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WESCO FINANCIAL CORP **10-K**

AMS

CARD 1 DISCLOSURE INC WASHINGTON D. C. 20014 FOR 12/31/78

WESCO FINANCIAL CORP. [DEL.] CO: W342000000
315 EAST COLORADO BOULEVARD
PASADENA, CALIF. 91109
SEC FILE NO: 1-4720 EXCH: AMEX/WSC
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FISCAL YEAR ENDS: 12/31 SIC NO: 671

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8-K	FOR:	12/28/78	AMENDMENT 1
8-K	FOR:	02/28/79	
8-K	FOR:	03/12/79	

DISCLOSURE Incorporated

ADDITIONAL COMPANY IDENTIFICATION INFORMATION

The following information is provided to clarify the company or document identification:

FILMED UNDER:

Wesco Financial Corp.
COMPANY NAME

W342000000
COMPANY NUMBER

Form 10-K
DOCUMENT

12/31/78
DOCUMENT DATE

COMPANY NAME ON DOCUMENT: Wesco Financial Corp.

REASON:
Combination Form 10-K and Annual Report to Shareholders.

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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

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 1/4% 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	28,438,000	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	$ [redacted]	1,614,000
Short-term bank obligations	[redacted]	21,800,000
Certificates of deposit and banker's acceptances, at amortized identified cost, which approximates market	[redacted]	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)	[redacted]	6,685,000
Investment in common stocks (quoted market, $58,563,000 in 1978 and $34,426,000 in 1977) (note 3)	[redacted]	34,257,000
Investment in preferred stocks (quoted market, $28,380,000 in 1978 and $25,904,000 in 1977) (note 3)	[redacted]	23,879,000
Loans receivable, less unearned loan fees, unrealized profit and loans in process (notes 4 and 8)	[redacted]	394,125,000
Accrued interest and dividends receivable	[redacted]	3,338,000
Properties acquired through foreclosure by Mutual Savings and held for sale, at cost, less allowance for losses of $192,000	[redacted]	2,095,000
Investments required by law:		
Investment in stock of Federal Home Loan Bank, at cost (note 8)	[redacted]	3,337,000
Prepayments to FSLIC secondary reserve	[redacted]	4,331,000
Investment in affiliated company (note 6)	[redacted]	5,330,000
Office properties and equipment, net (notes 5 and 8)	[redacted]	5,389,000
Prepaid expenses and sundry assets, at cost	[redacted]	1,051,000
	[redacted]	581,094,000

LIABILITIES AND STOCKHOLDERS' EQUITY		
Savings deposits (note 7)	[redacted]	459,908,000
Notes payable (note 8)	[redacted]	27,830,000
Advances by borrowers for taxes and insurance	[redacted]	600,000
Accounts payable and sundry accrued expenses	[redacted]	1,146,000
Cash disbursements to be funded at bank	[redacted]	723,000
Taxes on income (note 9):		
Current	[redacted]	2,128,000
Deferred	[redacted]	7,350,000
Total liabilities	[redacted]	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	[redacted]	7,120,000
Capital surplus arising from stock dividends	[redacted]	23,319,000
Retained earnings — substantially restricted	[redacted]	50,970,000
Total stockholders' equity	[redacted]	81,409,000
Contingent liabilities and subsequent event (notes 11 and 15)		
	[redacted]	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	1,806,000	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	608,000	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	24,864,000	21,670,000
FSLIC primary premium transferred from secondary reserve	532,000	108,000
Deferred income taxes (note 9)	187,000	(99,000)
Undistributed earnings of affiliate	196,000	(76,000)
Amortization of fees and discounts	([illegible])	(210,000)
Recognition of unrealized profit on real property	([illegible])	(426,000)
Interest income on FSLIC secondary reserve	([illegible])	(302,000)
Funds provided from operations	32,[illegible]	27,553,000
Principal payments on real estate loans	[illegible]	64,230,000
Additions to deferred loan fees	171,000	153,000
Sales of real property, net of gains	702,000	1,488,000
Increase in notes payable	31,487,000	—
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,[illegible]	33,242,000
Decrease in stock of Federal Home Loan Bank	—	256,000
Increase in advances by borrowers for taxes and insurance	198,000	121,000
Decrease in marketable securities	10,[illegible]	—
Other, net	—	2,415,000
Total funds provided	$1[illegible]	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,[illegible]	107,546,000
Increase in loans on savings accounts	[illegible]	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)	28,000	5,279,000
Increase in stock of Federal Home Loan Bank	1,182,000	—
Increase in marketable securities	—	6,852,000
Increase in cash	[illegible]	38,000
Other, net	1,[illegible]	—
Total funds used	$1[illegible]	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	11,580,000
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
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 EARNINGS (Continued)

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	—	526,000
Increase in cash	—	7,450,000
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 unrealized 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

(9) Taxes on Income

If certain conditions are met, savings and loan associations, in determining taxable income, are allowed special bad debt deductions based on specified experience formulas or on a percentage of taxable income before such deduction. The bad debt deduction must be within certain limitations based on outstanding loans and the ratio of reserves and undivided profits to savings deposits. Mutual Savings has reached such limitations, which preclude deductions from income in arriving at Federal taxes on income.

The investment tax credit, which is insignificant, is recorded by the flow-through method of accounting whereby, in the year available for utilization, it is applied as a reduction of income taxes.

Appropriated retained earnings of $50,349,000 at December 31, 1978 represent current and anticipated future tax bad debt deductions for which no provision for Federal income taxes has been made. If in the future these appropriations are used for any purpose other than to absorb losses on real estate loans or foreclosed real estate, Federal income taxes will be imposed at the then applicable rates.

Federal income tax returns of the Company and Mutual Savings for 1972 through 1976 are currently under examination by the Internal Revenue Service. In the opinion of management, additional tax assessments, if any, will not have a material effect on the accompanying consolidated financial statements.

Income taxes for 1978 and 1977 include the following components:

	1978		1977	
	Current	Deferred	Current	Deferred
Federal	$1,739,000	141,000	1,548,000	(132,000)
State	1,250,000	56,000	982,000	33,000
Total	$2,989,000	197,000	2,530,000	(99,000)

Deferred taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences in 1978 and 1977 and the tax effect of each were as follows:

	1978	1977
Gain on sale of property, recognized on installment basis for taxes .... $	(47,000)	127,000
Loan fees recognized on a different basis for financial statement and tax purposes	188,000	(277,000)
California franchise tax recognized for financial statement purposes on accrual basis, but on cash basis for tax purposes	(65,000)	(94,000)
FSLIC secondary reserve interest income recognized as earned on the financial statements, but as received for tax purposes	(35,000)	12,000
Investment income recognized for financial statement purposes on accrual basis, but on cash basis for tax purposes ...	62,000	209,000
Amortization of GNMA discounts deferred for tax purposes	111,000	—
Other timing differences	(17,000)	(76,000)
	$ 197,000	(99,000)

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

	1978	1977
Computed "expected" Federal taxes .... $	5,600,000	4,262,000
Increases (reductions) in taxes resulting from:		
Net gains on sales of foreclosed real property	(419,000)	(187,000)
State franchise tax, net of Federal income tax benefit	679,000	528,000
Effect of capital gain and loss rate	27,000	(183,000)
Dividends received deduction on common and preferred stocks	(2,455,000)	(1,831,000)
Interest on municipal obligations	(251,000)	(253,000)
Other permanent differences .	5,000	95,000
	$ 3,186,000	2,431,000

(10) Capital Stock

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

(11) Retirement Plan

A noncontributory retirement plan is in effect for all eligible employees of the Company and its subsidiaries. Eligibility is based on age and certain minimum working hour requirements. Employer contributions are computed utilizing the aggregate cost funding method. The contributions for 1978 and 1977 approximated $123,000 and $114,000, respectively. The actuarially computed value of vested benefits as of December 31, 1977 did not exceed the market value of the assets of the retirement fund.

(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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