

1
9
8
1

PS
ORIG FILE
STACK

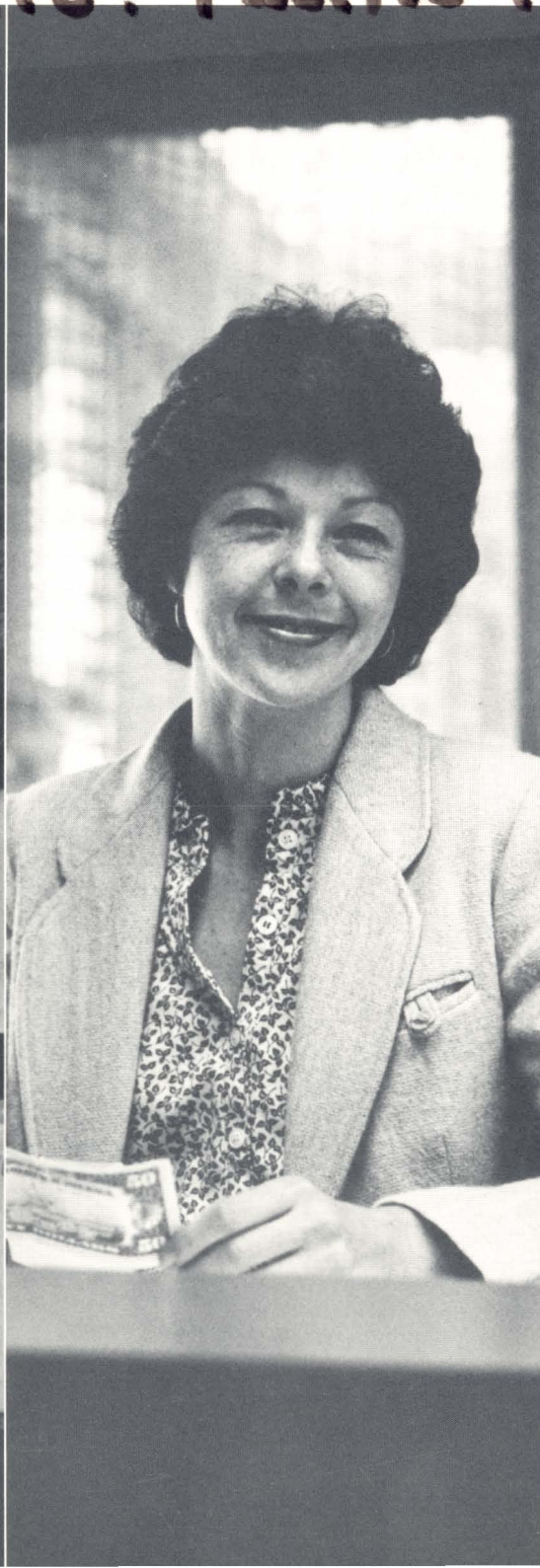
PROPERTY OF
SEATTLE PUBLIC LIBRARY

Telephone Utilities, Inc.

1981

Annual Report

file: Pacific Telecom, Inc.



Highlights

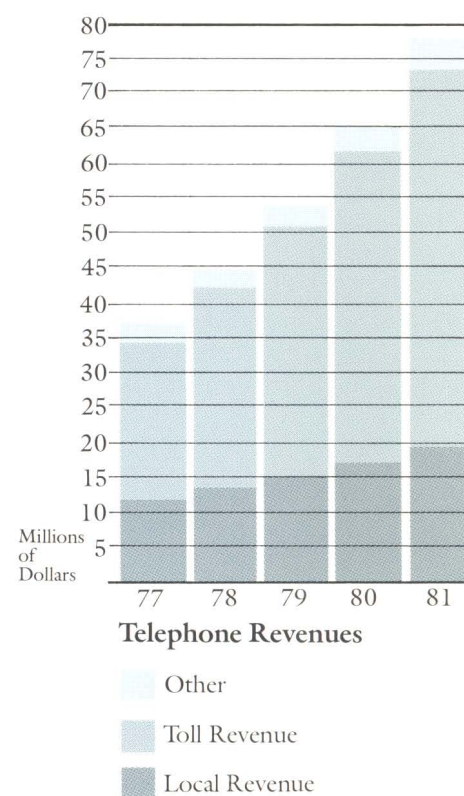
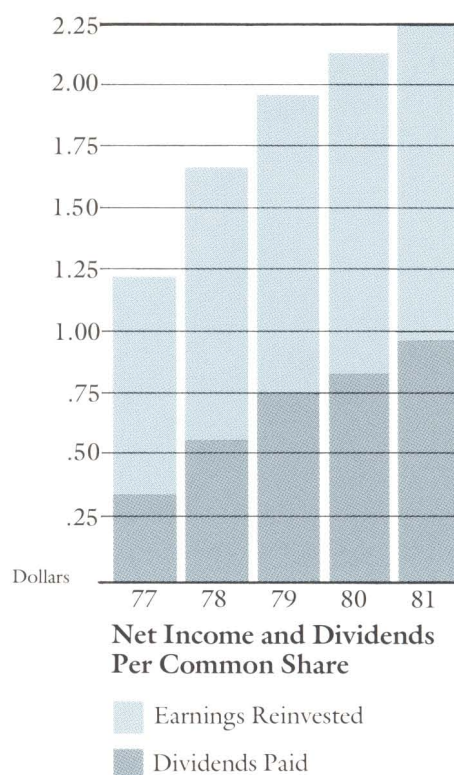
| | | 1981 | 1980 | Percent Change |
|------------------------|---|---------------|---------------|----------------|
| The Shareholder | Net income applicable to common stock | \$ 10,626,931 | \$ 9,878,940 | 8% |
| | Average shares outstanding | 4,727,445 | 4,653,924 | 2 |
| | Net income per common share | \$2.25 | \$2.12 | 6 |
| | Total shareholders' equity | \$ 76,133,819 | \$ 70,058,859 | 9 |
| | Dividends paid per common share | \$.96 | \$.83 | 16 |
| The Company | Operating revenues | \$ 77,770,637 | \$ 64,982,239 | 20 |
| | Working capital from operations | \$ 30,316,922 | \$ 25,505,439 | 19 |
| | Telephone plant in service, end of year | \$221,645,877 | \$191,753,863 | 16 |
| | Telephones, end of year | 210,445 | 205,004 | 3 |
| The Employee | Total employees, end of year | 1,161 | 996 | 17 |
| | Total wages paid | \$ 25,574,899 | \$ 18,536,962 | 38 |

Form 10-K

On written request, the Company will furnish to shareholders a copy of its annual report on Form 10-K for the Company's most recent 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, Telephone Utilities, Inc., 1221 Southwest Yamhill Street, Suite 200, Portland, Oregon 97205.

Annual Meeting

The annual Meeting of Shareholders of Telephone Utilities, Inc. will be held at 10:00 a.m., Pacific Daylight time on Monday, April 26, 1982 at the Thunderbird Motor Inn, Jantzen Beach, Portland, Oregon 97217.



To our Shareholders

"A good year under difficult business conditions," describes 1981. We accomplished the following despite high interest rates and the soft economy in our service area.

- Net income per common share increased 6% to \$2.25 per share.
- Our annual dividend rate increased from \$.92 to \$1.00 per year.
- Revenues reached \$77,771,000, up 20%.
- Telephones served totaled 210,445, a 3% increase.
- We made significant entries into non-regulated activities with growth potential.
- We took positive steps to consolidate Telephone Utilities with Alascom, an affiliated company, a move which will enhance our combined asset base and earnings potential.
- 1981 was our ninth consecutive year of new records in revenues, net income, earnings per share and telephones served. Earnings per share increased from \$.46 to \$2.25 or 389% during that period.

Although our growth rate in telephones served slowed, it was necessary to spend \$34,500,000 to meet the increasing communication requests of our existing and new subscribers. Internally generated funds equalled 88% of these expenditures. Other sources of funds used during 1981 were previously approved Rural Electrification Administration (REA) loans and short-term advances from our majority shareholder.

We have budgeted \$35,500,000 for construction in 1982. We expect to fund this amount from available REA loans and from internally generated funds. Although a budget of this level may seem inconsistent with a slowed economy, it allows us to efficiently place system improvements

to enable us to continue to provide better service levels and to position ourselves to handle renewed growth rates expected with an economic recovery in our service area.

The year since our last report was one of significant acquisitions and business development. We purchased a 28% interest in Cencom Inc., a Rushford, Minnesota-based holding company which serves 24,000 telephone and 2,650 cable TV subscribers in Wisconsin and Minnesota. In January 1982 we completed acquisition of Inter-Island Telephone Company serving 6,000 telephones in the San Juan Islands of Washington's Puget Sound; this extends our service area to all of that county.

In last year's report we announced the acquisition of Business Music Company of Portland, Oregon. We added additional business music holdings in 1981, purchasing a small independent operation in Reno, Nevada and Muzak franchises in Seattle and Tacoma. In early 1982 we purchased the Muzak franchise in Minneapolis-St. Paul. These operations generate strong cash flow and will be good income sources in the near term.

In other non-regulated endeavors we have taken minority positions in emerging electronics manufacturing firms whose high technology products promise both to serve our basic business and to be competitive within the industry.

The year also saw preliminary steps taken to consolidate the Alascom subsidiary of Pacific Power with Telephone Utilities. The Alascom consolidation will enhance our income, increase our asset base and will provide an equity structure allowing future stock-for-stock acquisitions. After shareholder approval, our company will triple in size, becoming, in terms of revenues, America's sixth largest independent telephone company and reflecting the expanded scope of our business, we will adopt a new name—Pacific Telecom, Inc. The complement of our telephone

service areas and non-regulated activities with Alascom's long lines operation and late-1982 satellite launch is valid cause for optimism about our future. We urge shareholders to support this transaction which is detailed in the enclosed documents.

The Board of Directors voted an increase in the dividend in 1981, to \$1.00 per share. The Board will again review this level in 1982 against its long term objective of paying out approximately half of the prior year's earnings.

We welcome your inquiries about this report or any other matters of interest to shareholders.



A. M. Gleason
President

March 24, 1982

About Telephone Utilities, Inc.

Telephone Utilities is a growing communications holding company that serves the Pacific Northwest. Our telephone operating companies provide telephone service to 210,445 telephones in Washington, Montana, Oregon, Alaska and parts of Idaho, Nevada and California.

From a group of small rural telephone companies, Telephone Utilities has grown and expanded to become a diversified communications operation. Advantages of central planning and financing plus large scale purchasing and warehousing at our TU Service Company in Portland give our companies the best of both worlds—local, personal operation and specialized communication support associated with corporate strength.

We serve a diverse mix of communities—from suburbs of Seattle, Tacoma, Spokane and Portland to much of the rugged terrain of South-eastern Alaska. They range from rapidly developing resort areas to diversified agricultural communities, from inland towns with integrated forest products manufacturers and light industrial plants to coastal fishing and seafood processing centers.

Historically, our internal growth rate, expressed in number of telephones, has substantially exceeded the national average for the industry.

However, during 1981, the economic downturn in the Pacific Northwest resulted in a modest 3% increase in telephones served. Long distance calls originating from our lines increased 5% in 1981—somewhat less than the 11% and 12% increases of the years before. Economic activity in Alaska remains strong to the benefit of our operations there.

At the end of 1981 we employed 1,161 full time employees, including 40 new employees in our background music companies. About 55% are members of seven different bargaining units. Six of these are affiliated with the International Brotherhood of Electrical Workers or the Communications Workers of America. In 1981 we renegotiated contracts with four of these groups. Two contracts will expire in 1982 and one in 1983.

The telecommunications industry faces sweeping changes and Telephone Utilities is ready to respond to the challenges and opportunities ahead. Congressional interest in deregulation and recent Federal Communications Commission (FCC) actions have lead to increased competition in the long distance market and a general re-examination of all telephone rate structures. The FCC has recently adopted changes in the long distance revenue settlement process. These changes will tend to reduce our rate of growth in toll revenues.

As a result of changes to date and general increases in our costs, we have filed rate applications in Mon-

tana, Washington and Oregon which will affect about 82% of our telephone customers. The total rate relief requested is \$6,800,000. We expect decisions in all three cases by mid-year 1982. These decisions should enhance our performance.

The Telephone Utilities emphasis on customer service and our people-to-people marketing program has kept us competitive—and avoided significant revenue losses. More important in our strategy to provide additional revenues and earnings is our entry into non-regulated communications businesses as described on pages 6 and 7.



Above, telephone service to homes, business and government is our area of major emphasis.

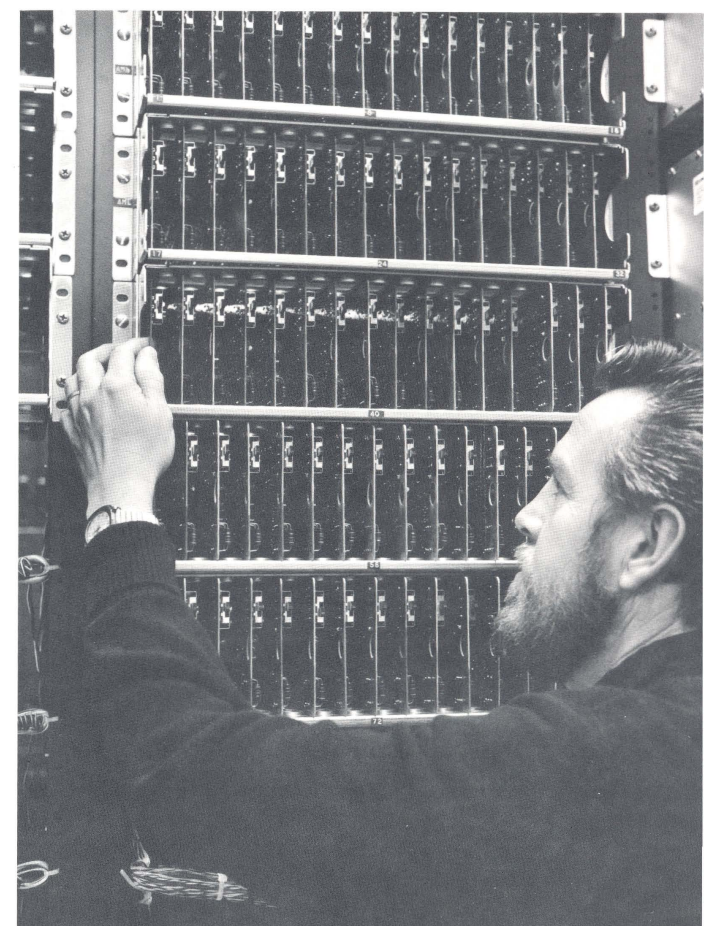


Above, this recorded music playback system provides background music to over 1,650 Portland, Oregon area subscribers.



Left, in our business music studios we use professional talent to create an array of in-store commercials for supermarkets and discount stores.

Below, skilled employees and the latest electronic technology keep us competitive in the rapidly changing telecommunications industry.



Construction and Service Improvements

New construction and upgrading of our telephone networks fills two needs. First, we must provide new telephone service in our growing areas, many of which are forecast to substantially increase in population during the next decade. Second, we are working to improve the quality of service to our present subscribers by converting central offices to new electronic switching systems and by other plant additions aimed at increasing the availability of one- and two-party service.

Our new service demands are temporarily at low levels, primarily because of the general economic slowdown. However, as the economy improves, as the wood products industry experiences renewed demand, and as we see the continued effects of the population shift westward, we expect to see greatly increased requests for service.

Conversion of our central office equipment from slower, bulky electromagnetic switches to compact, rapid electronic switches is a high priority. In 1981 we placed five new central offices in service, bringing electronic switching capabilities to

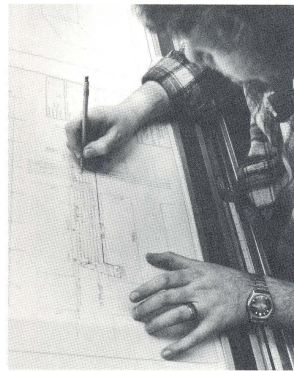
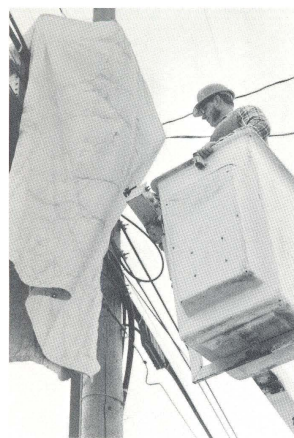
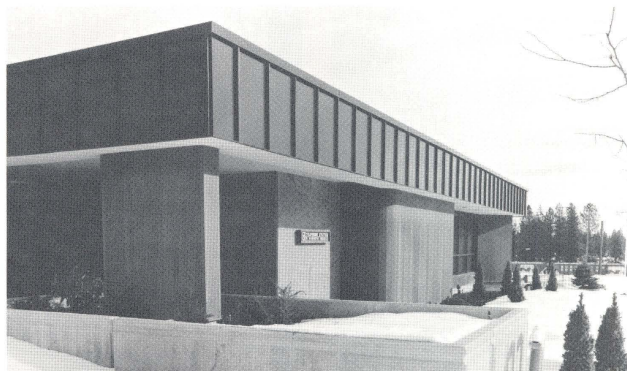
40% of our subscribers. The benefits to the caller are faster touch dialing and special optional services such as call forwarding and waiting. We also installed our first fiber optics transmission systems near Cheney, Washington and Kalispell, Montana.

Today's improvements also offer great benefits in the future. For example, our newly converted Lebanon, Oregon central office serves about 20,000 telephones, but the installation can be readily expanded to handle the projected growth as this area of the central Willamette Valley develops. Thus 1981's investment in better service will help control costs

for future subscribers.

We spent \$34,500,000 in 1981 on construction—including new materials, equipment, the reuse of serviceable equipment and the cost of installation and removal.

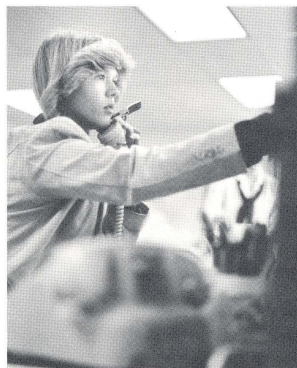
In 1982, we have budgeted \$35,500,000 for construction, most of which we will generate internally. The key to this construction plan is the state of the economy in our service areas. We will continue to review our construction budget and should the economy decline further, we may spend less than our budgeted amount, delaying or deferring construction.



Left, our people are still the key to service improvements, whether they are designing networks, installing them, or maintaining accurate records.

Below, this new digital electronic switching system in Lebanon, Oregon uses computer technology to switch calls.

Right and above, our new business and central office in Cheney, Washington represents a major investment that offers easier consumer access and a more productive working environment for employees.



Right, our Portland business music company operates from this striking modern building located centrally to customers.



A Look at the Future of Pacific Telecom

As mentioned in the President's Letter, after shareholder approval, the Company of 1981 will take on a new look and a new name—Pacific Telecom, Inc.—in 1982. We began as a telephone company and we continue to view telecommunications service as our basic business. However, new technology and nonregulated business opportunities will allow us to expand our revenue base, a prospect that should be as exciting to our shareholders as it is to us.

First, we have entered the background music industry. Our operations in Portland, Seattle, Reno and Minneapolis provide background music to office buildings, institutions, restaurants, medical offices, and airports, plus in-store advertising to supermarkets, department and discount stores. The combination of musical mood enhancement and a proven advertising medium has a good potential, and we expect this segment of our business to do well.

Second, we have acquired a 20% interest in Comdial Corporation, a high technology manufacturer of solid state electronic communications equipment. Their recently developed products cover a variety of applications of semiconductor technology featuring large scale integrated circuitry. Some of these products can be used in our operations; others should compete profitably in the electronics industry. We also acquired a 39% interest in Cidcomm International, another California firm that manufactures and markets telephone products.

Finally, the consolidation of Telephone Utilities with Alascom will make us, in terms of revenues, the

sixth largest independent telephone company in the United States.

Alascom operates a vast network of long distance communications facilities, many of which use satellite transmission of signals. In late 1982 Alascom plans to launch a satellite dedicated to its own use. As we enter the era of deregulation, these Alascom network capabilities will allow us to provide satellite supported services to a wide market area.

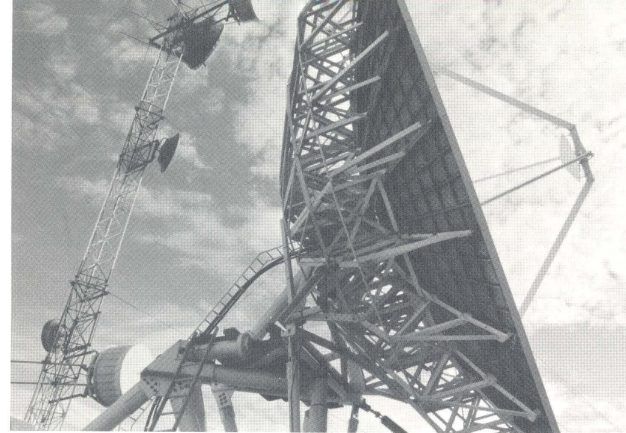
Recently, Alascom acquired 40% ownership interest in MultiVisions, Ltd., a cable television system under construction in the greater Anchorage area.

To effectively manage the consolidated activities of Pacific Telecom, we are in the process of constructing a headquarters building in Vancouver, Washington. Pacific Telecom will have a 50% ownership interest in this facility. We expect to occupy about 55% of the building's 225,000 square feet. By reorganizing and realigning management, we can take advantage of the combined skills of employees of Telephone Utilities and Alascom. The result will be a sophisticated and responsive management team, which is prepared to capitalize on the communications opportunities of the next decade.



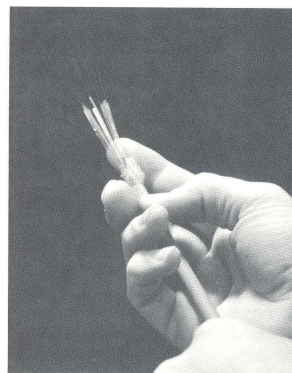
Above, to serve sparsely populated areas of Alaska, physicians use the Alascom network to transmit patient x-rays and other diagnostic information, saving time and transportation costs.

Right, the combination of interconnected computer terminals and microfilmed operating information allows our technicians to maintain the telephone system with much higher efficiency.



Left, Alascom's experience with satellite transmission and receiving earth stations like this large unit will be invaluable as we expand stateside communications services.

Left center, these thin optical glass fibers that now link our Medical Lake and Cheney, Washington terminals (below) transmit through pulses of light a volume of information that would have required a conventional cable more than 3" in diameter.



Selected Financial Data

| Years ended December 31— | 1981 | 1980 | 1979 | 1978 | 1977 |
|---|---------------|---------------|---------------|---------------|---------------|
| Operating revenues | \$ 77,770,637 | \$ 64,982,239 | \$ 54,170,036 | \$ 44,698,124 | \$ 37,155,363 |
| Operating expenses other than federal income taxes | 49,655,736 | 41,260,324 | 33,420,887 | 27,168,676 | 22,978,085 |
| Federal income taxes | 9,731,300 | 8,735,700 | 8,135,650 | 6,955,750 | 5,523,649 |
| Total operating expenses | 59,387,036 | 49,996,024 | 41,556,537 | 34,124,426 | 28,501,734 |
| Operating income | 18,383,601 | 14,986,215 | 12,613,499 | 10,573,698 | 8,653,629 |
| Other income (expense), net . . | 30,661 | 5,958 | (6,211) | 252,961 | 290,597 |
| Interest expense | 5,295,958 | 3,588,670 | 2,563,586 | 2,669,375 | 2,742,470 |
| Minority interest in net income and preferred stock dividends of subsidiaries . . . | 31,295 | 29,053 | 33,666 | 43,967 | 51,328 |
| 8 Income from telephone operations | 13,087,009 | 11,374,450 | 10,010,036 | 8,113,317 | 6,150,428 |
| Parent operations—interest, expenses and taxes, net | 2,431,418 | 1,465,338 | 874,984 | 295,759 | 344,853 |
| Net income | 10,655,591 | 9,909,112 | 9,135,052 | 7,817,558 | 5,805,575 |
| Preferred stock dividends | 28,660 | 30,172 | 30,172 | 30,172 | 30,473 |
| Net income applicable to common stock | \$ 10,626,931 | \$ 9,878,940 | \$ 9,104,880 | \$ 7,787,386 | \$ 5,775,102 |
| Average number of common shares outstanding | 4,727,445 | 4,653,924 | 4,673,040 | 4,724,202 | 4,727,985 |
| Data per common share: | | | | | |
| Net income | \$2.25 | \$2.12 | \$1.95 | \$1.65 | \$1.22 |
| Dividends declared | \$.96 | \$.83 | \$.75 | \$.54 | \$.25 |
| Dividends paid | \$.96 | \$.83 | \$.75 | \$.54 | \$.33 |
| Total assets | \$214,837,151 | \$184,673,346 | \$150,882,759 | \$130,186,272 | \$119,067,105 |
| Long-term debt | \$ 71,313,642 | \$ 66,537,920 | \$ 29,404,211 | \$ 41,660,653 | \$ 43,440,583 |

Management's Discussion and Analysis of Financial Condition and Results of Operations

In summary, the following items have affected the 1981 results of operations of Telephone Utilities, Inc. (TU) and TU consolidated with its subsidiaries (Company):

1) Construction expenditures of \$34,500,000 after 1980 expenditures of \$36,700,000.

2) Increased internal generation of funds to \$30,317,000 or 88% of construction expenditures.

3) Continued endurance of extremely high interest rates.

4) Inclusion of Sitka Telephone Company in the results of operations and full-year inclusion of T.U. of Alaska.

In addition, certain items will significantly or substantially change the Company in the future:

1) The proposed acquisition of Alascom, Inc. from TU's majority shareholder. (See Note 10 of Notes to Consolidated Financial Statements.)

2) Entry into non-regulated areas through the 1981 acquisition of two background music companies and equity investments in two telecommunications equipment manufacturing/sales companies.

Despite the large construction program and high interest rates, the Company again achieved record level net income and earnings per common share. Both operating revenues and operating income also reached new records.

Results of Operations

Net income increased \$746,000 or 8% as compared to an 8% gain in 1980. Net income per common share increased \$.13 or 6% following the \$.17 (9%) increase in 1980.

Operating revenues increased \$12,788,000 or 20% in 1981 after the \$10,812,000 or 20% increase in 1980. The 1981 increase reflects approximately \$4,200,000 applicable to the two Alaskan subsidiaries acquired in late 1980. Local service revenue increased \$2,802,000 or

17% in 1981 after the \$1,644,000 or 11% increase in 1980. This resulted from the full-year effect of the Alaskan subsidiaries and internal growth in telephones served in the non-Alaskan subsidiaries. The 21% or \$9,303,000 increase in 1981 toll service revenue (following the 24% increase in 1980) resulted from the Alaskan subsidiaries (\$2,794,000), increased toll usage by our customers and increased costs and investment related to the provision of toll service. Toll service revenues represent 70% of total operating revenues in 1981 and 69% in 1980.

Operating expenses other than federal income taxes increased \$8,395,000 or 20% in 1981 after a \$7,839,000 or 23% increase in 1980. Of the 1981 increase, \$2,854,000 represented the full-year effect of the Alaska subsidiaries. Excluding the effect of the Alaskan subsidiaries, maintenance expense increased a modest 6% in 1981 after the 24% increase of 1980. The 1980 increase resulted from the impact of the large construction programs of both 1979 and 1980. The 1981 increase in depreciation expense (\$2,105,000 or 20%) resulted from increased plant in service and followed a 25% increase in 1980. The composite depreciation rates were 6.6% in both 1981 and 1980 and 6.3% in 1979. Commercial, administrative and other operating expenses increased \$3,379,000 or 31% in 1981 including \$1,045,000 attributable to the Alaska subsidiaries. The 1981 increase followed a \$2,741,000 or 34% increase in 1980. The increases for both years resulted from increased salary levels and increased personnel in the administrative and support functions to meet the needs of the operating subsidiaries.

Federal income taxes increased by \$996,000 or 11% in 1981 after the 7% increase in 1980. The increase for both years resulted from increased taxable income. The 1981 increase included \$293,000 applicable to the Alaska subsidiaries.

Interest expense for the operating subsidiaries increased \$1,707,000 or 48% in 1981 after the \$1,025,000 or 40% increase of 1980 compared to 1979. The 1981 increase resulted from the sustained high level of the prime interest rate which impacted the \$16,000,000 of three-year unsecured obligations of the subsidiaries. Included in the \$16,000,000 is \$5,000,000 of unsecured debt which was issued in September 1980.

The parent operations loss increase of \$996,000 or 66% in 1981 also reflected the sustained high level of the prime interest rate and followed the 67% increase in 1980. The high level interest rate impacted both the borrowings from TU's majority shareholder and the \$15,000,000 in unsecured debt issued by TU in September 1980.

The estimated effects of inflation on the Company's results of operations are set forth in Note 12 of Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

Internal generation of funds for 1981 equaled 88% of the \$34,500,000 in construction expenditures as compared to 69% of the \$36,700,000 expended in 1980. During 1981, the Company issued an additional \$7,350,000 in long-term debt including \$4,573,000 in Rural Electrification Administration (REA) debt.

The 1982 construction program of approximately \$35,500,000 will be financed primarily with internally-generated funds. In addition, the Company will also receive additional funds from the REA for construction within the REA-financed operating subsidiaries. Any additional requirements will be funded through advances from the majority shareholder.

Management's opinion is that the Company's capital resources are adequate to provide for its liquidity needs and allow completion of its 1982 construction program.

Consolidated Statements of Income

| <i>Years ended December 31—</i> | | 1981 | 1980 | 1979 |
|--|--|--------------|--------------|--------------|
| Operating revenues: | | | | |
| Local service | | \$19,649,420 | \$16,847,226 | \$15,203,413 |
| Toll service | | 54,290,130 | 44,987,589 | 36,192,977 |
| Government communication service | | 898,684 | 894,853 | 841,255 |
| Miscellaneous | | 2,932,403 | 2,252,571 | 1,932,391 |
| Total operating revenues | | 77,770,637 | 64,982,239 | 54,170,036 |
| Operating expenses: | | | | |
| Maintenance | | 15,712,198 | 13,871,956 | 11,160,738 |
| Depreciation (Note 1) | | 12,714,056 | 10,609,457 | 8,505,172 |
| Traffic | | 1,256,194 | 1,091,266 | 982,555 |
| Commercial, administrative and other | | 14,214,754 | 10,835,906 | 8,095,387 |
| 10 Taxes other than federal income taxes | | 5,758,534 | 4,851,739 | 4,677,035 |
| Federal income taxes (Notes 2 and 6) | | 4,093,300 | 4,414,700 | 4,120,650 |
| Deferred federal income taxes (Notes 1 and 6) | | 3,035,000 | 2,082,000 | 1,789,000 |
| Deferred investment tax credit, net (Notes 1 and 6) | | 2,603,000 | 2,239,000 | 2,226,000 |
| Total operating expenses | | 59,387,036 | 49,996,024 | 41,556,537 |
| Operating income | | 18,383,601 | 14,986,215 | 12,613,499 |
| Other income (expense), net | | 30,661 | 5,958 | (6,211) |
| Interest expense—principally on long-term debt | | 5,295,958 | 3,588,670 | 2,563,586 |
| Minority interest in net income and preferred stock dividends of subsidiaries | | 31,295 | 29,053 | 33,666 |
| Income from telephone operations | | 13,087,009 | 11,374,450 | 10,010,036 |
| Parent operations—interest, expenses and taxes, net (Note 5) | | 2,431,418 | 1,465,338 | 874,984 |
| Net income | | 10,655,591 | 9,909,112 | 9,135,052 |
| Preferred stock dividends | | 28,660 | 30,172 | 30,172 |
| Net income applicable to common stock | | \$10,626,931 | \$ 9,878,940 | \$ 9,104,880 |
| Net income per common share (Note 1) | | \$2.25 | \$2.12 | \$1.95 |

SEE ACCOMPANYING NOTES.

Consolidated Statements of Changes in Financial Position

| <i>Years ended December 31—</i> | 1981 | 1980 | 1979 |
|---|----------------|---------------|----------------|
| Sources of working capital: | | | |
| From operations: | | | |
| Net income | \$ 10,655,591 | \$ 9,909,112 | \$ 9,135,052 |
| Items not requiring working capital: | | | |
| Depreciation and amortization | 13,679,331 | 11,122,327 | 8,943,978 |
| Deferred income taxes and investment tax credit, net | 5,982,000 | 4,474,000 | 4,203,000 |
| Total from operations | 30,316,922 | 25,505,439 | 22,282,030 |
| Long-term debt issued | 7,350,216 | 35,890,000 | 491,712 |
| Long-term debt assumed in connection with acquisition of subsidiaries | — | 2,950,001 | — |
| Issue of common stock held as treasury shares | — | 1,421,757 | — |
| Salvage from plant and equipment retired | 2,245,394 | 986,492 | 681,135 |
| | \$ 39,912,532 | \$ 66,753,689 | \$ 23,454,877 |
| Applications of working capital: | | | |
| Property, plant and equipment: | | | |
| Additions to telephone plant in service | \$ 38,217,179 | \$ 33,302,292 | \$ 28,294,224 |
| Net change in construction work in progress | (1,615,134) | 2,139,857 | 363,811 |
| Net plant added through acquisition of subsidiaries | 2,030,636 | 6,258,149 | — |
| | 38,632,681 | 41,700,298 | 28,658,035 |
| Cost of removal of plant and equipment | 650,164 | 547,423 | 366,772 |
| Reduction of long-term debt | 2,574,494 | 1,706,292 | 12,748,154 |
| Investments | 7,327,879 | 56,512 | — |
| Dividends | 4,567,008 | 3,905,152 | 3,533,380 |
| Additions to cost in excess of equity in net assets of subsidiaries | 629,115 | 1,910,000 | — |
| Acquisition of common stock as treasury shares | — | 753,250 | 601,091 |
| Other—net | (176,942) | (857,585) | (296,987) |
| Increase (decrease) in working capital | (14,291,867) | 17,032,347 | (22,155,568) |
| | \$ 39,912,532 | \$ 66,753,689 | \$ 23,454,877 |
| Increase (decrease) in the elements of working capital: | | | |
| Cash and temporary cash investments | \$ (19,064) | \$ 258,033 | \$ (2,362,851) |
| Accounts receivable | (1,132,792) | 3,716,132 | 583,835 |
| Material and supplies | (351,436) | (2,233,859) | 2,988,307 |
| Other current assets | 231,698 | (51,397) | 26,733 |
| Notes payable—affiliates | (15,500,000) | 8,700,000 | (13,700,000) |
| Accounts payable | 1,774,557 | (4,358,615) | 610,733 |
| Income taxes payable | 1,039,241 | 88,147 | 1,145,010 |
| Current maturities on long-term debt | (290,471) | 10,786,569 | (10,868,680) |
| Other current liabilities | (43,600) | 127,337 | (578,655) |
| | \$(14,291,867) | \$ 17,032,347 | \$(22,155,568) |

SEE ACCOMPANYING NOTES.

TELEPHONE UTILITIES, INC.
Consolidated Balance Sheets

| December 31— | 1981 | 1980 |
|---|---------------|---------------|
| Assets | | |
| Telephone plant: | | |
| Telephone plant in service (Notes 1 and 3) | \$221,645,877 | \$191,753,863 |
| Less accumulated depreciation | 46,923,713 | 42,102,183 |
| | 174,722,164 | 149,651,680 |
| Construction work in progress | 5,182,049 | 6,797,183 |
| | | |
| Net telephone plant | 179,904,213 | 156,448,863 |
| Investments (Note 8) | 7,384,391 | 56,512 |
| Cost of acquisitions in excess of equity in net assets of subsidiaries (Note 1) | 13,176,899 | 12,645,014 |
| Current assets: | | |
| Cash | 507,062 | 526,126 |
| Accounts receivable | 8,385,988 | 9,518,780 |
| Material and supplies (Note 1) | 4,663,965 | 5,015,401 |
| Other current assets | 419,345 | 187,647 |
| | | |
| Total current assets | 13,976,360 | 15,247,954 |
| Unamortized debt expense and other deferred charges | 395,288 | 275,003 |
| | | |
| | \$214,837,151 | \$184,673,346 |

SEE ACCOMPANYING NOTES.

| | 1981 | 1980 |
|---|---------------|---------------|
| Capitalization and Liabilities | | |
| Shareholders' equity: | | |
| Common stock, \$1 par value, 12,000,000 shares authorized, 4,728,079 shares issued | \$ 4,728,079 | \$ 4,728,079 |
| Preferred stock, \$25 par value, 6% cumulative, 152,000 shares authorized, 23,628 shares issued | 590,700 | 590,700 |
| Capital in excess of par value | 26,782,317 | 26,782,317 |
| Retained earnings (Note 3) | 44,139,762 | 38,051,179 |
| | 76,240,858 | 70,152,275 |
| Less treasury stock (at cost) common stock—634 shares in 1981 and 1980; preferred stock—4,947 shares in 1981 and 3,513 shares in 1980 | 107,039 | 93,416 |
| Total shareholders' equity | 76,133,819 | 70,058,859 |
| Minority interest in subsidiaries | 204,358 | 220,438 |
| Long-term debt (Note 3) | 71,313,642 | 66,537,920 |
| Current liabilities: | | |
| Notes payable—affiliates (Note 2) | 20,500,000 | 5,000,000 |
| Accounts payable | 9,723,708 | 11,498,265 |
| Income taxes payable | 1,776,478 | 2,815,719 |
| Accrued liabilities | 2,397,237 | 2,517,443 |
| Advance billings | 1,127,732 | 963,926 |
| Current maturities on long-term debt (Note 3) | 2,213,746 | 1,923,275 |
| | | |
| Total current liabilities | 37,738,901 | 24,718,628 |
| Deferred income taxes (Notes 1 and 6) | 15,202,676 | 11,878,585 |
| Unamortized investment tax credit (Notes 1 and 6) | 12,374,163 | 9,715,831 |
| Other deferred credits | 1,869,592 | 1,543,085 |
| Commitments (Note 7) | | |
| | \$214,837,151 | \$184,673,346 |

SEE ACCOMPANYING NOTES.

Consolidated Statements of Retained Earnings

| Years ended December 31— | 1981 | 1980 | 1979 |
|--|--------------|--------------|--------------|
| Balance at beginning of year | \$38,051,179 | \$32,047,219 | \$26,373,115 |
| Net income | 10,655,591 | 9,909,112 | 9,135,052 |
| | 48,706,770 | 41,956,331 | 35,508,167 |
| Miscellaneous credits, per regulatory authority | — | — | 72,432 |
| | 48,706,770 | 41,956,331 | 35,580,599 |
| Deduct: | | | |
| Cash dividends: | | | |
| Common stock (1981—\$.96; 1980—\$.83; 1979—\$.75 per share) | 4,538,348 | 3,874,980 | 3,503,208 |
| Preferred stock | 28,660 | 30,172 | 30,172 |
| | 4,567,008 | 3,905,152 | 3,533,380 |
| Balance at end of year (Note 3) | \$44,139,762 | \$38,051,179 | \$32,047,219 |

SEE ACCOMPANYING NOTES.

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. (TU) consolidated with its subsidiaries (Company). All appropriate intercompany transactions have been eliminated.

(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.

Depreciation is provided using the straight-line method based primarily on the estimated service lives of the various classes of depreciable assets. The average composite depreciation rate for depreciable telephone plant was 6.6% in 1981, 6.6% in 1980 and 6.3% in 1979.

(d) *Allowance for funds used during construction* — Effective January 1, 1979, the FCC amended its system of accounts to provide that the allowance for funds used during construction should be capitalized only on long-duration (one year or longer) construction projects. Because none of the Company's construction projects in process during the periods 1979 through 1981 have required one year or more for completion, the Company, during the periods presented, has capitalized no financing costs related to its construction program.

(e) *Cost of acquisitions in excess of equity in net assets of subsidiaries* — At December 31, 1981, TU's investment in consolidated subsidiaries includes \$13,176,899 of cost in excess of the carrying value of net assets of purchased subsidiaries. Of the total, \$9,238,835 applies to acquisitions initiated prior to November 1, 1970; these costs are not being amortized since, in the opinion of management, there has been no diminution in value. Such costs applicable to subsidiaries purchased subsequent to November 1, 1970, are being amortized over 40 years; unamortized amounts were \$3,938,064 and \$3,406,179 at December 31, 1981 and 1980, respectively.

(f) *Material and supplies* — Material and supplies are stated at average cost.

(g) *Income taxes* — Deferred income taxes are provided for the income tax reductions resulting from both the additional depreciation deduction allowed by the ACRS provision of the Economic Recovery Tax Act of 1981 and the ADR provision of the Revenue Act of 1971 as well as the current deductions for income tax purposes of the cost of removal of retired assets.

The reduction in federal income taxes associated with the utilization of investment tax credit (\$3,549,000 in 1981, \$2,909,000 in 1980 and \$2,708,000 in 1979) has been deferred in the accompanying financial statements and is being amortized to income over the estimated service lives of the related assets.

(h) *Net income per common share* — Net income per common share is based on the following weighted average number of common shares outstanding during each year: 1981—4,727,445; 1980—4,653,924; and 1979—4,673,040.

2. Transactions with related parties

At December 31, 1981 and 1980, approximately 81% of TU's outstanding common stock was beneficially owned by Pacific Power & Light Company (Pacific). The following is a summary of transactions with Pacific:

(a) *Management services* — Pacific provides, at cost, certain management and other services to the Company under a management services agreement. Billings under this management services agreement totaled \$268,000 in 1981, \$243,000 in 1980 and \$182,000 in 1979.

(b) *Notes payable-affiliates*—At December 31, 1981 and 1980, notes payable-affiliates represented \$20,500,000 and \$5,000,000, respectively, of short-term advances from Pacific. These transactions were made under an agreement providing for temporary cash investment or advances at the prime commercial rate of interest. The daily weighted average balance of advances from Pacific was \$8,895,000 in 1981 and \$10,311,000 in 1980. The weighted average interest rate on these advances was 19% during 1981 and 15% during 1980. The maximum amount outstanding was \$20,500,000 during 1981 and \$17,600,000 during 1980.

(c) *Income taxes*—The Company will join with Pacific in filing a consolidated federal income tax return. The Company's federal income tax provision is based on its filing a separate consolidated federal income tax return.

(d) *Toll service revenue*—TU's two Alaskan subsidiaries record toll revenue based on toll settlement agreements with an affiliate of Pacific. These agreements are the same as those used by that affiliate with all non-affiliated telephone operating companies who follow similar cost-basis toll settlement procedures. During 1981 the two subsidiaries recorded \$3,002,000 in toll revenues under the agreements.

3. Long-term debt

Long-term debt at December 31, 1981 and 1980, consisted of the following:

| | 1981 | 1980 |
|--|--------------|--------------|
| Parent Company— | | |
| 8%-11.5% Unsecured notes | \$10,066,518 | \$ 9,817,217 |
| Unsecured note, due in 1983, variable interest rate (13.77% at December 31, 1981)* | 15,000,000 | 15,000,000 |
| Subsidiaries— | | |
| 2%-8% First Mortgage notes payable to Rural Electrification Administration and Rural Telephone Bank, maturities through 2016 | 11,357,581 | 6,881,049 |
| 5.1%-15.8% First Mortgage notes and bonds, maturities through 1998 | 16,295,592 | 17,381,478 |
| 6%-12% Unsecured notes, maturities through 2007 | 4,807,697 | 3,381,451 |
| Unsecured notes, due in 1983, variable interest rate (14.51% at December 31, 1981)* | 16,000,000 | 16,000,000 |
| Total long-term debt | 73,527,388 | 68,461,195 |
| Less current maturities | 2,213,746 | 1,923,275 |
| | \$71,313,642 | \$66,537,920 |

*The unsecured note loans bear interest based, at the option of the borrower, on either the prime interest rate or based on the interest rates of certificate of deposit obligations of the lender. The loans are renewable at the option of the borrowers through September, 1983.

Substantially all telephone plant in service is pledged as collateral under loan agreements related to long-term debt. Certain of the agreements contain provisions restricting the payment of cash dividends, and one loan agreement, in addition to restricting cash dividends, contains limitations on purchases or redemptions of TU's stock. Accordingly, consolidated retained earnings available for dividends and other distributions at December 31, 1981 was \$26,500,000 of which \$25,600,000 was available from the retained earnings of subsidiaries.

Total long-term debt maturing annually within each of the four years subsequent to 1982 is as follows:

| | | | |
|------------|--------------|------------|-------------|
| 1983 | \$32,878,000 | 1985 | \$2,018,000 |
| 1984 | \$ 1,896,000 | 1986 | \$1,961,000 |

4. Pension Plan

Substantially all employees are covered under the pension plan of the Company. Contributions accrued for the plan were \$1,462,000 in 1981, \$823,000 in 1980 and \$779,000 in 1979. The required contribution includes amortization of past-service costs over a ten-year period. Pension costs are funded as accrued. The status of the plan's accumulated benefits and net assets at the dates of its actuarial reports as of January 1, 1981 and 1980 is summarized as follows:

| | 1981 | 1980 |
|---|-------------|-------------|
| Actuarial present value of accumulated plan benefits: | | |
| Vested | \$5,442,000 | \$4,307,000 |
| Nonvested | 589,000 | 1,055,000 |
| | \$6,031,000 | \$5,362,000 |
| Net assets available for benefits | \$6,056,000 | \$4,472,000 |

During 1981, the plan was amended to increase the amount of benefits; the assumed rate of return used in determining the actuarial present value of accumulated plan benefits was increased from 5 percent to 8 percent, and the actuarial cost method used in computing pension cost was changed. These changes were the primary reason for the increase in contribution between 1980 and 1981.

5. Parent operations

Parent operations of TU are summarized as follows:

| | 1981 | 1980 | 1979 |
|--------------------------------------|-------------|-------------|------------|
| Interest income: | | | |
| From subsidiaries | \$ 379,664 | \$ 210,910 | \$ 10,783 |
| Other | 46,181 | 29,150 | 59,173 |
| | 425,845 | 240,060 | 69,956 |
| Interest expense: | | | |
| To subsidiaries | — | — | 604 |
| On long-term debt | 3,498,353 | 1,482,865 | 842,577 |
| On notes payable—affiliates (Note 2) | 1,653,588 | 1,575,702 | 756,585 |
| | 5,151,941 | 3,058,567 | 1,599,766 |
| Federal income tax (credit): | | | |
| Federal income taxes | (2,105,000) | (1,222,000) | (768,000) |
| Deferred federal income taxes | (8,000) | (24,000) | 15,000 |
| Deferred investment tax credit, net | 56,000 | 16,000 | 19,000 |
| | (2,057,000) | (1,230,000) | (734,000) |
| Other (income) expense—net | (237,678) | (123,169) | 79,174 |
| | \$2,431,418 | \$1,465,338 | \$ 874,984 |

6. 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 on federal income taxes are as follows:

| | 1981 | 1980 | 1979 |
|--------------------------------------|-------------|-------------|-------------|
| Excess of tax over book depreciation | \$2,744,000 | \$1,814,000 | \$1,642,000 |
| Cost of removal of retired assets | 283,000 | 243,000 | 162,000 |
| | \$3,027,000 | \$2,057,000 | \$1,804,000 |

The Company's effective combined state and federal income tax rate was 44.3% in 1981, 45.1% in 1980 and 47.0% in 1979. The difference between these effective tax rates and the federal income tax statutory rate of 46% is attributable to the following:

| | 1981 | 1980 | 1979 |
|--|--------|-------|-------|
| Interest, taxes and pensions capitalized, net | (.3)% | (.3)% | .1% |
| Amortization of investment tax credit | (4.7) | (3.6) | (2.7) |
| State income taxes, net of federal tax benefit | 2.1 | 1.9 | 2.3 |
| Other | 1.2 | 1.1 | 1.3 |
| | (1.7)% | (.9)% | 1.0% |

7. Commitments

Expenditures in connection with the Company's construction program will approximate \$35,500,000 in 1982. Commitments under several minor long-term leases are not material to results of operations or financial position.

8. Investments

The investment balance at December 31, 1981, represents ownership interests ranging from 25 to 39 percent in three companies, one of which provides telecommunications services; the others manufacture or distribute telecommunications equipment. These investments are accounted for under the equity method of accounting. The financial results of these transactions were immaterial for 1981.

9. Subsequent event

On January 5, 1982, TU acquired Inter-Island Telephone Company for a cash payment of \$4,000,000. Inter-Island provides service to approximately 6,000 telephones in the San Juan Islands of northwest Washington. This acquisition will be accounted for as a purchase, and the \$2,200,000 of cost in excess of net assets acquired will be amortized over a forty-year period. Pro forma operating results, assuming acquisition of Inter-Island at the beginning of 1979, would not materially change from those herein reported.

10. Planned acquisition

During 1982, TU will acquire, subject to regulatory and shareholder approval, ownership of Alascom, Inc., a wholly-owned subsidiary of Pacific, TU's majority shareholder. Alascom provides intrastate and interstate communications services for the State of Alaska. These services include telephone, television and private line telecommunications among others. It is planned that the acquisition will occur through the exchange of 12,850,000 newly-issued shares of TU common stock for the Alascom common stock and that the acquisition will be recorded in a manner similar to a pooling of interests. To issue the additional shares will require amendment of TU's Articles of Incorporation to increase the authorized number of shares of common stock. Had the acquisition been consummated before year-end, the Company's consolidated assets and liabilities would have increased by \$416,373,000 and \$208,917,000, respectively. In addition, the following amounts would have been reported in the consolidated income statements:

| | 1981 | 1980 | 1979 |
|---------------------------------------|------------------------|------------|------------|
| | (thousands of dollars) | | |
| Total operating revenues | \$ 278,100 | \$ 230,847 | \$ 204,967 |
| Net income applicable to common stock | \$ 47,187 | \$ 33,908 | \$ 28,901 |
| Net income per common share | \$2.68 | \$1.94 | \$1.65 |

11. Quarterly financial data (Unaudited)

Summarized quarterly financial data for 1981 and 1980 is as follows:

| | Three Months Ended | | | |
|-----------------------------|--------------------|--------------|--------------|--------------|
| | March 31 | June 30 | Sept. 30 | Dec. 31 |
| 1981 | | | | |
| Operating revenues | \$18,017,657 | \$18,440,352 | \$20,366,023 | \$20,946,605 |
| Operating income | \$ 3,899,468 | \$ 4,472,210 | \$ 4,639,009 | \$ 5,372,914 |
| Net income | \$ 2,164,110 | \$ 2,368,250 | \$ 2,655,331 | \$ 3,467,900 |
| Net income per common share | \$.46 | \$.50 | \$.56 | \$.73 |
| 1980 | | | | |
| Operating revenues | \$14,626,651 | \$15,850,459 | \$16,457,762 | \$18,047,367 |
| Operating income | \$ 3,049,206 | \$ 3,682,950 | \$ 3,696,978 | \$ 4,557,081 |
| Net income | \$ 1,993,924 | \$ 2,162,316 | \$ 2,560,785 | \$ 3,192,087 |
| Net income per common share | \$.43 | \$.47 | \$.55 | \$.67 |

12. Supplementary information to disclose effects of changing prices (Unaudited)

The following supplementary information is supplied in accordance with the requirements of FASB Statement No. 33, "Financial Reporting and Changing Prices," for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power as measured by the Consumer Price Index for All Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of property, plant and equipment represents the estimated cost of replacing existing plant assets and was determined through the application of telecommunication and general plant indices to the existing historic costs of telephone plant.

The provision for depreciation of the constant dollar and current cost amounts of property, plant and equipment was determined by applying the Company's effective book depreciation rates by type of asset to the respective average indexed plant amounts.

As prescribed in Statement No. 33, income taxes were not adjusted.

Under the rate-making prescribed by the regulatory commissions to which the operating subsidiaries are subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess cost of plant stated in terms of constant dollars or current cost dollars over the historical cost of plant is not presently recoverable in rates as depreciation, and a restatement to average 1981 constant dollars is reflected as a reduction to net recoverable cost. While the rate-making process gives no recognition to the current cost of replacing property, plant and equipment, based on past practices, the Company will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statements of Consolidated Income, the reduction of net property, plant and equipment should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Statement of Income Adjusted For Changing Prices (Unaudited)
For the year ended December 31, 1981

| | As Recorded (Conventional Historical Cost) | As Adjusted For General Inflation (Constant Dollar) | As Adjusted For Changes in Specific Prices (Current Cost) |
|---|---|---|---|
| Operating revenues | \$77,770,637 | \$77,770,637 | \$77,770,637 |
| Maintenance | 15,712,198 | 15,712,198 | 15,712,198 |
| Depreciation | 12,714,056 | 21,068,958 | 21,631,507 |
| Traffic | 1,256,194 | 1,256,194 | 1,256,194 |
| Commercial, administrative and other | 14,214,754 | 14,214,754 | 14,214,754 |
| Taxes other than federal income taxes | 5,758,534 | 5,758,534 | 5,758,534 |
| Federal income taxes | 9,731,300 | 9,731,300 | 9,731,300 |
| Other income, parent operations, etc.—net | 2,432,052 | 2,432,052 | 2,432,052 |
| Interest charges | 5,295,958 | 5,295,958 | 5,295,958 |
| | \$67,115,046 | \$75,469,948 | \$76,032,497 |
| 18 Income from continuing operations (excluding reduction to net recoverable cost) | \$10,655,591 | \$ 2,300,689* | \$ 1,738,140 |
| Increase in specific prices (current cost) of property, plant and equipment held during the year | | | \$20,716,757 |
| Reduction to net recoverable cost | | \$ (5,848,623) | (3,891,998) |
| Effect of increase in general price level | | | (22,110,833) |
| Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost | | | (5,286,074) |
| Gain from decline in purchasing power of net amounts owed | | 9,349,987 | 9,349,987 |
| Net | | \$ 3,501,364 | \$ 4,063,913 |

*Including the reduction to net recoverable cost, the income on a constant-dollar basis would have been a loss of \$3,547,934 for 1981.

At December 31, 1981, current cost of property, plant and equipment, net of accumulated depreciation was \$279,330,532, while historical cost or net cost recoverable through depreciation was \$179,904,213.

**Supplementary Five-Year Comparison of Selected Financial
Data Adjusted For The Effects of Changing Prices (Unaudited)**

| | Average 1981 Dollars | | | | |
|--|----------------------|--------------|--------------|--------------|--------------|
| | 1981 | 1980 | 1979 | 1978 | 1977 |
| Historical cost information adjusted for general inflation: | | | | | |
| Operating revenues | \$77,770,637 | \$71,722,698 | \$67,874,507 | \$62,312,021 | \$55,763,752 |
| Income from continuing operations | 2,300,689 | 3,640,192 | 5,439,384 | | |
| Income from continuing operations per common share | .49 | .78 | 1.16 | | |
| Reduction of plant to net recoverable cost .. | 5,848,623 | 10,211,618 | 12,151,775 | | |
| Net assets (shareholders' equity) at year-end | 73,672,655 | 73,854,618 | 75,104,190 | | |
| Current cost information: | | | | | |
| Income from continuing operations | 1,738,140 | 2,834,782 | 4,547,320 | | |
| Income from continuing operations per common share | .37 | .61 | .97 | | |
| Excess of increase in general price level of plant held during the year over changes in specific prices after reduction to net recoverable cost | 5,286,074 | 9,406,208 | 11,259,698 | | |
| Net assets (shareholders' equity) at year-end | 73,672,655 | 73,854,618 | 75,104,190 | | |
| Other information: | | | | | |
| Purchasing power gain on net monetary items held during the year | 9,349,987 | 11,493,041 | 10,287,289 | | |
| Cash dividends declared per common share . | \$.96 | \$.92 | \$.95 | \$.75 | \$.39 |
| Market price per common share at year-end . | \$15.48 | \$13.18 | \$13.92 | \$15.77 | \$12.80 |
| Average Consumer Price Index | 272.4 | 246.8 | 217.4 | 195.4 | 181.5 |

Auditors' Opinion

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

We have examined the consolidated balance sheets of Telephone Utilities, Inc. and subsidiaries as of December 31, 1981 and 1980 and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned consolidated financial statements present fairly the financial position of Telephone Utilities, Inc. and subsidiaries at December 31, 1981 and 1980 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

Portland, Oregon
January 28, 1982

Common Stock Telephone Utilities, Inc.

Range of Bid and Asked Prices for Quarters Ended
(Source: NASD OTC Quote System)

| | Bid | | Asked | |
|--------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | High | Low | High | Low |
| March 31, 1980 | 11 ³ / ₄ | 9 ¹ / ₂ | 12 ³ / ₄ | 11 |
| June 30, 1980 | 11 ³ / ₄ | 9 ¹ / ₂ | 13 ¹ / ₄ | 11 |
| September 30, 1980 | 14 ¹ / ₂ | 11 ³ / ₄ | 15 ¹ / ₂ | 13 |
| December 31, 1980 | 13 ¹ / ₄ | 11 ³ / ₄ | 14 ¹ / ₂ | 12 ³ / ₄ |
| March 31, 1981 | 12 ¹ / ₂ | 11 | 13 ¹ / ₂ | 12 |
| June 30, 1981 | 16 | 11 | 16 ¹ / ₂ | 12 |
| September 30, 1981 | 15 | 14 ¹ / ₂ | 16 ¹ / ₂ | 16 |
| December 31, 1981 | 16 ¹ / ₂ | 15 | 18 | 16 |

Cash dividend payable dates

| Per Share | | Per Share | |
|-------------------------|-------|-------------------------|-------|
| March 3, 1980 | \$.20 | March 2, 1981 | \$.23 |
| June 2, 1980 | \$.20 | June 1, 1981 | \$.23 |
| September 2, 1980 | \$.20 | September 1, 1981 | \$.25 |
| December 8, 1980 | \$.23 | December 7, 1981 | \$.25 |

See Note 3 of Notes to Consolidated Financial Statements for restriction as to payment of dividends.

Stock is traded in National OTC Market

NASDAQ—TPHN

Officers

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

C. E. Peterson
*Senior Vice President
and General Manager*

Vern K. Dunham
*Senior Vice President
Revenue Requirements*

Lewis C. Neace, M.D.
Senior Vice President

James P. Best
*Vice President—
Controller*

John H. Geiger
Vice President

John E. McGill
*Vice President
Regulatory Affairs*

Brian M. Wirkkala
*Vice President
and Secretary*

E. B. Galligan
*Assistant
Vice President*

Harvey E. Pekkala
Treasurer

John Detjens III
Assistant Secretary

Margaret Wann
Assistant Secretary

Marva J. Wirkkala
Assistant Treasurer

Directors

John H. Geiger
*Vice President of the Company
and President, Evergreen
International Aviation, Inc.*

A. M. Gleason
President of the Company

Russell A. Hartman
*Vice President for
Administration, Eastern
Washington University,
Cheney, Washington*

Lewis C. Neace, M.D.
*Senior Vice President
of the Company and
practicing physician*

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

Robert A. Sneddon
*Plant Manager, Anaconda
Aluminum Company, a
division of The
Anaconda Company,
Columbia Falls, Montana*

Sidney R. Snyder
*President, Sid's Super
Market, Inc., retail
grocery store, Seaview,
Washington*

Hubert A. Tondreau
*Assistant Vice President,
Standard Insurance Company,
life insurer, Portland,
Oregon*

Transfer Agent and Registrar
*First Interstate Bank of Oregon
Portland, Oregon*

General Counsel
*Stoel, Rives, Boley, Fraser and Wyse
Portland, Oregon*

Special Counsel
*Bogle & Gates
Seattle, Washington*

Auditors
*Deloitte Haskins & Sells
Portland, Oregon*

In Memoriam,
B. Lamar Gaines
We are saddened by the passing of
longtime Board member B. Lamar
Gaines in December 1981. Over the past
nine years his advice and counsel was in-
strumental in the development of the
Company. We honor his memory and his
conscientious service to the Company.

Telephone Utilities, Inc. Operating Companies & Service Area

**EASTERN
WASHINGTON
DIVISION**
Cheney —
Headquarters
Amber
Spangle
Medical Lake
Reardan
Davenport
Creston
Hunters
Valley
Chewelach
Kettle Falls

Connell
Mesa
Basin City
Eltopia
Mathews
Corner
Kahlotus
Washtucna
Twisp
Winthrop
IDAHO
Grandview
Bruneau
Richfield
NEVADA
Owyhee
Mountain City

**WESTERN
WASHINGTON
DIVISION**
Gig Harbor —
Headquarters
Burley
Fox Island
Arletta
Ocean Park
Long Beach
Chinook
Morton
Mineral
Glenoma
Randle
Packwood
Orting

South Prairie
Puget Island
Lakebay
McCleary
Elma
Montesano
Kingston
Hansville
Vashon
North Vashon
North Bend
Snoqualmie
Pass
Fall City
Carnation

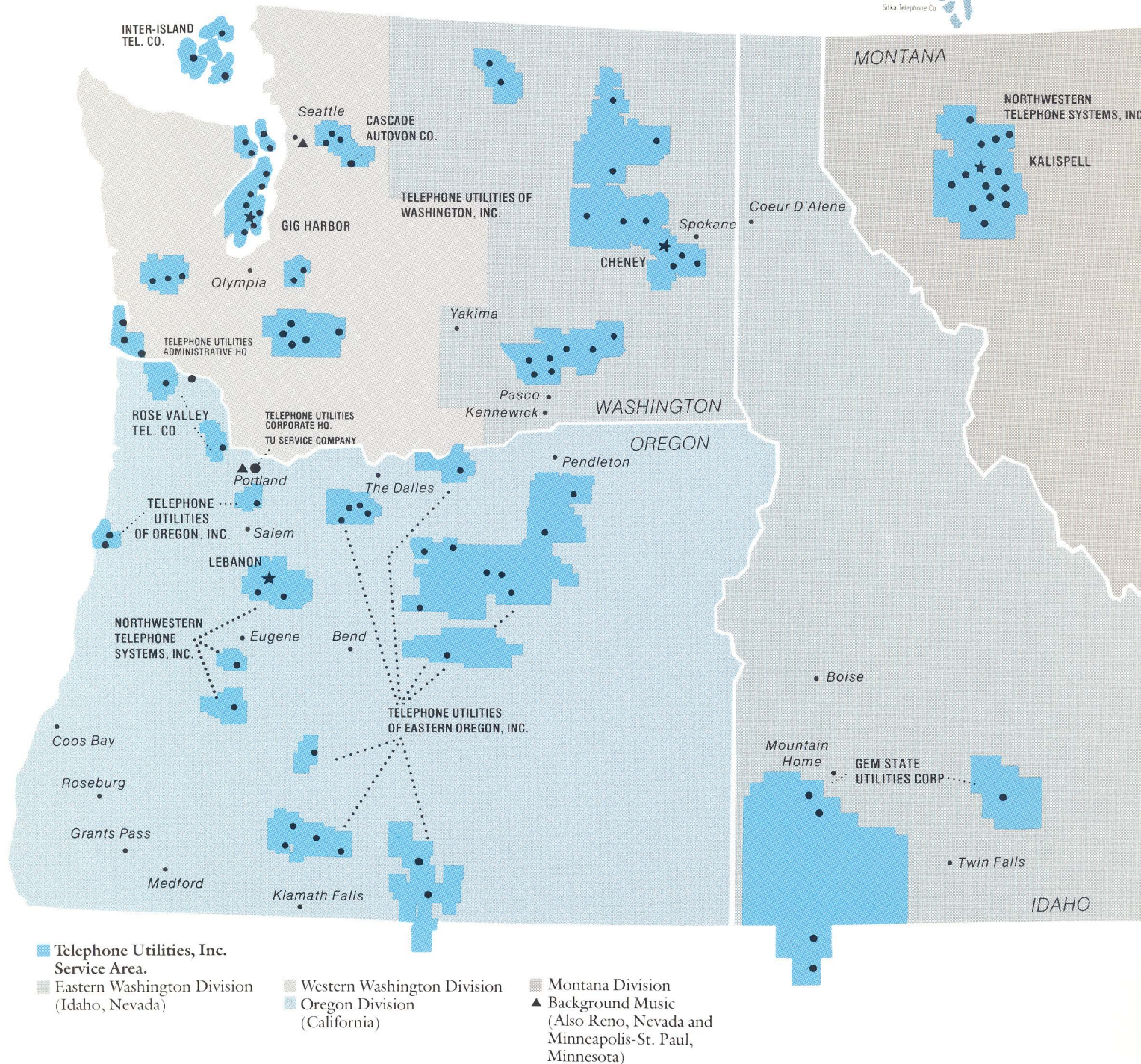
**OREGON
DIVISION**
Lebanon —
Headquarters
Sweet Home
Brownsville
Yoncalla
Creswell
Spray
Long Creek
Mitchell
Monument
Paulina
Fossil
Pilot Rock
Boardman
Ukiah

Lakeview
Paisley
Chiloquin
Fort Klamath
Chemult
Rocky Point
Sprague River
Aurora
Depoe Bay
Glenneden Beach
Maupin
Wamic
Tygh Valley
Pine Grove
Knappa
Scappoose

**MONTANA
DIVISION**
Kalispell —
Headquarters
Whitefish
Columbia Falls
Polson
Big Fork
Elmo
Finley Point
Hungry Horse
Lakeside
Marion
McGregor Lake
Olney
Somers
Swan lake
Yellow Bay

ALASKA
Sitka
Mt. Edgecumbe
Angoon
Gustavus
Hoonah
Kake
Klawock
Northway
Pelican
Thorne Bay
Yakutat
Ft. Wainwright

**Cascade
Autovon
Company**
**T U Service
Company**
**Inter-Island
Telephone Co.**
**Business
Music
Company**
**Audio Group
Inc.**



Telephone Utilities, Inc.