To Our Stockholders

Consolidated normal operating income (i.e., before gains from sale of securities held outside our savings and loan subsidiary) for the calendar year 1979 increased slightly, to $14,303,000 ($2.76 per share) from $13,553,000 ($2.62 per share) in the previous fiscal year.

Consolidated net income (i.e., after gains from sale of securities held outside our savings and loan subsidiary) also increased slightly, to $15,526,000 ($3.00 per share) from $14,280,000 ($2.76 per share) in the previous year.

Earnings last year were assisted by our acquisition on February 28, 1979, of a new 80%-owned subsidiary, Precision Steel Warehouse, Inc., and also by increased earnings of Mutual Savings, our 80%-owned savings and loan subsidiary. Both of these subsidiaries are wholly owned by our 80%-owned Wesco Financial Corporation subsidiary. Gains from these sources were partially offset by increased losses at our 100%-owned Buffalo Evening News subsidiary.

The Precision Steel acquisition last year has required changes in the way we present financial data. We now consolidate everything except the savings and loan subsidiary, Mutual Savings, which we continue to include on an equity basis. Formerly, all the consolidated accounts of Wesco Financial Corporation, including those dealing with assets and earnings outside Mutual Savings, were included on an equity basis. In this report, 1978 figures have been restated slightly to conform to the new presentation, with no effect on net income or retained earnings.

We have four major subsidiaries, See's Candy Shops, Incorporated (100%-owned), Mutual Savings (80%-owned), Precision Steel (80%-owned), and Buffalo Evening News, Inc. (100%-owned). If we used equity accounting instead of consolidated accounting for See's, Precision Steel's operating business, and the Buffalo Evening News as well as Mutual Savings, our consolidated income for our two reporting years just ended would break down as follows (in 000s except for per-share amounts):

Blue Chip's equity in net income (loss) of:

Year ended about	See's*1	Mutual Savings*2	Steel Business	Buffalo Evening News*3	All other net income*4,5	Blue Chip consolidated net income*5
December 31, 1979	$5,997	$6,795	$1,367	$(2,410)	$3,777	$15,526
Per Blue Chip share	1.16	1.31	.26	(.46)	.73	3.00
December 31, 1978	5,802	6,482	--	(1,427)	3,423	14,280
Per Blue Chip share	1.12	1.25	--	(.27)	.66	

- 1 After reducing income by amortization of intangibles arising from purchase of See's at a large premium over its book value
- 2 After increasing income by amortization of the discount from Mutual book value at which the interest was acquired.
- 3 After reducing income by amortization of relatively minor intangibles arising at acquisition of the newspaper in 1977.
- 4 After deduction of interest and other corporate expenses. In each year there was an operating loss from promotional services activities before residual consolidated net income was credited with (i) dividends and interest resulting from investment of the funds available through "float" caused by trading stamps issued but not yet redeemed, plus (ii) income tax benefit caused by 85% exclusion of dividends in computing federal income taxes, plus (iii) Blue Chip's share of dividends, interest and rent from securities and real estate held by the Wesco Financial Corporation group outside its saVings and loan and steel service activities, plus (iv) securities gains, net of minority interest.
- 5 The 1979 amounts include $1,223 or $.24 per Blue Chip share from securities gains, net of taxes and minority interest. In 1978 such securities gains were $727 or $.14 per Blue Chip share.

The foregoing breakdown differs somewhat from that required by the accounting conventions which govern presentation of financial results in our audited financial statements contained elsewhere in this report. We have taken the pains to prepare it, and to furnish it in this letter, because we believe it better explains what is really happening than does our consolidated income statement in conventional form. Generally, we are trying to disclose the things we like to be told, in the form we prefer, when roles are reversed and we are passive investors.

SEE'S CANDY SHOPS, INCORPORATED

The pre-tax earnings of our 100%-owned subsidiary, See's Candy Shops, Incorporated, declined slightly last year. However, a lower income tax rate allowed a nominal percentage gain in after-tax earnings (about 3%). This result was disappointing in view of the substantial percentage gain in sales (about 19%). Comparative figures for See's for the last two years are set forth below:

Year ended about	Sales	Profits after taxes*	Number of pounds of candy sold	Number of stores open at yearend
December 31, 1979	$87,314,000	$6,473,000	23,985,000	188
December 31, 1978	73,653,000	6,289,000	22,407,000	182

- These earnings figures are a little higher than Blue Chip Stamps' share of See's earnings shown in the table above because Blue Chip's share reflects (i) deduction of the approximately 1% share of See's earnings owned by minority stockholders of See's prior to June 6, 1978, (ii) amortization of intangibles arising from purchase of See's stock at a large premium over book value. and (iii) state income taxes on See's dividends received by Blue Chip.

Boxed chocolate consumption per capita in the United States continues to be essentially static, and the candy-store business remains subject to extraordinary cost pressure. It is very difficult for See's to cope as successfully as it does with the production and distribution problems of a business with a seasonal sales peak that becomes more extreme each year, and the flat earnings trend of the last two years has not diminished our confidence in See's management, including its outstanding leader, Charles Huggins. So far as we know the candy-store business continues to be terrible to mediocre for all other companies, yet it remains quite profitable at See's for the simple reason that both new and old customers have a pronounced tendency to prefer the taste and texture of its candy, as well as the extremely high level of retailing service which characterizes its distribution. This customer enthusiasm is caused by a virtually fanatic insistence on expensive natural candy ingredients plus expensive manufacturing and distributing methods that insure rigorous quality control and cheerful retail service. These qualities are rewarded by extraordinary sales per square foot in the stores, frequently two to three times those of competitors, and by a preference by gift recipients for See's chocolates, even when measured against much more expensive brands.

In 1978 we paid $55 per See's share to acquire a tiny minority interest in See's. If our previously owned 99% interest in See's were valued at the same price per share, such interest at that time would have had a total value approximately $25 million more than its aggregate amortized cost in our consolidated financial statements.

Our best guess is that See's earnings will increase at least modestly in 1980, because of forward contracts covering most candy ingredients at fixed prices which are now below market.

MUTUAL SAVINGS AND LOAN ASSOCIATION

Our equity in net income of our 80%-owned subsidiary, Mutual Savings, increased to $6,795,000, a new record, compared with $6,482,000 in the previous year.

However, prospects for 1980 appear poor. The entire saVings and loan industry is now required to pay much higher interest rates to hold saVings accounts while assets consist primarily of low-turnover portfolios of long-term mortgages at fixed or slowly changing rates below current market. Thus our best guess is that Mutual Savings' earnings will decline sharply from the record level of 1979.

Louis Vincenti, a chief executive well past normal retirement age, has guided Mutual Savings very skillfully for many years—both before and after we acquired it—not always along the standard course chosen by others in his industry. Deviations have been toward low costs, low credit losses and high ratios of capital compared to liabilities, while net worth has grown greatly during his tenure. Under Mr. Vincenti's mix of caution and innovation we expect Mutual Savings to continue to cope well with all challenges, including the difficulties we expect in 1980.

On March 25, 1980, just as this report and letter were going to press, Mutual Savings executed a contract with Brentwood Savings and Loan Association, a subsidiary of Jim Walter Corporation, providing for sale of all Mutual's offices except its headquarters office and a satellite thereto to be opened across the street. Closing of the contract is subject to regulatory approval. Under the terms of the contract Mutual Savings will transfer net branch office deposits (about $300,000,000), together with offsetting mortgage loans in equal amounts, and will also sell physical facilities A pre-tax gain of about $5,000,000 will be realized on the sale of physical facilities, but mortgage loans transferred will bear a higher interest rate than mortgage loans retained. It is anticipated that, after the closing: (a) a higher percentage of Mutual's total assets will consist of cash and equivalents, (b) average yield on Mutual's mortgage loans will decline significantly, and (c) Mutual's overall financial leverage will be lowered. Before or after the closing, adjustments in Mutual Savings' investments may be made, causing losses which offset part or all of any taxable profit from sale of branches; however, we do not have present plans for any such transactions. Whether, because of this sale, future earnings will be higher or lower than they otherwise would have been will depend on factors impossible now to predict, including future interest rates and future changes in laws and regulations affecting savings institutions. The proposed sale reflects a desire to restructure operations of Mutual Savings, which will continue in the savings and loan business.

PRECISION STEEL WAREHOUSE, INC.

Our 80%-owned Precision Steel subsidiary, located in the outskirts of Chicago at Franklin Park, Illinois, was acquired for approximately $15 million on February 28, 1979. It owns a long-established steel service center business and a subsidiary engaged in distribution of tool room supplies and other products sold under its own brand names. Precision Steel's operating businesses contributed $1,367,000 to our consolidated net income in 1979, on combined sales of $37,510,000, in the 10 months of our ownership. Precision Steel is led by David Hillstrom, a chief executive who has served the company for almost 30 years.

A steel service center business may strike some of our shareholders as a peculiar addition to a candy company, even one already joined to a savings and loan business. However, Precision Steel shares an extremely important quality with See's: a company-wide culture of constant concern for customer interests and fair dealing. We believe such quality, if maintained, in a business with at least reasonably attractive economic characteristics, will almost always produce good long-term business results and, accordingly, are optimistic about the future of our new subsidiary.

Both Mutual Savings and Precision Steel are owned by Blue Chip Stamps through 80% control of Wesco Financial Corporation, a public company with shares traded on the American Stock Exchange. For more complete information, we encourage Blue Chip shareholders to obtain a copy of Wesco's 1979 annual report. Simply make your request to:

Wesco Financial Corporation
315 East Colorado Boulevard
Pasadena, California 91109
Attention: Mrs. Bette Deckard, Secretary & Treasurer

BUFFALO EVENING NEWS, INC.

Our 100%-owned subsidiary, Buffalo Evening News, Inc., was acquired in April 1977 for approximately $34 million. Its reported financial results continue to be adversely affected by litigation expenses, increased depreciation and extraordinary expenses of "buy-outs" from labor contract provisions made in order to allow the News to benefit from equipment modernization. So affected, the after-tax operating loss was $2,410,000 in 1979, compared with a lower after-tax operating loss of $1,427,000 in the previous year.

However, some developments were quite favorable: (1) The position of the News in pending litigation with a daily newspaper competitor was supported by a unanimous and strongly worded decision of the Federal Court of Appeals in New York, reversing interlocutory injunctions which had interfered greatly with normal competitive operation of the News; (2) Circulation of the Sunday edition of the News has been rising steadily; (3) The "buy-outs" of labor contract provisions made in 1979 are expected to cause substantial cost reductions in following years; and (4) The owners of the competing Buffalo newspaper, who were responsible for commencing the pending litigation, sold their newspaper to the Minneapolis Star and Tribune Company, which shortly thereafter raised advertising rates by about 10%, thus reducing the pricing pressure applied by the previous owners who made a practice, after initiation of the News' Sunday edition, of increasing advertising rates by amounts far below inflation rates.

We now believe that the worst may be behind us in Buffalo, but we retell and extend the history so that shareholders can make their own judgments.

The News had no Sunday edition when acquired. The principal competitor, the Buffalo Courier-Express, published without opposition on Sundays. As we explained in detail in our 1977 and 1978 annual reports, the long-term survival of the News clearly required that it inaugurate a Sunday edition. (Of that there was simply no question. Real trouble has been the invariable eventual outcome for every other daily newspaper in the United States which relied overlong, in an important city, exclusively on weekday publication while a significant seven-day competitor enjoyed a Sunday monopoly. In fact, only three other "no-Sunday" papers, competing against such "with-Sunday" papers in important cities, survived as late as 1977, even though many such "no-Sunday" papers once had long histories of profitability derived from dramatic advantages in weekday circulation and advertising over their "with-Sunday" competitors. And since then one of the three survivors, the Cincinnati Post, has been preserved, after incurring huge losses, only through the grace of its competitor's absorbing it into a joint operation with approval of the U. S. Attorney General as required by the Federal Newspaper Preservation Act of 1970. Unless similar government-blessed joint operations occur, the other two surviving "no-Sunday" papers, the Cleveland Press and the New York Post. now appear almost surely doomed by apparently irreversible operating losses.) Under such circumstances, the News commenced publishing Sundays late in 1977, as it plainly had to do if it cared at all about its long-term future. In response, an antitrust lawsuit was filed by the competing paper which for the first time faced the prospect of competition on Sundays as well as weekdays. The lawsuit, in turn, resulted in some interlocutory (i.e., temporary and not final) injunctions which, among other things, created severe disruptions in normal circulation procedures under midwinter conditions and restricted certain business promotion practices of the News, commonplace within the newspaper industry, while similar but more aggressive practices of the competing paper were not prohibited. As above set forth, these interlocutory injunctions were reversed on appeal in 1979.

In its unanimous decision for reversal of the injunctions, the Federal Court of Appeals reasoned that the generally pro-competitive antitrust laws should not be used in an anti-competitive fashion by enjoining normal promotional practices, such as those used by the News, in the course of normal competition such as inauguration of a Sunday edition.

Of course, elimination of the harmful interlocutory injunctions does not automatically improve circulation and advertising lineage of the News' Sunday edition. Success in the market has to be won slowly, if it can be won at all, through creating a desirable value for customers. Moreover, achieving success has been made more difficult by the fact that it was beyond the power of the appellate court to reverse certain material damages to the News caused by the interlocutory injunctions and accompanying publicity. But some success is occurring despite the damaged beginning. The News' Sunday edition is now being recognized by subscribers for editorial merit and is being rewarded by a steady circulation growth, tending to close the lead enjoyed by the Sunday Courier-Express. Great credit must be given to Murray Light, Editor of the News, for consistent delivery of a product which deserves and has received increased acceptance by the Greater Buffalo community. The circulation of the News' Sunday edition reached approximately 173,000 copies in February, 1980, up from approximately 156,000 copies in February, 1979, with strength accelerating throughout the period. On weekdays circulation has also increased, and the weekday News continues to be greatly preferred to the weekday Courier-Express by both readers and advertisers.

Meanwhile, notwithstanding the decision in favor of the News by the Federal Court of Appeals, pre-trial proceedings in the ligitation with the Courier-Express have continued under supervision of the trial court through 1979, including discovery proceedings related to both a counterclaim by our subsidiary and a number of defenses against the competing paper's complaint, causing heavy direct litigation expenses and other indirect costs and detriments. Influenced by these factors, operating results at our Buffalo newspaper quite naturally remained unsatisfactory in 1979.

And even though signs are quite encouraging, causing us to anticipate better operating results in the future, the ultimate security of the Buffalo Evening News remains in doubt, as it will for a very extended period.

The evidence seems clear that the Buffalo Evening News is by far the most respected newspaper in Buffalo, with a tradition of editorial objectivity and integrity and good citizenship, the result of editorial control of autonomous, community-minded local editors. We have maintained and will continue to maintain this tradition of locally created excellence, as well as an equally important tradition of fair dealing with all newspaper employees and unions, who have performed loyally and well to help protect our common enterprise under difficult conditions. But even with such policies and position a long and prosperous future is not guaranteed. If the litigation continues and if the competing paper succeeds in somehow changing the law as enunciated by the Federal Court of Appeals and in obtaining the kinds of injunctions it is seeking, or if any extended strike shuts down the Buffalo Evening News, it will probably be forced to cease operations and liquidate, at an after-tax cost which could exceed $10 million. We don't think either of the possible causes for permanent closedown is likely to occur but believe our shareholders should be made aware of the hazard.

And as the hazard recedes, it should be emphasized that the News remains a valuable asset, with journalistic habits which should serve it well in the continuing competition.

Under its long-time editor, Alfred H. Kirchhofer, who still comes to the News every day at age 87, the paper developed many desirable practices, large and small, which contribute to our optimism. For instance, it became well known among journalists for the intensity with which'it insisted that names, including middle initials, always be exactly correct in News' stories. "If you don't get the reader's own name right," asked Kirchhofer, "why should he believe you are correct in whatever else you report?" It is said that an institution is often the lengthened shadow of a single man. That seems to be true at the News where we regard Murray Light as a fit successor to Kirchhofer, preserving his basic value system while continuing to improve the paper.

At Blue Chip Stamps we are in part engaged in the business of trying to invest in the lengthened shadows of the right sort of people. We think we did so in Buffalo and that better financial results will probably be obtained in due course as we earn such results through nurture of a type of accurate, reader-oriented journalism unlikely to go out of style.

We do find quite irritating one aspect of the situation in Buffalo. Possibly because of the recent sale of the competing paper by its former owners and because our distaste for operating losses is so obvious to all observers, we are plagued by occasional rumors that we intend to sell the Buffalo Evening News. We do not intend to sell and will not sell. Our policy is to improve and hold.

PROMOTIONAL SERVICES BUSINESS AND OTHER INCOME

The final components of our consolidated net income last year were provided by (1) earnings from our promotional services (mainly trading stamp and motivation) business, after deduction of interest and other general parent company expense, plus (2) our share of earnings, after deduction of interest and other Wesco general corporate expense, from securities and real estate held by Wesco outside the savings and loan and steel service activities of its subsidiaries.

The promotional services business operated at a slightly decreased profit, after parent company interest and other general expense and taxes, last year, down from $2,488,000 to $2,392,000, after (properly) giving it credit for the entire income (dividends and interest, plus income tax benefits caused by dividends, plus securities gains) from investment of the funds available through "float" caused by trading stamps issued but not yet redeemed. The decrease in profit was attributable to increased interest expense.

Trading stamp service revenues decreased by a minor amount to $15,967,000 last year compared with $16,531,000 in the previous year. Motivation business revenues decreased substantially from $3,791,000 to $2,310,000.

In our trading stamp business our "float"—resulting from past issuance of trading stamps when volume was many times greater than the current level—is large in relation to current issuances. (Trading stamp revenues peaked at $124,180,000 in fiscal 1970, and our 1979 revenues of $15,967,000 therefore represented a decline of 87% from peak volume.) Eventually, unless stamp issuances improve, earnings from investing "float" will decline greatly. The decline in recent years, however, has proceeded at an extremely slow rate, and our estimated future redemption liability actually increased by a tiny amount in 1979, as it also did in the previous year, and was $67,524,000 at yearend 1979.

As discussed extensively in previous annual reports (particularly for fiscal 1976), which we urge shareholders to review, accounting for trading stamp redemption liability (Which involves estimating the number of stamps that will ultimately be redeemed and the cost per stamp) is a difficult process under any circumstances, but particularly so in an inflationary economy and when stamp issuances decline by a large percentage. We periodically revise our estimated future redemption liability as conditions warrant.

We intend to remain in the trading stamp business. Many of our present customers, aided by our stamp service, operate unusually successful supermarkets and other businesses, and we believe that, given the opportunity, we can also provide very useful service to new customers.

One final item augments our consolidated net income. Our share of earnings, including securities gains but after deduction of interest and other Wesco general corporate expense, from securities and real estate held by Wesco outside the savings and loan and steel service activities of its subsidiaries. amounted to $1,385,000 in 1979, compared with $935,000 in the previous year.

PINKERTON'S, INC.

At yearend 1979 we owned non-voting stock representing 34% of the equity in Pinkerton's, Inc., the leading national security and investigation service company. Our total investment at cost was $23,364,000. Only the dividends we receive from Pinkerton's are included in our reported income.

CONSOLIDATED BALANCE SHEET AND OTHER DATA

Our consolidated balance sheet retains a strength befitting a company whose consolidated net worth supports large outstanding promises to others. As explained in Note 4 to the accompanying financial statements, the aggregate market value of our marketable securities was higher than their aggregate cost at December 29, 1979 and approximately equal to such cost at March 17, 1980.

We did add $25,000,000 in long-term debt to our consolidated balance sheet last year, representing 12-year 10 1/8% notes sold in a public issue by our 80%-owned Wesco Financial Corporation subsidiary to pay for the Precision Steel acquisition and in anticipation of other needs. However, even after this issue of long-term notes, we remain in a conservative position when total debt is compared to total net worth and total liquid assets.

A section entitled "Principal Business Activities" and a "Summary of Operations" for a five-year period are presented beginning on page 7, followed by notes and management's discussion and analysis of the summary. We invite your careful attention to those items and to our audited financial statements.

A LOOK BACK AND A LOOK AHEAD

We began the last decade with a single business, trading stamps, which was destined to decline by 87%, and a portfolio of securities, offsetting stamp redemption liabilities, which had been selected by previous owners and would have created a perfect disaster if held through to the present time. (The portfolio, for instance, contained a substantial amount of very-long-term, low-coupon municipal bonds of issuers with declining credit ratings.) Starting with this shaky foundation, the Company has managed to earn an average, although fluctuating, return of about 15% per annum on its stockholders' equity over the years. The 15% return, while not outstanding, is respectable when achieved with a balance sheet position as conservative as ours and from such a poor starting position.

So far, the 1980s appear likely to present at least as many challenges as the 1970s, but we expect to use our balance sheet strength over the next 10 years, as we did in the last 10 years, to acquire additional businesses, and we hope to earn, on average, an even higher percentage return on our shareholders' investment. One cause of our hope for a higher return is our recognition of how many mistakes we made in the course of earning 15% on equity in the decade just past. There is plenty of room for improved decision-making, and we intend to improve if we can.

However, if the present inflation continues at double-digit rates through the 1980s, real investment returns for our shareholders may well be disappointing, even if we rank well among American corporations in terms of annual earnings expressed as a percentage of shareholders' equity. A 16% return on equity, for instance, obviously won't do much in real terms for shareholders if the inflation rate is 16%, or even 11% when we also allow for income taxes imposed on owners who must report taxable "profits" while only maintaining their position on the purchasing-power treadmill. We remind shareholders of this truism because we want them to know that we are not deluded by historically satisfactory numbers into believing all is well for them. It seems likely to us that a habit of always thinking about shareholders' interests in real terms may ultimately create some sort of plus factor in our stewardship.

Cordially yours,

Charles T. Munger, Chairman of the Board

Donald A. Koeppel, President

March 25, 1980