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1973  
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TELEPHONE  
UTILITIES, INC.

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1975  
ANNUAL  
REPORT



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

Years ended December 31, 1975 and 1974	1975	1974
Balance at beginning of year . . . . .	<b>\$10,767,894</b>	\$ 8,214,655
Net income . . . . .	<u><b>4,210,665</b></u>	<u>3,732,012</u>
	<b>14,978,559</b>	11,946,667
Deduct:		
5% common stock dividend in 1975 and 3% common stock dividend in 1974 (223,784 shares and 129,803 shares, respectively), at market value at date of declaration . . . . .	<b>1,463,887</b>	1,148,300
Cash dividends:		
Common stock (\$.07 per share) . . . . .	<b>330,965</b>	
Preferred stock . . . . .	<u><b>30,473</b></u>	<u>30,473</u>
	<b>1,825,325</b>	<u>1,178,773</u>
Balance at end of year (Note 3) . . . . .	<u><u><b>\$13,153,234</b></u></u>	<u><u>\$10,767,894</u></u>

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

Years ended December 31, 1975 and 1974	1975	1974
Balance at beginning of year . . . . .	<b>\$25,551,505</b>	\$24,545,531
Excess of market value over par value of common stock dividends . . . . .	<u><b>1,230,812</b></u>	<u>1,005,974</u>
Balance at end of year . . . . .	<u><u><b>\$26,782,317</b></u></u>	<u><u>\$25,551,505</u></u>

See accompanying notes.



# Telephone Utilities, Inc.

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1975 and 1974

	1975	1974
Source of working capital:		
From operations:		
Net income . . . . .	\$ 4,210,665	\$ 3,732,012
Items not involving working capital:		
Depreciation and amortization . . . . .	5,497,057	4,807,536
Minority interest . . . . .	31,620	25,451
Allowance for funds used during construction . . . .	(378,505)	(207,788)
Deferred income taxes and investment tax credit . . .	1,847,000	1,259,000
Total from operations . . . . .	11,207,837	9,616,211
Long-term debt issued and assumed in connection with purchase of subsidiaries . . . . .	1,454,100	
Salvage from plant and equipment retired . . . . .	670,486	626,521
	<u>\$13,332,423</u>	<u>\$10,242,732</u>
Application of working capital:		
Property, plant and equipment:		
Additions to telephone plant in service . . . . .	\$11,794,348	\$ 7,812,691
Change in construction work in progress—net . . . . .	(2,683,299)	2,933,618
	9,111,049	10,746,309
Allowance for funds used during construction . . . . .	(378,505)	(207,788)
	8,732,544	10,538,521
Acquired in connection with purchase of subsidiaries—net . . . . .	867,154	
	9,599,698	10,538,521
Addition to cost of acquisitions in excess in net assets of subsidiaries . . . . .	442,971	
Reduction of long-term debt . . . . .	1,527,241	1,860,876
Cost of removal of plant and equipment . . . . .	261,488	295,636
Dividends . . . . .	361,438	30,473
Other—net . . . . .	46,864	(330,988)
Increase (decrease) in working capital . . . . .	1,092,723	(2,151,786)
	<u>\$13,332,423</u>	<u>\$10,242,732</u>
Increases (decreases) in the elements of working capital:		
Cash and temporary cash investments . . . . .	\$ 256,945	\$ (561,398)
Accounts receivable . . . . .	(1,296,630)	715,958
Material and supplies . . . . .	(539,342)	697,439
Other current assets . . . . .	(130,605)	(120,106)
Notes payable . . . . .		473,271
Accounts payable . . . . .	3,030,128	(3,227,492)
Income taxes payable . . . . .	682,191	240,277
Current maturities on long-term debt . . . . .	(189,050)	(71,717)
Other current liabilities . . . . .	(720,914)	(298,018)
	<u>\$ 1,092,723</u>	<u>\$ (2,151,786)</u>

See accompanying notes.



## Telephone Utilities, Inc.

### Notes to Consolidated Financial Statements

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#### 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 appropriate intercompany transactions have been eliminated.

In August 1975, T.U. purchased all of the outstanding stock of Blue Mountain Telephone, Inc. and Fossil Telephone Exchange for \$720,000. Operating results for those companies from the date of purchase are included in the accompanying consolidated statement of income. Consolidated results of operations for the two years ended December 31, 1975 would not be materially affected by the inclusion on a pro forma basis of the operating results of the purchased companies.

The classification of certain revenue and expenses in the 1974 consolidated statement of income has been revised to conform with the current year presentation.

##### (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 units 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 5.9% and 5.8% in 1975 and 1974, 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 of \$9,238,835 applicable to acquisitions entered into prior to November 1, 1970 is not being amortized since in the opinion

of management there has been no diminution of its value. The cost in excess of the carrying value of net assets of purchased subsidiaries of \$442,971 applicable to subsidiaries purchased during 1975 is being amortized over 40 years.

##### (e) Material and Supplies

Material 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 \$292,793 in 1975 and \$217,937 in 1974, 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, 1975, the unfunded past service liability was insignificant.

##### (g) Income Taxes

Federal income tax is allocated to T.U.'s subsidiaries on the basis of their filing separate federal income tax 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 \$961,000 and \$268,000, earned in 1975 and 1974, 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 is based on the weighted average number of common shares outstanding during each year after giving retroactive effect to the 5% stock dividend in 1975.

#### 2. Transactions With Related Parties

At December 31, 1975 and 1974, approximately 80% of T.U.'s outstanding common stock was owned by Pacific Power & Light Company (Pacific). The following is a summary of transactions with Pacific:

##### (a) Management Services

Pacific provides certain management and other services, at cost, to the Company under a manage-



ment services agreement. Billings under this management services agreement totaled \$265,215 in 1975 and \$279,533 in 1974.

(b) *Temporary Cash Investments*

At December 31, 1975 and 1974, temporary cash investments included \$4,100,000 and \$4,150,000, respectively, of short-term advances to Pacific. These advances were made under an agreement providing for the temporary investment of excess cash at the prime commercial rate of interest. Interest income from investments made under this agreement was recorded as follows:

	<u>1975</u>	<u>1974</u>
Parent operations	\$298,797	\$ 42,844
Other income	71,830	398,053
	<u>\$370,627</u>	<u>\$440,897</u>

(c) *Income Taxes*

The Company will join with Pacific in filing a consolidated federal income tax return. The federal income tax is allocated to the Company on the basis of its filing a separate consolidated federal income tax return.

### 3. Long-term Debt

Long-term debt at December 31, 1975 and 1974 consisted of the following:

	<u>1975</u>	<u>1974</u>
2% -8% First Mortgage notes payable to Rural Electrification Administration and Rural Telephone Bank, maturities 1990-2006	\$ 1,734,411	\$ 950,659
4½ % -10¼ % First Mortgage notes and bonds payable, maturities through 1998	20,162,013	21,218,051
7¾ % Second Mortgage note payable, due 1980	11,000,000	11,000,000
5¾ % -9¾ % Unsecured notes, maturities 1978-1998	13,528,374	13,140,179
	<u>46,424,798</u>	<u>46,308,889</u>
Less current maturities	1,550,932	1,361,882
	<u>\$44,873,866</u>	<u>\$44,947,007</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 \$6,247,000 are not restricted at December 31, 1975.

Total long-term debt maturing annually within each of the four years after December 31, 1976 is as follows:

1977—\$	1,433,289
1978—\$	1,681,724
1979—\$	1,743,414
1980—\$	12,651,901

### 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, 1975, no options had been granted under the plan.

### 5. Parent Operations

Parent operations of T.U. are summarized as follows:

	<u>1975</u>	<u>1974</u>
Interest income:		
From subsidiaries	\$ 42,500	\$132,459
Other—principally on temporary cash investments (Note 2)	361,688	68,307
	<u>404,188</u>	<u>200,766</u>
Interest expense:		
To subsidiaries	272,832	163,583
Other—principally on long-term debt	744,441	688,336
	<u>1,017,273</u>	<u>851,919</u>
Federal income tax (credit):		
Federal income taxes	(325,000)	(351,000)
Deferred federal income taxes	12,000	13,000
Net deferred investment tax credit	(3,000)	5,000
	<u>(316,000)</u>	<u>(333,000)</u>
Other expense—net	51,442	531
	<u>\$ 348,527</u>	<u>\$318,684</u>



## 6. Federal Income Taxes

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:

	<u>1975</u>	<u>1974</u>
Excess of tax over book depreciation	\$ 907,000	\$ 926,000
Cost of removal of retired assets deducted for tax purposes	<u>106,000</u>	<u>126,000</u>
	<u>\$1,013,000</u>	<u>\$1,052,000</u>

The Company's effective federal income tax rate was 46.9% in 1975 and 46.6% in 1974. The differences between these effective rates and the 48% federal income tax statutory rate are attributable to the following:

	<u>1975</u>	<u>1974</u>
Interest, taxes and pensions capitalized	4.0%	3.2%
Amortization of investment tax credit	1.6	.9
Other	<u>(4.5)</u>	<u>(2.7)</u>
	<u>1.1%</u>	<u>1.4%</u>

## 7. Commitments

Expenditures in connection with the Company's construction program will approximate \$13,200,000 in 1976. Cash now temporarily invested (Note 2) will be utilized in connection with the construction expenditures.

Total rental expenses for 1975 and 1974 are as follows:

	<u>1975</u>	<u>1974</u>
Pole contacts	\$276,141	\$281,498
Other, including short-term rentals	<u>144,877</u>	<u>136,085</u>
	<u>\$421,018</u>	<u>\$417,583</u>

Commitments under several minor long-term leases are not material to results of operations or financial position.

## 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, 1975 and 1974 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, 1975 and 1974 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  
January 30, 1976

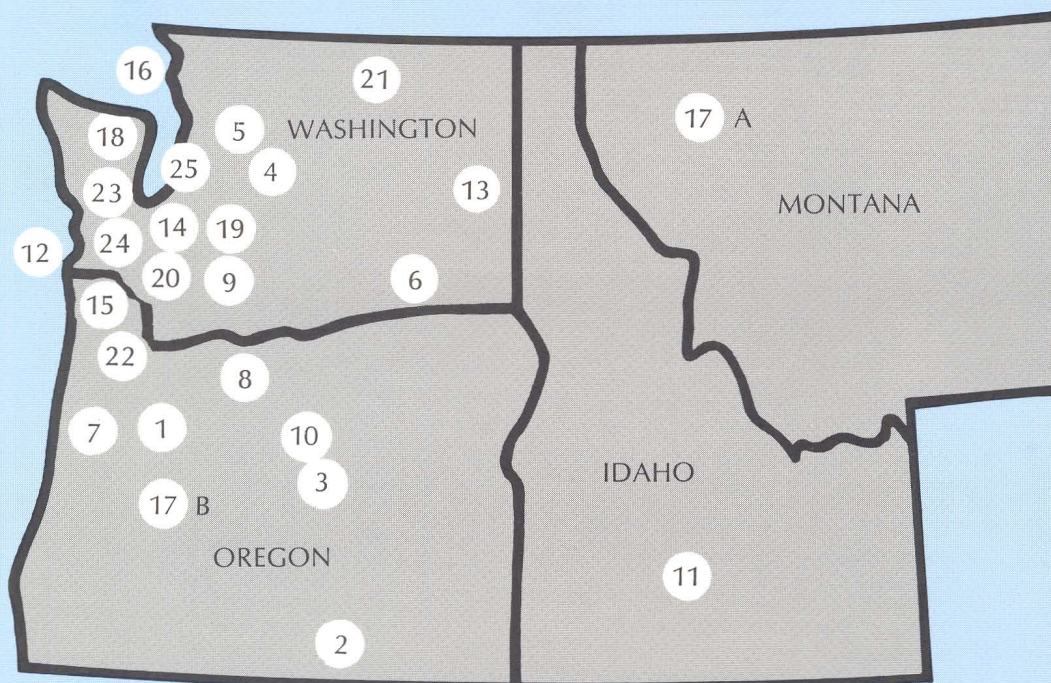
*Haskins & Sells*



## Operating Subsidiaries

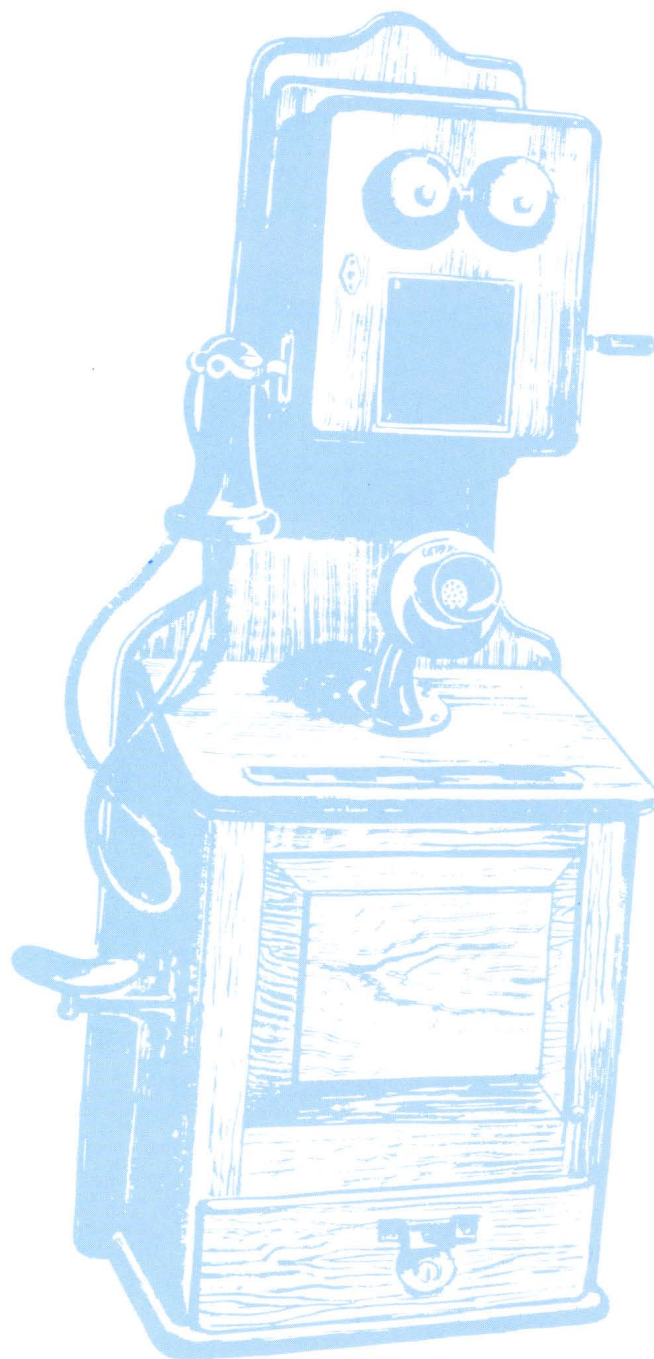
1. Aurora Telephone Company  
Aurora, Oregon
2. Beaver State Telephone Company  
Lakeview, Oregon
3. Blue Mountain Telephone, Inc.  
Spray, Oregon
4. Cascade Autovon Company  
North Bend, Washington
5. Cascade Telephone Company  
North Bend, Washington
6. Columbia Basin Telephone Company  
Connell, Washington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

Supply Subsidiary  
T U Service Company





*“Telephony—100 years... 1876-1976”*





## Officers and Management

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

LEWIS C. NEACE, M.D.  
*Senior Vice President*

VERN K. DUNHAM  
*Vice President*

JOHN H. GEIGER  
*Vice President*

ROBERT E. UNRUH  
*Vice President*

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*

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

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*

SIDNEY 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 company*

## Transfer Agent and Registrar

First National Bank of Oregon  
Portland, Oregon

## General Counsel

Rives, Bonyhadi & Drummond  
Portland, Oregon

## Auditors

Haskins & Sells  
Portland, Oregon

## Common Stock

### Telephone Utilities, Inc.

Range of Bid and Asked Prices for Quarters Ended

	Bid		Asked	
	High	Low	High	Low
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>4</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>
March 31, 1975 . . . . .	6 <sup>1</sup> / <sub>2</sub>	3 <sup>1</sup> / <sub>4</sub>	7 <sup>1</sup> / <sub>2</sub>	4 <sup>1</sup> / <sub>4</sub>
June 30, 1975 . . . . .	5 <sup>1</sup> / <sub>2</sub>	4 <sup>1</sup> / <sub>2</sub>	6 <sup>1</sup> / <sub>2</sub>	5 <sup>1</sup> / <sub>2</sub>
September 30, 1975 . . . . .	5 <sup>3</sup> / <sub>4</sub>	5	6 <sup>3</sup> / <sub>4</sub>	6
December 31, 1975 . . . . .	5 <sup>1</sup> / <sub>4</sub>	4 <sup>1</sup> / <sub>4</sub>	6 <sup>1</sup> / <sub>4</sub>	5 <sup>1</sup> / <sub>4</sub>

Common stock dividend 1975-5% ; 1974-3%

7¢ quarterly cash dividend declared December 12, 1975 payable February 2, 1976

Stock is traded in National OTC Market NASDAQ-TPHN





Telephone  
Utilities, Inc.



## 1975 Highlights

		1975	1974
THE SHAREHOLDER	Net income applicable to common stock . . . . .	\$ 4,180,192	\$ 3,701,539
	Total shares outstanding . . . . .	4,728,079	4,728,079 <sup>(1)</sup>
	Net income per common share . . . . .	\$.88	\$.78 <sup>(1)</sup>
	Total shareholders' equity . . . . .	\$ 45,171,505	\$ 41,331,569
<hr/>			
THE COMPANY	Operating revenues . . . . .	\$ 28,835,866	\$ 25,621,214
	Working capital from operations . . . . .	\$ 11,207,837	\$ 9,616,211
	Total assets; end of year . . . . .	\$103,962,674	\$101,159,916
	Telephone plant in service; end of year . . . . .	\$100,407,283	\$ 91,314,182
	Telephones in service; end of year . . . . .	125,402	115,757
<hr/>			
THE EMPLOYEE	Total employees; end of year . . . . .	585	552
	Total wages paid . . . . .	\$ 6,872,651	\$ 6,252,351

<sup>(1)</sup> As restated for 1975 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 more detailed statistical and financial information than is included in the Annual Report to Shareholders. If you wish a copy of the Form 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 26, 1976 at the Pineway, Route 1, Lebanon, Oregon 97355*



## To Our Shareholders:

1975 was a year of significant progress for the Company. Earnings rose to a record level of 88¢ per average common share, a 12.8% increase as compared to 1974 earnings of 78¢ per share. Operating revenues increased 12.5 per cent to \$28,835,866. Our internal growth totaled 8,248 stations and at the close of the year we served 125,402 telephones. This growth represents a 7 per cent increase in telephone stations served as compared with the national average growth in 1975 of 4 per cent. Our telephone plant investment passed the \$100,000,000 mark and shareholders' equity reach our corporate equity ratio goal of approximately 50% of the total capitalization.

As a result of the continued improvements in earnings and the attainment of our equity ratio goal, the Board of Directors voted to change the dividend policy from one of paying stock dividends to one of paying cash dividends. This was accomplished by the declaration in December 1975 of an initial quarterly cash dividend of 7¢ per share on the Company's common stock. This cash dividend is a major milestone in our corporate development and was a cause of satisfaction to both the management and Board of Directors. The Company's management is committed to seeing the shareholders participate in the continued growth of the Company and fully expect the quarterly dividend to grow along with our earnings.

During the year we completed the installation of phase one of our first major electronic switching system. This installation is currently providing improved toll and local service to subscribers in our Montana service area. With additions programmed for 1976, 1977 and 1978 this facility will provide the most up-to-date telephone service available to a significant segment of our subscribers.

During 1976 we expect to continue to fund our construction and service improvement projects through our internally generated funds and existing cash reserves and do not foresee any need to seek funds from outside lenders prior to 1977.

We will continue to seek the necessary rate relief required to support our service improvement programs and expect to file rate increase requests for several of our properties during 1976.

Please read the more detailed information concerning the Company in the balance of this report and the accompanying financial statements. If you have questions or comments about the material contained therein or other matters, please advise.

Sincerely,



A. M. Gleason  
President



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

	1975	Years ended December 31,			
		1974 <sup>(1)</sup>	1973 <sup>(1)</sup>	1972 <sup>(1)</sup>	1971 <sup>(1)</sup>
Operating revenues . . . . .	<b>\$28,835,866</b>	\$25,621,214	\$22,974,330	\$18,692,367	\$15,363,060
Operating expenses, other than federal income taxes . . . . .	<b>17,869,546</b>	15,434,263	13,284,042	12,538,807	10,104,634
Federal income taxes . . . . .	<b>4,089,000</b>	3,640,000	3,180,516	1,169,937	924,132
Total operating expenses . . . . .	<b>21,958,546</b>	19,074,263	16,464,558	13,708,744	11,028,766
Operating income . . . . .	<b>6,877,320</b>	6,546,951	6,509,772	4,983,623	4,334,294
Other income . . . . .	<b>725,347</b>	743,961	541,957	427,807	372,361
Interest expense . . . . .	<b>2,985,781</b>	3,188,204	3,218,376	2,517,917	2,180,434
Minority interest in net income and preferred stock dividends of subsidiaries . . . . .	<b>57,694</b>	52,012	58,446	45,425	23,534
Income from telephone operations . . . . .	<b>4,559,192</b>	4,050,696	3,774,907	2,848,088	2,502,687
Parent operations—interest and expenses—net . . . . .	<b>348,527</b>	318,684	456,312	678,471	330,172
Net income . . . . .	<b>4,210,665</b>	3,732,012	3,318,595	2,169,617	2,172,515
Preferred stock dividends . . . . .	<b>30,473</b>	30,473	31,216	31,290	33,525
Net income applicable to common stock . . . . .	<b>\$ 4,180,192</b>	<u>\$ 3,701,539</u>	<u>\$ 3,287,379</u>	<u>\$ 2,138,327</u>	<u>\$ 2,138,990</u>
Average number of common shares outstanding <sup>(2)</sup> . . . . .	<b>4,728,079</b>	4,728,079	4,728,079	4,682,991	4,666,436
Net income per common share <sup>(2)</sup> . . . . .	<b><u>\$ .88</u></b>	<u>\$ .78</u>	<u>\$ .70</u>	<u>\$ .46</u>	<u>\$ .46</u>

<sup>(1)</sup> Classification of certain income and expenses has been revised to conform to the 1975 presentation.

<sup>(2)</sup> As restated for stock dividends.



## Management's Discussion and Analysis of the Summary of Operations

The summary of operations includes the operations of Telephone Utilities, Inc. (T.U.) and its subsidiaries (Company), all majority-owned.

Operating revenues for 1975 and 1974 increased principally as a result of continuing improvement in toll settlements with connecting companies. The majority of the Company's subsidiaries are on the cost basis for toll settlements, which provides for the recovery of the costs of furnishing toll service plus a return on the portion of the investment in plant utilized in furnishing such toll service. In addition, local service revenue increased because of rate increases in certain service areas, an increase in the number of subscribers served and increased directory advertising revenues.

Operating expenses, other than federal income taxes for 1975 and 1974, increased due to: (a) generally higher labor and material costs; (b) increased maintenance expense resulting from expanded central office and outside plant maintenance programs, expenses related to the placing in service of major central office and outside plant construction projects, extraordinary maintenance due to unusually adverse weather conditions, and an increase in the number of subscribers served; (c) increased depreciation expense resulting from the large plant additions completed in recent years and an increase in the composite depreciation rates to 5.9% in 1975 and 5.8% in 1974 as compared with 5.3% in 1973; and (d) increased operating taxes expense, principally as a result of higher property taxes. A significant portion of operating expenses are included as costs of furnishing toll service and are recovered as revenues through the toll settlement procedure.

Federal income tax expense for 1975 and 1974 increased principally because of higher income levels and an increase for 1974 in the effective federal income tax rate.

Other income represents the allowance for funds used during construction, a non cash item, and interest on temporary cash investments. The allowance for funds used during construction represents the cost of the funds used for construction of telephone plant and, accordingly, fluctuates with the increases and decreases of the construction program. The increased amount for 1975 is due to the higher construction activity in that year. Interest on temporary cash investments results from the short-term investment of excess cash. The decrease for 1975 and the increase for 1974 are a result of the variations of the average amounts invested and the average rate of interest earned on those short-term investments.

Parent operations consist of the interest income earned by T.U.'s short-term investments, the interest and other expenses of T.U. and the related tax effect of these transactions. The increases in interest income for 1975 and 1974 result from an increased average amount invested. Interest expense for 1975 increased as a result of the issuance of additional long-term debt and increased short-term borrowings from subsidiaries. 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 serve 125,402 telephones located principally in Washington, Montana and Oregon and to a lesser extent in Idaho, Nevada and California. All of the operating companies are subject to the jurisdiction of regulatory agencies in the states in which they operate. In addition to conventional telephone service, a subsidiary operates an Automatic Voice Network (Autovon) switching center under a contract with the government which will terminate in 1980. This contract is subject to earlier cancellation for the convenience of the government in which case the unrecovered costs would be reimbursed by the government.

During 1975 T.U. completed the purchase of two small telephone operating companies located in Oregon. These companies serve a total of 1,397

stations through seven exchanges. No other acquisitions of telephone properties are pending; however, the Company continues to actively pursue such acquisitions as the opportunities present themselves.

During the past three years the telephone subsidiaries have been organized into four operating divisions which have been established essentially along geographical lines. This has permitted the achievement of significant operational efficiencies and cost savings. Plans are now proceeding to consolidate all of the subsidiaries operating in each state into a single statewide operating company. These consolidations, which require the approval of lenders and regulatory bodies, will permit achievement of further cost reductions. The consolidation of subsidiaries will also assist the Company by reducing the number of separate rate cases required to achieve the additional local service revenues that may be required in the future to enable the Company to maintain a fair rate of return on invested capital.



## Construction and Service Improvements

During 1975, construction expenditures to expand plant facilities and for service improvement projects totaled \$9,111,049. The additional investment in plant in service per telephone gained was \$1,430 in 1975, as compared with our average historical cost per telephone of \$801. This comparison illustrates the current and historical costs of doing business. These expenditures were totally funded internally.

The year's largest construction project was the completion and placing in service of the first phase of a major electronic switching system in Kalispell, Montana. This initial installation included toll service switching and ticketing equipment and 3,000 lines of local switching equipment. During 1976, we are scheduled to place in service additional toll-related equipment and 2,000 more lines of local switching equipment. This installation will speed up customer-dialed long distance calls, reduce handling time for operator-processed toll calls, as well as provide new revenue-producing customer services which were previously not available. Additions have been programmed for 1977 and 1978 to this system which will provide electronic switching to all Kalispell Exchange Area subscribers. Certain of the equipment being replaced will be installed to meet growth requirements in other service areas.

In addition to these electronic switching system additions, we have programmed a variety of projects to expand plant facilities and to continue our service improvement programs. To meet these objectives we have budgeted a total of \$13,200,000 for 1976 plant additions. We expect to fund this construction program through internally generated funds and our existing cash reserves.

The supply subsidiary has continued to function well and has permitted us to reduce our investment in material and supplies. In addition, we were able to respond quickly to several severe and abnormal weather-caused service outages from this centralized location. We anticipate further, although somewhat smaller, reductions in material and supplies inventories in the forthcoming year as our inventory levels stabilize.

## Revenues and Rate Activity

During 1975, to offset the effects of increased investment in telephone plant and escalating costs, three subsidiaries applied for general rate increases totaling approximately \$550,000. These rate increases are currently pending and decisions are expected in the second half of 1976.

The Company in 1976 plans to continue actively seeking rate increases where necessary because of increased investment in telephone plant and higher operating costs. At this time, the Company is currently considering general rate increase requests for several subsidiaries. However, because of the time lapse between the filing of the requests and the granting of approval by the regulatory bodies, the impact on 1976 revenues will probably be minimal. In addition, in one operating area in which the Company is contemplating a major general rate

increase filing, the applicable regulatory agency has no prescribed period during which it must act on the application.

In 1975 we experienced a 10.7 per cent increase in toll messages as compared to a 8.4 per cent increase in 1974. This increase has resulted in a proportionately greater usage of our telephone plant for toll calling and has contributed to our growth in toll revenue for this year. For 1976 the Company will benefit from the increase in interstate toll rates recently approved by the Federal Communications Commission as this increase will provide additional toll revenue through the workings of the toll settlement process.

## Employees and Labor Relations

At December 31, 1975 the Company had 585 full time employees, including 36 contract employees, on the job which compares with 552 at the end of 1974. The number of stations served per employee, which is a measure of efficiency, improved slightly from 210 in 1974 to 214 in 1975.

Thirty-two per cent of our employees are members of either the International Brotherhood of Electrical Workers or the Communication Workers of America, both AFL-CIO affiliates, and are represented through a total of three different bargaining units which have three-year working agreements in effect through 1977. The working agreement with a fourth group of employees was terminated by the union during 1975. Bargaining talks were held until September 22, 1975 when negotiations were broken off by the union and the union members went out on strike. Service was maintained initially by management employees and members of their families through an outstanding effort in the best traditions of the industry. During the later phases, extensive use of contract labor and replacement workers was necessary to enable the management personnel to return to their normal roles. This strike continued until January 9, 1976 at which time the union membership accepted a management-proposed two-year agreement. This agreement, which the Company feels is equitable to both the employees and the Company, will, over the term of the agreement, bring wage and benefit scales more in line with those paid in our other properties and in other telephone companies operating in the Northwest.

We remain committed to providing wages and benefits, for both non-union and union employees, comparable to others in our industry as we recognize that our employees are essential to our success as a business enterprise.

## In Memoriam

We were saddened by the death of Norman A. Howerton in July 1975. Mr. Howerton was a founder of the Company and served as President from its inception in 1955 until 1972. He was a man of great vision whose efforts were instrumental in the growth and success of the Company. Our sympathy is extended to his family.



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

Years ended December 31, 1975 and 1974

	1975	1974
		(Note 1)
Operating revenues:		
Local service . . . . .	\$ 8,809,315	\$ 8,089,092
Toll service . . . . .	17,849,858	15,466,755
Government communication service . . . . .	1,265,519	1,367,976
Miscellaneous . . . . .	911,174	697,391
Total operating revenues . . . . .	28,835,866	25,621,214
Operating expenses:		
Maintenance . . . . .	4,816,536	3,555,107
Depreciation (Note 1) . . . . .	5,232,247	4,776,739
Traffic . . . . .	949,423	911,778
Commercial, administrative and other . . . . .	4,278,865	3,810,232
Taxes, other than federal income taxes . . . . .	2,592,475	2,380,407
Federal income taxes (Notes 1 and 6) . . . . .	2,251,000	2,399,000
Deferred federal income taxes (Notes 1 and 6) . . . . .	1,001,000	1,039,000
Net deferred investment tax credit (Notes 1 and 6) . . . . .	837,000	202,000
Total operating expenses . . . . .	21,958,546	19,074,263
Operating income . . . . .	6,877,320	6,546,951
Other income:		
Allowance for funds used during construction (Note 1) . . . . .	378,505	207,788
Interest on temporary cash investments (Notes 2 and 5) . . . . .	346,842	536,173
	725,347	743,961
Interest expense—principally or long-term debt (Note 5) . . . . .	2,985,781	3,188,204
Minority interest in net income and preferred stock dividends of subsidiaries . . . . .	57,694	52,012
Income from telephone operations . . . . .	4,559,192	4,050,696
Parent operations—interest and expenses—net (Note 5) . . . . .	348,527	318,684
Net income . . . . .	4,210,665	3,732,012
Preferred stock dividends . . . . .	30,473	30,473
Net income applicable to common stock . . . . .	\$ 4,180,192	\$ 3,701,539
Net income per common share (Note 1) . . . . .	\$ .88	\$ .78

See accompanying notes.



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

December 31, 1975 and 1974	1975	1974
<b>Assets</b>		
Telephone plant:		
Telephone plant in service (Notes 1 and 3) . . . . .	<b>\$100,407,283</b>	\$ 91,314,182
Less accumulated depreciation . . . . .	<b>19,862,048</b>	<u>17,553,975</u>
	<b>80,545,235</b>	73,760,207
Construction work in progress . . . . .	<b>2,923,720</b>	<u>5,607,019</u>
Net telephone plant . . . . .	<b>83,468,955</b>	79,367,226
 Cost of acquisitions in excess of equity in net assets of subsidiaries (Note 1) . . . . .	<b>9,670,732</b>	9,238,835
 Current assets:		
Cash . . . . .	<b>272,884</b>	141,514
Temporary cash investments (Notes 2 and 7) . . . . .	<b>4,275,575</b>	4,150,000
Accounts receivable . . . . .	<b>4,089,218</b>	5,385,848
Material and supplies (Note 1) . . . . .	<b>1,512,077</b>	2,051,419
Claim for refund of federal income taxes . . . . .		173,176
Prepayments . . . . .	<b>231,658</b>	<u>189,087</u>
Total current assets . . . . .	<b>10,381,412</b>	12,091,044
 Unamortized debt expense and other deferred charges . . . .	<b>441,575</b>	<u>462,811</u>
	<b><u>\$103,962,674</u></b>	<b><u>\$101,159,916</u></b>

See accompanying notes.



	1975	1974
<b>Capitalization and Liabilities</b>		
Shareholders' equity (Notes 2 and 4):		
Common stock, authorized 12,000,000 shares of \$1 par value, 4,728,079 shares outstanding (4,504,295 in 1974) . . . . .	\$ 4,728,079	\$ 4,504,295
Preferred stock, 6% cumulative, authorized 152,000 shares of \$25 par value, 23,628 shares issued less 3,313 shares of treasury stock at par value . . . . .	507,875	507,875
Capital in excess of par value . . . . .	26,782,317	25,551,505
Retained earnings (Note 3) . . . . .	13,153,234	10,767,894
Total shareholders' equity . . . . .	45,171,505	41,331,569
Minority interest in subsidiaries:		
Common stock and retained earnings . . . . .	203,690	179,186
Preferred stock . . . . .	320,750	345,750
Total minority interest in subsidiaries . . . . .	524,440	524,936
Long-term debt (Note 3) . . . . .	44,873,866	44,947,007
Current liabilities:		
Accounts payable . . . . .	2,929,543	5,959,671
Income taxes payable (Note 2) . . . . .	215,789	897,980
Dividends payable . . . . .	330,965	
Accrued liabilities . . . . .	1,944,266	1,661,701
Advance billings . . . . .	769,337	661,953
Current maturities on long-term debt (Note 3) . . . . .	1,550,932	1,361,882
Total current liabilities . . . . .	7,740,832	10,543,187
Deferred income taxes (Note 1) . . . . .	3,691,372	2,678,372
Deferred investment tax credit (Note 1) . . . . .	1,815,530	981,530
Other deferred credits . . . . .	145,129	153,315
	<u>\$103,962,674</u>	<u>\$101,159,916</u>

See accompanying notes.