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BLUE CHIP STAMPS **10-K**

OTHER

CARD 1 DISCLOSURE INC WASHINGTON D. C. 20016 FOR 12/29/79

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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:	12/30/78	
PROXY	DATED:	03/22/79	
10-K	FOR:	12/30/78	
10-Q	FOR	07/01/78	
10-Q	FOR	09/30/78	
10-Q	FOR	03/31/79	
8-K	FOR:	08/31/78	
8-K	FOR:	02/28/79	
8-K	FOR:	03/12/79	
8-K	FOR:	03/12/79	AMENDMENT 1

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ORIGINAL

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

B558000

FORM 10-K

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

For the fiscal year
ended December 29, 1979

Commission file number 0-3810

BLUE CHIP STAMPS
(Exact name of registrant as specified in its charter)

78

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 7 through 9 of the printed annual report of Blue Chip Stamps (the "Company") for the year ended December 29, 1979, including the references therein to Notes 11 and 13 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 F-1 hereof, information contained in said annual report is not to be deemed filed as part of this report.

Item 2. Summary of Operations.

The information set forth in the section entitled "Summary of Operations" on pages 10 and 11 of the Company's printed annual report for the year ended December 29, 1979, 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 F-1 hereof, information contained in said annual report is not to be deemed filed as part of this report.

Item 3. Properties.

The Company's candy manufacturing/retailing subsidiary owns approximately 275,000 square feet of kitchen, warehouse and office facilities 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.

The Company leases a merchandise distribution center in Los Angeles under an agreement expiring July 31, 1980. Approximately 380,000 square feet of space are used in the promotional services operation or as Company headquarters, and additional space is subleased to various tenants. The Company has signed a two-year renewal under which it has arranged a reduction in space to approximately 200,000 square feet.

Redemption stores and candy shops are normally leased. The leases expire on various dates, none later than 1999.

The information appearing on page 10 in Item 3 of the Form 10-K Annual Report for the year ended December 31, 1979 filed by Wesco Financial Corporation, a subsidiary of the Company, copies of which page is attached, is incorporated herein by reference. With the exception of the aforementioned information and data referred to in Item 5 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 a trust of which he is trustee but in which he has no economic 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 59.6% of the Company's common stock. The beneficial holdings of Mr. Buffett, Berkshire and its subsidiaries thus aggregate 72.6%. 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:

Warren E. Buffett	550,090
Susan T. Buffett, spouse, and a trust of which Mr. Buffett is trustee but in which he has no economic interest	125,455
Berkshire and subsidiaries*	3,086,303

*Mr. Buffett, his wife and a trust of which he is trustee but in which he has no economic interest own 47.2% 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 ("Mutual") and its inactive, wholly owned subsidiary, Wes-Fin Service Corp., both California corporations; (2) Precision Steel Warehouse, Inc., ("Precision") an Illinois corporation, and its wholly owned subsidiaries, Precision Brand Products, Inc. and Precision Steel Warehouse, Inc. - Charlotte Service Center, both Delaware corporations; and (3) WSC Insurance Agency, an insignificant California corporation. The Precision group was acquired by inactive predecessor subsidiaries of Wesco in February 1979, together with another wholly owned Precision subsidiary, DuPage Manufacturing Company, an Illinois corporation, which was dissolved in January 1980. Financial statements of all companies mentioned above are included in the Company's consolidated financial statements, except those of the Mutual group, which, because of Mutual's financial character, is accounted for under the equity method. Separate financial statements of the Mutual group are included herein as explained in the Index to Financial Statements on page F-1 hereof.

Item 5. Legal Proceedings.

(a) Buffalo Courier-Express, Inc. v. Buffalo Evening News, Inc., United States District Court, Western District of New York, Civil Action No. CIV-77-582 filed October 28, 1977.

This action was filed by a principal competitor of the Company's subsidiary, Buffalo Evening News, Inc. 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. Defendant has filed an answer and counter-claim 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.

The Company understands that the Minneapolis Star and Tribune Co. has purchased the newspaper assets and certain other assets of plaintiff. The Company further understands that the purchase agreement provided for the claims asserted by plaintiff in the antitrust lawsuit to be transferred to the Minneapolis Star and Tribune Co. The Company is presently unable to predict what effect, if any, this transaction will have on the lawsuit.

If 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 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.

In the purported class action defendants filed a demurrer and motion to strike. On July 3, 1979 the demurrer was sustained with leave for plaintiff to file an amended complaint which seeks only a judicial appraisal. Plaintiff did not file an amended complaint within the time period prescribed by the court. Therefore, the court entered an order dismissing this action and entering judgment in favor of all defendants. Plaintiff has appealed this order.

In the purported derivative action defendants moved the court to impose a security bond on the plaintiff. The court, on July 3, 1979, imposed a bond in the sum of $15,000. Plaintiff did not post the security ordered by the court. The court dismissed the action. Plaintiff has appealed.

(c) The information appearing on pages 11 and 12 in Item 5 of the Form 10-K Annual Report for the year ended December 31, 1979 filed by Wesco Financial Corporation, a subsidiary of the Company, copies of which pages are attached, is incorporated herein by reference. With the exception of the aforementioned information and data referred to in Item 3 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.

There were 5,178,770 shares of $1 par value common stock outstanding throughout the fiscal year ended December 29, 1979.

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 30, 1978, the principal balance remained unchanged at $13,500,000 throughout 1979.

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 22, 1980
Common stock, par value $1.00 per share	1,870

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. Berkshire Hathaway Inc., the Company's parent, maintains 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 a purported class action and a purported derivative action 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 will result from indemnification in this connection.

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

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

(b) Exhibits: 13.14. Copy of First Amendment dated May 1, 1979 to Loan Agreement between Blue Chip Stamps and Bank of America National Trust and Savings Association dated April 13, 1977.

(c) Reports on Form 8-K: None relating to events occurring during quarter ended December 29, 1979.

Executive Officers of the Registrant.

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

Name	Age	Positions	Since
Charles T. Munger	56	Chairman of the Board	1976
Donald A. Koeppel	62	President and a director	1976
Robert H. Bird	48	Vice President and Chief Financial Officer and a director	1977
Claude G. Gelineau	40	Vice President, Sales	1977
William K. Klepper	52	Vice President, Merchandise	1970
Jackson B. Reed	57	Vice President, Operations	1977
Kenneth E. Wittmeyer	50	Vice President, Industrial Relations	1974
Jeffrey L. Jacobson	32	Treasurer	1977
Ernest P. Paulson	58	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. Until 1976, general partner of Wheeler, Munger & Co., a member firm of the Pacific Stock Exchange, and a private investor.

Mr. Koeppel - Prior to July 1976, Chairman of the Board and President of the Company.

Mr. Bird - Prior to May 1977, Vice President, Secretary and Treasurer of the Company.

Mr. Gelineau - Prior to August 1977, General Sales Manager of the Company.

Mr. Reed - During April 1977, Operations Manager of the Company; prior thereto, Store Operations 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 - Prior to May 1977, Controller and Assistant Secretary 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 will file with the Securities and Exchange Commission not later than 120 days after December 29, 1979, its latest yearend, a definitive proxy statement pursuant to Regulation 14A for its annual meeting of stockholders scheduled for April 17, 1980.

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 RHBird
R. H. Bird
Vice President and
Chief Financial Officer

March 27, 1980

BLUE CHIP STAMPS

INDEX TO FINANCIAL STATEMENTS

The December 29, 1979, and December 30, 1978 consolidated financial statements of Blue Chip Stamps (the "Company"), together with the report thereon of Price Waterhouse & Co. dated March 25, 1980, appearing on pages 12 to 20 of the Company's 1979 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 report of Peat, Marwick, Mitchell & Co. dated February 2, 1979, except as to Note 17 which is dated as of March 25, 1980, on the balance sheets of Wesco Financial Corporation and Wesco Financial Corporation and subsidiaries as of December 31, 1978 and the related statements of income and retained earnings and changes in financial position for the year then ended, a copy of which is attached, is incorporated in this Form 10-K annual report.

The December 31, 1979 and 1978 balance sheets and related statements of earnings, stockholders' equity and changes in financial position of Mutual Savings and Loan Association, the notes thereto and the supplemental information to the notes to such financial statements, and the supporting schedules, together with the reports thereon of Price Waterhouse & Co. dated March 25, 1980 and Peat, Marwick, Mitchell & Co. dated February 2, 1979, except as to Note 12 which is dated as of March 25, 1980, copies of which are attached, are incorporated in this Form 10-K annual report.

The additional financial data listed on page F-2 should be read in conjunction with the consolidated financial statements of the Company referred to above and the consent of independent accountants appearing on page F-3. Schedules not included with these 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 dated March 25, 1980, which appears on page 20 of the December 29, 1979 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 1979 Annual Report to stockholders; our report and the consolidated financial statements have been incorporated in this Annual Report on Form 10-K. The examination referred to in our report included an examination of the additional financial data.

Price Waterhouse & Co.

PRICE WATERHOUSE & CO.

Los Angeles, California
March 25, 1980

BLUE CHIP STAMPS

SUPPLEMENTARY INFORMATION TO NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PARENT COMPANY STATEMENT OF INCOME AND RETAINED EARNINGS

	52 Weeks Ended	
	December 29, 1979	December 30, 1978
Revenues:		
Promotional services	$ 18,277,000	$ 20,322,000
Dividends and interest	4,698,000	3,691,000
Other	920,000	886,000
	23,895,000	24,899,000
Costs and expenses:		
Cost of sales and services	15,926,000	17,515,000
Selling, general and administrative expenses	5,572,000	5,251,000
Interest and discount amortization	2,038,000	1,613,000
	23,536,000	24,379,000
Income before income taxes, equity in net income of subsidiaries and securities gains	359,000	520,000
Income tax benefit thereon	1,541,000	1,180,000
Equity in net income of subsidiaries, net of minority interest of $1,532,000 and $1,455,000 in 1979 and 1978	13,166,000	11,853,000
Income before securities gains	15,066,000	13,553,000
Realized securities gains, less related taxes	460,000	727,000
Net income	15,526,000	14,280,000
Retained earnings at beginning of year	107,706,000	94,669,000
Cash dividends of $.24 per share per year	1,243,000	1,243,000
Retained earnings at end of year	$121,989,000	$107,706,000

The notes to consolidated financial statements and the supplementary information appearing on pages N-1 and N-2 hereof are integral parts of this statement.

BLUE CHIP STAMPS

SUPPLEMENTARY INFORMATION TO NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PARENT COMPANY BALANCE SHEET

ASSETS

	December 29, 1979	December 30, 1978
Cash	$ 1,624,000	$ 1,603,000
Marketable equity securities, at lower of cost or market	69,881,000	62,256,000
Accounts receivable	2,111,000	899,000
Refundable income taxes	764,000	356,000
Merchandise and supplies inventories	2,485,000	3,245,000
Prepaid expenses, principally income taxes	12,716,000	12,133,000
Property, plant and equipment, net	708,000	512,000
Investments in and advance to subsidiaries	117,076,000	111,786,000
Other equity securities, at cost	4,163,000	4,163,000
	$211,528,000	$196,953,000

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 29, 1979	December 30, 1978
Accounts payable and accrued expenses	$ 2,327,000	$ 2,157,000
Liability for unredeemed trading stamps	67,524,000	66,832,000
Notes payable	13,500,000	13,500,000
Total liabilities	83,351,000	82,489,000
Stockholders' equity:		
Common stock	5,179,000	5,179,000
Paid-in capital	1,579,000	1,579,000
Retained earnings	121,989,000	107,706,000
Equity in net unrealized loss on Mutual's marketable equity securities	(570,000)	-
	128,177,000	114,464,000
	$211,528,000	$196,953,000

The notes to consolidated financial statements and the supplementary information appearing on pages N-1 and N-2 hereof are integral parts of this statement.

BLUE CHIP STAMPS

SUPPLEMENTARY INFORMATION TO NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PARENT COMPANY STATEMENT OF CHANGES IN FINANCIAL POSITION

	52 weeks ended December 29, 1979	52 weeks ended December 30, 1978
Sources (uses) of cash, including short-term investments, from operations:		
Income before realized securities gains	$ 15,066,000	$ 13,553,000
Add (deduct):		
Depreciation and amortization	146,000	96,000
Decrease (increase) in trade accounts receivable	(1,133,000)	263,000
Increase in refundable income taxes	(408,000)	(271,000)
Decrease (increase) in inventories	760,000	(621,000)
Increase in prepaid expenses, principally income taxes	(583,000)	(284,000)
Equity in undistributed net income of subsidiaries	(5,860,000)	(4,599,000)
Increase (decrease) in trade accounts payable and accrued expenses	170,000	(279,000)
Increase in liability for unredeemed trading stamps	692,000	623,000
Cash provided by operations before realized securities gains	8,850,000	8,481,000
Other sources of cash:		
Realized securities gains, net	460,000	727,000
	9,310,000	9,208,000
Other uses of cash:		
Increase in marketable equity securities, reduced in 1978 by $1,721,000, a reversal of a provision for net unrealized loss deducted from stockholders' equity at December 31, 1977	7,625,000	7,524,000
Additions to property, plant and equipment	355,000	132,000
Payment of cash dividends	1,243,000	1,243,000
Retirement of debentures	-	2,168,000
Increase in excess of cost over equity in net assets of subsidiaries	-	486,000
Other, net	66,000	(17,000)
	9,289,000	11,536,000
Increase (decrease) in cash, including short-term investments	$ 21,000	$ (2,328,000)
Increase (decrease) in -		
Cash	$ 21,000	$ (1,343,000)
Short-term investments	-	(985,000)
	$ 21,000	$ (2,328,000)

The notes to consolidated financial statements and the supplementary information appearing on pages N-1 and N-2 hereof are integral parts of this statement.

BLUE CHIP STAMPS

SUPPLEMENTARY INFORMATION TO NOTES TO CONSOLIDATED (AND PARENT COMPANY) FINANCIAL STATEMENTS

ADDITIONAL NOTES

At December 31, 1977 inventories amounted to $3,650,000, $2,624,000 and $1,058,000 for the candy, promotional services and newspaper businesses, respectively.

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

Buildings	10 to 45 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 See's Candy Shops, Incorporated ("See's"), Buffalo Evening News, Inc. (the "News"), consolidated subsidiaries of the Company, and for Mutual Savings and Loan Association ("Mutual"), the unconsolidated subsidiary of the Company, at the beginning and end of the two most recent fiscal years, in thousands of dollars:

	December 29, 1979	December 30, 1978	January 31, 1977
See's			
Excess of cost over equity in net assets	$17,584	$17,583	$17,262
Accumulated amortization	3,450	3,006	2,567
The News			
Excess of cost over equity in net assets	1,080	1,080	754
Accumulated amortization	68	42	10
Mutual			
Excess of equity in net assets over cost	23,459	23,459	23,459
Accumulated amortization	3,390	2,766	2,142

BLUE CHIP STAMPS

SUPPLEMENTARY INFORMATION TO NOTES TO CONSOLIDATED (AND PARENT COMPANY) FINANCIAL STATEMENTS

ADDITIONAL NOTES (CONTINUED)

The components of accounts payable and accrued expenses are as follows, in thousands of dollars:

	December 29, 1979		December 30, 1978	
	Consolidated	Parent company	Consolidated	Parent company
Accounts payable	$11,414	$ 1,840	$ 7,583	$ 1,659
Accrued compensation	5,067	325	4,437	332
Taxes other than income	731	162	499	166
Pension liability, net of income tax benefit	1,403	-	1,361	-
	$18,615	$ 2,327	$13,880	$ 2,157

Following is a breakdown of income from securities, in thousands of dollars:

	Fiscal year ended			
	December 29, 1979		December 30, 1978	
	Consolidated	Parent company	Consolidated	Parent company
Dividends	$ 6,278	$ 4,479	$ 4,619	$ 3,620
Interest	1,731	219	855	71
	$ 8,009	$ 4,698	$ 5,474	$ 3,691

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 29, 1979 and December 30, 1978 were $5,500,000 and $8,000,000, respectively, including additional amounts borrowed under separate short-term notes. Interest under the line of credit is at prime rate and averaged 15.6% and 10.5% on total short-term borrowings during the respective years based on average daily balances of $735,000 and $1,432,000, respectively.

MUTUAL SAVINGS AND LOAN ASSOCIATION
AND SUBSIDIARY

REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 1979 AND 1978

MUTUAL SAVINGS AND LOAN ASSOCIATION AND SUBSIDIARY

Index to Financial Statements

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

Price Waterhouse & Co.

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

March 25, 1980

To the Board of Directors
Mutual Savings and Loan Association

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, stockholder's equity and changes in financial position present fairly the financial position of Mutual Savings and Loan Association (a wholly owned subsidiary of Wesco Financial Corporation) and its subsidiary at December 31, 1979 and the results of their operations and the changes in their financial position for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. We also examined the schedules listed in the accompanying index by similar auditing procedures. In our opinion, these schedules are stated fairly in all material respects in relation to the financial statements taken as a whole.

Price Waterhouse & Co.
Price Waterhouse & Co.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTANTS' REPORT

The Board of Directors
Mutual Savings and Loan Association:

We have examined the consolidated balance sheet of Mutual Savings and Loan Association (a wholly owned subsidiary of Wesco Financial Corporation) and subsidiary as of December 31, 1978 and the related consolidated statements of income, stockholder's equity and changes in financial position for the year then ended. We have also examined Schedule XVI for the year ended December 31, 1978. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Mutual Savings and Loan Association and subsidiary at December 31, 1978 and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year; and the supporting schedule, in our opinion, presents fairly the information set forth therein.

Peat, Marwick, Mitchell & Co.

Los Angeles, California
February 2, 1979
Except as to note 12 to the
consolidated financial
statements which is as
of March 25, 1980.

MUTUAL SAVINGS AND LOAN ASSOCIATION AND SUBSIDIARY
(A Wholly Owned Subsidiary of Wesco Financial Corporation)

Consolidated Balance Sheet
December 31, 1979 and 1978

ASSETS	1979	1978
	(Thousands of dollars)	
Cash	$ 2,744	$ 2,268
Short-term bank obligations, at cost which approximates market	47,569	51,246
Municipal obligations, at cost (quoted market, $7,099,000 in 1979 and $7,453,000 in 1978)	6,670	6,670
Investment in marketable equity common and preferred stocks, at lower of cost or market (Note 2)	27,812	44,430
Investment in marketable non-equity preferred stocks, at cost (quoted market, $16,539,000 in 1979 and $15,183,000 in 1978)	17,306	14,832
Loans receivable (Notes 3, 6 and 12)	507,049	483,954
Interest and dividends receivable and other assets	6,070	4,497
Real estate held for sale, net (Note 11)	934	1,824
Investments required by law:		
Investment in stock of Federal Home Loan Bank, at cost (Note 6)	4,916	4,489
Prepayments to FSLIC secondary reserve	3,511	3,963
Premises and equipment, net (Notes 4 and 12)	2,679	1,404
	$627,260	$619,577
LIABILITIES AND STOCKHOLDER'S EQUITY		
Savings accounts (Notes 5 and 12)	$510,579	$490,159
Advances from Federal Home Loan Bank (Note 6)	48,626	53,869
Accounts payable and accrued expenses	1,517	2,105
Taxes on income (Note 7)	8,376	8,339
Undisbursed loan funds	845	5,989
Deferred income	580	970
Total liabilities	570,523	561,431
Commitments and contingent liabilities (Notes 8 and 10)		
Stockholder's equity (Note 9):		
Guarantee stock-$100 par value per share. Authorized 1,000 shares; issued and outstanding 600 shares	60	60
Additional paid-in capital	40	40
Retained earnings-substantially restricted	57,349	58,046
Net unrealized loss on marketable equity common and preferred stocks (Note 2)	(712)	-
Total stockholder's equity	56,737	58,146
	$627,260	$619,577

See accompanying notes to consolidated financial statements.

MUTUAL SAVINGS AND LOAN ASSOCIATION AND SUBSIDIARY
(A Wholly Owned Subsidiary of Wesco Financial Corporation)

Consolidated Statement of Income

Years ended December 31, 1979 and 1978

	1979	1978
	(Thousands of dollars)	
Revenues:		
Interest on loans	$43,207	$34,392
Loan fees and service charges	1,897	1,768
Interest on short-term bank and municipal obligations	6,352	6,914
Dividends on common and preferred stocks	5,296	4,694
Interest and dividends on investments required by law	689	533
Net losses on sales of marketable securities	(16)	(153)
Income from real estate held for sale (Note 11)	711	848
Other income	41	-
	58,177	48,996
Expenses:		
General and administrative (Notes 8 and 10):		
Salaries and related personnel costs	2,425	2,227
Premises and occupancy costs	941	916
Advertising and promotion	681	528
Other operating expenses	1,556	1,439
	5,603	5,110
Interest on savings accounts	37,539	31,358
Interest on Advances from Federal Home Loan Bank	4,588	2,216
	47,730	38,684
Income before provision for income taxes	10,447	10,312
Provision for income taxes (Note 7)	2,744	2,999
Net income	$ 7,703	$ 7,313

See accompanying notes to consolidated financial statements.

MUTUAL SAVINGS AND LOAN ASSOCIATION AND SUBSIDIARY
(A Wholly Owned Subsidiary of Wesco Financial Corporation)

Consolidated Statement of Stockholder's Equity
Years ended December 31, 1979 and 1978
(Thousands of dollars)

	Guarantee Stock	Additional Paid-in Capital	General Reserves	Undivided Profits	Net Unrealized Loss on Marketable Equity Common and Preferred Stocks	Total Stockholder's Equity
Balance at December 31, 1977	$ 60	$ 40	$34,498	$22,835	-	$57,433
Cash dividend to Wesco Financial Corporation				(6,600)		(6,600)
Net income				7,313		7,313
Balance at December 31, 1978	60	40	34,498	23,548	-	58,146
Cash dividend to Wesco Financial Corporation				(8,400)		(8,400)
Net income				7,703		7,703
Unrealized loss on marketable equity securities (Note 2)					$ (712)[1]	(712)
Balance at December 31, 1979	$ 60	$ 40	$34,498	$22,851	$ (712)	$56,737

[1] Amount is eliminated in consolidation with Wesco Financial Corporation.

See accompanying notes to consolidated financial statements.

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MUTUAL SAVINGS AND LOAN ASSOCIATION AND SUBSIDIARY
(A Wholly Owned Subsidiary of Wesco Financial Corporation)

Consolidated Statement of Changes in Financial Position

Years ended December 31, 1979 and 1978

	1979	1978
	(Thousands of dollars)	
Sources (uses) of cash including short-term bank obligations from operations:		
Net income	$ 7,703	$ 7,313
Add (deduct):		
Depreciation and amortization	225	220
Interest expense credited to savings accounts	26,523	24,373
Deferred income taxes	(503)	204
Recognition of unrealized profit on real property	(457)	(890)
Other, net	(734)	-
Cash provided from operations	32,757	31,220
Other sources of cash:		
Principal payments on real estate loans	57,388	64,978
Increase in borrowings	-	31,506
Net sales of GNMA mortgage-backed certificates	31,669	-
Decrease in marketable securities	13,432	-
Sales of real property, net of gains	680	792
	135,926	128,496
Other uses of cash:		
Real estate loan disbursements	54,157	142,524
Purchase of participation loans	50,002	-
Increase in loans on savings accounts	13,137	5,408
Increase in stock of Federal Home Loan Bank	-	1,152
Decrease in savings accounts	6,103	6,135
Repayment of borrowings	5,243	-
Dividend to Wesco Financial Corporation	8,400	6,600
Increase in marketable securities	-	1,625
Other, net	2,085	742
	139,127	164,186
Decrease in cash including short-term bank obligations	$ 3,201	$ 35,690

See accompanying notes to consolidated financial statements.

MUTUAL SAVINGS AND LOAN ASSOCIATION AND SUBSIDIARY
(A Wholly Owned Subsidiary of Wesco Financial Corporation)

Notes to Consolidated Financial Statements

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Mutual Savings and Loan Association (the Association) and its wholly owned subsidiary, Wes-Fin Service Corporation. All significant intercompany transactions have been eliminated in consolidation.

Short-Term Bank Obligations and Marketable Securities

Short-term bank obligations including certificates of deposit bankers' acceptances and other bank obligations are carried at identified cost as adjusted for amortization of premium and accretion of discount.

Municipal obligations are also carried at identified cost as adjusted for amortization of premium and accretion of discount.

Common and preferred stocks are carried at the lower of cost or market. See Note 2 for discussion of marketable equity common and preferred stocks.

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 and Real Property Valuation Allowances

Valuation allowances for estimated losses on specific loans and real property are charged to income when any significant and permanent decline reduces the net realizable value of the underlying security to less than the loan or the carrying value of real property owned. Such losses on loans are usually indicated during foreclosure proceedings.

The Association 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 net amount of required valuation allowances.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and Equipment

Premises and equipment are depreciated on the straight-line method over the estimated useful lives of the various classes of assets. The useful lives of the various classes of assets are:

Building 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 added to property account balances. 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 income.

Profit on the Sale of Real Property

Profit on the sale of real property is recognized when the buyer has made a 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 a level annual 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.

Restricted Retained Earnings

Restricted retained earnings represent accumulated income of the Association which have been appropriated on an accrual basis for possible future losses in accordance with the more restrictive of Federal income tax requirements or savings and loan regulations (see Note 9).

Income Taxes

Beginning in 1977, the Association and its subsidiary have been included in the consolidated Federal income tax return of Blue Chip Stamps, which owns 80.1% of the outstanding capital shares of the Association's parent company, Wesco Financial Corporation. The provision for Federal income tax has been computed on the separate results of operations of the Association and its subsidiary as if they filed a separate consolidated return. The Association also remits to Blue Chip Stamps the amount of income taxes which would be currently payable if it were filing a separate consolidated Federal income tax return.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

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 accounts. The Association reached such limitations in 1968, and a bad debt deduction for financial statement purposes has not been available since that time.

Investment tax credits, which are not material, are recognized as the tax benefits are realized.

Reclassifications

Certain items in the 1978 financial statements have been reclassified to conform to the 1979 presentation.

NOTE 2. INVESTMENT IN MARKETABLE EQUITY COMMON AND PREFERRED STOCKS

The investment in marketable equity common and preferred stocks is comprised of the following:

	1979		1978	
	(Thousands of dollars)			
	Cost	Market	Cost	Market
Common stocks	$15,206	$17,239	$30,862	$33,726
Preferred stocks	13,318	10,573	13,568	12,817
	$28,524	$27,812	$44,430	$46,543

	1979	1978
	(Thousands of dollars)	
Gross unrealized gains	$ 2,033	$ 2,864
Gross unrealized losses	(2,745)	(751)
Net unrealized gain (loss)	$ (712)	$ 2,113

Marketable equity common and preferred stocks are stated at the lower of cost or market on the consolidated balance sheet. Whenever aggregate market value is less than aggregate cost, the Association records a valuation allowance, which is charged directly to stockholder's 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 net income.

NOTE 2. INVESTMENT IN MARKETABLE EQUITY COMMON AND PREFERRED STOCKS (continued)

In January 1980, the Association sold its $15,206,000 investment in Federal National Mortgage Association common stock at a gain before income taxes of $1,439,000. At March 17, 1980, the Association had a net unrealized loss on "marketable equity" preferred stocks of $4,200,000.

NOTE 3. LOANS RECEIVABLE

Loans receivable are summarized as follows:

	1979	1978
	(Thousands of dollars)	
Real estate loans on residential property of:		
One to four units (home loans)	$396,318	$375,228
More than four units	69,646	78,206
Other properties	15,430	18,002
Loans on savings accounts	25,655	12,518
	$507,049	$483,954
Included above are:		
Loans to facilitate sales of real estate acquired in settlement of loans	$ 1,341	$ 1,466
"Slow Loans" (essentially 90 days or more delinquent)	$ 703	$ 338
Loans at variable interest rates	$ 1,105	$ -
FHA insured and VA partially guaranteed	$ 1,811	$ 2,201
Average interest rate at December 31	8.98%	8.49%

The Association has classified undisbursed loan funds as a liability in accordance with regulatory rules. The consolidated financial statements of the Association's parent, however, reflect undisbursed loan funds as a deduction from loans receivable in accordance with the savings and loan association audit guide.

NOTE 4. PREMISES AND EQUIPMENT, NET

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

	1979	1978
	(Thousands of dollars)	
Land	$ 341	$ 268
Office buildings and leasehold improvements	2,463	1,224
Furniture, fixtures and equipment	1,461	1,302
	4,265	2,794
Accumulated depreciation and amortization	1,586	1,390
	$ 2,679	$ 1,404

NOTE 5. SAVINGS ACCOUNTS

Savings account balances at December 31, 1979 and 1978 are summarized as follows:

	Stated Rate	1979	%	1978	%
		(Thousands of dollars)			
Passbook	5-1/4-5-1/2%	$122,494	24	$144,087	29
Bonus	5-1/2	-	-	1,520	-
	5-3/4	4,821	1	8,390	2
	6	384	-	649	-
		5,205	1	10,559	2
Certificates	5-3/4	889	-	2,005	-
	6	5,295	1	7,491	2
	6-1/2	18,541	4	44,126	9
	6-3/4	8,516	2	12,403	3
	7	373	-	421	-
	7-1/2	90,081	18	116,170	24
	7-3/4	72,032	14	79,952	16
	8	15,472	3	12,955	3
Money Market Certificates	7-3/8-10-3/4	156,646	30	55,259	11
$100,000 Minimum Certificates	7-1/2-12-1/4	15,035	3	4,731	1
		382,880	75	335,513	69
		$510,579	100	$490,159	100

NOTE 5. SAVINGS ACCOUNTS (continued)

	1979	%	1978	%
	(Thousands of dollars)			
MATURITY				
No maturity	$128,578	25	$157,242	32
Within one year	215,909	42	136,772	28
1 - 2 years	50,117	10	30,053	6
2 - 3 years	48,511	10	52,978	11
3 - 4 years	38,104	7	52,459	11
4 - 5 years	17,075	[illegible]	32,047	6
Over 5 years	12,285	2	28,608	6
	$510,579	100	$490,159	100

The average interest rate was 8.12% at December 31, 1979 and 6.88% at December 31, 1978. This average interest rate is based upon stated interest rates without giving consideration to daily compounding of interest or forfeiture of interest because of premature withdrawals.

The weighted average stated rate of interest for the year was 7.38% in 1979 and 6.57% in 1978. The average balance outstanding based upon beginning and month-end balances used in this calculation was $508,994,000 in 1979 and $477,230,000 in 1978.

NOTE 6. ADVANCES FROM FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances are secured by the investment in the stock of the Federal Home Loan Bank and by pledges of certain real estate loans amounting to $65,771,000 in 1979 and $73,453,000 in 1978. At December 31, 1979 interest rates on outstanding advances range from 7.5% to 9.5%. Average FHLB advances, based upon month-end balances were $51,540,000 and $26,304,000, and the approximate weighted average interest rates were 8.9% and 8.4% for the years ended December 31, 1979 and 1978, respectively. Additionally, maximum advances outstanding at any month-end were $53,869,000 for both 1979 and 1978. The FHLB advances are payable as follows: 1980 - $5,244,000; 1981 - $5,244,000; 1982 - $15,744,000; 1983 - $20,994,000; and 1984 - $1,400,000.

NOTE 7. TAXES ON INCOME

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

	1979	1978
	(Thousands of dollars)	
Current tax expense:		
Federal	$ 2,018	$ 1,671
State	1,229	1,124
	3,247	2,795
Deferred tax expense:		
Federal	(364)	153
State	(139)	51
	(503)	204
	$ 2,744	$ 2,999

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. Sources of timing differences resulting in (increase) or decrease to taxable income are as follows:

	1979	1978
	(Thousands of dollars)	
Different method for recognition of loan fees and discounts on GNMA mortgage-backed certificates	$ (826)	$ 299
Cash method used for tax purposes	451	(105)
Other timing differences	(128)	10
	$ (503)	$ 204

Deferred income tax included in the accompanying consolidated balance sheet amounted to $7,030,000 and $7,533,000 at December 31, 1979 and 1978, respectively.

NOTE 7. TAXES ON INCOME (continued)

Following is a reconciliation between the Federal statutory income tax rate and the effective income tax rate:

	1979	1978
Statutory Federal income tax rate	46.0%	48.0%
Increase (decrease) in tax rate resulting from:		
Dividends received deduction on common and preferred stock	(19.8)	(18.6)
Net gains on sales of fore-closed real property	(3.1)	(4.1)
State franchise tax, net of Federal income tax benefit	5.6	5.9
Interest on municipal obligations	(2.3)	(2.4)
Other differences	(.1)	.3
Effective income tax rate	26.3%	29.1%

The Association's Federal income tax returns through 1976 have been examined by and settled with the Internal Revenue Service.

NOTE 8. COMMITMENTS AND CONTINGENT LIABILITIES

The Association and its subsidiary are defendants in litigation arising in the normal course of business. In the opinion of management, such litigation will not have a material effect on the financial position or results of operations of the Association.

The Association and its subsidiary have future minimum rental payments under noncancellable operating leases aggregating $3,025,000 as of December 31, 1979. The rentals are payable as follows: 1980 - $409,000; 1981 - $413,000; 1982 - $407,000; 1983 - $423,000; 1984 - $444,000; and $929,000 thereafter. Rental expense amounted to $455,000 and $444,000 for 1979 and 1978, respectively.

NOTE 9. RETAINED EARNINGS

The Federal Savings and Loan Insurance Corporation in connection with the insurance of savings accounts, 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. These reserves are not related to amounts of losses actually anticipated and have not been charged against income. Such reserve requirements, which amounted to $34,498,000 at December 31, 1979, represent a restriction of retained earnings. A summary of retained earnings follows:

Statutory reserve	$34,498
Retained earnings available for cash dividends:	
Subject to Federal income taxes	16,544
Not subject to Federal income taxes	6,307
	22,851
Retained earnings December 31, 1979	$57,349

Provision for Federal income taxes has not been made on the retained earnings restricted by FSLIC regulations of $34,498,000 nor on an additional amount of retained earnings of $16,544,000. If in the future such amounts are used for any purpose other than to absorb losses, including distributions in liquidation, the amounts used will be subject to Federal income tax at the then applicable rates. Due to differences in methods of reporting results of operations for tax return and financial statement purposes, the amount of dividends that the Association can currently pay (tax basis) is significantly lower than the financial statement amount.

NOTE 10. RETIREMENT PLAN

A noncontributory retirement plan is in effect for all eligible employees of the Association and its subsidiary. Eligibility is based on age and certain minimum work hour requirements. Employer contributions are computed utilizing the aggregate cost funding method. The Association's policy is to fund pension costs accrued. There are no unfunded prior service costs. Pension costs for 1979 and 1978 approximated $88,000 and $113,000 respectively. Pension fund assets exceeded the actuarially computed value of vested benefits.

NOTE 11. REAL ESTATE HELD FOR SALE

Real estate held for sale represents properties acquired through foreclosure net of an allowance for losses of $192,000 in 1979 and 1978. Income from real estate held for sale is:

	1979	1978
	(Thousands of dollars)	
Net gains from sales	$721	$896
Income from rentals	51	19
	772	915
Less maintenance and expense	(61)	(67)
	$711	$848

NOTE 12. SUBSEQUENT EVENT

On March 25, 1980, Mutual Savings (Mutual) executed a contract with another savings and loan association which provides for the sale of Mutual's savings and loan business at all branches (15). Mutual will continue its savings and loan business at its headquarters' office and a satellite office to be opened in 1980 across the street from the headquarters' office. Under the terms of the contract, Mutual will sell all premises and equipment at the branches (approximate net book value of $2,500,000 at December 31, 1979), and transfer net savings accounts at the branches (approximately $300,000,000) and mortgage loans with a book value of an equal amount. Mutual will be paid $8,086,000 for the branch facilities, resulting in an approximate gain before income taxes and expenses of sale of $5,500,000. The transaction will result in the payment of approximately $2,000,000 in income taxes on the gain. In addition, $4,800,000 of the recorded deferred income tax liability will become currently payable. The contract provides that the mortgage loans transferred will have an average yield of 10% and it is anticipated that the loans retained by Mutual will have an average yield of approximately 7.4%.

The sale is contingent upon receipt of regulatory approvals.

Schedule I

MUTUAL SAVINGS AND LOAN ASSOCIATION AND SUBSIDIARY

MARKETABLE SECURITIES-OTHER SECURITY INVESTMENTS

December 31, 1979

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 and Municipalities	6,670,000	$ 6,670,000	$ 7,099,000
Common Stocks:			
FNMA	1,069,000	$15,206,000	$17,239,000
Preferred Stocks:			
A.T. & T.	126,800	$ 5,899,000	$ 5,048,000
So. California Edison	61,100	4,815,000	3,788,000
Pacific Gas and Electric	206,800	4,697,000	3,722,000
Michigan-Wisconsin Pipeline	161,491	3,973,000	3,939,000
Issued by Others	149,010	11,240,000	10,615,000
	705,201	$30,624,000	$27,112,000

*Amounts included in the Association's Balance Sheet are net of the valuation allowance on marketable equity common and preferred stocks of $712,000 (see Note 2).

Schedule XVI

MUTUAL SAVINGS AND LOAN ASSOCIATION AND SUBSIDIARY

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years ended December 31, 1979 and 1978

The following amounts have been charged to expenses in the statement of income:

	Years ended December 31, 1979	1978
Maintenance and repairs	$104,000	$ 77,000
Depreciation and amortization of office properties and equipment	225,000	220,000
Taxes, other than taxes on income:		
Payroll taxes	146,000	130,000
Property taxes	60,000	92,000
Advertising	636,000	489,000

BLUE CHIP STAMPS

SCHEDULE I - MARKETABLE SECURITIES
DECEMBER 29,1979
(In Thousands of Dollars)

	Consolidated			Parent company	
	Number of shares or units - principal amount of bonds or notes	Cost of each issue	Market value of each issue at balance sheet date	Cost of each issue	Market value of each issue at balance sheet date
Short-term investments, at cost					
Repurchase agreements	$ 3,200	$ 3,200	$ 3,200	$ -	$ -
Bankers acceptances	3,000	2,960	2,960	-	-
Commercial paper	2,000	1,984	1,984	-	-
Savings account	1,667	1,667	1,667	-	-
	9,867	9,811	9,811	-	-
U. S. Government securities	1,575	1,564	1,564	-	-
Total short-term investments	$11,442	$11,375(1)	$11,375	$ -	$ -
Marketable equity securities, at the lower of aggregate cost or market					
Preferred and common stocks:					
AmeriTrust Corporation	42,897	$ 1,210	$ 1,394	$ 1,210	$ 1,394
City National Corporation	69,457	734	2,223	734	2,223
Cleveland-Cliffs Iron Company	868,900	23,768	28,660	13,223	15,753
F. W. Woolworth Co.	56,300	1,238	1,414	-	-
General Foods Corporation	424,100	14,527	14,345	7,857	7,650
Knight-Ridder Newspapers, Inc.	122,800	2,377	3,193	-	-
Manufacturers National Corporation	164,205	3,706	4,064	3,706	4,064
National Detroit Corporation	414,160	9,941	12,373	9,941	12,373
National Service Industries	143,000	2,299	2,717	2,299	2,717
Pinkerton's, Inc.	587,396	19,201	21,440	19,201	21,440
Pittsburgh National Corporation	256,500	8,721	10,709	8,721	10,709
R. J. Reynolds Industries, Inc.	250,000	7,995	8,500	-	-
SAFECO Corporation	516,322	12,820	19,491	-	-
The Times Mirror Co.	314,800	9,265	11,491	-	-
Other	-	5,000	4,663	2,989	2,961
Total marketable equity securities		$122,802(1)	$146,677	$69,881(1)	$81,284

(1) Balance sheet value.

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BLUE CHIP STAMPS (CONSOLIDATED AND PARENT COMPANY)

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

YEAR ENDED DECEMBER 29, 1979

Name of issuer and description of investment	Balance at beginning of period		Additions		Deductions		Balance at end of period	
	Number of shares	Amount in dollars	Equity taken up in earnings (loss) of affiliate	Other	Distributions of earnings by affiliate	Other	Number of shares	Amount in dollars
Blue Chip Stamps (consolidated) -								
Investment in common stock of unconsolidated subsidiary, Mutual Savings and Loan Association ("Mutual")(1)	480.6(3)	$ 37,452,000	$ 6,795,000 1,532,000(5)	$1,000	$8,400,000(6)	$570,000(7)	480.6(3)	$ 36,810,000
		$ 37,452,000	$ 8,327,000	$1,000	$8,400,000	$570,000		$ 36,810,000
Blue Chip Stamps (parent company) -								
Investment in common stock of unconsolidated subsidiaries (2):								
See's Candy Shops, Incorporated	1,000(4)	$ 29,288,000	$ 6,029,000	$ -	$5,000,000	$ -	1,000(4)	$ 30,317,000
Buffalo Evening News, Inc. (the "News")	10(4)	16,989,000	(2,410,000)	-	-	-	10(4)	14,579,000
Wesco Financial Corporation ("Wesco")	5,703,087(3)	49,509,000	9,547,000	-	2,167,000	570,000(7) 139,000(8)	5,703,087(3)	56,180,000
Demand note receivable from the News		16,000,000	-	-	-	-		16,000,000
		$111,786,000	$13,166,000	$ -	$7,167,000	$709,000		$117,076,000

(1) Owned 100% by Wesco (80.1% by parent company)
(2) Owned directly by parent company
(3) Represents 80.1% of outstanding shares
(4) Represents 100% of outstanding shares
(5) Minority interest in net income of Mutual
(6) Dividend received by Wesco from Mutual
(7) Equity in unrealized loss on Mutual's marketable equity securities
(8) Marketable equity securities valuation adjustment

BLUE CHIP STAMPS (CONSOLIDATED AND PARENT COMPANY)

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

YEAR ENDED DECEMBER 30, 1978

Name of issuer and description of investment	Balance at beginning of period		Additions		Deductions		Balance at end of period	
	Number of shares	Amount in dollars	Equity taken up in earnings (loss) of affiliate	Other	Distributions of earnings by affiliate	Other	Number of shares	Amount in dollars
Blue Chip Stamps (consolidated) -								
Investment in common stock of unconsolidated subsidiary, Mutual Savings and Loan Association ("Mutual")(1)	480.6(3)	$ 36,116,000	$ 6,482,000 1,455,000(7)	$ -	$6,600,000(8)	$1,000	480.6(3)	$ 37,452,000
		$ 36,116,000	$ 7,937,000	$ -	$6,600,000	$1,000		$ 37,452,000
Blue Chip Stamps (parent company) -								
Investment in common stock of unconsolidated subsidiaries (2):								
See's Candy Shops, Incorporated	991,157(4)	$ 27,951,000	$ 5,851,000	$486,000(6)	$5,000,000	$ -	1,000(5)(6)	$ 29,288,000
Buffalo Evening News, Inc. (the "News")	10(5)	18,403,000	(1,414,000)	-	-	-	10(5)	16,989,000
Wesco Financial Corporation ("Wesco")	5,703,087(3)	43,892,000	7,417,000	139,000(9)	$1,939,000	-	5,703,087(3)	49,509,000
Demand note receivable from the News		16,000,000	-	-	-	-		16,000,000
		$106,246,000	$11,854,000	$625,000	$6,939,000	$ -		$111,786,000

(1) Owned 100% by Wesco (80.1% by parent company)
(2) Owned directly by parent company
(3) Represents 80.1% of outstanding shares
(4) Represents 99.12% of outstanding shares
(5) Represents 100% of outstanding shares
(6) In June 1978 the Company acquired the .88% minority interest in See's, increasing its ownership to 100%; See's was reorganized, and its outstanding shares were reduced from 1,000,000 to 1,000
(7) Minority interest in net income of Mutual
(8) Dividend received by Wesco from Mutual
(9) Marketable equity securities valuation adjustment

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 30, 1978:				
Land	$ 4,434,000	$ -	$ 31,000	$ 4,403,000
Buildings	16,093,000	795,000	71,000	16,817,000
Fixtures and equipment	36,018,000	2,568,000	697,000	37,889,000
Leasehold improvements	4,876,000	741,000	104,000	5,513,000
	$61,421,000	$4,104,000	$903,000	$64,622,000
Year ended December 29, 1979:				
Land	$ 4,403,000	$ 372,000	$ -	$ 4,775,000
Buildings	16,817,000	3,117,000	42,000	19,892,000
Fixtures and equipment	37,889,000	4,728,000	814,000	41,803,000
Leasehold improvements	5,513,000	864,000	3,000	6,374,000
	$64,622,000	$9,081,000(1)	$859,000	$72,844,000

(1) Includes $4,071,000 relating to acquisition of steel service business 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 30, 1978:				
Buildings	$ 5,535,000	$ 620,000	$ 51,000	$ 6,104,000
Fixtures and equipment	8,777,000	2,910,000	558,000	11,129,000
Leasehold improvements	2,774,000	341,000	100,000	3,015,000
	$17,086,000	$ 3,871,000	$ 709,000	$20,248,000
Year ended December 29, 1979:				
Buildings	$ 6,104,000	$ 860,000	$ 1,000	$ 6,963,000
Fixtures and equipment	11,129,000	2,823,000	689,000	13,263,000
Leasehold improvements	3,015,000	426,000	43,000	3,398,000
	$20,248,000	$ 4,109,000	$ 733,000	$23,624,000

BLUE CHIP STAMPS

SCHEDULE XVI - SUPPLEMENTARY INCOME STATEMENT INFORMATION

Item	Amounts charged to costs and expenses: Consolidated	Amounts charged to costs and expenses: Parent Company
Year ended December 30, 1978:		
Maintenance and repairs	$ 3,681,000	$ 276,000
Taxes other than income taxes -		
Payroll	3,285,000	285,000
Other	1,454,000	130,000
Advertising costs	1,885,000	666,000
Research and development	56,000	-
Year ended December 29, 1979:		
Maintenance and repairs	4,646,000	260,000
Taxes other than income taxes -		
Payroll	4,273,000	297,000
Other	1,447,000	67,000
Advertising costs	2,013,000	350,000
Research and development	360,000	-

No royalty costs were incurred.

Depreciation, amortization and rents are disclosed in the consolidated and parent company financial statements and notes.

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 1972, produces boxed chocolates and other confectionary products of high quality in two large kitchen facilities 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 188 in twelve western and midwestern states including Hawaii.

See's quality candy contains no significant artificial preservatives, and, in order to control shelf life, See's does not sell through department stores, drug stores, etc. Although cocoa, sugar and certain other ingredients are generally subject to wide price fluctuations, See's now manages most of these costs by entering into forward contracts. 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 is generated during the Christmas season, when 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 or borrowing. At Christmas the number of employees peaks at about three times the full-time base of approximately 1,200.

• **The newspaper business.** Buffalo Evening News, Inc., a wholly owned subsidiary whose assets, subject to certain liabilities, were purchased in 1977, publishes the most widely read daily newspaper in Upstate New York.

Late in 1977 the News began publishing a Sunday edition. The principal competing newspaper responded by filing an antitrust suit. For further information, please refer to Note 11 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. Although newsprint is generally purchased under long-term contracts from Canadian suppliers, supplies have been limited in recent years and prices have escalated. The newspaper employs approximately 1,100 full-time employees.

• **The promotional services business.** Blue Chip Stamps offers two principal types of promotional services: those used by business organizations to attract or retain customers (mainly a conventional trading stamp program); and those used by businesses or other entities for internal purposes (motivation programs).

Blue Chip's trading stamp service continues to be the preeminent trading stamp operation in the California-Nevada area, and a variation has been successfully introduced utilizing punch cards and certificates instead of stamps. However, revenues from this category have declined from their historical peak of $124 million for the fiscal year ended February 28, 1970 to $16 million in fiscal 1979. Most of the decline occurred in the early 1970s as many supermarket operators converted to discount merchandising and service stations were faced with their first major shortage of gasoline. The reduction in these revenues has increased the relative importance to the business of the remaining customers, and two Southern California supermarket chains currently account for about 50% of stamp volume. Over the past eight years the Company has reduced the number of redemption outlets from a peak of 90 to 41 at present.

Blue Chip Motivation, a separate division, tailors programs for businesses using awards of merchandise and travel in order to stimulate sales or productivity, promote attendance or safety, or perform other employee motivational functions. The motivation business is competitive, and the division now concentrates its sales efforts in the West, where it can offer lower prices due to the presence of the stamp operation and the resultant economy of scale.

Approximately 200 employees are involved in promotional services activities on a full-time basis.

• **The savings and loan business.** Wesco Financial Corporation, an 80%-owned subsidiary controlled since late 1973, in addition to investing in marketable securities and real estate, owns all of the outstanding stock of Mutual Savings and Loan Association ("Mutual"), which has been operating at sixteen locations in Southern California and, at yearend 1979, ranked approximately 35th in assets among savings and loan associations in the state. Most of the association's loans are secured by first trust deeds on residential and commercial properties. Its loan portfolio also includes loan participations purchased from other savings and loan associations and participations in Government National Mortgage Association loan pools. Approximately 160 employees have been engaged in this line of business.

During 1979 the association substantially curtailed its real estate loan originations because of the high cost of savings deposits, the reduction in net savings inflow, and uncertainty as to the future direction of loan interest rates. These factors increased the potential risks of lending on a long-term basis (real estate loans) with short-term funds (savings accounts). No assurance can be given that the factors causing the curtailment of lending activities will be alleviated in the foreseeable future.

On March 25, 1980, Mutual executed a contract with Brentwood Savings and Loan Association, a subsidiary of Jim Walter Corporation, providing for the sale of all of Mutual's offices, except its headquarters office and a satellite office to be opened in 1980 in a new shopping plaza across the street from the headquarters office. Closing of the sale is contingent upon receipt of regulatory approvals. Under terms of the contract, Mutual will transfer net branch office deposits (approximately $300,000,000) and mortgage loans of an equal amount. It will also transfer the physical assets of the branch offices. The buyer will pay $8,086,000 and assume the savings account liabilities of the branches. Mutual intends to continue operating its headquarters office and the new satellite office.

• **The steel service center business.** Precision Steel Warehouse, Inc., a wholly owned subsidiary of Wesco Financial Corporation whose net assets were acquired on February 28, 1979, is primarily engaged in the steel service center business. It buys specialty steel and other metals mainly from major domestic mills, cuts such metals to order at its facilities in Illinois and North Carolina and sells the finished pieces to a wide variety of customers. A computerized inventory control system helps to assure quick service, an important competitive advantage. During 1979, these operations accounted for revenue of $29,834,000 (15.0% of Blue Chip Stamps' consolidated revenues). A wholly owned subsidiary of Precision's manufactures and sells shim stock and other small metal specialty items. Approximately 350 full-time employees are engaged in the combined steel operations.

MAJOR BUSINESS SEGMENTS. Information relating to the business activities described above is summarized in the table on page 9 (in thousands). Please refer to Note 13 to the accompanying consolidated financial statements for financial information relative to the pending sale of operating assets and liabilities of Mutual's savings and loan branch offices mentioned above.

Copy of a page of Blue Chip Stamps' 1979 Annual Report

	52 weeks ended			53 weeks ended	52 weeks ended
	Dec. 29, 1979	Dec. 30, 1978*[1]	Dec. 31, 1977*[1]	Jan. 1, 1977*[1,2]	Feb. 28, 1976*[1]
Revenues:					
Candy business	$ 88,189	$ 73,954	$ 63,115	$ 56,648	$ 51,679
Newspaper business	46,414	44,791	31,833	—	—
Steel service center business	37,883	—	—	—	—
Promotional services business	23,628	24,841	22,225	31,674	40,965
Wesco investment activities	3,108	2,351	2,238	1,409	1,395
Total*[3]	$199,222	$145,937	$119,411	$ 89,731	$ 94,039
Operating profit (loss):					
Candy business	$ 12,785	$ 12,482	$ 12,352	$ 11,059	$ 10,968
Newspaper business*[4]	(4,617)	(2,913)	751	—	—
Steel service center business	3,051	—	—	—	—
Promotional services business	2,397	2,151	1,147	1,767	58
Wesco investment activities	2,795	1,861	1,856	1,088	1,094
Total*[3]	16,411	13,581	16,106	13,914	12,120
Interest and discount amortization	(5,039)	(2,185)	(2,053)	(720)	(793)
Minority interest in above items	(495)	(251)	(195)	(200)	(240)
Equity in net income of Mutual*[5]	6,795	6,482	5,145	4,206	2,745
Income before income taxes and securities gains or losses*[3]	$ 17,672	$ 17,627	$ 19,003	$ 17,200	$ 13,832
Depreciation and amortization:					
Candy business	$ 1,642	$ 1,446	$ 1,255	$ 1,217	$ 1,188
Newspaper business	2,185	2,586	1,517	—	—
Steel service center business	398	—	—	—	—
Promotional services business	146	96	109	141	290
Wesco investment activities	207	214	227	227	221
Total	$ 4,578	$ 4,342	$ 3,108	$ 1,585	$ 1,699
Capital expenditures:					
Candy business	$ 3,250	$ 2,777	$ 2,114	$ 1,243	$ 1,133
Newspaper business	642	1,131	32,437	—	—
Steel service center business	4,821	—	—	—	—
Promotional services business	355	132	2	113	63
Wesco investment activities	13	65	167	18	105
Total	$ 9,081	$ 4,105	$ 34,720	$ 1,374	$ 1,301
Assets at end of period:					
Candy business	$ 47,922	$ 44,177	$ 39,183	$ 35,340	$ 34,504
Newspaper business	35,663	38,542	39,798	—	—
Steel service center business	16,764	—	—	—	—
Promotional services business	93,646	84,783	77,233	93,136	102,363
Wesco investment activities	54,921	35,737	31,103	26,356	19,394
Total	248,916	203,239	187,317	154,832	156,261
Investment in net assets of Mutual*[5]	36,810	37,452	36,116	35,917	38,167
Consolidated assets at end of period*[6]	$285,726	$240,691	$223,433	$190,749	$194,428

*[1] Restated slightly to include parent-company activities of Wesco Financial Corporation ("Wesco") on a consolidated basis (see Note 1 to the accompanying consolidated financial statements).

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

*[3] Does not include net realized securities gains (losses) of $2,071, $1,114, $6,298, $(196) and $16 before income taxes and minority interest in the fiscal years ended December 29, 1979, December 30, 1978, December 31, 1977, January 1, 1977 and February 28, 1976, respectively.

*[4] In 1979 and 1978 includes substantial introductory and litigation expenses relating to new Sunday edition (see Note 11 to the accompanying consolidated financial statements).

*[5] Revenues and other accounts of Mutual Savings and Loan Association ("Mutual") are included on an equity basis (i.e., not consolidated with those of other operations).

*[6] Includes minority stockholders' interests of $19,085, $17,405, $16,200, $17,264 and $26,066 at December 29, 1979, December 30, 1978, December 31, 1977, January 1, 1977 and February 28, 1976, respectively.

Summary of Operations

(In thousands except for amounts per share)	52 weeks ended Dec. 29, 1979	52 weeks ended Dec. 30, 1978	52 weeks ended Dec. 31, 1977	53 weeks ended Jan. 1, 1977	52 weeks ended Feb. 28, 1976
Revenues:					
Candy	$ 87,314	$ 73,653	$ 62,886	$56,333	$51,342
Newspaper	46,245	44,674	31,786	—	—
Steel products	37,510	—	—	—	—
Promotional services	18,277	20,322	18,208	26,096	35,571
Dividends and interest	8,009	5,474	4,902	6,280	5,962
Other	1,867	1,814	1,629	1,022	1,164
	199,222	145,937	119,411	89,731	94,039
Costs and expenses:					
Cost of sales and services	119,189	80,343	61,592	46,358	52,116
Selling, general and administrative expenses	63,622	52,013	41,713	29,459	29,803
Interest	5,039	2,119	1,917	536	581
Discount amortization	—	66	136	184	212
	187,850	134,541	105,358	76,537	82,712
Income before income taxes, equity in net income of Mutual and securities gains or losses	11,372	11,396	14,053	13,194	11,327
Income tax provision thereon	(3,369)	(4,074)	(6,120)	(5,386)	(4,789)
Minority interest in above items	(495)	(251)	(195)	(200)	(240)
Equity in net income of Mutual	6,795	6,482	5,145	4,206	2,745
Income before securities gains or losses	14,303	13,553	12,883	11,814	9,043
Realized securities gains (losses), less related taxes and minority interest	1,223	727	4,110	(111)	10
Net income	$ 15,526	$ 14,280	$ 16,993	$11,703	$ 9,053
Amounts per share based on 5,179,000 shares outstanding throughout each year:					
Income before securities gains or losses	$2.76	$2.62	$2.49	$2.28	$1.75
Realized securities gains (losses)	.24	.14	.79	(.02)	—
Net income	$3.00	$2.76	$3.28	$2.26	$1.75
Dividends declared*	$ .24	$ .24	$ .30	$ .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 11

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 in April 1977.

Steel products revenues and other operating accounts of Precision Steel Warehouse, Inc. are included on a consolidated basis from acquisition on February 28, 1979 (see Note 2 to the accompanying consolidated financial statements).

The Company's equity in net income of Mutual Savings and Loan Association ("Mutual") is included under the equity method. Revenues and expenses of the association's parent, Wesco Financial Corporation, have been restated slightly from an equity to a consolidated basis (see Note 1 to the accompanying consolidated financial statements). Ownership of these companies increased from 64.4% prior to the 1976 fiscal year to the present 80.1% in January 1977.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Candy sales increased in 1979 and in 1978 over amounts in the respective prior years due, to the extent of about 60%, to an increase in average selling price per pound; improved volume accounted for the remainder.

Newspaper revenues increased in 1978 mainly because there were no such revenues prior to acquisition of the newspaper in April 1977. These revenues have been adversely affected as a result of a lawsuit filed against the newspaper by a competitor in late 1977 (see Note 11 to the accompanying consolidated financial statements) and by the publicity attendant thereto.

There has been a general decline in the stamp service component of promotional services revenues in recent years as explained above under Principal Business Activities. Promotional services revenues were somewhat higher in 1978 than in 1977 and 1979 due to the inclusion of revenue from an exceptionally large, short-term motivation program for a financial institution in the 1978 figure. The notable drop in promotional services revenues in 1977 resulted mainly from 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 credit cards.

The increase in dividend and interest income in 1979 resulted mainly from an increase in the size of the portfolio of marketable securities. The increase in 1978 resulted mainly from an increase in yield on marketable securities.

Cost of sales and services during 1979 increased as a percentage of related revenues from the percentage in 1978 due mainly to the inclusion in 1979 of figures relating to the steel service center business, whose gross profit percentage has been below the Company's consolidated average. The cost percentage in 1978 increased over the amount in 1977 due mainly to escalating costs in the newspaper and candy businesses.

Selling, general and administrative expenses increased in 1979 due to the inclusion of expenses relating to the steel service center business beginning in 1979. Other factors were increased employee compensation and percentage rentals in the candy business as a result of increased volume as well as escalation in general.

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 rentals on retail shops, etc. Another factor in 1978 was the adverse effect of expenses relating to the initiation of a Sunday newspaper edition in November 1977, including legal fees and other expenses resulting from a lawsuit filed by a competitor.

Interest expense increased sharply in 1979 due mainly to the issuance of long-term notes for the purposes of acquiring the steel products business, investing in securities and expanding facilities, and also to higher borrowing costs due to increases in prime rate.

The provision for income taxes has declined as a percentage of pre-tax income from 44% in 1977 to 36% in 1978 and 30% in 1979 due primarily to the increase 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 Mutual increased in 1979 and 1978 as a result of an increase in the subsidiary's earnings.

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. In particular, management cannot predict at this time the impact on these various items of the pending sale of operating assets and liabilities of Mutual's savings and loan branch offices (see Note 13 to the accompanying consolidated financial statements), and expects a sharp decline in earnings of the continuing portion of the savings and loan operation mainly because of the recent industry-wide increase in interest rates on savings accounts. Also, earnings are subject to variations in realized capital gains and losses.

Consolidated Balance Sheet

Blue Chip Stamps

ASSETS	December 29, 1979	December 30, 1978 (Note 1)
Cash (Note 8)	$ 3,854,000	$ 3,460,000
Short-term investments, at cost which approximates market	11,375,000	16,015,000
Marketable equity securities, at the lower of cost or market (Note 4)	122,802,000	86,002,000
Accounts receivable	13,177,000	7,050,000
Inventories (Note 5)	14,414,000	7,960,000
Prepaid expenses, principally income taxes (Note 7)	14,765,000	13,524,000
Property, plant and equipment, net (Note 6)	49,220,000	44,374,000
Investment in Mutual (Notes 1, 4 and 13)	36,810,000	37,452,000
Excess of cost over equity in net assets of consolidated subsidiaries, less accumulated amortization (Note 1)	15,146,000	15,615,000
Other equity securities (Note 4)	4,163,000	9,239,000
	$285,726,000	$240,691,000

LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	$ 18,615,000	$ 13,880,000
Income taxes payable (Note 7)	3,423,000	4,435,000
Liability for unredeemed trading stamps (Note 3)	67,524,000	66,832,000
Notes payable (Note 8)	48,902,000	23,675,000
Minority stockholders' interest in net assets of Wesco (Note 1)	19,085,000	17,405,000
	157,549,000	126,227,000
Stockholders' equity (Note 11):		
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	121,989,000	107,706,000
Equity in net unrealized loss on Mutual's marketable equity securities (Note 4)	(570,000)	—
	128,177,000	114,464,000
	$285,726,000	$240,691,000

See accompanying notes to consolidated financial statements

Consolidated Statement of Income and Retained Earnings

Blue Chip Stamps

	52 weeks ended December 29, 1979	52 weeks ended December 30, 1978 (Note 1)
Revenues:		
Candy	$ 87,314,000	$ 73,653,000
Newspaper	46,245,000	44,674,000
Steel products (Note 1)	37,510,000	—
Promotional services (Note 3)	18,277,000	20,322,000
Dividends and interest	8,009,000	5,474,000
Other	1,867,000	1,814,000
	199,222,000	145,937,000
Costs and expenses:		
Cost of sales and services (Note 3)	119,189,000	80,343,000
Selling, general and administrative expenses	63,622,000	52,013,000
Interest and discount amortization	5,039,000	2,185,000
	187,850,000	134,541,000
Income before income taxes, equity in net income of Mutual and securities gains	11,372,000	11,396,000
Income tax provision thereon (Note 7)	(3,369,000)	(4,074,000)
Minority interest in above items	(495,000)	(251,000)
Equity in net income of Mutual, net of minority interest of $1,532,000 and $1,455,000 in 1979 and 1978 (Notes 1 and 13)	6,795,000	6,482,000
Income before securities gains	14,303,000	13,553,000
Realized securities gains, less related taxes and, in 1979, minority interest of $190,000 (Notes 4 and 7)	1,223,000	727,000
Net income	15,526,000	14,280,000
Retained earnings at beginning of year	107,706,000	94,669,000
Cash dividends of $.24 per share per year	(1,243,000)	(1,243,000)
Retained earnings at end of year	$121,989,000	$107,706,000
Amounts per share based on 5,179,000 shares outstanding throughout each year:		
Income before securities gains	$2.76	$2.62
Realized securities gains	.24	.14
Net income	$3.00	$2.76

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Financial Position

Blue Chip Stamps

	52 weeks ended December 29, 1979	52 weeks ended December 30, 1978
Sources (uses) of cash, including short-term investments, from operations:		
Income before realized securities gains	$14,303,000	$13,553,000
Add (deduct):		
Depreciation and amortization	4,578,000	4,342,000
Decrease (increase) in trade accounts receivable	(699,000)	8,000
Increase in inventories	(1,110,000)	(628,000)
Increase in prepaid expenses, principally income taxes	(892,000)	(144,000)
Equity in net income of Mutual	(6,795,000)	(6,482,000)
Minority interest in net income of Mutual	(1,532,000)	(1,455,000)
Increase (decrease) in trade accounts payable and accrued expenses	2,797,000	(1,122,000)
Decrease in income taxes payable	(2,078,000)	(746,000)
Increase in liability for unredeemed trading stamps	692,000	623,000
Dividends received by Wesco from Mutual	8,400,000	6,600,000
Increase in minority interest in net assets of Wesco	1,680,000	1,205,000
Cash provided by operations before realized securities gains	19,344,000	15,754,000
Other sources of cash:		
Borrowings	25,000,000	4,750,000
Sale of other equity securities	5,076,000	—
Realized securities gains, net	1,223,000	727,000
Other	221,000	112,000
	50,864,000	21,343,000
Other uses of cash:		
Net assets of steel service center business at date of acquisition —		
Accounts receivable	5,650,000	—
Inventories	5,344,000	—
Property, plant and equipment	4,071,000	—
Other assets	3,374,000	—
Trade accounts payable and accrued expenses	(1,938,000)	—
Other liabilities	(1,419,000)	—
	15,082,000	—
Increase in marketable equity securities, reduced in 1978 by $1,721,000, a reversal of a provision for net unrealized loss deducted from stockholders' equity at December 31, 1977	33,775,000	22,303,000
Additions to property, plant and equipment	5,010,000	4,105,000
Payment of cash dividends	1,243,000	1,243,000
Retirement of debentures	—	2,168,000
Increase in excess of cost over equity in net assets of subsidiaries	—	647,000
	55,110,000	30,466,000
Decrease in cash, including short-term investments	$ (4,246,000)	$ (9,123,000)
Increase (decrease) in —		
Cash	$ 394,000	$ (2,349,000)
Short-term investments	(4,640,000)	(6,774,000)
	$ (4,246,000)	$ (9,123,000)

See accompanying notes to consolidated financial statements

N

Notes to Consolidated Financial Statements

Blue Chip Stamps

(PRIOR YEAR DATA RESTATED — SEE NOTE 1)

NOTE 1 — Subsidiary companies and change in financial presentation:

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, See's Candy Shops, Incorporated ("See's") and Buffalo Evening News, Inc. (the "News") and a portion of the business of its 80%-owned subsidiary, Wesco Financial Corporation ("Wesco"). The excess of cost over equity in the net (substantially tangible) assets of See's and the News of $18,666,000, less accumulated amortization on a 40-year basis, is set forth on the consolidated balance sheet at $15,146,000 and $15,615,000, at December 29, 1979 and December 30, 1978, respectively. Amortization of $469,000 and $471,000 has been charged to selling, general and administrative expenses in the years ended December 29, 1979 and December 30, 1978, respectively.

Wesco, through its wholly owned subsidiary, Mutual Savings and Loan Association ("Mutual"), has principally been engaged in the savings and loan business, which, because of its financial character, has been accounted for under the equity method. The recently acquired steel service center business (see Note 2), however, being nonfinancial, has been accounted for on a consolidated basis since date of acquisition. Wesco's other activities, which have not had a significant effect on operations and thus have previously been accounted for under the equity method, are now also accounted for on a consolidated basis; prior year comparative figures have been restated to reflect this change, which has had no effect on net income or retained earnings.

The Company's investment in Mutual of $36,810,000 and $37,452,000 at December 29, 1979 and December 30, 1978, respectively, is carried on the consolidated balance sheet at cost plus the Company's equity in Mutual's undistributed net income less the Company's equity in Mutual's net unrealized loss on its marketable equity securities (see Note 4). These respective amounts are $20,069,000 and $20,694,000 less than the corresponding amounts recorded on Mutual's books. The difference represents the unamortized excess of equity in net assets over cost and is being amortized over 40 years, thus benefiting net income each year. Summarized financial information of Mutual for the years ended December 31, 1979 and 1978 follows:

	December 31, 1979	December 31, 1978
Assets —		
Cash and marketable securities	$102,101,000	$119,446,000
Loans receivable, net	507,049,000	483,954,000
Other assets	18,110,000	16,177,000
	$627,260,000	$619,577,000
Liabilities and stockholder's equity —		
Savings deposits	$510,579,000	$490,159,000
Other liabilities	59,944,000	71,272,000
Total liabilities	570,523,000	561,431,000
Stockholder's equity, substantially appropriated	56,737,000	58,146,000
	$627,260,000	$619,577,000
Total revenues	$ 58,177,000	$ 48,996,000
Net income	$ 7,703,000	$ 7,313,000
Blue Chip Stamps' share of net income	$ 6,171,000	$ 5,858,000
Amortization of excess of equity over cost	624,000	624,000
Equity in net income	$ 6,795,000	$ 6,482,000

Mutual's retained earnings at December 31, 1979 include approximately $51,042,000 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, 1979.

See Note 13 for information relating to the pending sale of branch business by Mutual.

NOTE 2 — Acquisition:

On February 28, 1979 Wesco purchased the net assets of Precision Steel Warehouse, Inc. and its subsidiaries ("Precision") for approximately $15,000,000 in cash. The acquisition has been accounted for by the purchase method. The values assigned to the assets acquired and the liabilities assumed approximated their historical book values at the date of acquisition.

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

	Year ended	
	December 29, 1979	December 30, 1978
Total revenues	$207,008,000	$186,401,000
Income before securities gains	14,470,000	14,521,000
Net income	15,693,000	15,248,000
Pro forma per share —		
Income before securities gains	2.79	2.80
Net income	3.03	2.94
Actual per share —		
Net income	3.00	2.76

The above pro forma results of operations reflect additional financing costs, net of applicable tax benefit. The 1978 pro forma results include Precision figures for its former fiscal year ended June 30, 1978. The above pro forma data are not necessarily indicative of what may be expected in the future.

NOTE 3 — Stamp service accounting:

The Company recognizes stamp service revenues upon issuance of its trading stamps and provides a liability account for unredeemed trading stamps consisting of estimates of the cost of merchandise and related redemption service expenses. The Company's estimated cost of future redemptions depends upon two factors: (1) the percentage of stamps issued which will ultimately be redeemed and (2) the future cost per stamp of the merchandise and redemption service expenses which will be required.

The Company periodically reevaluates both factors affecting the estimated cost of future redemptions. 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 of these factors have been considered necessary since that time.

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 29, 1979 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
Cleveland-Cliffs Iron Co.	$ 23,768	$ 28,660
Pinkerton's, Inc.	19,201	21,440
General Foods Corp.	14,527	14,345
Safeco Corp.	12,820	19,491
National Detroit Corp.	9,941	12,373
Times Mirror Corp.	9,265	11,491
Pittsburgh National Corp.	8,721	10,709
R. J. Reynolds Industries, Inc.	7,995	8,500
Other	16,564	19,668
Total, December 29, 1979	$122,802	$146,677
Total, December 30, 1978	$ 86,002	$ 87,474

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. A similar procedure is followed with respect to marketable equity securities held by Mutual, the Company's unconsolidated subsidiary. When there is a deficiency in the market value of Mutual's portfolio, the Company reduces its investment in Mutual and stockholders' equity on the consolidated balance sheet to the extent of its equity in the deficiency, and if market value recovers, such allowance is partially or fully reversed.

At December 29, 1979 the consolidated portfolio summarized above contained aggregate unrealized gains of $24,645,000 and aggregate unrealized losses of $770,000, an excess of $23,875,000 in gains (which as of March 17, 1980 had declined to $2,432,000). Mutual's portfolio had an excess of unrealized losses over unrealized gains, of which the Company's equity was $570,000 at December 29, 1979 ($3,339,000 at March 17, 1980).

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. PHC's principal assets are equity securities of Pinkerton's, Inc. Through this indirect holding and the direct investment shown in the schedule above, the Company beneficially owns 34% of the equity in Pinkerton's, Inc. as of December 29, 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 ten-member board of directors.

Marketable equity securities of the parent Company, among other assets, are held primarily for the purpose of satisfying its obligation to redeem outstanding trading stamps, which are expected to be presented for redemption over a number of years.

NOTE 5 — Inventories:

Following is a breakdown of inventories by major business segment:

	December 29, 1979	December 30, 1978
Steel service center	$ 6,081,000	$ —
Candy	5,153,000	4,098,000
Promotional services	2,485,000	3,245,000
Newspaper	695,000	617,000
	$14,414,000	$7,960,000

Inventories are stated at the lower of cost or market. The first-in, first-out (FIFO) and average cost methods are used to determine the cost of inventories, except that the last-in, first-out (LIFO) method is used for steel service center and newsprint inventories. Use of the FIFO method in lieu of the LIFO method would have resulted in an increase in inventories of approximately $4,200,000 at December 29, 1979.

NOTE 6 — Property, plant and equipment:

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

	December 29, 1979	December 30, 1978
Land	$ 4,775,000	$ 4,403,000
Buildings	19,892,000	16,817,000
Fixtures and equipment	41,803,000	37,889,000
Leasehold improvements	6,374,000	5,513,000
	72,844,000	64,622,000
Less accumulated depreciation and amortization	23,624,000	20,248,000
	$49,220,000	$44,374,000

Depreciation and amortization of property, plant and equipment are provided principally by the straight-line method over the estimated useful lives of the assets. Total provisions amounted to $4,109,000 and $3,871,000 for the years ended December 29, 1979 and December 30, 1978, respectively.

NOTE 7 — Taxes on Income:

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

	Year ended	
	December 29, 1979	December 30, 1978
Provision for income taxes	$ 3,369,000	$ 4,074,000
Charged against securities gains	658,000	387,000
Total taxes charged in income statement	$ 4,027,000	$ 4,461,000

These taxes are payable or recoverable as follows:

	Year ended	
	December 29, 1979	December 30, 1978
Payable currently —		
Federal	$ 2,951,000	$ 3,154,000
State	1,606,000	1,526,000
	4,557,000	4,680,000
Recoverable in the future —		
Federal	(389,000)	(100,000)
State	(141,000)	(119,000)
	(530,000)	(219,000)
Total taxes charged in income statement	$ 4,027,000	$ 4,461,000

Of the above taxes, the amounts currently payable are included in income taxes payable on the consolidated balance sheet, after deducting estimated payments. 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 29, 1979	Year ended December 30, 1978
Deductible state taxes over those accrued on the books	$ 91,000	$ 480,000
Deductible redemption expenses under those accrued on the books	(757,000)	(712,000)
Other timing differences	136,000	13,000
Total taxes recoverable in the future	$ (530,000)	$ (219,000)

The provision for income taxes of $3,369,000 for the year ended December 29, 1979 amounted to 29.6% of pre-tax income of $11,372,000; the provision of $4,074,000 for the prior year represented 35.7% of pre-tax income of $11,396,000. Following is a summary of the differences between the federal statutory rate and these effective percentages:

	Year ended December 29, 1979	Year ended December 30, 1978
Statutory federal income tax rate	46.0%	48.0%
Federal tax benefit from dividend exclusion	(21.8)	(17.7)
State income taxes net of federal income tax benefit	6.1	6.0
Investment tax credit	(2.7)	(1.8)
All other, net	2.0	1.2
Effective income tax rate	29.6%	35.7%

Investment tax credits are recognized as the tax benefits are realized.

The consolidated balance sheet includes prepaid income taxes of $12,259,000 and $11,834,000 at December 29, 1979 and December 30, 1978, 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.

NOTE 8 — Debt:

The Company has outstanding a bank loan secured by all the outstanding stock of See's and the News. The $13,500,000 balance is repayable $3,500,000 on April 30, 1981, and $5,000,000 each on April 30, 1982 and 1983. Interest is payable at 115.5 percent of prime (which was 15¼% at December 29, 1979) increasing to 118.5 percent of prime beginning in May 1980. The loan requires compensating balances of 5% of the average outstanding principal amount.

In June 1979, in a public offering, Wesco issued $25,000,000 principal amount 10⅛% Notes Due June 15, 1991. In general, the notes may be redeemed at any time, initially at 110⅛% declining to 100% in 1989.

Subsidiaries of the Company have outstanding borrowings of $10,402,000 secured by office, manufacturing and warehousing facilities. The loans are repayable at approximately $1,100,000 per year, including interest ranging from 5½% to 9⅝%.

The Company has a short-term line of credit of $5,000,000 requiring compensating balances of $250,000. At December 29, 1979, there were no borrowings under the line of credit.

NOTE 9 — Lease commitments and rental expense:

At December 29, 1979 minimum rental commitments, net of $94,000 minimum sublease rental income commitments, are as follows: 1980, $3,142,000; 1981, $2,539,000; 1982, $2,223,000; 1983, $1,955,000; 1984, $1,695,000; thereafter, $5,709,000.

Rentals and rental commitments apply primarily to warehouses, redemption stores and candy shops. All leased facilities are classified as operating leases. Many of the leases contain options permitting renewal at increased monthly rates 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 29, 1979	Year ended December 30, 1978
Minimum rental expense	$4,033,000	$3,525,000
Contingent rental expense in excess of minimum rentals	2,252,000	1,823,000
Sublease rental income	(169,000)	(155,000)
	$6,116,000	$5,193,000

NOTE 10 — Pension and profit sharing plans:

Employees of the Company and its 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 generally over 30 years. Pension costs of the Company and its consolidated subsidiaries for the years ended December 29, 1979 and December 30, 1978 amounted to $1,745,000 and $1,841,000, respectively.

Based on the most recent actuarial valuations: (1) the market value of assets for certain employer-sponsored plans exceeded the actuarially computed value of vested benefits by approximately $3,000,000, while the market value of assets for other employer-sponsored plans was approximately $2,750,000 less than the actuarially computed value of vested benefits after considering amounts accrued on the consolidated balance sheet; and (2) unfunded prior service costs for all such plans approximated $5,750,000.

NOTE 11 — Legal proceedings:

On October 28, 1977, the Buffalo Courier-Express, Inc., a principal competitor of the Company's subsidiary, Buffalo Evening News, Inc., 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. 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.

The Company understands that the Minneapolis Star and Tribune Co. has purchased the newspaper assets and certain other assets of plaintiff. The Company further understands that the purchase agreement provided for the claims asserted by plaintiff in the antitrust lawsuit to be transferred to the Minneapolis Star and Tribune Co. The Company is presently unable to predict what effect, if any, this transaction will have on the lawsuit.

If 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.

NOTE 12 — Major business segments:

The information on major business segments set forth in the table on page 9 is an integral part of the financial statements.

NOTE 13 — Subsequent event:

On March 25, 1980, Mutual executed a contract with another savings and loan association providing for the sale, subject to regulatory approvals, of Mutual's business at all locations (15) other than its headquarters office and a satellite office to be opened across the street. Under terms of the contract, Mutual will transfer to the buyer approximately $300,000,000 of net branch savings accounts together with an equal book value of its highest-yielding mortgage loans. In addition Mutual will realize a gain on the sale of all branch premises and equipment, after income taxes and expenses of sale, of approximately $3,000,000, of which the Company's equity will be about $2,400,000, or $.46 per share.

NOTE 14 — Quarterly financial information — unaudited:

The following table sets forth certain unaudited quarterly financial information for the years ended December 29, 1979 and December 30, 1978:

	Quarter ended			
	December 29, 1979	September 29, 1979	June 30, 1979	March 31, 1979
Total revenues	$73,005,000	$39,000,000	$49,095,000	$38,122,000
Cost of sales and services	41,525,000	25,505,000	29,643,000	22,516,000
Equity in net income of Mutual	1,810,000	1,467,000	2,028,000	1,490,000
Income before securities gains	7,788,000	635,000	3,968,000	1,912,000
Per share	1.51	.12	.76	.37
Net income	7,788,000	633,000	3,995,000	3,110,000
Per share	1.51	.12	.77	.60
	December 30, 1978	September 30, 1978	July 1, 1978	April 1, 1978
Total revenues	$55,162,000	$25,529,000	$28,659,000	$36,587,000
Cost of sales and services	28,557,000	15,234,000	16,276,000	20,276,000
Equity in net income of Mutual	1,811,000	1,381,000	2,062,000	1,228,000
Income before securities gains	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

Report of Independent Accountants

Price Waterhouse & Co.

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

To the Board of Directors and
Stockholders of Blue Chip Stamps

March 25, 1980

We have examined the consolidated balance sheet of Blue Chip Stamps and its subsidiaries as of December 29, 1979 and December 30, 1978, 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 1978 financial statements of Wesco Financial Corporation or its subsidiary, Mutual Savings and Loan Association (Note 1), which represent amounts constituting 39% of consolidated assets at December 30, 1978. 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 and its subsidiary for 1978, is based solely upon such report.

As explained in Note 11 to the accompanying consolidated financial statements, during 1977 a 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, in 1978, 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 29, 1979 and December 30, 1978, 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.
Price Waterhouse & Co.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

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 the related statements of income and retained earnings and changes in financial position for the year then ended. We have also examined Schedules III and XVI for the year ended December 31, 1978. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Wesco Financial Corporation and Wesco Financial Corporation and subsidiaries at December 31, 1978 and the results of their operations and the changes in their financial position for the year then ended (not presented separately herein), in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year; and the supporting schedules (not presented separately herein), in our opinion, present fairly the information set forth therein.

Peat, Marwick, Mitchell & Co.

Los Angeles, California
February 2, 1979
Except as to note 17 to the
consolidated financial
statements which is as
of March 25, 1980.

Interest on Savings Accounts

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

	1979	1978	1977
Total savings	$508,912,000	$488,328,000	$459,908,000
Interest on savings ..	37,028,000	31,038,000	28,070,000

The increase in interest on savings is due not only to an increase in total savings, but also to an increase in the rates paid on certificates of deposit, and a shift in the mix of savings to higher yielding accounts, primarily money market certificates. Approximately $300,000,000 in savings account liabilities will be transferred pursuant to the contract to sell branch offices to Brentwood Savings. Savings accounts are summarized by interest rate in Note 9 to the Consolidated Financial Statements.

Interest on Notes Payable

The increase in interest on notes payable is due to both an increase in funds borrowed and an increase in interest rates. In June 1979, Wesco issued Notes payable of $25,000,000 bearing interest at the rate of 10⅛% per annum due in 1991. In November 1978, an advance was obtained 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, a 7½% rate was paid on all advances from the FHLB. Total of notes payable at year end and interest expense for each year was:

	1979	1978	1977
Notes payable	$ 79,010,000	$ 59,297,000	$ 27,830,000
Interest expense ...	7,106,000	2,722,000	2,312,000

Provision for Income Taxes

Effective income tax rates for the financial segment were 20.6% in 1979, 27.3% in 1978 and 27.4% in 1977. The effective tax rate varies because of changes in non-taxable revenue and non-deductible expense items. The principal reason for the decreasing effective tax rates is the 85% dividends received deduction on common and preferred stocks. This deduction has increased as the investment in common and preferred stocks has increased. In addition, income from investments in municipal obligations is exempt from Federal income taxes and the statutory Federal tax rate decreased from 48% in 1977 and 1978 to 46% in 1979.

STEEL SERVICE:

Effective February 28, 1979, Wesco acquired all the assets and assumed all the liabilities of Precision Steel. Steel service contributed income after income taxes of $1,707,000 for the ten months ended December 31, 1979.

Item 3. PROPERTIES

Wesco owns a business block in downtown Pasadena which is improved with a nine-story office building. (See Item 1 for description of this property.) WSC's office and the head office of Mutual Savings are located in this building and leased from the parent company.

At December 31, 1979, Mutual Savings, in addition to its head office, had 15 operating branches serving the Southern California area. Four of these branches are owned in fee simple by Mutual Savings and the other eleven are leased. As indicated above, the branches, including their real estate, are being sold. It is expected that the sale of branch office facilities to Brentwood Savings will result in a pretax gain of approximately $5,500,000.

Mutual Savings owns some vacant land at Friendly Valley and it is expected it will take several years for the disposition of this property. Mutual Savings also owns twenty-two 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. Mutual Savings owns several buildings in a shopping center in Upland, California where one of its branch offices is located. That real property, with the exception of the branch office, will be retained after the sale of branch offices to Brentwood Savings. Mutual Savings owned some commercial property in Pacoima, which was sold in June 1979.

Precision Steel Warehouse, Inc. — Franklin Park Service Center is located at 3500 N. Wolf Road in Franklin Park, Illinois. This building, which has approximately 138,000 square feet, is owned by Precision Steel Warehouse, Inc. and houses both plant and office facilities.

Precision Steel Warehouse, Inc. — Charlotte Service Center is located at 3205 Parkside Drive, Charlotte, North Carolina. This building, which has approximately 20,000 square feet, is operated under a lease which expires in 1981.

Precision Brand Products, Inc. is located at 2250 Curtiss Street, Downers Grove, Illinois, and DuPage was also at this location prior to its dissolution in January 1980. This building, which has approximately 59,000 square feet, is owned by Precision Brand, which leased a portion of the premises to DuPage.

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 47.2% 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 72.6% 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, 1979, Wesco owned 100% of the voting securities of Mutual Savings and Loan Association and WSC Insurance Agency, both of which are incorporated in California and are included in the consolidated financial statements of Wesco.

Since February 28, 1979, Wesco has owned all the common stock of Precision Steel Warehouse, Inc., Franklin Park, Illinois. Prior to the dissolution of DuPage Manufacturing Co. in January 1980, it was a wholly-owned subsidiary of Precision Steel Warehouse, Inc. Precision Steel Warehouse, Inc. — Charlotte Service Center and Precision Brand Products are also wholly-owned subsidiaries of Precision Steel Warehouse, Inc. Precision Steel Warehouse, Inc. is, and DuPage Manufacturing Co. was, incorporated in Illinois, while Precision Steel Warehouse, Inc. — Charlotte Service Center and Precision Brand Products are both incorporated in Delaware. Precision Steel Warehouse, Inc. and all of its subsidiaries are included in the consolidated financial statements of Wesco.

As reported at Item 4 of Wesco's Form 10-K for the year ended December 31, 1978, Wesco's 21.6% interest in Detroit International Bridge Company, which is incorporated in Michigan, 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 appealed these orders to the United States Court of Appeals for the Sixth Circuit. The Sixth Circuit affirmed the decision of the lower court.

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. Subsequently, on July 25, 1979, the court directed that a final judgment be entered granting summary judgment to Wesco and Blue Chip Stamps with respect to all claims alleged against them in the second case, and dismissing such claims with prejudice. 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. Plaintiff has appealed the Court's order to the United States Court of Appeals for the Sixth Circuit.

Wesco Financial Corporation and Blue Chip Stamps expect to continue contesting this action 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, 1979, 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, 1978.

As reported in Wesco's Form 10-Q for the quarter ended June 30, 1979, Wesco issued, in a public offering, $25,000,000 principal amount, 10⅛% Notes Due 1991. This is a new class of Wesco's securities, which are listed on the American Stock Exchange.

During the year ended December 31, 1979, notes payable increased from $59,297,000 to $79,010,000.

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

Not applicable.

Item 8. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 9. APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

Title of Class	Number of Record Holders at 12-31-79
Capital Stock $1 par value	1,487

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

Notice of Annual Meeting of Stockholders, held April 17, 1979, and proxy statement soliciting the vote of stockholders for the election of directors were mailed to all stockholders on March 30, 1979. 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 and WSC Insurance Agency, subsidiaries of Wesco, are eligible for indemnification pursuant to the indemnification provision of Wesco's Articles of Incorporation.

Since April 1979, the directors and officers liability insurance coverage has been on a joint policy with Berkshire Hathaway, Inc. and Blue Chip Stamps.

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

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

Reports of Independent Accountants

Financial Statements

EXHIBIT TO FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 29, 1979

Exhibit 13.14 to Blue Chip Stamps' Form 10-K for year ended December 29, 1979

FIRST AMENDMENT TO LOAN AGREEMENT AND TERM NOTE

THIS FIRST AMENDMENT TO LOAN AGREEMENT AND TERM NOTE (the "First Amendment") is made as of May 1, 1979 by and between BLUE CHIP STAMPS, a California corporation, having its chief place of business at Los Angeles, California, hereinafter called "Borrower" and BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, a national banking association, hereinafter called "Bank".

WHEREAS, Borrower and Bank entered into that certain Loan Agreement dated as of April 13, 1977, which together with that certain Letter Agreement dated April 25, 1977 shall hereinafter be referred to as the "Loan Agreement"; and that certain Term Note dated April 13, 1977 (the "Note"); and

WHEREAS, Borrower and Bank desire to modify and amend certain of the terms and provisions of said Loan Agreement and Note;

NOW, THEREFORE, in consideration of the promises herein contained and for other good and valuable consideration, Borrower and Bank do hereby mutually agree as follows:

Amendment to Loan

1. Subparagraph A of Section 1.1 of the Loan Agreement is deleted in its entirety and the following substituted in its stead:

"A. The loan made by Bank to Borrower hereunder shall bear interest on the unpaid principal balance thereof, payable quarterly, commencing July 31, 1979, at the rates and for the periods of time hereinafter set forth in subparagraphs i., ii. and iii, of this subparagraph 1.1 A.:

i. At 115.5% of Bank's Prime Rate (the rate charged by Bank to its largest and most substantial customers on 90-day unsecured commercial loans) per annum as it may change from time to time (computed on the basis of a 360 day year and actual days elapsed) for the period from May 1, 1979 through and including April 30, 1980; and

ii. At 118.5% of Bank's Prime Rate per annum as it may change from time to time, for the period from May 1, 1980 through and including April 30, 1983, on which last named date the entire balance of interest then owing shall become due and payable.

iii. In the event of any change in Bank's Prime Rate, any such change shall be effective as to Borrower on the same day as any such change in Bank's Prime Rate.

2. Subsection B of Section 1.1 of the Loan Agreement is deleted in its entirety and the following substituted in its stead:

"B. So long as any principal amount of said loan shall remain outstanding, Borrower agrees to maintain on deposit with Bank one or more demand deposit accounts of Borrower or its subsidiaries (except for WESCO FINANCIAL CORPORATION and its subsidiaries) with aggregate demand deposits in amounts, equal to 5% on a Net Free Collected Basis, of the average principal balance hereunder outstanding.

The foregoing notwithstanding, at such time as no indebtedness remains outstanding hereunder, Borrower's obligation to maintain demand deposit account balances shall immediately cease. As used herein, the amount of a deposit account computed on a Net Free Collected Basis is an amount determined by deducting the amount of uncollected funds and sufficient additional balances to compensate Bank in accordance with its usual practices for the maintenance of such deposit account from the monthly average demand deposits on deposit in that deposit account.

Amendment to Note

1. Paragraph (1) of the first page of the Note is deleted in its entirety and the following substituted in its stead:

"(1) At a rate per annum equal to 115.5% of Bank's Prime Rate (the rate charged by Bank to its largest and most substantial customers on 90-day unsecured commercial loans), as it may change from time to time, from May 1, 1979 up to and including April 30, 1980; and"

2. Paragraph (2) of the first page of the Note is deleted in its entirety and the following substituted in its stead:

"(2) At a rate per annum equal to 118.5% of Bank's Prime Rate, as it may change from time to time, from and after May 1, 1980 until all sums due hereunder are paid."

3. Paragraph (3) of the first page of the Note is deleted in its entirety.

4. The first paragraph of the second page of the Note is deleted in its entirety and the following substituted in its stead:

Interest shall be payable quarterly, commencing July 31, 1979. Any change in the interest rate to be paid on this Term Note resulting from a change in Bank's Prime Rate shall be effective on the same day as any such change in Bank's Prime Rate.

5. The second line of the fourth paragraph of the second page of the Note is amended by the addition of the phrase "as amended and clarified" between the figure "1977", and the word "between".

In all other respects, the Loan Agreement and Note shall remain in full force and effect and shall be performed by the parties hereto according to their terms and provisions.

IN WITNESS WHEREOF, this First Amendment has been executed by the parties hereto as of the date first hereinabove written.

BLUE CHIP STAMPS
(Borrower)

By ____________________
DONALD A KOEPPEL, PRESIDENT

By ____________________
E. P. PAULSON, SECRETARY

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION
(Bank)

By ____________________, A.V.P.

By ____________________
PHILLIP GONZALES
VICE PRESIDENT

END 66