues:		
Interest on loans	$ 34,446,000	28,482,000
Loan fees and service charges	1,808,000	1,963,000
Interest on marketable securities	6,913,000	6,840,000
Dividends on common and preferred stocks	5,694,000	4,371,000
Interest and dividends on investments required by law	533,000	435,000
Net gains (losses) on sales of marketable securities	(153,000)	608,000
Equity in earnings of affiliate (note 6)	324,000	150,000
Operations and net gains from sales of real property (note 12)	848,000	1,154,000
Other income, net	606,000	420,000
	51,019,000	44,423,000
Expenses:		
General and administrative expenses	5,592,000	5,161,000
Interest on savings deposits	31,038,000	28,070,000
Interest on notes payable	2,722,000	2,312,000
	39,352,000	35,543,000
Earnings before taxes on income	11,667,000	8,880,000
Taxes on income (note 9):		
Current	2,989,000	2,530,000
Deferred	197,000	(99,000)
	3,186,000	2,431,000
Net earnings	$ 8,481,000	6,449,000
Earnings per capital share based on 7,119,807 shares (note 10)	$ 1.19	.91
Cash dividends per share based on 7,119,870 shares (note 10)	$ .34	.30

Consolidated Statements of Stockholders' Equity

Years ended December 31, 1978 and 1977

	1978	1977
Capital stock (note 10)	$ 7,120,000	7,120,000
Capital surplus arising from stock dividends (note 10)	23,319,000	23,319,000
Retained earnings — substantially restricted (note 9):		
Beginning of year	50,970,000	46,633,000
Net earnings	8,481,000	6,449,000
Cash dividends declared and paid	(2,421,000)	(2,112,000)
End of year	57,030,000	50,970,000
Total stockholders' equity	$ 87,469,000	81,409,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1978 and 1977

	1978	1977
Funds provided:		
Net earnings	$ 8,481,000	6,449,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	511,000	439,000
Interest on savings deposits credited to savings accounts	24,054,000	21,670,000
FSLIC primary premium transferred from secondary reserve	532,000	108,000
Deferred income taxes (note 9)	197,000	(99,000)
Undistributed earnings of affiliate	196,000	(76,000)
Amortization of fees and discounts	(249,000)	(210,000)
Recognition of unrealized profit on real property	(890,000)	(426,000)
Interest income on FSLIC secondary reserve	(283,000)	(302,000)
Funds provided from operations	32,549,000	27,553,000
Principal payments on real estate loans	64,980,000	64,230,000
Additions to deferred loan fees	171,000	153,000
Sales of real property, net of gains	792,000	1,488,000
Increase in notes payable	31,467,000	—
Increase in loans in process	3,916,000	320,000
Additions to unrealized profit on real property	457,000	1,040,000
Increase in savings deposits	4,366,000	33,242,000
Decrease in stock of Federal Home Loan Bank	—	256,000
Increase in advances by borrowers for taxes and insurance	169,000	121,000
Decrease in marketable securities	19,699,000	—
Other, net	—	2,415,000
Total funds provided	$158,566,000	130,818,000
Funds used:		
Cash dividends declared and paid (note 15)	$ 2,421,000	2,112,000
Decrease in notes payable	—	3,526,000
Investment in real estate loans	146,440,000	107,546,000
Increase in loans on savings accounts	5,408,000	4,483,000
Investment in buildings and other assets	229,000	795,000
Additions to real property	521,000	187,000
Investment in affiliated company, net (note 6)	20,000	5,279,000
Increase in stock of Federal Home Loan Bank	1,152,000	—
Increase in marketable securities	—	6,852,000
Increase in cash	749,000	38,000
Other, net	1,626,000	—
Total funds used	$158,566,000	130,818,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1978 and 1977

(1) **Summary of Significant Accounting Policies**

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

Principles of Consolidation

The consolidated financial statements include the accounts of Wesco Financial Corporation (the Company) and its wholly owned subsidiaries, WSC Insurance Agency and Mutual Savings and Loan Association (Mutual Savings) and its wholly owned subsidiary (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, agency and municipal obligations are carried at identified cost, adjusted for amortization of premium and accretion of discount over the term of the security.

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 net realizable 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. The Company considers 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 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.

Comparative Figures

Certain items in the 1977 financial statements have been reclassified to conform to the 1978 presentation.

(2) Parent Company Financial Information (Wesco Financial Corporation)

BALANCE SHEETS
December 31, 1978 and 1977

ASSETS

	1978	1977
Cash	$ 1,801,000	11,560,000
Investment in common stocks (quoted market, $24,837,000 in 1978 and $8,692,000 in 1977)	23,198,000	8,246,000
Investment in preferred stocks (quoted market $381,000 in 1978 and $276,000 in 1977)	409,000	267,000
Real estate loans receivable	602,000	604,000
Accrued interest and dividends receivable	302,000	4,000
Income taxes refundable	91,000	—
Investments in subsidiaries and affiliated company at equity	63,284,000	63,182,000
Office properties and equipment, net	3,771,000	3,920,000
Prepaid expenses and sundry assets, at cost	242,000	235,000
	$ 93,700,000	88,038,000

LIABILITIES AND STOCKHOLDERS' EQUITY

	1978	1977
Note payable	$ 5,428,000	5,467,000
Accounts payable and sundry accrued expenses	784,000	780,000
Taxes on income:		
Current	5,000	361,000
Deferred	14,000	21,000
Total liabilities	6,231,000	6,629,000
Stockholders' equity:		
Capital stock of $1 par value per share. Authorized 7,500,000 shares; issued 7,119,807 shares	7,120,000	7,120,000
Capital surplus arising from stock dividends	23,319,000	23,319,000
Retained earnings — substantially restricted	57,030,000	50,970,000
Total stockholders' equity	87,469,000	81,409,000
Commitments and contingent liabilities		
	$ 93,700,000	88,038,000

STATEMENTS OF EARNINGS
Year ended December 31

	1978	1977
Revenues:		
Dividends from consolidated subsidiaries	$ 7,000,000	5,209,000
Dividends from affiliate	520,000	74,000
Interest on loans	53,000	47,000
Loan fees and service charges	40,000	57,000
Interest on marketable securities, including interest on deposits in Mutual Savings of $297,000 in 1978 and $304,000 in 1977	297,000	1,085,000

STATEMENTS OF EARNINGS (Continued)

	1978	1977
Dividends on common and preferred stocks	1,000,000	134,000
Net gain (loss) on sales of marketable securities	—	19,000
Rental of office premises, net	491,000	316,000
Gain on sale of real estate owned	—	599,000
	9,401,000	7,540,000
Expenses:		
General and administrative expenses	434,000	382,000
Interest on notes payable	507,000	513,000
	941,000	895,000
Earnings before items shown below	8,460,000	6,645,000
Taxes on income	139,000	651,000
Equity in undistributed earnings of subsidiaries and affiliates		
Subsidiaries	356,000	379,000
Affiliate	(196,000)	76,000
Net Earnings	$ 8,481,000	6,449,000

STATEMENTS OF CHANGES IN FINANCIAL POSITION
Year ended December 31

	1978	1977
Funds provided:		
Net earnings	$ 8,481,000	6,449,000
Charges (credits) to earnings not requiring (providing) funds:		
Depreciation and amortization	291,000	252,000
Deferred income taxes	(7,000)	186,000
Recognition of unrealized profit on real property	—	(54,000)
Undistributed earnings of subsidiaries and affiliate	(160,000)	(455,000)
Funds provided from operations	8,605,000	6,378,000
Principal payments on real estate loans	2,000	178,000
Sales of real property, net of gains	—	100,000
Decrease in cash	9,779,000	—
Decrease in marketable securities	—	8,693,000
Other, net	—	627,000
Total funds provided	$ 18,386,000	15,976,000
Funds used:		
Cash dividends declared and paid	$ 2,421,000	2,112,000
Investment in affiliated companies	20,000	5,688,000
Investment in buildings and other assets	64,000	167,000
Decrease in notes payable	39,000	33,000
Investment in real estate loans	—	526,[illegible]
Increase in cash	—	7,450,[illegible]
Increase in investments in marketable securities	15,094,000	—
Other, net	748,000	—
Total funds used	$ 18,386,000	15,976,000

(3) **Marketable Equity Securities**

The investment in preferred stocks of $28,809,000 in 1978 and $23,879,000 in 1977 includes marketable equity securities amounting to $13,978,000 and $13,167,000, respectively, at cost. All common stocks, amounting to $54,060,000 in 1978 and $34,257,000 in 1977 at cost, are marketable equity securities. Gross unrealizea gains and losses on marketable equity securities are as follows:

	1978	1977
Gross unrealized gains	$ 4,761,000	1,173,000
Gross unrealized losses	(1,038,000)	(277,000)
	$ 3,723,000	896,000

(4) **Loans Receivable**

Loans receivable are summarized as follows:

	1978	1977
Real estate loans on residential property of:		
One to four units (home loans)	$376,151,000	304,760,000
More than four units	78,206,000	72,869,000
Real estate loans on other properties	17,681,000	12,940,000
	472,038,000	390,569,000
Less:		
Unearned loan fees	(513,000)	(591,000)
Unrealized profit on sales of real property	(457,000)	(890,000)
Loans in process	(5,989,000)	(2,073,000)
	465,079,000	387,015,000
Loans on savings deposits	12,518,000	7,110,000
	$477,597,000	394,125,000

Included in real estate loans on residential property are insured FHA and partially guaranteed VA loans aggregating $2,201,000 for 1978 and $2,612,000 for 1977.

(5) **Office Properties and Equipment, Net**

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

	1978	
	Company	Consolidated
Land	$ 1,386,000	1,654,000
Office buildings and leasehold improvements	5,344,000	6,568,000
Furniture, fixtures and equipment	6,000	1,317,000
	6,736,000	9,539,000
Accumulated depreciation and amortization	(2,965,000)	(4,364,000)
	$ 3,771,000	5,175,000

	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

(6) **Investment in Affiliated Company**

At December 31, 1978, the Company has a 21.6% investment in 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.

(7) **Savings Deposits**

Savings account balances at December 31 are summarized as follows:

	Stated Rate	1978	%	1977	%
Passbook	5¼ %	$142,256,000	29	158,347,000	35
Bonus	5½	1,520,000	—	2,293,000	—
	5¾	8,390,000	2	16,205,000	4
	6	649,000	—	982,000	—
		10,559,000	2	19,480,000	4
Certificates	5¾	2,005,000	—	3,881,000	1
	6	7,491,000	2	10,433,000	2
	6½	44,126,000	9	56,614,000	12
	6¾	12,403,000	3	13,395,000	3
	7	421,000	—	656,000	—
	7½	116,170,000	24	129,511,000	28
	7¾	79,952,000	16	67,107,000	15
	8	12,955,000	3	—	
Money Market Certificates	7⅜ - 9-13/16	55,259,000	11	—	
$100,000 Minimum Certificates	7½ - 11¼	4,731,000	1	484,000	—
		335,513,000	69	282,081,000	61
		$488,328,000	100	459,908,000	100

(8) **Notes Payable**

The following is a summary of notes payable:

	1978	1977
Company:		
Note payable, secured by main office land, buildings, and assignment of leases, with interest at 9.25%	$ 5,428,000	5,467,000
Mutual:		
Federal Home Loan Bank advances, secured by certain real estate loans amounting to $73,453,000 in 1978 and $50,905,000 in 1977 and Federal Home Loan Bank stock, with interest at 9.50% and 7.5% in 1978 and 7.5% in 1977	53,869,000	22,363,000
	$ 59,297,000	27,830,000

Notes payable mature as follows:

	Company	Consolidated
1979	$ 43,000	5,287,000
1980	47,000	5,291,000
1981	51,000	5,295,000
1982	56,000	15,800,000
1983	62,000	21,056,000
Thereafter	5,169,000	6,568,000
	$ 5,428,000	59,297,000

(12) Real Estate Operations

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

	1978	1977
Recognized net gains from sales	$ 896,000	1,088,000
Income from rentals	19,000	148,000
	915,000	1,236,000
Less maintenance and sales expense	(67,000)	(82,000)
	$ 848,000	1,154,000

(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, 1978 and 1977.

(14) Dividends

Quarterly cash dividends declared and paid during 1978 amounted to $2,421,000. Quarterly cash dividends declared and paid during 1977 amounted to $2,112,000.

(15) Contingent Liabilities and Subsequent Event

On February 28, 1979 Wesco purchased the business and assets of Precision Steel Warehouse, Inc., Franklin Park, Illinois, for a consideration of the payment of $15,081,876 in cash and the assumption of the liabilities of Precision Steel Warehouse, Inc.

Wesco and Mutual Savings are involved in other litigation and 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, 1978	Jun. 30, 1978	Sept. 30, 1978	Dec. 31, 1978
	(Unaudited)			
Revenues	$11,565,000	12,923,000	12,404,000	14,127,000
Expenses	10,045,000	10,310,000	10,658,000	11,525,000
Net earnings	$ 1,520,000	2,613,000	1,746,000	2,602,000
Earnings per share based on 7,119,807 shares	$ .21	.37	.25	.36
	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

WESCO FINANCIAL CORPORATION

Schedule III

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

Years ended December 31, 1978 and 1977

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:									
1977	600(1)	$ 57,064,000	5,578,000	—	4,800,000	409,000(3)	600(1)	$ 57,433,000	
1978	600(1)	$ 57,433,000	7,313,000	—	6,600,000	—	600(1)	$ 58,146,000	
WSC Insurance Agency Capital stock of $1 par value:									
1977	—	$ —	10,000	409,000(3)	—	—	10,000(1)	$ 419,000	
1978	10,000(1)	$ 419,000	43,000	—	400,000	—	10,000(1)	$ 62,000	
Detroit International Bridge Company $1 par value:									
1977	—	$ —	150,000	5,279,000	74,000	25,000(4)	272,908(2)	$ 5,330,000	
1978	272,908(2)	$ 5,330,000	324,000	20,000	520,000	78,000(4)	273,780(2)	$ 5,076,000	

(1) 100% of the outstanding shares.

(2) 21.5% of the outstanding shares in 1977, and 21.6% in 1978.

(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, 1978

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
Securities issued by States & Municipalities	$ 6,670,000	$ 6,670,000	$ 7,453,000
Common Stocks:			
FNMA	2,044,000	$ 30,862,000	$ 33,726,000
Safeco Corporation	478,823	11,730,000	13,287,000
Issued by others	444,000	11,468,000	11,550,000
	2,966,823	$ 54,060,000	$ 58,563,000
Preferred Stocks:			
Pacific Gas and Electric	224,000	$ 5,304,000	$ 4,964,000
Southern California Edison	67,100	4,867,000	4,574,000
Michigan Wisconsin Pipeline Co.	161,491	3,973,000	4,031,000
Columbia Gas System Inc.	64,700	3,308,000	3,584,000
Issued by others	156,260	11,357,000	11,227,000
	673,551	$ 28,809,000	$ 28,380,000

WESCO FINANCIAL CORPORATION

Schedule XV

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years ended December 31, 1978 and 1977

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

	Year ended December 31			
	1978		1977	
	Company	Consolidated	Company	Consolidated
Maintenance and repairs	$ 540,000	617,000	501,000	557,000
Depreciation and amortization of office properties and equipment	213,000	433,000	227,000	414,000
Taxes, other than taxes on income:				
Payroll taxes	11,000	144,000	10,000	126,000
Property taxes	93,000	185,000	177,000	295,000
Advertising	—	489,000	—	552,000

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, 1978. Pursuant to the Rules of the Commission by virtue of such filing the information called for in Items 13-15 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 26, 1979.

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
Executive Vice President

H. J. HARRISON
Senior Vice President, Loans

P. E. LYNN
Senior Vice President, Loan Processing

ROBERT D. ASTON
Senior Vice President, Savings

WILLIAM G. CAMPBELL
Senior Vice President, Marketing

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

LISTED ON

American Stock Exchange
Pacific Stock Exchange

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

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