

# CENTURYTEL INC

## FORM 8-K

(Unscheduled Material Events)

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CIK	0000018926
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 8-K**  
**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 Date of Report (Date of earliest event reported) December 1, 1997

**CENTURY TELEPHONE ENTERPRISES, INC.**

(Exact name of Registrant as specified in its charter)

Louisiana  
(State or other  
jurisdiction of  
incorporation)

1-7784  
(Commission file  
number)

72-0651161  
(IRS Employer  
Identification No.)

100 Century Park Drive, Monroe, Louisiana 71203  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code - (318)388-9500

**ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.**

On December 1, 1997, Century Telephone Enterprises, Inc. ("Century") acquired Pacific Telecom, Inc. ("PTI") in exchange for \$1.503 billion cash in a two-step transaction pursuant to a Stock Purchase Agreement dated as of June 11, 1997 by and among Century and its wholly-owned subsidiary, Century Cellunet, Inc. ("Cellunet"), on the one hand, and PTI and its parent company, PacifiCorp Holdings, Inc. ("PHI"), on the other hand. In the first step of the transaction, Cellunet purchased from PTI substantially all of the cellular telephone operations of PTI in exchange for \$240 million, and in the second step Century purchased from PHI the capital stock of PTI for \$1.263 billion. After the first step but immediately prior to the second, PTI paid a \$240 million cash dividend to PHI.

To finance the acquisition, Century borrowed \$1.288 billion under its \$1.6 billion senior unsecured credit facility dated August 28, 1997 with NationsBank of Texas Inc. and a syndicate of other lenders. This debt matures in five years and carries floating-rate interest based upon the London InterBank Offered Rates for short-term periods. The current weighted average interest rate of this debt is 6.155%. Century paid the remainder of the PTI acquisition price with available cash, most of which consisted of the proceeds of Century's sale of common stock of Brooks Fiber Properties, Inc. in November 1997.

As a result of the acquisition, Century and Cellunet acquired (i) 660,000 telephone access lines located in four midwestern states, seven western states and Alaska, (ii) approximately 100,000 cellular subscribers in markets operated by PTI in two midwestern states and Alaska and (iii) wireless, cable television and certain other telecommunications assets. Cellunet intends to integrate the cellular properties purchased from PTI into its existing cellular operations. Century will operate the remainder of PTI as a wholly-owned subsidiary, with its headquarters remaining in Vancouver, Washington. In connection with the acquisition, Century has reorganized its telephone operations into three operating regions, including a new western telephone operating region, substantially all of which will be comprised of PTI's local exchange properties in seven western states and Alaska. As soon as practical, Century plans to offer long distance, Internet and certain other services in most of PTI's local exchange markets on substantially the same terms on which Century recently began to offer such services to its telephone customers. Other than these new product offerings and the possible sale of non-strategic assets, Century plans to continue to operate PTI in the ordinary course of business.

**ITEM 5. OTHER EVENTS.**

On December 2, 1997 Moody's Investors Service assigned a Baa1 rating to Century's \$1.6 billion unsecured credit facility and confirmed its Baa1 rating of Century's senior unsecured debt securities. Moody's and Standard & Poor's initiated rating reviews of Century's debt shortly after Century announced that it had reached a definitive agreement to acquire PTI. Standard & Poor's has not yet completed its review.

On December 11, 1997 Century filed a shelf registration statement with the Securities and Exchange Commission registering \$1.5 billion of senior unsecured debt securities, preferred stock, common stock and warrants, which may be issued from time to time as determined by Century's Board of Directors. A copy of Century's press release announcing the filing of the registration statement is filed as Exhibit 99.1

hereto.

## **ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.**

### **(a) Financial Statements of Pacific Telecom, Inc.**

1. Independent Auditors' Report.
2. Consolidated Statements of Income for the years ended December 31, 1996, 1995 and 1994.
3. Consolidated Balance Sheets as of December 31, 1996 and 1995.
4. Consolidated Statements of Changes in Shareholder's Equity for the years ended December 31, 1996, 1995 and 1994.
5. Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1995 and 1994.
6. Notes to Consolidated Financial Statements as of December 31, 1996.
7. Consolidated Balance Sheets as of September 30, 1997 (unaudited) and December 31, 1996.
8. Consolidated Statements of Income for the nine months ended September 30, 1997 and 1996 (unaudited).
9. Consolidated Statements of Cash Flows for the nine months ended September 30, 1997 and 1996 (unaudited).
10. Condensed Notes to Consolidated Financial Statements as of September 30, 1997 (unaudited).

### **(b) Pro Forma Consolidated Condensed Financial Information.**

1. Introduction.
2. Unaudited Pro Forma Consolidated Condensed Balance Sheet as of September 30, 1997.
3. Unaudited Pro Forma Consolidated Condensed Statement of Income for the nine months ended September 30, 1997.
4. Unaudited Pro Forma Consolidated Condensed Statement of Income for the year ended December 31, 1996.
5. Notes to Unaudited Pro Forma Consolidated Condensed Financial Information.

### **(c) Exhibits**

2.1 Stock Purchase Agreement, dated as of June 11, 1997, by and among PacifiCorp Holdings, Inc., Pacific Telecom, Inc., Century Telephone Enterprises, Inc. and Century Cellunet, Inc. (incorporated by reference to Exhibit 2.1 to Century's Current Report on Form 8-K dated June 11, 1997 and filed June 24, 1997).

2.2 Amendment, dated November 5, 1997 to Stock Purchase Agreement by and among PacifiCorp Holdings, Inc., Pacific Telecom, Inc., Century Telephone Enterprises, Inc. and Century Cellunet, Inc.

99.1 Press release dated December 11, 1997 relating to Century's filing of a shelf registration statement.

## **FINANCIAL STATEMENTS OF PACIFIC TELECOM, INC.**

### **INDEPENDENT AUDITORS' REPORT**

#### **To the Directors and Shareholder of Pacific Telecom, Inc.:**

We have audited the accompanying consolidated balance sheets of Pacific Telecom, Inc. and its subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, changes in shareholder's equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements represent fairly, in all material respects, the financial position of Pacific Telecom, Inc. and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Portland, Oregon

January 27, 1997

## PACIFIC TELECOM, INC. CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	1996	1995	1994
	(In thousands)		
OPERATING REVENUES:			
Local network service	\$140,870	120,512	96,944
Network access service	259,110	223,723	168,530
Long distance network service	1,606	150,064	271,977
Private line service	-	34,270	58,193
Sales of cable capacity	8,353	3,419	4,567
Cellular	44,043	33,884	23,642
Other	67,148	74,263	72,533
Total operating revenues	521,130	640,135	696,386
OPERATING EXPENSES:			
Plant support	91,163	112,350	117,694
Depreciation and amortization (Note 3)	102,292	105,828	100,879
Leased circuits	2,509	20,933	26,618
Access expense (Note 2)	-	53,002	92,929
Other operating expense	31,066	37,876	35,116
Cost of cable sales	6,688	2,205	2,977
Customer operations	45,482	58,486	64,204
Administrative support	63,623	68,294	75,616
Taxes other than income taxes	19,575	15,850	15,712
Total operating expenses	362,398	474,824	531,745
OPERATING INCOME	158,732	165,311	164,641
OTHER INCOME (EXPENSE):			
Interest expense	(40,823)	(42,316)	(34,754)
Interest income	3,471	2,798	1,716
Gain on sale of subsidiaries and investments (Notes 5 and 15)	3,705	66,526	2,073
Minority interest	(2,398)	(1,298)	(975)
Other	44	(4,445)	(10,536)
Other income (expense) - net	(36,001)	21,265	(42,476)
INCOME BEFORE INCOME TAXES	122,731	186,576	122,165
INCOME TAXES (NOTE 6)	47,454	47,012	40,766
NET INCOME	\$ 75,277	139,564	81,399

The accompanying notes are an integral part of these financial statements.

## PACIFIC TELECOM, INC. CONSOLIDATED BALANCE SHEETS

December 31,		
	1996	1995
(In thousands)		
ASSETS		
Current assets:		
Cash and temporary cash investments	\$ 9,421	6,331
Accounts receivable	97,705	81,528
Accounts and notes receivable - affiliates (Note 2)	62,345	41,234
Material and supplies (at average cost)	8,676	7,082
Inventory - North Pacific Cable	53,883	60,571
Other	6,428	9,522
Total current assets	238,458	206,268
Investments (Note 9)	131,621	124,555
Plant in service:		
Telecommunications (Note 3)	1,631,443	1,570,262
Other	22,444	22,655
Less accumulated depreciation	721,462	678,328
	932,425	914,589
Construction work in progress	16,140	13,970
Net plant	948,565	928,559
Intangible assets - net	365,451	378,214
Deferred charges	17,713	16,528
Total assets	\$1,701,808	1,654,124

The accompanying notes are an integral part of these financial statements.

### PACIFIC TELECOM, INC. CONSOLIDATED BALANCE SHEETS

December 31,		
	1996	1995
(In thousands)		
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Currently maturing long-term debt (Note 11)	\$ 15,813	5,535
Notes payable (Note 10)	18,000	90,000
Accounts payable	48,138	48,395
Accrued liabilities	52,788	58,736
Dissenters' rights (Note 2)	27,930	27,930
Accrued access and unearned revenue	7,216	8,354
Total current liabilities	169,885	238,950
Long-term debt (Note 11)	527,906	459,502
Deferred income taxes (Note 6)	152,116	126,539
Unamortized investment tax credits	5,203	6,929
Other long-term liabilities	51,607	48,502
Minority interest	17,216	18,288

#### Shareholder's equity:

Common stock - stated value, 1996 and 1995 - \$1.00 (Note 2)

- authorized, 200,000,000 shares		
- outstanding, 1996 and 1995 - 100 shares	-	-
Additional paid-in capital	225,943	225,943
Retained earnings (Note 11)	551,932	529,471
Total shareholder's equity	777,875	755,414

Commitments and contingencies (Notes 4 and 13)	-	-
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Total liabilities and shareholder's equity \$1,701,808 1,654,124

The accompanying notes are an integral part of these financial statements.

**PACIFIC TELECOM, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN**  
**SHAREHOLDER'S EQUITY**

	Common Stock		Additional Paid-in Capital	Unearned Stock Compensation	Retained Earnings	Total Shareholder's Equity
	Shares	Amount				
	(In thousands)					
BALANCE, JANUARY 1, 1994	39,609	\$19,805	\$205,985	\$(143)	\$413,064	\$638,711
Shares issued for benefits	13	6	293			299
Share purchases	(2)	(1)	(47)			(48)
Unearned stock compensation (Note 7)				(299)		(299)
Net income					81,399	81,399
Cash dividends					(52,289)	(52,289)
BALANCE, DECEMBER 31, 1994	39,620	19,810	206,231	(442)	442,174	667,773
Shares issued for benefits	26	13	792			805
Share purchases	(30)	(15)	(882)			(897)
Minority buy-out and reverse merger (Note 2)	(39,616)	(19,808)	19,808			-
Share retirements			(16)			(16)
Unearned stock compensation (Note 7)			10	442		452
Net income					139,564	139,564
Cash dividends					(52,267)	(52,267)
BALANCE, DECEMBER 31, 1995	-	-	225,943	-	529,471	755,414
Net income					75,277	75,277
Cash dividends					(52,816)	(52,816)
BALANCE, DECEMBER 31, 1996	-	\$ -	\$225,943	\$ -	\$551,932	\$777,875

The Company has 152,000 shares of \$25 stated value, six percent cumulative Preferred Stock authorized, but no shares are outstanding.

The accompanying notes are an integral part of these financial statements.

**PACIFIC TELECOM, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	1996	1995	1994
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 75,277	139,564	81,399

Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	111,508	114,282	107,784
Deferred income taxes and investment tax credits, net	22,296	24,515	(62,329)
Gain on sale of subsidiaries and investments	(3,705)	(66,526)	(2,073)
Gains from unconsolidated entities, net	(6,030)	(3,350)	(3,135)
Accounts receivable and other current assets	(10,868)	(46,165)	(8,089)
Inventory - North Pacific Cable	6,689	2,206	2,977
Accounts payable and accrued liabilities	(3,277)	(5,430)	22,168
Other	5,147	(6,049)	2,666
Net cash provided by operating activities	197,037	153,047	141,368
CASH FLOWS FROM INVESTING ACTIVITIES:			
Construction expenditures	(122,387)	(121,753)	(148,248)
Cost of businesses acquired	-	(368,348)	-
Investments in and advances to affiliates	(5,118)	(7,321)	(4,726)
Proceeds from Alaska restructuring (Note 15)	-	235,076	105,000
Proceeds from sales of assets	5,821	3,985	17,656
Net cash used by investing activities	(121,684)	(258,361)	(30,318)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in short-term debt	(72,000)	82,023	(3,190)
Change in affiliated notes	(26,131)	459	-
Proceeds from issuance of long-term debt	135,239	153,810	8,006
Purchase of common stock	-	(897)	(48)
Dividends paid	(52,816)	(52,267)	(52,289)
Payments of long-term debt	(56,555)	(81,366)	(58,507)
Net cash provided (used) by financing activities	(72,263)	101,762	(106,028)
INCREASE (DECREASE) IN CASH AND TEMPORARY CASH INVESTMENTS	3,090	(3,552)	5,022
CASH AND TEMPORARY CASH INVESTMENTS AT BEGINNING OF YEAR	6,331	9,883	4,861
CASH AND TEMPORARY CASH INVESTMENTS AT END OF YEAR	\$ 9,421	6,331	9,883
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid during the year	\$40,030	40,688	36,692
Income taxes paid during the year	17,911	33,736	102,324
NONCASH INVESTING ACTIVITIES:			
Liabilities disposed of in connection with the sale of subsidiaries	-	85,668	53
Common stock issued in connection with employee benefits	-	805	299

The accompanying notes are an integral part of these financial statements.

**PACIFIC TELECOM, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation -- The consolidated financial statements include the accounts of Pacific Telecom, Inc. (PTI) and its subsidiaries (Company). The equity method is used to account for those affiliated companies in which the Company exerts significant influence through management agreements or ownership of 20 to 50 percent and for all cellular partnerships in which a Company subsidiary is a partner. All appropriate intercompany transactions and balances have been eliminated. The 1995 and 1994 consolidated financial statements reflect certain reclassifications to conform to the 1996 presentations.

(b) Industry segmentation -- Although regulatory requirements impose structural separation in its operations, the Company operates predominately in the telecommunications industry through local exchange operations providing switched and non-switched voice and data communication services.

(c) Regulatory authorities -- The accounting policies of the Company are in conformity with the requirements of the Federal Communications Commission (FCC) and the regulatory agencies of the various states in which the Company operates. The Company prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Accounting under SFAS 71 is appropriate as long as: rates are established by or subject to approval by independent, third-party regulators; rates are designed to recover the specific enterprise's cost-of-service; and in view of demand for service, it is reasonable to assume that rates are set at levels that will recover costs and can be collected from customers.

(d) Telecommunications plant -- Telecommunications plant is stated at cost. Additions to plant include direct costs and related indirect charges. Depreciation and amortization are provided using the straight-line method based on the estimated service lives of the various classes of depreciable assets. Amounts charged to operations for depreciation expense reflect methods prescribed by regulators in the Company's regulated operations and, given the Company's operating environment, do not materially differ from estimated useful life determinations used to calculate depreciation estimates of the Company's nonregulated operations. These depreciation estimates and methods are applied consistently in both regulated and public financial presentations. The composite depreciation rate for depreciable telecommunications plant was 6.2 percent in 1996, 6.1 percent in 1995 and 6.4 percent in 1994.

(e) Interest during construction -- In accordance with regulatory requirements, the Company's regulated subsidiaries capitalize debt costs applicable to their construction projects. Interest capitalized during 1996 and 1995 was \$470,000 and \$231,000, respectively.

(f) Asset impairments -- In December 1995, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable assets to be disposed of. The Company evaluated its assets based on this standard and concluded that no assets qualified as impaired and consequently no adjustments were required.

(g) Cash and cash equivalents -- The Company considers all investments with original maturities less than 90 days to be cash equivalents.

(h) Income taxes -- The Company uses the liability method of accounting for income taxes, which requires that deferred income taxes be provided for all differences between the financial statement and tax bases of assets and liabilities. Deferred income taxes result primarily from differences between the financial statement and tax bases of depreciable assets and certain acquired assets, as well as employment related expenses not currently deductible.

Excess deferred income taxes on regulated assets and liabilities resulting from the decrease in the statutory rates under the Tax Reform Act of 1986, net of an increase arising from the Revenue Reconciliation Act of 1993, are being amortized to income over the composite book life of the related assets as required by regulatory authorities.

Investment tax credits relating to regulated telephone property, plant and equipment have been deferred and are being amortized over the estimated useful lives of the related assets.

(i) Intangible assets -- These costs are primarily for franchises of local exchange and cellular companies acquired and goodwill recorded from such acquisitions and are being amortized generally over 40 years. Accumulated amortization of these costs at December 31, 1996 and 1995 was \$53,359,000 and \$42,703,000, respectively. Intangible assets relating to nonconsolidated investments are included in "Investments" on the balance sheet (Note 9).

(j) Inventory -- Inventory on the North Pacific Cable represents the construction costs for the cable, which are carried at lower of cost or market and charged to income on an average cost per unit basis as capacity in the cable is sold.

(k) Software capitalization -- The Company capitalizes initial operating system software development costs and expenses subsequent additions or modifications to operating system software. The Company also capitalizes application software that is purchased at a cost of \$10,000 or more and with a useful life in excess of one year.



(l) Accrued access and unearned revenue -- Advance billings creditable to revenue accounts in future months and advance payments made by prospective customers prior to establishment of services are recorded in accrued access and unearned revenue until the service is rendered or cleared from this account as refunds are made.

(m) Revenue recognition -- The Company's subsidiaries participate in access revenue pools for certain interstate and intrastate revenues, which are initially recorded based on estimates. Certain network access revenues are estimated under cost separations procedures that base revenues on current operating costs and investments in facilities to provide such services. These estimates are subject to subsequent adjustment in future accounting periods as refined operational information becomes available.

(n) Use of estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(o) Regulatory assets and liabilities -- In accordance with SFAS 71, the Company's LEC operations capitalize certain costs (regulatory assets) in accordance with regulatory authority whereby those costs will be expensed and recovered in future periods. At December 31, 1996 and 1995, the Company had \$502,000 and \$704,000, respectively, in regulatory assets and \$5,873,000 and \$8,900,000, respectively, in regulatory liabilities on its balance sheet. The regulatory assets were included in "Deferred charges" and the regulatory liabilities were included in "Other long-term liabilities." The regulatory assets arose from the income tax benefits provided to current ratepayers for pre-1987 tax deductible expenses that were capitalized on the books of the Company and for which no deferred taxes were provided. These regulatory assets are being reduced as the capitalized amounts are depreciated on the books and those expenses are recovered. The regulatory liabilities are made up of three items. The first relates to the excess deferred taxes that resulted from a reduction in the Federal tax rate from 46 percent to 35 percent. This excess will not be paid to the Federal government, but rather will reduce future revenue requirements from customers over the average life of the assets that generated the difference. The second item in the regulatory liability is the tax savings resulting from this reduced revenue requirement created by the amortization of the excess deferred taxes. The final item is a similar reduction in revenue requirements due to the tax savings resulting from amortization of deferred investment tax credits.

## **NOTE 2. TRANSACTIONS WITH RELATED PARTIES**

The Company is a wholly-owned subsidiary of PacifiCorp Holdings, Inc. (Holdings), which is a wholly-owned subsidiary of PacifiCorp. On September 27, 1995, holders of a majority of the approximately 5.3 million shares of outstanding common stock held by minority shareholders voted in favor of the merger of a wholly-owned subsidiary of Holdings into the Company. As a result of the merger, the common stock held by minority shareholders (other than shares as to which dissenters' rights were perfected) were converted into the right to receive \$30.00 per share in cash, and the Company became a wholly-owned subsidiary of Holdings with 100 shares of no par value common stock outstanding. At December 31, 1996, a liability in the amount of \$27,930,000 included amounts to be paid to dissenters in the merger based on \$30.00 per share fair value for shares and accrued interest at a rate equal to 5.97 percent per annum. The Company also recorded a receivable from Holdings in the amount of the accrued liability to dissenters.

(a) Notes payable -- The Company has an agreement that permits temporary cash advances to or from Holdings at short-term borrowing rates (Note 10). Interest expense on borrowings from Holdings was \$10,000 in 1996. There were no borrowings from Holdings in 1995 and 1994. Interest income related to cash advances to Holdings was \$1,660,000 in 1996, \$577,000 in 1995 and \$777,000 in 1994. Interest income for 1996 and 1995 mainly relates to the note receivable from Holdings for estimated amounts due dissenters.

(b) Long-term debt -- At December 30, 1996, the Company issued Series C Medium-term Notes in the amount of \$33,499,000 to PacifiCorp Environmental Remediation Company, a wholly-owned subsidiary of Holdings. Holding has agreed to pay the Company a fee of \$10,000 annually for each year the notes are outstanding. See Note 11 for additional information relating to these notes.

(c) Accounts and notes receivable - affiliates -- These amounts generally represent billings to affiliates for services provided by the Company. The 1996 and 1995 amounts primarily reflect the amount due from Holdings for estimated amounts due dissenters' and a tax refund receivable from Holdings. In 1996, the amount also represents cash advances to Holdings of \$26,131,000.

(d) Access expense -- The long lines subsidiary sold during 1995 recognized approximately \$10,001,000 for the first seven months of 1995 and \$18,332,000 in 1994 of interstate and intrastate access expense related to the Company's local exchange companies in Alaska. Due to the tariffed nature of these charges, the amounts were recorded as network access service revenues by the local exchange companies and have not been eliminated in the consolidated financial statements.

(e) Income taxes -- The Company participates with PacifiCorp in filing consolidated income tax returns. The Company's income tax provisions are based on a separate company calculation of income taxes.

(f) Management fees -- The Company pays PacifiCorp a management fee for administrative services PacifiCorp provides to the Company. Management fees paid to PacifiCorp were \$2,214,000 in 1996, \$1,289,000 in 1995 and \$871,000 in 1994.

(g) The Company rents its headquarters building from a 50 percent owned partnership. Annual rent was \$1,661,000 in 1996, 1995 and 1994, 50 percent of which was included in administrative support.

### NOTE 3. TELECOMMUNICATIONS PLANT IN SERVICE

The balances by category of Telecommunications Plant in Service at December 31 are (in thousands):

	Average Remaining Life	1996	1995
Central Office Equipment	13	\$ 560,841	520,810
Poles, Cable and Conduit	20	874,308	826,075
Building and Towers	29	85,116	91,331
Other	11	111,178	132,046
-----			
Total Telecommunications Plant in Service		\$1,631,443	1,570,262
=====			

Depreciation expense was \$97,131,000, \$101,966,000 and \$97,784,000 for 1996, 1995 and 1994, respectively. Depreciation expense declined in 1996 relating to the sale of Alascom, Inc. (Alascom) in 1995. This was partially offset by increases related to acquisitions.

### NOTE 4. LEASE AND MAINTENANCE ARRANGEMENTS

The Company's operating lease and maintenance agreements relate to the use of headquarters buildings, data processing and customer premise equipment, terrestrial communications circuits and cable maintenance and backhaul. These agreements generally contain provisions or options to renew the agreements at fair market rental rates. The Company has no material capital lease obligations at this time. Under these noncancellable operating lease and maintenance agreements, minimum annual rental commitments are as follows (in thousands):

Year Ending December 31,	
-----	
1997	\$17,442
1998	11,786
1999	5,423
2000	3,158
2001	2,265
2002 and beyond	4,765
-----	
Total minimum lease and maintenance payments	\$44,839
=====	

Rent expense approximated \$16,960,000 in 1996, \$36,591,000 in 1995 and \$41,688,000 in 1994. These amounts included rent expense for Alascom of \$17,939,000 in 1995 and \$28,148,000 in 1994.

### NOTE 5. SALE OF SUBSIDIARIES

During 1996, the Company sold several cellular properties. These transactions resulted in proceeds of \$5,286,000 and after-tax gains of \$2,269,000.

See Note 15 for information regarding the sale of Alascom to AT&T Corp. (AT&T) in August 1995.

On April 29, 1994, the Company completed the sale of PTI Harbor Bay, Inc. and Upsouth Corporation, to IntelCom Group, Inc. for 1,183,147 shares of IntelCom common stock and \$200,000 in cash. On October 17, 1994, the Company sold its IntelCom stock. Cash proceeds of \$15,934,000 and a gain of \$1,007,000, net of tax and selling expenses, were recognized in 1994.

### NOTE 6. INCOME TAXES

The Company's effective combined state and federal income tax rate was 38.7 percent in 1996, 25.2 percent in 1995 and 33.4 percent in 1994. The difference between taxes calculated as if the statutory federal tax rate of 35 percent were applied to pre-tax income and the recorded tax expense is due to the following:

	Year Ended December 31,		
	1996	1995	1994
-----			
	(in thousands)		
Tax expense at statutory rates	\$42,955	65,302	42,758
State income taxes	6,639	14,491	1,702
Federal benefit of state income taxes	(2,324)	(5,072)	(596)

Amortization of investment tax credits	(1,714)	(3,098)	(4,355)
Amortization of excess deferred income taxes	(595)	(451)	(1,776)
Amortization of acquisition costs in excess of equity	2,056	2,018	2,086
Alascom gain (a)	-	(23,278)	-
Other	437	(2,900)	947
Recorded tax expense	\$47,454	47,012	40,766
=====			
Income tax expense consisted of:			
Taxes currently provided	\$25,158	22,497	103,095
Deferred income taxes (b)	24,010	27,613	(57,974)
Investment tax credits	(1,714)	(3,098)	(4,355)
	\$47,454	47,012	40,766
=====			

(a) The financial statement gain on the sale of Alascom was recorded without federal or state income tax expense, because the tax basis in Alascom was greater than the selling price. The tax basis was significantly greater than the book basis due to Alascom's required tax recognition of the \$150,000,000 in transition payments due from AT&T under a 1994 FCC order. The Company has not historically provided deferred tax liabilities or assets under SFAS 109 for book/tax differences on investments in subsidiaries. As a result, the tax benefit of the higher tax basis in Alascom was realized in 1995 with the sale.

(b) During 1994, prepaid taxes of \$61,500,000 were reported due to the FCC ordered transition payments of \$150,000,000. Also, in 1995, the Company had deferred tax increases associated with book/tax differences on the newly acquired assets from USWC.

The tax effect of significant items comprising the Company's net deferred tax liability are as follows:

	Year Ended December 31,	
	1996	1995
	(in thousands)	
Deferred tax liabilities:		
Plant in service	\$124,324	94,602
Cellular acquisition adjustments	43,388	45,224
Deferred tax assets:		
Employment related liabilities	(13,736)	(12,243)
Valuation adjustments	581	(3,902)
Reserve for self insurance	(2,848)	(3,808)
Other	(2,388)	2,661
Net deferred tax liability	149,321	122,534
=====		
Noncurrent tax liabilities	152,116	126,539
Current tax assets	(2,795)	(4,005)
	\$149,321	122,534
=====		

## NOTE 7. PENSION PLAN

Substantially all employees of the Company, except those who are members of one local of the International Brotherhood of Electrical Workers (IBEW), are covered under the Company's pension plan. The Company recognized costs of \$1,173,000, \$1,074,000 and \$1,065,000 in 1996, 1995 and 1994, respectively, for contributions to the IBEW pension plans and \$1,747,000 and \$3,110,000 in 1995 and 1994, respectively, for contributions to the International Brotherhood of Teamsters. With the sale of Alascom in August 1995, the Company has no further obligation to pay for pension benefits of employees represented by the International Brotherhood of Teamsters. The Company's plan provides benefits based upon an employee's total years of service and the highest five years compensation during the last 10 years of service. The Company's policy is to fund annually up to the maximum amount of the unfunded pension liability that can be deducted for federal income tax purposes.

The Company's unrecognized net asset resulting from the initial application of SFAS 87 - "Employer Accounting for Pensions", was amortized over a 10-year period that ended in 1996 for the Company's original plan and is being amortized over a 20-year period ending in 2006 for the North-West Telecommunications, Inc. plan that was merged with the Company's plan on January 1, 1993. Net pension cost and funded status of the pension plan are summarized as follows:

	December 31,		
	1996	1995	1994
	(in thousands)		

Service cost of benefits earned	\$ 4,163	3,724	4,308
Interest cost on the projected benefit obligation	10,697	10,765	9,954
Actual loss (gain) on assets	(13,638)	(32,633)	1,592
Net amortization and deferral	(2,118)	18,947	(15,845)
-----			
Total pension (income) expense	\$ (896)	803	9
=====			
Early retirement program	\$ 2,520	-	-
=====			
Actuarial present value of benefit obligations:			
Accumulated benefit obligation	\$133,123	141,574	112,176
=====			
Portion of accumulated benefit obligation vested	\$131,792	140,022	111,041
=====			
Projected benefit obligation	\$156,406	167,317	131,530
Plan assets at fair value, primarily listed stocks and bonds	171,428	154,316	129,582
-----			
Plan assets in excess of (less than) projected benefit obligation	15,022	(13,001)	(1,948)
Unrecognized net loss (gain)	(21,150)	6,749	(4,393)
Unrecognized prior service benefit	(1,784)	(2,029)	(2,291)
Unrecognized net asset remaining from initial application of SFAS 87	(2,663)	(4,536)	(6,409)
-----			
Pension liability at December 31	\$ (10,575)	(12,817)	(15,041)
=====			
Assumptions used to develop pension plan information were:			
Discount rate	7.50%	7.25%	8.50%
Estimated long-term rate of return on assets	9.00	9.00	9.00
Assumed rate of increase in compensation levels	4.50	5.00	5.00
-----			

The Company's pension liability at December 31, 1996 and 1995 was included in "Other long-term liabilities" on the balance sheet.

In December 1996, the Company offered an early retirement program to a group of corporate employees. The Company recognized an expense of \$2,520,000 relating to this early retirement program.

In August 1995, the Company sold Alascom to AT&T (Note 15), which resulted in a pre-tax curtailment gain of \$3,401,000. This gain was included in "Gain on sale of subsidiaries and investments."

The Company participates in PacifiCorp's K Plus Employee Stock Ownership and Savings Plan. Under this plan, eligible employees may elect to contribute a portion of their pay, within specified limits, to the Plan. The Company makes a matching contribution of 50 percent of the employee's elective contribution. Employee elective contributions subject to matching are limited to six percent of pay. In addition, the Company makes a fixed contribution of two percent of pay per year. The costs to the Company for these contributions in 1996, 1995 and 1994 were \$2,882,000, \$2,262,000 and \$2,991,000, respectively.

PacifiCorp has a long-term incentive plan for certain executive employees of the Company. Participants are eligible to receive shares of PacifiCorp's common stock, plus dividend equivalents in cash based on a determination of PacifiCorp's Board of Directors. Until September 1995, the Company had its own separate long-term incentive plan for certain executive employees and awards were in the Company's stock. Under this previous plan participants received grants of restricted shares of the Company's common stock based on a determination of the Company's Board of Directors. The costs to the Company for these benefit plans amounted to \$311,000, \$300,000 and \$80,000 in 1996, 1995 and 1994, respectively. Awards granted under these plans that are not yet vested are included as a liability. Upon completion of the merger with a subsidiary of Holdings (Note 2), all unvested shares of the Company's stock were converted to PacifiCorp shares on the basis of the merger consideration.

#### NOTE 8. OTHER POSTRETIREMENT BENEFITS

The Company provides health care and life insurance benefit to eligible retired employees. Substantially all employees of the Company are covered under the Company's postretirement health care and life insurance plans. The postretirement health care and life insurance plans are noncontributory as long as the Company's cost per retiree remains below \$300 per month (\$600 per family per month). Generally, the health care plan pays stated percentages of most medical expenses, reduced for any deductible and payments made by government programs.

The Company recognizes the cost of postretirement benefits over the active service period of its employees. The Company's policy is to fund

annually an amount of the postretirement benefit liability that will systematically reduce that liability using available funds and allow deductibility for federal income tax purposes. Due to income tax regulations that restrict the deductibility of certain contributions for postretirement benefits, the Company has elected to make non-tax deductible contributions to meet funding requirements imposed by state regulatory commissions. The Company funded \$10,458,000, \$13,254,000 and \$2,429,000 in 1996, 1995 and 1994, respectively, through contributions to restricted trust funds and directly paying postretirement benefit costs to third parties. The Company anticipates making additional contributions into 401(h), VEBA and other trusts for 1997 totalling approximately \$5,700,000. The Company recognizes the transition obligation, which represents the previously unrecognized prior service cost, over a period of 20 years.

The net funded status for the combined plans is shown below (in thousands):

	December 31,		
	1996	1995	1994
Accumulated postretirement benefit obligation (APBO):			
Retirees and dependents	\$41,517	43,415	37,119
Fully eligible active plan participants	12,147	11,677	11,089
Other active plan participants	29,779	26,498	22,198
-----	-----	-----	-----
APBO	83,443	81,590	70,406
Plan assets at fair value, primarily listed stocks and bonds	(31,131)	(21,977)	(8,503)
-----	-----	-----	-----
APBO in excess of plan assets	52,312	59,613	61,903
Unrecognized transition obligation	(27,839)	(29,579)	(34,521)
Unrecognized prior service cost	491	552	675
Unrecognized net loss from changes in assumptions	(2,994)	(6,853)	(1,666)
-----	-----	-----	-----
Accrued postretirement benefit cost	\$21,970	23,733	26,391
=====	=====	=====	=====

Net periodic postretirement benefit cost included the following components (in thousands):

	1996	1995	1994
-----	-----	-----	-----
Service cost	\$2,706	2,030	2,307
Interest cost on accumulated postretirement benefit obligation	5,971	5,891	5,836
Actual return on plan assets	(1,931)	(1,902)	180
Amortization of transition obligation over 20 years	1,740	1,844	1,918
Net amortization and deferral	(40)	1,010	(620)
-----	-----	-----	-----
Expenses	8,446	8,873	9,621
Early retirement program	250	-	-
-----	-----	-----	-----
Net periodic postretirement benefit cost	\$8,696	8,873	9,621
=====	=====	=====	=====

Assumptions used to develop the accumulated postretirement benefit obligation information were:

	1996	1995	1994
-----	-----	-----	-----
Discount rate	7.50%	7.25%	8.50%
Estimated long-term rate of return on assets	9.00	9.00	9.00
Health care cost trend rate-under 65	11.00	11.00	11.00
Health care cost trend rate-over 65	10.50	10.00	10.00
Ultimate health care cost trend rate	4.50	4.50	5.50
-----	-----	-----	-----

The assumed health care cost trend rates gradually decrease over nine years. The health care cost trend rate assumptions have a significant effect on the amounts reported. Increasing the assumed health care cost trend rate by one percentage point would increase the postretirement benefit obligation as of December 31, 1996 by \$2,238,000, and the annual net periodic postretirement benefit costs by \$272,000.

In December 1996, the Company offered an early retirement program to a group of corporate employees. The Company recognized an expense of \$250,000 relating to this early retirement program.

In August 1995, the Company sold Alascom to AT&T (Note 15). As a result of this sale, the Company recognized a one time pre-tax curtailment loss of \$1,401,000. This loss was included in "Gain on sale of subsidiaries and investments."

The Company's long-term portion of the accrued postretirement benefit cost appears in "Other long-term liabilities" and the current portion of the accrued postretirement benefit cost appears in "Accrued liabilities" on the balance sheet at December 31, 1996.

## NOTE 9. INVESTMENTS

The investment balances, which included interest bearing advances of \$10,037,000 and \$5,000,000 at December 31, 1996 and 1995, respectively, are summarized as follows:

	December 31,	
	1996	1995
	(in thousands)	
Equity investments:		
Cellular partnerships (a)	\$111,505	110,223
Other equity investees	2,375	1,500
Cost investments:		
Cellular partnerships	657	767
Other	17,084	12,065
	\$131,621	124,555

(a) Cellular partnerships include goodwill of \$23,383,000 in 1996 and \$23,150,000 in 1995, which is net of accumulated amortization of \$4,284,000 and \$3,432,000, respectively.

## NOTE 10. SHORT-TERM DEBT

Short-term debt consisted of outstanding notes payable under borrowing arrangements with various banks and other lenders. Information regarding short-term debt follows:

	At December 31,		During the Year		
	Balance	Average Interest Rate	Maximum Outstanding	Average Outstanding	Average Interest Rate
	(in thousands, except percentages)				
1996					
Notes payable - banks	\$18,000	5.6%	\$80,000	\$56,521	5.7%
Notes payable - holdings	-	-	4,869	66	6.1
1995					
Notes payable - banks	\$90,000	5.9%	\$242,166	\$118,874	6.2%
Notes payable - other	-	-	8,845	3,655	8.2
1994					
Notes payable - banks	\$12,000	6.8%	\$20,000	\$9,292	5.0%
Notes payable - other	9,713	8.4	11,713	5,164	5.6

The average interest rate is calculated by dividing the actual short-term interest expense by the average daily weighted balance short-term debt outstanding for the year.

## NOTE 11. LONG-TERM DEBT

Long-term debt consisted of the following:

	December 31,	
	1996	1995
	(in thousands)	

2% - 11.8% First mortgage notes payable under U.S. Government-sponsored loan programs, maturities through 2028	\$133,330	137,173
9.5% First mortgage notes, maturities through 1999	6,000	6,039
8% - 9.8% Unsecured notes, maturities through 2007	22,390	23,325
6.6% - 9.4% Unsecured medium-term notes, maturities through 2008	323,500	223,500
6% Unsecured medium-term notes, maturities through 2006 (b)	33,499	-
6.1% Commercial paper	-	50,000
5.6% Other available banking arrangements (c)	25,000	25,000
-----		
Total	543,719	465,037
Less current maturities	15,813	5,535
-----		
Total long-term debt	\$527,906	459,502
=====		

(a) The weighted average cost of long-term debt outstanding at December 31, 1996 was 7.2 percent. The Company has small amounts of debt which have higher rates than prevailing interest rates due to prepayment restrictions.

(b) Variable rate debt based on the Company's commercial paper rate is convertible to a fixed rate at the option of the holder after December 30, 1998. Once the debt has been converted to fixed rate debt, Holdings will indemnify the Company for the incremental interest expense incurred for rates exceeding 6.75 percent.

(c) Based upon management's intent and the Company's ability to support the debt on a long-term basis through its revolving credit agreement, \$25,000,000 of borrowings under other available banking arrangements at December 31, 1996, were classified as long-term debt.

The Company has a \$300,000,000 revolving credit agreement. Borrowings under the revolving credit agreement bear interest at rates based on bids from participating banks, certain prime rates, interbank borrowing rates or certificate of deposit rates. The revolving credit agreement has been renewed for a term ending in November 1999. Annual commitment fees on the revolving credit agreement are currently .125 percent of the total authorized amount. Funds that could be borrowed under the revolving credit agreement at December 31, 1996 were \$300,000,000.

At December 31, 1996, approximately \$638,697,000 of "Telecommunications plant in service" was pledged as collateral under various loan agreements. Certain agreements also contain provisions restricting the payment of cash dividends. At December 31, 1996, consolidated retained earnings available for dividends and other distributions were \$242,037,000, all of which were available from the retained earnings of subsidiaries.

Long-term debt maturing annually within each of the four years subsequent to 1997 is as follows: 1998 - \$29,071,000; 1999 - \$48,156,000; 2000 - \$6,574,000; 2001 - \$66,546,000.

## NOTE 12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments are summarized as follows:

	December 31, 1996		December 31, 1995	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(in thousands)				
Cash and temporary investments and net trade accounts (a)	\$121,333	121,333	80,698	80,698
Investments at cost (Note 9) (b)	17,741	17,741	12,832	13,326
Long-term debt and notes payable (Notes 10 and 11) (c)	561,719	569,193	555,037	578,024

(a) The carrying amount approximates fair value because of the short maturity of these instruments.

(b) The fair values of the other investments are estimated based on quoted market prices for these or similar investments, or the investment's ability to return cash to the Company through operations or through the sale of the investment.

(c) The fair value of the Company's long-term debt is estimated using the discounted cash flow method based on the quoted market rates and prices for the same or similar issues of the same remaining maturities. The discount rate is determined using U.S. Treasury rates plus the average spread for the Company quoted by several dealers. Prepayment penalties and other costs of debt retirement are not reflected in these

estimates.

### NOTE 13. COMMITMENTS AND CONTINGENCIES

The Company has signed agreements with US West Communications, Inc. (USWC), GTE North Incorporated and the City of Fairbanks to purchase certain telephone assets or operations in Minnesota, Michigan and Fairbanks, Alaska for approximately \$248 million in cash, which includes approximately \$20 million for cash to be acquired in the acquisitions. Completion of these transactions will be dependent upon appropriate regulatory approvals, expected to be received during 1997.

Expenditures under the Company's 1997 construction and capital expenditure program are expected to approximate \$137,000,000. There are currently no long-term construction projects underway.

The Company is a party to various legal claims, actions and complaints. Although the ultimate resolution of legal proceedings cannot be predicted with certainty, management believes that disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

### NOTE 14. ACQUISITIONS

During 1995, the Company closed transactions in Colorado, Washington and Oregon to acquire local exchange properties from USWC. On February 15, 1995, the Company purchased assets in Colorado representing 45 local exchanges serving approximately 53,000 access lines for \$202,070,000. On September 30, 1995, the Company purchased assets in Washington representing 26 local exchanges serving approximately 20,000 access lines for \$92,794,000. On October 20, 1995, the Company purchased assets in Oregon representing 23 exchanges serving approximately 17,000 access lines for \$81,500,000. These purchase prices were based on a multiple of net book value of USWC assets acquired with certain purchase price adjustments calculated at closing. Funds used for the purchases were provided from proceeds received in the sale of Alascom (Note 15), issuance of medium-term notes and short-term borrowings.

### NOTE 15. SALE OF ALASCOM, INC.

On August 7, 1995, the Company sold its Alaska long distance communication subsidiary, Alascom to AT&T. The Company received total cash proceeds of \$365,500,000 paid in three payments and recognized an after-tax gain of \$66,376,000. In July 1994, AT&T paid a \$75,000,000 transition payment to Alascom that PTI retained. In October 1994, AT&T paid a \$30,000,000 down payment at the time of the signing of the sale agreement. The remaining \$260,500,000 was paid at closing. The Company used the proceeds to fund the asset purchases closed in 1995 (Note 14).

Condensed income information for Alascom is as follows:

	Seven months ended July 31, 1995	Twelve months ended December 31, 1994
(in thousands)		
Operating revenues	\$193,126	343,506
Operating income	36,914	80,651

### NOTE 16. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1996 and 1995 are as follows:

Three Months Ended	Dec. 31	Sept. 30	June 30	March 31
(in thousands)				
1996				
-----				
Operating revenues	\$134,937	\$136,609	\$126,761	\$122,823
Operating income	43,908	41,555	37,914	35,355
Net income	20,781	20,435	18,044	16,017
1995				
-----				
Operating revenues	\$128,975	\$141,326	\$190,228	\$179,606
Operating income	40,479	39,184	45,493	40,155
Net income	18,175	84,250	20,412	16,727

Decreased revenues and operating income in the first and second quarters of 1996 and decreased net income in the third quarter of 1996



resulted from the sale of Alascom in 1995 (Note 15).

\* \* \* \* \*

**PACIFIC TELECOM, INC.**  
**Consolidated Balance Sheets**  
(Unaudited)

**ASSETS**

	September 30, 1997	December 31, 1996
-----		
	(In thousands)	
Current assets:		
Cash and temporary cash investments	\$ 10,179	9,421
Accounts receivable	105,486	97,705
Accounts and notes receivable - affiliates (Note 2)	12,650	62,345
Material and supplies (at average cost)	9,842	8,676
Inventory - North Pacific Cable	40,389	53,883
Other	9,318	6,428
-----		
Total current assets	187,864	238,458
Investments	120,213	131,621
Plant in service:		
Telecommunications	1,791,298	1,631,443
Other	22,646	22,444
Less accumulated depreciation	819,763	721,462
-----		
Construction work in progress	994,181	932,425
-----		
Net plant	1,016,689	948,565
Intangible assets - net	409,498	365,451
Deferred charges	26,557	17,713
-----		
Total assets	\$1,760,821	1,701,808
=====		

**LIABILITIES AND SHAREHOLDER'S EQUITY**

Current liabilities:		
Currently maturing long-term debt	\$ 39,045	15,813
Notes payable	90,000	18,000
Accounts payable	50,814	48,138
Accrued liabilities	46,443	52,788
Dissenters' rights (Note 2)	15,043	27,930
Accrued access and unearned revenue	5,014	7,216
-----		
Total current liabilities	246,359	169,885
Long-term debt	478,842	527,906
Deferred income taxes (Note 4)	157,917	152,116
Unamortized investment tax credits	4,169	5,203
Other long-term liabilities	54,492	51,607
Minority interest	17,157	17,216
Shareholder's equity:		
Common stock	-	-
Additional paid-in capital	225,943	225,943
Retained earnings (Note 3)	575,942	551,932
-----		
Total shareholder's equity	801,885	777,875
-----		
Total liabilities and shareholder's equity	\$1,760,821	1,701,808
=====		

See accompanying notes to consolidated financial statements.

**PACIFIC TELECOM, INC.**  
**Consolidated Statements of Income**  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
(In thousands)				
Operating revenues:				
Local network service	\$ 39,545	35,530	112,719	101,970
Network access service	69,208	64,244	198,706	190,372
Long distance network service	490	441	1,295	1,203
Sales of cable capacity	12,300	6,030	12,412	8,279
Cellular	15,612	12,990	38,632	32,367
Other	16,854	17,373	52,401	52,001
Total operating revenues	154,009	136,608	416,165	386,192
Operating expenses:				
Plant support	26,408	24,919	72,792	69,892
Depreciation and amortization	27,209	25,644	80,420	76,532
Other operating expense	8,625	8,543	25,100	24,211
Cost of cable sales	9,030	5,126	9,084	6,652
Customer operations	11,538	11,705	33,187	34,179
Administrative support	14,666	14,350	46,790	45,349
Taxes other than income taxes	5,456	4,766	15,588	14,553
Total operating expenses	102,932	95,053	282,961	271,368
Operating income	51,077	41,555	133,204	114,824
Other income (expense):				
Interest expense	(10,052)	(9,765)	(30,240)	(30,104)
Interest income	1,079	995	2,569	2,196
Gain on sale of subsidiaries and investments	-	-	1,317	3,705
Equity income	2,945	1,992	6,636	4,977
Other	(1,171)	(1,331)	(6,802)	(6,405)
Other expense - net	(7,199)	(8,109)	(26,520)	(25,631)
Income before income taxes	43,878	33,446	106,684	89,193
Income taxes (Note 4)	16,613	13,011	41,797	34,697
Net income	\$ 27,265	20,435	64,887	54,496

See accompanying notes to consolidated financial statements.

**PACIFIC TELECOM, INC.**

Consolidated Statements of Cash Flows  
(Unaudited)

	Nine Months Ended September 30,	
	1997	1996
(In thousands)		
Cash Flows from Operating Activities:		
Net income	\$ 64,887	54,496
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	86,817	83,930
Deferred income taxes and investment tax credits, net	6,189	15,386
Gain on sale of subsidiaries and investments	(1,317)	(3,705)
Gains from unconsolidated entities, net	(6,636)	(4,996)
Accounts receivable and other current assets	(5,474)	(26,498)

Inventory - North Pacific Cable	9,084	6,652
Accounts payable and accrued liabilities	(12,247)	23,877
Other	7,273	(3,173)
-----		
Net cash provided by operating activities	148,576	145,969
-----		
Cash Flows from Investing Activities:		
Construction expenditures	(84,902)	(79,585)
Cost of businesses acquired	(105,410)	-
Investments in and advances to affiliates	(5,711)	(6,495)
Proceeds from sales of assets	11,968	5,715
-----		
Net cash used by investing activities	(184,055)	(80,365)
-----		
Cash Flows from Financing Activities:		
Increase (Decrease) in short-term debt	47,000	(56,000)
Change in affiliated notes	34,435	(3,562)
Proceeds from issuance of long-term debt	-	51,740
Dividends paid	(40,875)	(39,567)
Payments of long-term debt	(4,323)	(5,119)
-----		
Net cash used by financing activities	36,237	(52,508)
-----		
Increase in Cash and Temporary Cash Investments	758	13,096
-----		
Cash and Temporary Cash Investments at Beginning of Period	9,421	6,331
-----		
Cash and Temporary Cash Investments at End of Period	\$ 10,179	19,427
=====		
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the nine months ended September 30 for:		
Interest	\$ 36,195	35,727
Income Taxes	25,296	12,489
North Pacific Cable inventory reclassified to Telecommunications - Plant in service	4,409	-
Noncash Investing Activities:		
Liabilities assumed in connection with the acquisition of subsidiaries	4,834	-
-----		

See accompanying notes to consolidated financial statements.

Pacific Telecom, Inc. Condensed Notes to Consolidated Financial Statements September 30, 1997

(Unaudited)

1. The consolidated financial statements include all normal adjustments which, in the opinion of management, are necessary to present fairly the consolidated financial position at September 30, 1997, and the consolidated results of operations for the three and nine months ended September 30, 1997 and 1996 and cash flows for the nine months ended September 30, 1997 and 1996. These consolidated financial statements should be read in conjunction with the financial statements and related notes included in the latest annual report filed on Form 10-K of Pacific Telecom, Inc. (Company). The consolidated results of operations presented herein are not necessarily indicative of the results to be expected for the year. The 1996 consolidated financial statements reflect certain reclassifications to conform to the current year presentation. These reclassifications have no effect on previously stated net income.

2. The Company is a wholly-owned subsidiary of PacifiCorp Holdings, Inc. (Holdings), which is a wholly-owned subsidiary of PacifiCorp. See "Part II, Item 5 - Other Information" in the Company's Form 10-Q for the quarter ended June 30, 1997, for information regarding the pending sale of all Pacific Telecom, Inc. outstanding common stock to Century Telephone Enterprises, Inc.

The current liability for dissenters' rights decreased from the year end balance due to payments made to dissenting shareholders. See Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, for information related to the affiliated note for amounts to be paid dissenters relating to the minority buy-out. See "Part II, Item 1 - Legal Proceedings" in the Company's Form 10-Q for the quarter ended June 30, 1997, for information relating to a lawsuit involving dissenters and the Company.

3. Certain loan agreements contain provisions restricting the payment of cash dividends. Retained earnings of approximately \$238.0 million were available for dividends and other distributions at September 30, 1997.

The Company's ratio of earnings to fixed charges for the nine months ended September 30, 1997, calculated in accordance with Item 503 of

Regulation S-K under the Securities Exchange Act of 1934, was 4.1 to 1.

4. The Company's effective combined state and federal income tax rates were 39.2 percent and 38.9 percent for the nine months ended September 30, 1997 and 1996, respectively.

The difference between taxes calculated at the statutory federal tax rates and the effective combined rates for 1997 and 1996 is reconciled as follows:

	1997	1996
Federal statutory rate	35.0%	35.0%
State income taxes, net of federal benefit	3.4	3.6
Amortization of investment tax credits	(1.0)	(1.4)
Amortization of excess deferred income taxes	(.4)	(.5)
Amortization of excess cost	1.6	1.8
Other	.6	.4
Effective tax rate	39.2%	38.9%

The components of income tax expense are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
(In thousands)				
Federal income taxes	\$14,155	12,104	36,065	29,702
State income taxes	2,458	907	5,732	4,995
	\$16,613	13,011	41,797	34,697
Income taxes currently payable	\$17,677	951	35,556	19,312
Deferred income taxes	(711)	12,492	7,300	16,680
Amortization of deferred investment tax credits	(353)	(432)	(1,059)	(1,295)
	\$16,613	13,011	41,797	34,697

5. On September 30, 1997, the Company acquired local exchange assets in Minnesota representing 32 exchanges serving approximately 27,000 access lines from US WEST Communications, Inc. for approximately \$103 million in cash. "Net Plant" increased \$58.1 million and "Intangibles" increased \$44.9 million as a result of the acquisition. Cash from operations of \$98 million and an escrow account of \$5 million included in "Investments" provided the cash to fund the acquisition.

6. On October 6, 1997, the Company acquired local exchange assets in Fairbanks, Alaska representing a single exchange serving approximately 34,000 access lines from the City of Fairbanks for approximately \$84 million in cash. Additionally, \$8 million were placed into escrow pending Federal Communications Commission approvals for cellular license transfer. Borrowings under other available banking arrangements and an escrow account provided most of the cash to fund the acquisition.

7. On October 31, 1997, the Company acquired local exchange assets in Michigan representing eight exchanges serving approximately 12,000 access lines from GTE North Incorporated for approximately \$34 million in cash. Borrowings under other available banking arrangements and an escrow account provided most of the cash to fund the acquisition.

\* \* \* \* \*

## CENTURY TELEPHONE ENTERPRISES, INC. Unaudited Pro Forma Consolidated Condensed Financial Information

### Introduction

On December 1, 1997, Century Telephone Enterprises, Inc. ("Century") acquired Pacific Telecom, Inc. ("PTI") in exchange for \$1.503 billion cash in a two-step transaction. In the first step of the transaction, a wholly-owned subsidiary of Century purchased substantially all of the cellular telephone operations of PTI (collectively "PT Cellular") in exchange for \$240 million, and in the second step Century purchased 100% of the capital stock of PTI from PacifiCorp Holdings, Inc. ("PHI") for \$1.263 billion. After the first step but immediately prior to the second, PTI paid a \$240 million cash dividend to PHI. PTI and PT Cellular provide (i) local exchange telephone service to approximately 660,000

telephone access lines in four midwestern states, seven western states and Alaska and (ii) cellular telephone service to approximately 100,000 subscribers in three states.

To finance the acquisition, Century borrowed \$1.288 billion under its \$1.6 billion senior unsecured credit facility dated August 28, 1997 with NationsBank of Texas, Inc. and a syndicate of other lenders. In November 1997, in an unrelated transaction effected in anticipation of the PTI acquisition, Century sold 3.8 million shares of common stock of Brooks Fiber Properties, Inc. ("Brooks") for \$202.7 million, which resulted in a pre-tax gain of approximately \$108.1 million (\$66.2 million, net of tax). Such proceeds were used to finance a portion of the purchase price of PTI. Accordingly, the pro forma impact of the sale of Brooks stock has been included in the unaudited pro forma consolidated condensed balance sheet, based on the assumption that the sale took place on September 30, 1997. No pro forma adjustments related to the sale of the Brooks stock have been made to the unaudited pro forma consolidated condensed income statements because the investment in Brooks stock had no impact on such statements for the periods presented. The gain on sale of the Brooks stock will be reflected in Century's fourth quarter 1997 results of operations.

The following unaudited pro forma consolidated condensed balance sheet as of September 30, 1997 and the unaudited pro forma consolidated condensed statements of income for the year ended December 31, 1996 and the nine months ended September 30, 1997 are based on the historical results of operations and financial condition of Century and its subsidiaries (the "Company") and PTI and its subsidiaries, and reflect the effects of the transactions described above. Pro forma adjustments, and the assumptions on which they are based, are described in the accompanying notes to the unaudited pro forma consolidated condensed financial information.

The pro forma financial information related to the PTI acquisition has been prepared using the purchase method of accounting and is based on the assumptions that the purchase of PTI took place as of September 30, 1997 for purposes of the pro forma balance sheet and as of January 1, 1996 for purposes of the pro forma statements of income.

The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if such transactions had been consummated on the dates and in accordance with the assumptions described above, nor is it necessarily indicative of future operating results or financial position.

In accordance with the purchase method of accounting, the actual consolidated financial statements of the Company will reflect the PTI transaction only from and after December 1, 1997.

The pro forma financial information should be read in conjunction with the historical consolidated financial statements and notes thereto of Century and PTI.

## CENTURY TELEPHONE ENTERPRISES, INC.

### Pro Forma Consolidated Condensed Balance Sheet September 30, 1997

(Unaudited)					
			Pro forma		
As reported		Adjustments relating to PTI acquisition	Adjustments relating to sale of Brooks stock		
Century	PTI			Consolidated	
		(Dollars in thousands) (Note C)	(Note A)		
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$11,283	10,179	(215,000)	202,700	9,162
Accounts receivable	100,140	118,136	(34,400)		183,876
Materials and supplies, at cost	9,139	9,842			18,981
Other	3,351	49,707			53,058
	123,913	187,864	(249,400)	202,700	265,077
NET PROPERTY, PLANT AND EQUIPMENT					
	1,145,557	1,016,689	(48,300)		2,113,946
INVESTMENTS AND OTHER ASSETS					
Excess cost of net assets acquired	545,683	409,498	831,531		1,786,712

Other	458,551	146,770	(75,484)	(176,686)	353,151
	1,004,234	556,268	756,047	(176,686)	2,139,863
	\$2,273,704	1,760,821	458,347	26,014	4,518,886
=====					
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Current maturities of long-term debt	\$19,013	39,045			58,058
Notes payable	-	90,000			90,000
Accounts payable	53,273	50,814			104,087
Accrued expenses and other liabilities	63,292	61,486	(64,300)	64,300	124,778
Advance billing and customer deposits	16,705	5,014			21,719
	152,283	246,359	(64,300)	64,300	398,642
=====					
LONG-TERM DEBT	565,633	478,842	1,318,832		2,363,307
=====					
DEFERRED CREDITS AND OTHER LIABILITIES	308,173	233,735	5,700	(51,151)	496,457
=====					
STOCKHOLDERS' EQUITY					
Common stock	60,519	-			60,519
Paid-in capital	490,661	225,943	(225,943)		490,661
Unrealized holding gain on investments, net of taxes	62,038	-		(53,349)	8,689
Retained earnings	635,491	575,942	(575,942)	66,214	701,705
Unearned ESOP shares	(9,200)	-			(9,200)
Preferred stock - non-redeemable	8,106	-			8,106
	1,247,615	801,885	(801,885)	12,865	1,260,480
=====					
	\$2,273,704	1,760,821	458,347	26,014	4,518,886
=====					

See accompanying notes to unaudited pro forma consolidated condensed financial information.

### CENTURY TELEPHONE ENTERPRISES, INC.

#### Pro Forma Consolidated Condensed Statement of Income For the Nine Months Ended September 30, 1997

(Unaudited)

			Pro forma	
	As reported		Adjustments relating to PTI acquisition	Consolidated
	Century	PTI		
	(Dollars in thousands) (Note D)			
OPERATING REVENUES				
Telephone	\$359,454	347,505		706,959
Mobile communications	220,472	38,632		259,104
Other	47,986	30,028	(26,421)	51,593
	627,912	416,165	(26,421)	1,017,656
OPERATING EXPENSES				
Cost of sales and operating expenses	329,254	202,541	(20,010)	511,785
Depreciation and amortization	108,740	80,420	14,313	203,473
	437,994	282,961	(5,697)	715,258
OPERATING INCOME	189,918	133,204	(20,724)	302,398

OTHER INCOME (EXPENSE)				
Gain on sales of assets	70,121	1,317		71,438
Interest expense	(33,539)	(30,240)	(70,712)	(134,491)
Income from unconsolidated cellular entities	21,750	6,636		28,386
Minority interest	(3,722)	(2,764)	957	(5,529)
Other income and expense	3,467	(1,469)	(564)	1,434
	58,077	(26,520)	(70,319)	(38,762)
INCOME BEFORE INCOME TAX EXPENSE	247,995	106,684	(91,043)	263,636
Income tax expense	90,251	41,797	(27,060)	104,988
NET INCOME	\$157,744	64,887	(63,983)	158,648
Primary earnings per share	\$2.61			2.62
Fully diluted earnings per share	\$2.58			2.60
Average primary shares outstanding	60,510			60,510
Average fully diluted shares outstanding	61,198			61,198

See accompanying notes to unaudited pro forma consolidated condensed financial information.

### CENTURY TELEPHONE ENTERPRISES, INC.

#### Pro Forma Consolidated Condensed Statement of Income For the Year Ended December 31, 1996

(Unaudited)

	Pro forma		
	As reported	Adjustments relating to PTI acquisition	Consolidated
	Century	PTI	
	(Dollars in thousands)		
	(Note E)		
OPERATING REVENUES			
Telephone	\$451,538	447,873	899,411
Mobile communications	250,243	44,043	294,286
Other	47,896	29,214	(25,771)
	749,677	521,130	(25,771)
OPERATING EXPENSES			
Cost of sales and operating expenses	394,360	260,106	(20,659)
Depreciation and amortization	132,021	102,292	19,171
	526,381	362,398	(1,488)
OPERATING INCOME	223,296	158,732	(24,283)
OTHER INCOME (EXPENSE)			
Gain on sales of assets	815	3,705	4,520
Interest expense	(44,662)	(40,353)	(94,254)
Income from unconsolidated cellular entities	26,952	5,147	32,099
Minority interest	(6,675)	(2,398)	848
Other income and expense	3,916	(2,102)	(878)
	(19,654)	(36,001)	(94,284)

INCOME BEFORE INCOME TAX EXPENSE	203,642	122,731	(118,567)	207,806
Income tax expense	74,565	47,454	(34,845)	87,174
NET INCOME	\$129,077	75,277	(83,722)	120,632
Primary earnings per share	\$2.15			2.01
Fully diluted earnings per share	\$2.14			2.00
Average primary shares outstanding	59,924			59,924
Average fully diluted shares outstanding	60,660			60,660

See accompanying notes to unaudited proforma consolidated condensed financial information.

#### Notes to Unaudited Pro Forma Consolidated Condensed Financial Information

(A) Sale of Brooks Stock. In November 1997, in an unrelated transaction effected in anticipation of the PTI acquisition, Century sold 3.8 million shares of Brooks common stock for \$202.7 million, which resulted in a pre-tax gain of approximately \$108.1 million (\$66.2 million, net of tax). Such proceeds were used to finance a portion of the purchase price of PTI. Accordingly, the pro forma impact of the sale of Brooks stock has been included in the unaudited pro forma consolidated condensed balance sheet, based on the assumption that the sale took place on September 30, 1997. The pro forma adjustment reflects the reduction of the Company's investment in Brooks stock (\$176.7 million); reduction of the associated unrealized holding gain on investments, net of tax (\$53.3 million); and reversal of related deferred taxes of \$51.2 million. The \$64.3 million increase in accrued expenses and other liabilities represents current income taxes payable as a result of the sale. No pro forma adjustments related to the sale of the Brooks stock have been made to the unaudited pro forma consolidated condensed income statements because the investment in Brooks stock had no impact on such statements for the periods presented. The gain on sale of the Brooks stock will be reflected in Century's fourth quarter 1997 results of operations.

#### (B) Purchase of PTI and PT Cellular.

1. Costs of acquisition. The \$1.503 billion of cash expended for 100% of the common stock of PTI and PT Cellular was composed of the following:

Purchase of common stock of PTI	\$1,263,000,000
Purchase of common stock of PT Cellular	240,000,000
	-----
	\$1,503,000,000
	=====

A pro forma adjustment has been reflected in the unaudited pro forma consolidated condensed balance sheet for \$15.3 million of estimated costs related to the acquisition expected to be incurred by Century. Such adjustment includes the fee of Century's financial advisor and estimated involuntary termination benefits payable to PTI employees to be terminated, along with other costs.

2. Operations. The pro forma adjustments do not consider (i) the effect of possible long-term expense reductions that may occur in connection with combining PTI's operations with the Company's operations or (ii) integration costs required to be expensed as incurred.

3. Other transactions. The pro forma adjustments do not reflect the effects of the Company's and PTI's acquisitions and dispositions of certain properties during 1996 and 1997, the aggregate effect of which is not material for pro forma purposes.

(C) September 30, 1997 Balance Sheet Pro Forma Adjustments. The pro forma adjustments applicable to the acquisition of PTI and PT Cellular with respect to the unaudited pro forma consolidated condensed balance sheet as of September 30, 1997, as set forth below, reflect a preliminary purchase price allocation. The preliminary estimates of the fair value of certain assets and liabilities (specifically noncurrent assets and liabilities) may change as fair value information is obtained and the purchase price allocation is refined. Century funded \$1.288 billion of the \$1.503 billion purchase price with 5-year senior unsecured floating-rate bank debt under a \$1.6 billion committed credit facility with NationsBank and a syndicate of other lenders. Century is currently evaluating its long-term financing alternatives and, although no assurances to this effect may be given, it currently anticipates selling senior debt securities in early 1998. The pro forma financial information has been prepared assuming that Century will obtain long-term financing at an assumed interest rate of 7.2%.

Property	Excess cost	Accrued expenses and other	Long-	Deferred credits &
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Other revenues	Cost of sales and operating expenses	Depreciation and amortization	Interest expense	Minority interest	Other income and expense	Income taxes
-----						
(Dollars in thousands)						

Amortization of excess cost of net assets acquired (assuming a 40-year amortization period)				24,141			
Reverse PTI amortization of excess cost of net assets acquired				(9,094)			
Conform accounting for postretirement benefits to Century's accounting method		(1,300)					
Interest on net borrowings of \$1.3 billion at an assumed rate of 7.2%					(71,217)		
Amortization of premium on long-term debt					405		
Tax benefit relating to pro forma adjustments (assuming a 35% tax rate)							(24,329)
Non-strategic assets to be sold to reduce acquisition indebtedness	(26,421)	(18,710)	(734)	100	957	(564)	(2,731)
	(26,421)	(20,010)	14,313	(70,712)	957	(564)	(27,060)
=====							

A .125% change in the assumed interest rate would have changed net income by approximately \$804,000.

(E) December 31, 1996 Income Statement Pro Forma Adjustments. Set forth below are the pro forma adjustments applicable to the acquisition of PTI and PT Cellular with respect to the unaudited pro forma consolidated condensed statement of income for the year ended December 31, 1996:

	Other revenues	Cost of sales and operating expenses	Depreciation and amortization	Interest expense	Minority interest	Other income and expense	Income taxes
(Dollars in thousands)							
Amortization of excess cost of net assets acquired (assuming a 40-year amortization period)			32,188				
Reverse PTI amortization of excess cost of net assets acquired			(12,125)				
Conform accounting for postretirement benefits to Century's accounting method		(1,700)					
Interest on net borrowings of \$1.3 billion at an assumed rate of 7.2%				(94,956)			
Amortization of premium on long-term debt				540			
Tax benefit relating to pro forma adjustments (assuming a 35% tax rate)							(32,451)
Non-strategic assets to							

be sold to reduce						
acquisition indebtedness (25,771)	(18,959)	(892)	162	848	(878)	(2,394)
-----						
	(25,771)	(20,659)	19,171	(94,254)	848	(878)
=====						
						(34,845)

A .125% change in the assumed interest rate would have changed net income by approximately \$1.1 million.

(F) Reclassifications. Certain reclassifications have been made to the historical financial information to conform to the presentation of the pro forma information.

**FORWARD-LOOKING STATEMENTS**

IN ADDITION TO HISTORICAL INFORMATION, THIS REPORT ON FORM 8-K INCLUDES CERTAIN FORWARD-LOOKING STATEMENTS REGARDING EVENTS AND FINANCIAL TRENDS THAT MAY AFFECT THE COMPANY'S FUTURE OPERATING RESULTS AND FINANCIAL POSITION. SUCH FORWARD- LOOKING STATEMENTS ARE SUBJECT TO UNCERTAINTIES THAT COULD CAUSE THE COMPANY'S ACTUAL RESULTS TO DIFFER MATERIALLY FROM SUCH STATEMENTS. SUCH UNCERTAINTIES INCLUDE BUT ARE NOT LIMITED TO: THE EFFECTS OF ONGOING DEREGULATION IN THE TELECOMMUNICATIONSS INDUSTRY; THE POTENTIAL EFFECTS OF GREATER THAN ANTICIPATED COMPETITION IN THE COMPANY'S MARKETS; POSSIBLE CHANGES IN THE DEMAND FOR THE COMPANY'S PRODUCTS AND SERVICES; THE COMPANY'S ABILITY TO SUCCESSFULLY INTRODUCE NEW OFFERINGS ON A TIMELY AND COST EFFECTIVE BASIS; THE RISKS INHERENT IN RAPID TECHNOLOGICAL CHANGE; THE COMPANY'S ABILITY TO EFFECTIVELY MANAGE ITS GROWTH, INCLUDING INTEGRATING THE NEWLY-ACQUIRED OPERATIONS OF PTI INTO THE COMPANY'S OPERATIONS; AND THE EFFECTS OF MORE GENERAL FACTORS SUCH AS CHANGES IN GENERAL MARKET OR ECONOMIC CONDITIONS OR IN LEGISLATION, REGULATION OR PUBLIC POLICY. THESE AND OTHER UNCERTAINTIES RELATED TO THE BUSINESS ARE DESCRIBED IN DETAIL IN CENTURY'S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 1997. YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE ON WHICH THEY WERE MADE. CENTURY UNDERTAKES NO OBLIGATION TO UPDATE ANY OF ITS FORWARD-LOOKING STATEMENTS FOR ANY REASON.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**CENTURY TELEPHONE ENTERPRISES, INC.**

	/S/ Murray H. Greer
	-----
Dated: December 11, 1997	Murray H. Greer
	Controller
	(Principal Accounting Officer)

Exhibit 2.2 November 5, 1997

Century Telephone Enterprises, Inc.  
P.O. Box 4065  
Monroe, LA 71211-4065  
Attention: Mr. R. Stewart Ewing, Jr.  
Senior Vice President and Chief Financial Officer

Re: Definitive Stock Purchase Agreement

Ladies and Gentlemen:

We refer you to the Stock Purchase Agreement (the "Definitive Agreement") executed on June 11, 1997 by and among PacifiCorp Holdings, Inc. ("PHI"), Century Telephone Enterprises, Inc. ("Century"), Pacific Telecom, Inc. ("PTI") and Century Cellunet, Inc., pursuant to which PHI has agreed to sell to Century all of the capital stock of PTI. Section 7.1 of the Definitive Agreement contemplates that all Taxes on the income of PTI and its Subsidiaries through the end of the Closing Date, with certain exceptions, shall be paid to PHI by PTI at the Closing. Section 7.2 contemplates that PHI will include or cause to be included the income of PTI and its Subsidiaries, with certain exceptions, on the consolidated federal and consolidated unitary or combined state and local income tax returns of PHI and its Affiliated Group for all periods through the Closing Date and will pay all such Taxes.

The parties have realized that it will be impractical to compute the amount of Taxes PTI and its Subsidiaries should pay up to PHI at the Closing. Accordingly, they wish to amend Section 7.1 to take this fact into account.

The parties hereby agree to the following amendments:

1. Amend the last sentence of Section 7.1 to read:

"An estimate of all Taxes on the income of PTI and its Subsidiaries through the end of the Closing Date (excluding (i) any deferred income triggered into income by Reg. Sec. 1.1502-13 and 1.1502-14 and Taxes on any excess loss accounts taken into income under Reg. Sec. 1.1502-19 and (ii) income Taxes on gain from the sale of the Cellular Stock pursuant to Sec. 2.3) shall be paid to PHI by PTI at the Closing."

2. Add the following at the end of Section 7.1:

"No later than December 31, 1988, PHI will pay to Century or Century will pay to PHI, as the case may be, the difference between the estimated amount of Taxes PTI paid to PHI in accordance with the preceding sentence at the Closing and the actual amount of 1997 federal consolidated unitary or combined state and local income Taxes on the income of PTI and its Subsidiaries (again excluding (i) any tax on deferred income triggered in the income by Reg. Sec. 1.1502-13 and 1.1502-14 and Taxes on any excess loss accounts taken into income under Reg. Sec. 1.1502-19 and (ii) income Taxes on gain from the sale of the Cellular Stock pursuant to Section 2.3.

If the foregoing is acceptable to you, please execute both of the duplicate originals of this letter agreement, retain one for your records, and return the other to the undersigned for our records.

**PACIFICORP HOLDINGS, INC.**

By: /s/ W.E. Peressinni  
Title: Treasurer

*Agreed to and accepted as of the date hereof:*

**CENTURY TELEPHONE ENTERPRISES, INC.**

By: /s/ W. Bruce Hanks  
Title: Senior Vice President Corporate  
Development and Strategy

**FOR IMMEDIATE RELEASE FOR MORE INFORMATION CONTACT:**

December 11, 1997 Jeffrey S. Glover (318) 388-9648 [jglover@iamerica.net](mailto:jglover@iamerica.net)

**CENTURY FILES \$1.5 BILLION UNIVERSAL SHELF REGISTRATION STATEMENT**

Monroe, LA. . . . Century Telephone Enterprises, Inc.(NYSE Symbol:CTL)announced that it filed today a shelf registration statement with the Securities and Exchange Commission registering \$1.5 billion of senior unsecured debt securities, preferred stock, common stock and warrants, which may be issued from time to time as determined by the Board of Directors.

The aggregate principal amount, net proceeds, offering price and other specific terms of securities which may be issued under the registration statement will be determined at the time of sale and described in a supplement to the prospectus forming a part of the registration statement. Unless otherwise indicated in any such supplement, the net proceeds from any such sale of securities will be used for refinancing outstanding indebtedness and for other general corporate purposes, including the financing of acquisitions or capital expenditures. Century may sell such securities (i) through underwriters or dealers, (ii) directly to one or more purchasers or (iii) through agents. Century currently anticipates that it may sell senior debt securities in early 1998 to refinance a substantial portion of the bank indebtedness incurred in connection with its acquisition of Pacific Telecom, Inc., in early December 1997.

Century Telephone Enterprises, Inc. provides a range of communications services including local exchange, wireless, long distance and Internet access to more than two million customers in 21 states. The company, headquartered in Monroe, Louisiana, is publicly traded on the New York Stock Exchange under the symbol CTL. Century is the 10th largest local exchange telephone company, based on access lines, and the 10th largest cellular company, based on population equivalents owned, in the United States.

Visit Century's corporate website at [www.centurytel.com](http://www.centurytel.com).

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A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective, nor may sales be effected in the absence of a prospectus supplement setting forth the terms and conditions of any specific series of securities offered. This press release shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

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**End of Filing**

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