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TELEPHONE  
UTILITIES, INC.

1974  
ANNUAL REPORT

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Business & Economics  
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file: Pacific Telecom, Inc.

## 1974 Highlights

		1974	1973
THE SHAREHOLDER	Net income applicable to common stock . . .	\$ 3,701,539	\$ 3,287,379
	Total shares outstanding . . . . .	4,504,295	4,504,295 <sup>(1)</sup>
	Net income per common share . . . . .	\$.82	\$.73 <sup>(1)</sup>
	Total shareholders' equity . . . . .	\$ 41,331,569	\$37,642,553
THE COMPANY	Operating revenues . . . . .	\$ 25,627,749	\$22,991,322
	Working capital from operations . . . . .	\$ 9,616,211	\$ 8,540,817
	Total assets; end of year . . . . .	\$101,159,916	\$95,341,281
	Telephone plant in service; end of year . . . .	\$ 91,314,182	\$87,049,894
	Telephones in service; end of year . . . . .	115,757	107,384
THE EMPLOYEE	Total employees, end of year . . . . .	552	551
	Total wages paid . . . . .	\$ 6,252,351	\$ 5,931,392

(1) As restated for 1974 stock dividend

The Company will furnish to Shareholders upon written request without charge a copy of its annual report on Form 10-K for the Company's most recent fiscal year. The Form 10-K contains much more detailed statistical and financial information than is included in the Annual Report to Stockholders. If you wish a copy of the 10-K, you may address your request to Mr. Brian M. Wirkkala, Secretary, Telephone Utilities, Inc., Ilwaco, Washington 98624.

*The Annual Meeting of Shareholders of Telephone Utilities, Inc. will be held at 2:00 p.m. on Monday, April 28, 1975, at the American Legion Hall, Ilwaco, Washington.*



## To Our Shareholders:

1974 marked a year of continued progress for the Company. We succeeded in realizing many of the efficiencies anticipated as a result of the Northwestern Telephone acquisition concluded in late 1973. In addition, we further developed the cost studies on which our toll revenues are based to the point where we are nearing a current status and completed several minor local rate actions. Our station growth continued at rates well above the national average and our efficiency ratio, measured in number of stations handled per employee, continued to increase. Our capital expenditures were again well controlled and we were able to generate our construction requirement internally, avoiding the necessity of borrowing funds during 1974's cycle of high interest costs.

These and other major 1974 accomplishments were as follows.

- Revenues increased 11 percent over 1973, exceeding \$25,000,000 for the first time in our history.
- Net earnings were 12 percent higher, equal to 82 cents per share on average shares outstanding—a new record high.
- We gained 8,373 telephones, ending the year with 115,757 stations served. This represents an 8 percent increase, among the highest in the industry.
- Our equity ratio increased from 44 to 48 percent.
- Our plant additions totalled \$10,746,000 and were financed 100 percent internally.
- Our number of stations served per employee increased from 195 to 210.

The above record was established in the face of double digit inflation and required only minor local service rate adjustments as an offset.

Looking ahead to 1975, we again expect to generate our construction funds internally and feel that continuing efficiencies will eliminate the need for

general rate increases in all except one operating company.

We expect to continue at approximately an 8 percent internal growth rate and, after regulatory approval, to conclude two acquisitions involving approximately 1,400 stations. Although no other acquisitions are pending, we expect to actively pursue acquisitions as opportunities arise.

Our supply company is currently functioning well and should enable us to reduce the level of our year-end material and supply inventory through the centralization of activities previously conducted in nearly two dozen locations.

During the course of the year we expect to obtain our capital ratio goal of approximately 50 percent equity. At that point it is the intention of management to recommend consideration of a modest cash dividend to the Board of Directors if economic conditions are then stable. Although forecasting in today's economy is a risky business, I know of no reason why 1975 should not yield continued gains in both revenues and net income.

If you have any questions or comments concerning 1974 results please advise. I encourage you to read the balance of this report and the accompanying financials for additional details and a fuller understanding of the Company and its operations.

Sincerely,



A. M. Gleason  
President



**Telephone Utilities, Inc.**  
**SUMMARY OF OPERATIONS**

	Year Ended December 31,				
	1970	1971	1972	1973	1974
Operating revenues . . . . .	\$12,420,182	\$15,456,494	\$18,705,114	\$22,991,322	<b>\$25,627,749</b>
Operating expenses, other than federal income tax . . . . .	8,310,213	10,104,634	12,547,765	13,289,927	<b>15,441,329</b>
Federal income tax . . . . .	<u>758,997</u>	<u>947,488</u>	<u>1,180,525</u>	<u>2,660,309</u>	<b><u>3,307,000</u></b>
Total operating expenses . . . . .	<u>9,069,210</u>	<u>11,052,122</u>	<u>13,728,290</u>	<u>15,950,236</u>	<b><u>18,748,329</u></b>
Operating income . . . . .	3,350,972	4,404,372	4,976,824	7,041,086	<b>6,879,420</b>
Other income (expense):					
Allowance for funds used during construction . . . . .	353,351	529,381	435,150	237,703	<b>207,788</b>
Interest on temporary cash investments . . . . .				257,230	<b>440,897</b>
Other . . . . .	<u>117,860</u>	<u>(157,020)</u>	<u>3,079</u>		
	471,211	372,361	438,229	494,933	<b>648,685</b>
Interest expense . . . . .	<u>1,763,565</u>	<u>2,580,684</u>	<u>3,200,011</u>	<u>4,158,978</u>	<b><u>3,744,081</u></b>
Income before minority interest . . .	2,058,618	2,196,049	2,215,042	3,377,041	<b>3,784,024</b>
Minority interest in net income and preferred stock dividends of subsidiaries . . . . .	<u>40,370</u>	<u>23,534</u>	<u>45,425</u>	<u>58,446</u>	<b><u>52,012</u></b>
Net income . . . . .	2,018,248	2,172,515	2,169,617	3,318,595	<b>3,732,012</b>
Preferred stock dividends . . . . .	<u>33,545</u>	<u>33,525</u>	<u>31,290</u>	<u>31,216</u>	<b><u>30,473</u></b>
Net income applicable to common stock . . . . .	<u>\$ 1,984,703</u>	<u>\$ 2,138,990</u>	<u>\$ 2,138,327</u>	<u>\$ 3,287,379</u>	<b><u>\$ 3,701,539</u></b>
Average number of shares of common stock outstanding <sup>(1)</sup> . . . . .	4,439,892	4,445,570	4,461,341	4,504,295	<b>4,504,295</b>
Net income per common share <sup>(1)</sup> . . .	<u>\$ .45</u>	<u>\$ .48</u>	<u>\$ .48</u>	<u>\$ .73</u>	<b><u>\$ .82</u></b>

(1)As restated for stock dividends.



## Management's Analysis of the Summary of Operations

Operating revenues for 1974 and 1973 increased principally as a result of improved toll settlements with connecting companies. The majority of the Company's subsidiaries converted, effective July 1972, to the cost basis for toll settlements, which provides for the reimbursement of the costs of furnishing toll service plus a return on the portion of plant utilized in furnishing such toll service. In addition, local service revenue increased because of rate increases in certain service areas, increased directory advertising revenues and an increase in the number of subscribers served.

Operating expenses, other than federal income tax for 1974 and 1973, increased because of higher depreciation expense resulting from the large plant additions completed in recent years, and for 1974, an increase to 5.8% in the composite depreciation rate as compared to 5.3% in 1973; an increase for 1974 in operating taxes expense principally due to higher property taxes; and an increase for 1974 in maintenance expense resulting from higher labor and material costs, an expanded outside plant maintenance program and an increase in the number of subscribers served.

A portion of the operating expenses are included as costs of furnishing toll service and are returned as revenues through the toll settlement procedure.

Federal income tax expense for 1974 and 1973 increased because of higher income levels and an increased effective federal income tax rate. The effective tax rate increase is a result of providing deferred income taxes for certain additional deductions taken currently for income tax purposes.

The allowance for funds used during construction represents the cost of the funds used for construction of telephone plant and, accordingly, would fluctuate with the increases and decreases of the construction program. The lesser amounts shown for 1973 and 1974 are due to reduced construction activity during those years.

Interest on temporary cash investments resulted from the temporary investment of excess cash during the period March 1973 through December 1974. The increase for 1974 is a result of a higher average amount invested and an increase in the average rate of interest applicable to those short-term investments.

Interest expense for 1973 increased because of additional debt outstanding and as a result of increases in the prime commercial rate of interest, which affected the cost of short-term borrowings in that year. Interest expense for 1974 decreased as a result of issuing \$8,500,000 of long-term debt at 8% in December 1973, which replaced an equal amount of higher cost short-term borrowings and because of reductions in long-term debt outstanding during 1974.

## The Company

Telephone Utilities, Inc. is a telephone holding company whose subsidiary operating companies provide telephone communication services to an aggregate of 115,757 telephone stations located primarily in the states of Washington, Oregon and Montana and to a lesser extent in California, Idaho and Nevada. Substantially all of the Company's revenues are derived from providing telephone service. All of the operating companies are subject to the jurisdiction of regulatory agencies in the states in which they operate.

The Company provides or arranges financing and provides general management, accounting, engineering, central billing, purchasing and other operating services for its operating telephone subsidiaries. The Company's subsidiaries provide both local and long distance toll service for customers in their respective service areas without competition. Long distance toll service is provided over lines owned by the subsidiary companies interconnected with the lines of the Bell System and others.

In addition to conventional telephone service, the Company's Cascade Autovon Company subsidiary has a contract with the Department of Defense to operate an Automatic Voice Network (AUTOVON) switching center at North Bend, Washington. The contract will terminate in 1980; however, it is subject to earlier cancellation for the convenience of the government in which case the nonrecovered costs would be reimbursed by the government.

## Construction and Service Improvements

During the year 1974 the economy of our service area remained strong overall. Declines in one area were offset by economic growth elsewhere, a testimony to the diversity of areas we serve throughout the Northwest.

During the year we added 8,373 stations for an increase of 8 percent over the prior year. This compares very favorably with the independent industry growth rate of 7 percent and the Bell System growth rate of 5 percent.

We expended \$10,746,309 to serve additional subscribers and for service improvement projects during 1974.



Our expenditures ranged from partial construction of a major electronic switching system in Kalispell, Montana and additions to our microwave systems and toll network facilities to the installation of telephones in subscriber's homes and businesses.

Although our plant investment per telephone is now \$789, the additional investment required during 1974 was equivalent to \$933 for each telephone added to our system. These figures are illustrative of both historic and present costs of doing business.

During 1975 we expect to complete the Kalispell electronic switching system which will provide improved toll service and additional local service features to the subscribers in that area. In addition, a variety of less extensive service improvement projects are planned in each of our operations. We have programmed a total of \$9,800,000 for 1975 plant additions.

## Employees

At year-end there were 552 employees serving the Company, as compared with 551 the year before and 706 at December 31, 1972. Over one-half of our

employees are members of either International Brotherhood of Electrical Workers or Communications Workers of America, both AFL-CIO affiliates. They are represented through a total of four different bargaining agreements. We have just concluded negotiations with three of those contract groups resulting in new three-year working agreements effective January 1, 1975. Our wage and benefit scales under those contracts are equitable and competitive with other telephone companies operating in this area. Similar wage and benefit increases were granted to our non-Union groups. The fourth group of represented employees will be negotiating with the Company this fall. Because of past harmonious relationships with those employees, we expect that a comparable contract fair to both the employees and the Company will result from those negotiations. We are very pleased with the development of these relationships and expect to continue to treat our employees, whether organized or not, equally and fairly. We remain committed to providing wages and benefits comparable to others in our industry to demonstrate to our employees our belief that they are essential to our success as a business enterprise.

## Accountants' Opinion

To the Directors and Shareholders  
of Telephone Utilities, Inc.:

We have examined the consolidated balance sheet of Telephone Utilities, Inc. and subsidiaries as of December 31, 1974 and 1973 and the related consolidated statements of income, retained earnings, capital in excess of par value, and changes in financial position for the years then ended. 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 above-mentioned consolidated financial statements present fairly the financial position of Telephone Utilities, Inc. and subsidiaries at December 31, 1974 and 1973 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Portland, Oregon  
February 14, 1975

*Haskins & Sells*



**Telephone Utilities, Inc.****CONSOLIDATED STATEMENT OF INCOME**

Years ended December 31, 1974 and 1973

**1974**

1973

## Operating revenues:

Local service . . . . .	<b>\$ 8,089,092</b>	\$ 7,309,969
Toll service . . . . .	<b>15,466,755</b>	13,743,230
Government communication service . . . . .	<b>1,367,976</b>	1,421,186
Miscellaneous . . . . .	<b>703,926</b>	516,937

Total operating revenues . . . . . **25,627,749** 22,991,322

## Operating expenses:

Maintenance . . . . .	<b>3,555,592</b>	2,701,700
Depreciation (Note 1) . . . . .	<b>4,778,961</b>	4,084,918
Traffic . . . . .	<b>911,778</b>	856,858
Commercial . . . . .	<b>1,398,099</b>	1,209,023
General office salaries and expense . . . . .	<b>1,569,304</b>	1,692,368
Other operating expenses . . . . .	<b>846,157</b>	812,899
Operating taxes . . . . .	<b>2,381,438</b>	1,932,161
Federal income taxes (Notes 1 and 5) . . . . .	<b>3,307,000</b>	2,660,309

Total operating expenses . . . . . **18,748,329** 15,950,236

Operating income . . . . . **6,879,420** 7,041,086

## Other income:

Allowance for funds used during construction (Note 1) . . . . .	<b>207,788</b>	237,703
Interest on temporary cash investments (Notes 2 and 6) . . . . .	<b>440,897</b>	257,230

**648,685** 494,933

Interest expense—principally on long-term debt . . . . . **3,744,081** 4,158,978

Income before minority interest . . . . . **3,784,024** 3,377,041

Minority interest in net income and preferred  
stock dividends of subsidiaries . . . . .

**52,012** 58,446

Net income . . . . . **\$ 3,732,012** \$ 3,318,595

Net income per common share (Note 1) . . . . . **\$.82** \$.73

See accompanying notes.



**Telephone Utilities, Inc.**
**CONSOLIDATED BALANCE SHEET**

December 31, 1974 and 1973

1974

1973

**Assets**

## Telephone plant:

Telephone plant in service (Notes 1 and 3) . . . . .	<b>\$ 91,314,182</b>	\$87,049,894
Less accumulated depreciation . . . . .	<b>17,553,975</b>	15,581,754
	<b>73,760,207</b>	71,468,140
Construction work in progress . . . . .	<b>5,607,019</b>	2,673,401
Net telephone plant . . . . .	<b>79,367,226</b>	74,141,541

 Cost of acquisitions in excess of equity in  
net assets of subsidiaries (Note 1) . . . . .

9,238,835 9,238,835

## Current assets:

Cash . . . . .	<b>141,514</b>	882,697
Temporary cash investments (Notes 2 and 6) . . . . .	<b>4,150,000</b>	3,970,215
Accounts receivable . . . . .	<b>5,385,848</b>	4,669,890
Materials and supplies (Note 1) . . . . .	<b>2,051,419</b>	1,353,980
Claim for refund of federal income taxes . . . . .	<b>173,176</b>	371,429
Prepayments . . . . .	<b>189,087</b>	110,940
Total current assets . . . . .	<b>12,091,044</b>	11,359,151

## Unamortized debt expense and other deferred charges . . .

462,811 601,754

**\$101,159,916**
**\$95,341,281**

See accompanying notes.

1974

1973

**Capitalization and Liabilities**

## Shareholders' equity (Note 4):

Common stock—authorized 12,000,000 shares of \$1.00 par value; 4,504,295 shares outstanding (4,374,492 in 1973) . . . . .	<b>\$ 4,504,295</b>	\$ 4,374,492
Preferred stock, 6% cumulative—authorized 152,000 shares of \$25.00 par value; 23,628 shares outstanding less 3,313 shares of treasury stock at par value . . . . .	<b>507,875</b>	507,875
Capital in excess of par value . . . . .	<b>25,551,505</b>	24,545,531
Retained earnings (Note 3) . . . . .	<b>10,767,894</b>	8,214,655
Total shareholders' equity . . . . .	<b>41,331,569</b>	37,642,553

## Minority interest in subsidiaries:

Common stock and retained earnings . . . . .	<b>179,186</b>	161,022
Preferred stock . . . . .	<b>345,750</b>	353,800
Total minority interest in subsidiaries . . . . .	<b>524,936</b>	514,822

 Long-term debt (Note 3) . . . . . **44,947,007** 46,807,883

## Current liabilities:

Notes payable . . . . .		473,271
Accounts payable . . . . .	<b>5,959,671</b>	2,732,179
Income taxes payable . . . . .	<b>897,980</b>	1,138,257
Accrued liabilities . . . . .	<b>1,661,701</b>	1,570,525
Advance billings . . . . .	<b>661,953</b>	455,111
Current maturities on long-term debt (Note 3) . . . . .	<b>1,361,882</b>	1,290,165

 Total current liabilities . . . . . **10,543,187** 7,659,508

 Deferred income taxes (Note 1) . . . . . **2,678,372** 1,506,032

 Deferred investment tax credit (Note 1) . . . . . **981,530** 774,530

 Other deferred credits . . . . . **153,315** 435,953

**\$101,159,916**
**\$95,341,281**

See accompanying notes.



**Telephone Utilities, Inc.****CONSOLIDATED STATEMENT OF RETAINED EARNINGS**

Years ended December 31, 1974 and 1973	1974	1973
Balance at beginning of year . . . . .	<b>\$ 8,214,655</b>	\$ 6,200,532
Net income . . . . .	<u><b>3,732,012</b></u>	<u>3,318,595</u>
	<b>11,946,667</b>	9,519,127
Deduct:		
3% common stock dividend in 1974 and 1973 (129,803 shares and 74,986 shares respectively), at market value at date of issue . . . . .	<b>1,148,300</b>	773,256
Cash dividends on preferred stock . . . . .	<b>30,473</b>	31,216
Distributions to Pacific Power & Light Company by Northwestern Telephone Systems, Inc. prior to reorganization (Note 1) . . . . .	<u></u>	<u>500,000</u>
	<u><b>1,178,773</b></u>	<u>1,304,472</u>
Balance at end of year (Note 3) . . . . .	<u><u><b>\$10,767,894</b></u></u>	<u><u>\$ 8,214,655</u></u>

**CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE**

Years ended December 31, 1974 and 1973	1974	1973
Balance at beginning of year . . . . .	<b>\$24,545,531</b>	\$23,847,263
Excess of market value over par value of common stock dividends . . . . .	<u><b>1,005,974</b></u>	<u>698,268</u>
Balance at end of year . . . . .	<u><u><b>\$25,551,505</b></u></u>	<u><u>\$24,545,531</u></u>

See accompanying notes.



**Telephone Utilities, Inc.****CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

Years ended December 31, 1974 and 1973

**1974****1973**

## Source of working capital:

## From operations:

Net income . . . . .	<b>\$ 3,732,012</b>	\$ 3,318,595
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## Items not involving working capital:

Depreciation and amortization . . . . .	<b>4,807,536</b>	4,099,676
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Minority interest . . . . .	<b>25,451</b>	28,464
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Allowance for funds used during construction . . . .	<b>(207,788)</b>	(237,703)
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Deferred income taxes and investment tax credit . . .	<b>1,259,000</b>	1,331,785
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Total from operations . . . . .	<b>9,616,211</b>	8,540,817
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Additions to long-term debt . . . . .		4,360,455
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Salvage from plant and equipment retired . . . . .	<b>626,521</b>	479,263
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Other—net . . . . .	<b>330,988</b>	(247,301)
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Decrease (Increase) in working capital . . . . .	<b>2,151,786</b>	(3,046,214)
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	<b><u>\$12,725,506</u></b>	<u>\$10,087,020</u>
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## Application of working capital:

Additions to property, plant and equipment . . . . .	<b>\$10,746,309</b>	\$ 8,175,040
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Allowance for funds used during construction . . . . .	<b>(207,788)</b>	(237,703)
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	<b>10,538,521</b>	7,937,337
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Reduction of long-term debt . . . . .	<b>1,860,876</b>	1,264,008
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Cost of removal of plant and equipment . . . . .	<b>295,636</b>	354,459
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Dividends paid . . . . .	<b>30,473</b>	531,216
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	<b><u>\$12,725,506</u></b>	<u>\$10,087,020</u>
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## Increases (decreases) in the elements of working capital:

Cash and temporary cash investments . . . . .	<b>\$ (561,398)</b>	\$ 2,271,859
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Accounts receivable . . . . .	<b>715,958</b>	1,197,003
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Materials and supplies . . . . .	<b>697,439</b>	10,767
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Other current assets . . . . .	<b>(120,106)</b>	145,993
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Notes payable . . . . .	<b>473,271</b>	1,402,563
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Accounts payable . . . . .	<b>(3,227,492)</b>	(386,627)
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Income taxes payable . . . . .	<b>240,277</b>	(874,624)
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Current maturities on long-term debt . . . . .	<b>(71,717)</b>	(121,230)
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Other current liabilities . . . . .	<b>(298,018)</b>	(599,490)
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	<b><u>\$ (2,151,786)</u></b>	<u>\$ 3,046,214</u>
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See accompanying notes.



## Telephone Utilities, Inc.

### Notes to Consolidated Financial Statements

#### 1. Summary of Significant Accounting Policies

##### (a) Basis of Presentation

The consolidated financial statements include the accounts of Telephone Utilities, Inc. (T.U.) and its subsidiaries (Company), all majority-owned. All significant intercompany transactions have been eliminated.

In November 1973, T.U. issued 1,800,000 shares of its previously unissued common stock in exchange for all of the outstanding common stock of Northwestern Telephone Systems, Inc. (Northwestern) which was a subsidiary of Pacific Power & Light Company (Pacific). Because T.U. and Northwestern were under the common control of Pacific at the time of the exchange (see Note 4), the transaction was treated for accounting purposes similar to the pooling of interests method; accordingly, the accounts of Northwestern are included in the 1973 financial statements for the entire year.

##### (b) Regulatory Authorities

The accounting policies of the Company are in conformity with the requirements and authorizations of the regulatory agencies of the various states in which the Company operates.

##### (c) Telephone Plant

Telephone plant is stated at cost. Additions to telephone plant represent direct costs, indirect charges for engineering, supervision and similar overhead items, and an allowance for funds used during construction. Maintenance and repairs are charged to expense as incurred. Betterments and renewals of items considered to be identifiable items of property are charged to plant accounts. Accumulated depreciation is charged for ordinary retirements and the cost of the removal of assets retired and is credited for proceeds from sales and salvage.

Depreciation is provided using the straight-line method over the estimated service lives of the various classes of depreciable assets. Average composite depreciation rates used for telephone plant were 5.8% and 5.3% in 1974 and 1973, respectively.

##### (d) Cost of Acquisitions in Excess of Equity in Net Assets of Subsidiaries

The cost in excess of the carrying value of net assets of purchased subsidiaries is applicable to acquisitions entered into prior to November 1, 1970 and is not being amortized since in the opinion of management there has been no diminution in its value.

##### (e) Materials and Supplies

Materials and supplies are stated at average cost.

##### (f) Pension Plans

Substantially all employees are covered under the pension plans of the Company. Pension costs were \$217,937 in 1974 and \$270,106 in 1973, including applicable provisions for unfunded past service costs. Current service cost is funded as the liability accrues. Past service costs have been amortized generally over a 30-year period. At December 31, 1974, the unfunded past service liability was insignificant.

The Employee Retirement Income Security Act of 1974 will not, in the opinion of management, materially increase either the unfunded past service liability or the annual contributions to the plans.

##### (g) Income Taxes

The Company joins with Pacific in filing a consolidated federal income tax return. The federal income tax is allocated to T.U.'s subsidiaries on the basis of their filing separate returns.

Deferred income taxes are provided for the income tax reductions resulting from the additional depreciation deduction allowed by the ADR provision of the Revenue Act of 1971 and the current deduction for income tax purposes of the cost of removal of retired assets.

Deferred income taxes are not provided for the income tax reductions resulting from the deduction of certain taxes, pension costs, and interest which are capitalized for financial reporting purposes.

Investment tax credit of \$268,000 and \$282,690, earned in 1974 and 1973, respectively, has been deferred in the accompanying financial statements and will be amortized to income over the useful property life of the related assets.

##### (h) Net Income per Common Share

Net income per common share, after preferred dividend requirements of \$30,473 in 1974 and \$31,216 in 1973, is based on the weighted average number of common shares outstanding during each year after giving retroactive effect to the 3% stock dividend in 1974 and the shares issued in exchange for the stock of Northwestern.

#### 2. Temporary Cash Investments

At December 31, 1974 and 1973 temporary cash investments included \$4,150,000 and \$3,300,000 respectively, of short-term advances to Pacific under an agreement providing for the temporary investment of excess cash at the prime commercial rate of interest.

#### 3. Long-Term Debt

Long-term debt at December 31, 1974 and 1973 consisted of the following:

	1974	1973
2% First Mortgage notes payable to Rural Electrification Administration—maturities 1990-1999	\$ 950,659	\$ 991,700
4 1/2 % -10 1/4 % First Mortgage notes and bonds payable—maturities 1975-1998	21,218,051	22,695,120
7 3/4 % Second Mortgage note payable—due 1980	11,000,000	11,000,000
5 3/4 % -9 1/2 % Unsecured notes—maturities 1978-1998	13,140,179	13,411,228
	46,308,889	48,098,048
Less current maturities	1,361,882	1,290,165
	<u>\$44,947,007</u>	<u>\$46,807,883</u>

Substantially all of the telephone plant in service is pledged as collateral securing portions of the long-term debt. Certain of the loan agreements contain provisions, among others, restricting the payment of cash dividends and one loan agreement, in addition to restricting cash dividends, contains limitations on purchases or redemptions of T.U.'s stock. Retained earnings of \$5,551,000, are not restricted at December 31, 1974.

Total long-term debt maturing annually in installments within each of the four years after December 31, 1975 is as follows:

1976—	\$1,471,000
1977—	\$1,349,000
1978—	\$1,597,000
1979—	\$1,658,000

#### 4. Shareholders' Equity

Under the Employee Stock Option Plan, approved by shareholders in 1973, options to purchase 100,000 shares of common stock at fair market value at date of grant may be granted to certain key employees. At December 31, 1974, no options had been granted under the Plan.

At December 31, 1974 and 1973, approximately 80% of T.U.'s outstanding common stock was owned by Pacific.

#### 5. Federal Income Taxes

The components of federal income tax expense are as follows:

	1974	1973
Currently payable	\$2,048,000	\$1,328,524
Deferred	1,052,000	1,092,234
Net deferred investment tax credit	207,000	239,551
	<u>\$3,307,000</u>	<u>\$2,660,309</u>

Deferred income taxes result from timing differences in the recognition of expense for tax and financial statement purposes. The tax effects of these differences are as follows:

	1974	1973
Excess of tax over book depreciation	\$ 926,000	\$1,092,234
Cost of removal of retired assets deducted for tax purposes	126,000	
	<u>\$1,052,000</u>	<u>\$1,092,234</u>

The Company's effective federal income tax rate was 46.6% in 1974 and 44.1% in 1973. The differences between these effective rates and the 48% federal income tax statutory rate are attributable to the following:

	1974	1973
Interest, taxes and pensions capitalized	3.2%	4.3%
Amortization of investment tax credit	.9	.7
Other	(2.7)	(1.1)
	<u>1.4%</u>	<u>3.9%</u>

#### 6. Commitments

Expenditures in connection with the Company's construction program will approximate \$9,800,000 in 1975, excluding \$2,905,000 accrued at December 31, 1974. Cash now temporarily invested (Note 2) will be utilized in connection with the construction expenditures.

The companies are committed under several minor long-term leases; aggregate annual rentals under these leases approximate \$66,000. Total rental expense for 1974 and 1973 is as follows:

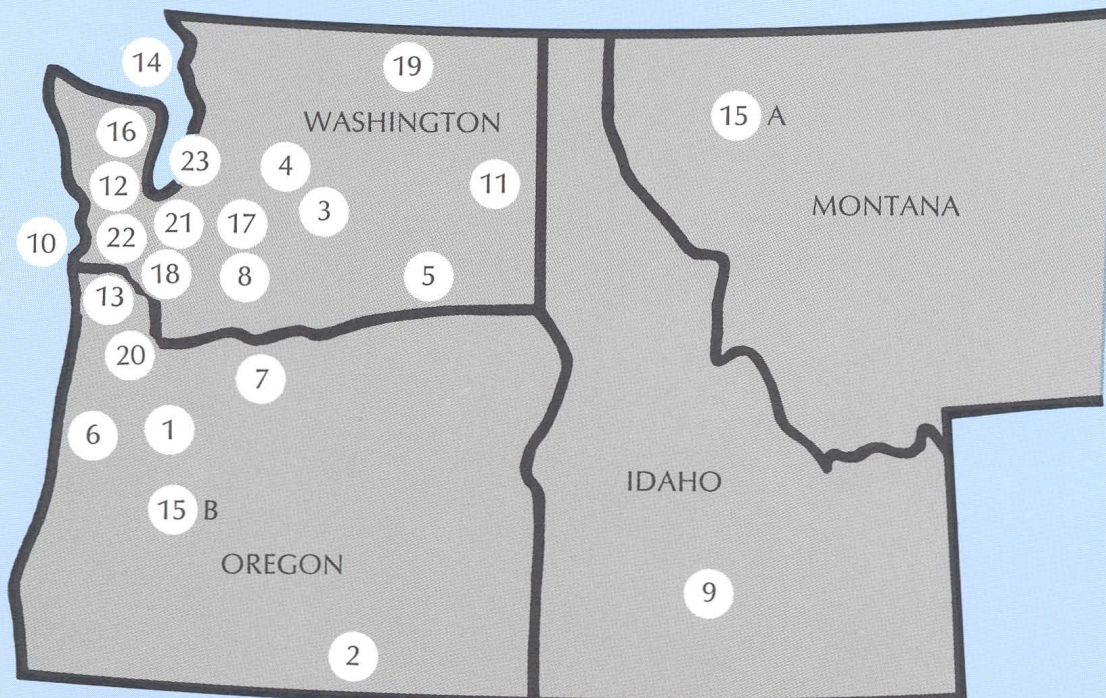
	1974	1973
Pole contacts	\$281,498	\$249,261
Other, including short-term rentals	136,085	154,339
	<u>\$417,583</u>	<u>\$403,600</u>



## Operating Subsidiaries

1. Aurora Telephone Company  
Aurora, Oregon
2. Beaver State Telephone Company  
Lakeview, Oregon
3. Cascade Autovon Company  
North Bend, Washington
4. Cascade Telephone Company  
North Bend, Washington
5. Columbia Basin Telephone Company  
Connell, Washington
6. Depoe Bay Telephone Company  
Depoe Bay, Oregon
7. Deschutes Telephone Company  
Maupin, Oregon
8. Evergreen Telephone Company  
Morton, Washington
9. Gem State Utilities Corporation  
Grand View, Idaho
10. Ilwaco Telephone Company  
Ilwaco, Washington
11. Inland Empire Telephone Company  
Medical Lake, Washington
12. Island Empire Telephone Company  
Gig Harbor, Washington
13. Knappa Telephone Company  
Knappa, Oregon
14. Lopez Telephone Company  
Lopez Island, Washington
15. Northwestern Telephone Systems, Inc.  
A. Kalispell, Montana  
B. Lebanon, Oregon
16. Olympic Telephone Company  
Kingston, Washington
17. Orting Telephone Company  
Orting, Washington
18. Puget Island Telephone Company  
Puget Island, Washington
19. Rainier Telephone Company  
Twisp, Washington
20. Rose Valley Telephone Company  
Scappoose, Oregon
21. Sound Telephone Company  
Lakebay, Washington
22. Timberland Telephone Company  
Montesano, Washington
23. Vashon Telephone Company  
Vashon Island, Washington

Supply Subsidiary  
TU Service Company





## Officers and Management

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A. M. GLEASON  
*President and Chief  
Executive Officer*

LEWIS C. NEACE, M.D.  
*Senior Vice President  
and Practicing Physician*

VERN K. DUNHAM  
*Vice President*

ROBERT E. UNRUH  
*Vice President*

JOHN H. GEIGER  
*Vice President of the Company and  
Vice President, Finance  
of Pacific Power & Light Company  
Portland, Oregon*

BRIAN M. WIRKKALA  
*Secretary-Treasurer*

JAMES E. AYDELOTT  
*Chief Engineer*

CHARLES C. ADAMS  
*Controller*

GERARD K. DRUMMOND  
*Assistant Secretary*

MARVA J. WIRKKALA  
*Assistant Treasurer*

## Directors

---

A. M. GLEASON  
*President of the Company*

HARRY L. CLARK  
*Controller & Assistant Treasurer  
Portland General Electric Company  
Portland, Oregon; electric utility*

B. LAMAR GAINES  
*Manager  
Cascade Autovon Company  
North Bend, Washington;  
a subsidiary of the Company*

HARRY E. MORGAN, JR.  
*Senior Vice President, Operations  
Weyerhaeuser Company  
Tacoma, Washington;  
forest products company*

LEWIS C. NEACE, M.D.  
*Senior Vice President  
of the Company  
and Practicing Physician*

R. C. REEVES  
*President  
Reeves Clothing Co.  
Lebanon, Oregon;  
retail clothing store*

CARL J. RONNING  
*Corporate Auditor  
The TI Corporation  
(of California)  
Los Angeles, California;  
title insurance and trust company*

SYDNEY R. SNYDER  
*President  
Sid's Super Market, Inc.  
Seaview, Washington;  
retail grocer*

HUBERT A. TONDREAU  
*Assistant Vice President  
Standard Insurance Company  
Portland, Oregon; life  
insurance underwriter*

NORMAN A. HOWERTON  
*Director Emeritus*

## Transfer Agent and Registrar

First National Bank of Oregon  
Portland, Oregon

## General Counsel

Rives, Bonyhadi & Drummond  
Portland, Oregon

## Special Counsel

Bogle & Gates  
Seattle, Washington

## Auditors

Haskins & Sells  
Portland, Oregon

## Common Stock

### Telephone Utilities, Inc.

Bid and Asked Prices By Quarter 1973-1974

	Bid		Asked	
	High	Low	High	Low
March 31, 1973 . . . . .	11 <sup>1</sup> / <sub>2</sub>	7 <sup>1</sup> / <sub>2</sub>	11 <sup>7</sup> / <sub>8</sub>	7 <sup>7</sup> / <sub>8</sub>
June 30, 1973 . . . . .	12 <sup>1</sup> / <sub>8</sub>	9 <sup>1</sup> / <sub>2</sub>	12 <sup>5</sup> / <sub>8</sub>	10 <sup>1</sup> / <sub>2</sub>
September 30, 1973 . . . . .	14 <sup>1</sup> / <sub>4</sub>	8	14 <sup>3</sup> / <sub>4</sub>	10
December 31, 1973 . . . . .	9 <sup>1</sup> / <sub>2</sub>	6 <sup>3</sup> / <sub>4</sub>	11 <sup>1</sup> / <sub>2</sub>	7 <sup>3</sup> / <sub>4</sub>
March 31, 1974 . . . . .	8 <sup>1</sup> / <sub>2</sub>	7 <sup>3</sup> / <sub>4</sub>	9 <sup>1</sup> / <sub>2</sub>	8 <sup>3</sup> / <sub>4</sub>
June 30, 1974 . . . . .	7 <sup>3</sup> / <sub>4</sub>	5 <sup>1</sup> / <sub>4</sub>	8 <sup>3</sup> / <sub>4</sub>	6 <sup>1</sup> / <sub>2</sub>
September 30, 1974 . . . . .	5 <sup>1</sup> / <sub>4</sub>	4	6 <sup>1</sup> / <sub>4</sub>	5
December 31, 1974 . . . . .	4 <sup>3</sup> / <sub>4</sub>	3 <sup>1</sup> / <sub>4</sub>	5 <sup>3</sup> / <sub>4</sub>	4 <sup>1</sup> / <sub>4</sub>

3% common stock dividend 1973 and 1974

Stock is Traded in National OTC Market  
NASDAQ—TPHN





**Telephone  
Utilities, Inc.**