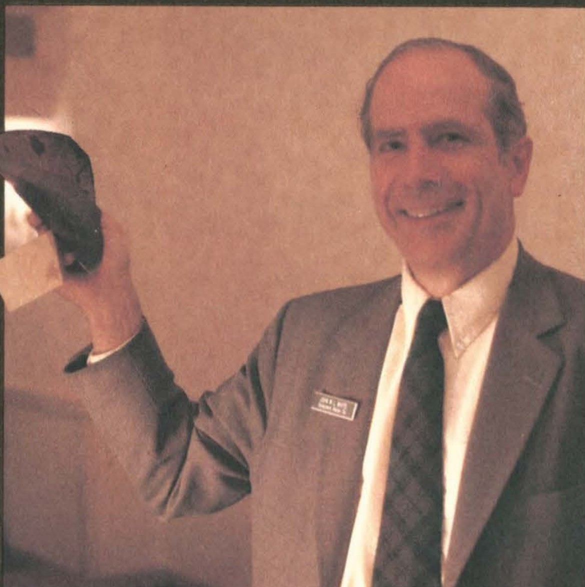
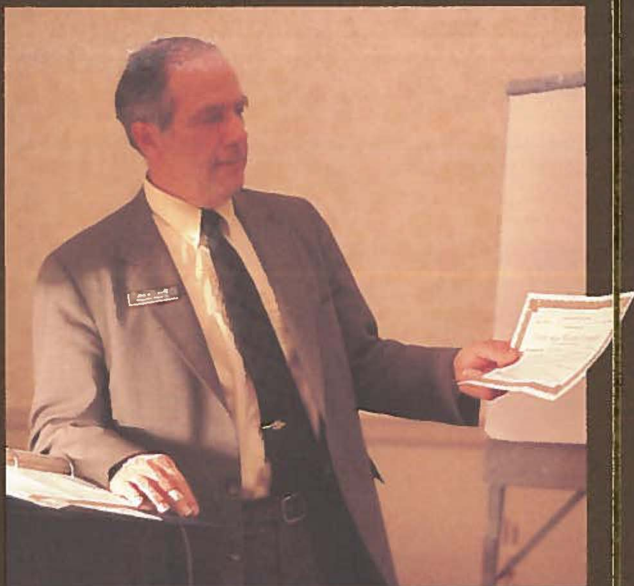
Eighteen Years Of Progress



The History of
Consumers Water Company
Under the Direction of

John W. L. White

Eighteen Years Of Progress



Above: *John W. L. White at Consumers' 1984 Annual Meeting of Shareholders showing the stock certificate that appreciated in value fifty times over in approximately thirty-seven years.*

Front Cover: *John W. L. White displaying his "favorite piece of pipe"—a ritual performed at each of the last thirteen Annual Meetings of Shareholders he conducted. The "coupon," taken in 1971 from a cast iron main installed in Freeport, Maine, in 1891, shows no evidence of deterioration after eighty years of service.*

Dedicated to John W. L. White

Upon his Retirement from Full-Time Service

August, 1984

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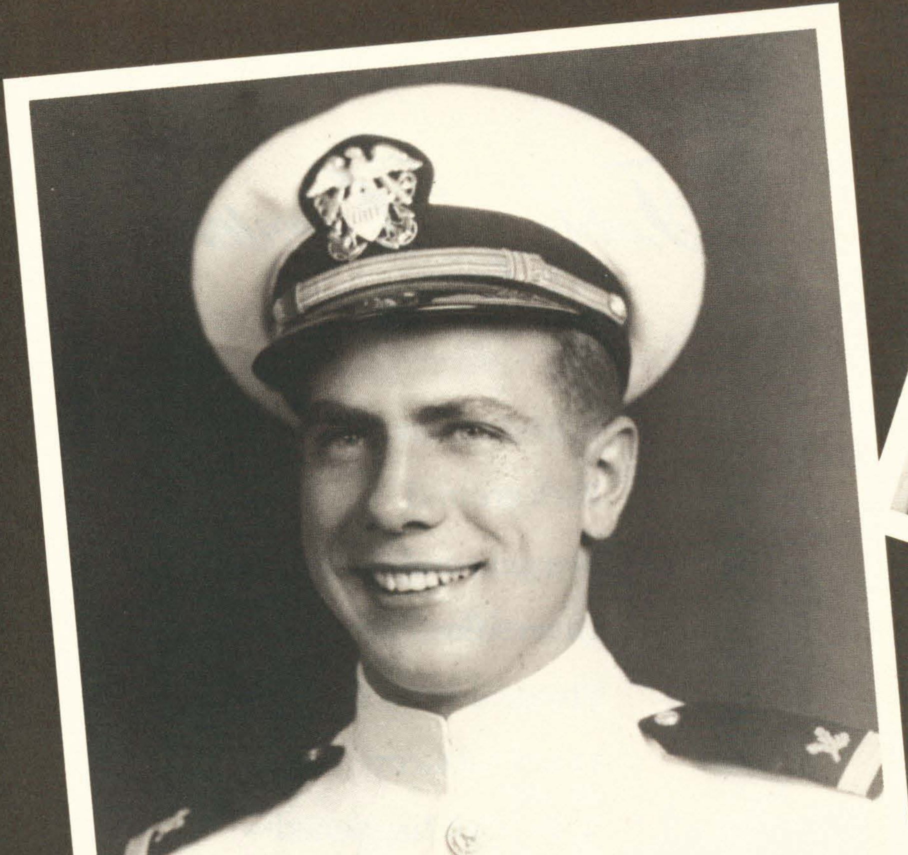
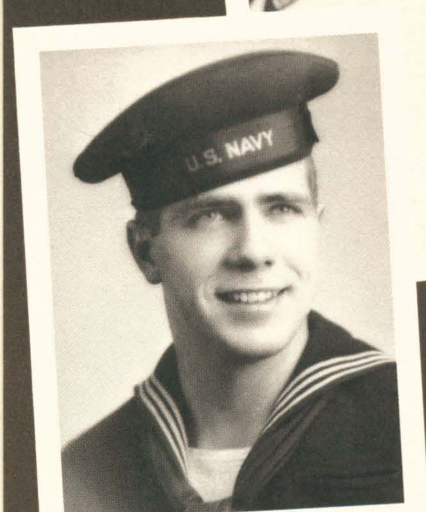
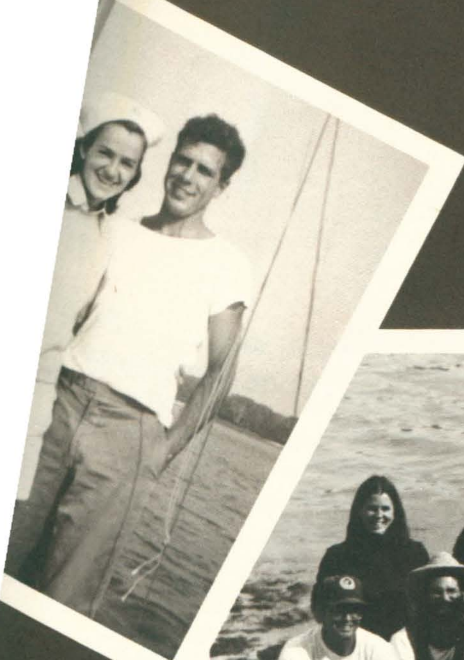




Midshipman John White in the Navy V-12 program, 1944.

John, newly commissione in the Navy Supply Corps, 1945.



John and Molly, newly married in 1947.

John with his family at Yarmouth Island, 1982.

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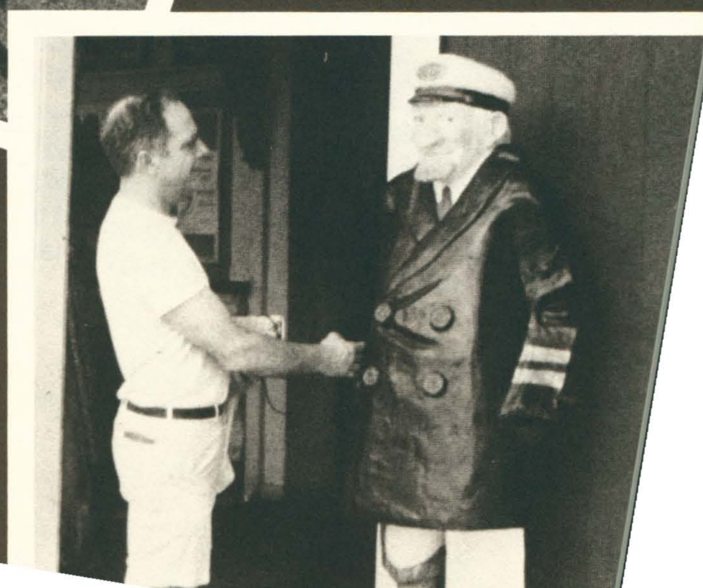


Foreword

The purpose of this booklet is to enlighten shareholders, employees, and friends of Consumers Water Company on the significant growth in size, earning power, and shareholder investment of Consumers Water Company during the presidency of John W. L. White. (To simplify the writing, John's tenure as CEO is, at several points, referred to as his "Presidency," whereas, in fact, on April 28, 1981, he was elected Chairman and CEO.) This volume will be first unveiled at a modest gathering of close friends of John in August, 1984, the only function he would permit in honor of his retirement from full-time service with the Company. The booklet has been prepared without John's knowledge for two reasons: one—to give John an unexpected honor at his retirement lunch and, second, also more compelling, were he consulted about the book, he surely would have vetoed the project in defense of his modesty.

The secret approach has its pluses and minuses. All who read it can be confident the book is not a self-directed monument for John. The primary minus is that without John's consultation, certain key events and colorful anecdotes have surely been overlooked. We were fortunate to have available for background information and verification of facts two directors whose association with the Company dates back to before or near the time John White was first hired.

John White's influence on the Company, however modest at the start, surely commenced at the time of his employment in August, 1946. Thus, since most of this story and the associated statistics concentrate on the progress of Consumers since his election to the presidency in 1966, I am confident this booklet understates the true influence John has had on the post-war history of Consumers Water Company.

John van C. Parker, President

Introduction

This story is primarily about the most recent eighteen years of the fifty-eight year history of Consumers Water Company. John W. L. White was elected President of the Company on April 26, 1966, and will retire from full-time service with the Company on August 8, 1984. The narrative only rarely says John did *this* or John did *that*. Consumers is, among other things, an organization of people. As is the case with most well-run organizations, much of what happened at Consumers during the eighteen years was actually accomplished by people other than John White. But little was done that was not consistent with his policies and general mandate; and virtually nothing of significance was accomplished without either his urging or specific consent. Thus, as significant events and progress are described as steps taken by the Company, implicit is the influence and guidance of John White.

At the same time, the role played by Consumers' Board of Directors should not be overlooked or discounted. John's election to the presidency in 1966 was not a foregone conclusion, and never during John's leadership was there ever a hint of a "controlled" board. Since 1966 the only extended period during which there have been more than two directors from management was brought about by the acquisition of Ohio Water Service Company whose President, Pierce Bailey, served on the board for seven years. The board was always a questioning and probing board with a distinct orientation towards the shareholders' best interests. Nevertheless, in that environment John White was clearly a strong president and a persistent champion of his own ideas on how the Company could grow for the mutual benefit of the Company's shareholders, employees, and customers.

Background

Except for temporary employment during his education and two years of Navy service around the end of WWII, John White has devoted all of his working career to Consumers Water Company. He was hired as an engineer for the Company on August 15, 1946. At that time the Company occupied the fourth floor at 95 Exchange Street, Portland, Maine, and owned six water companies operating in six states. Four of those companies are still part of Consumers' present portfolio of water utilities—Kankakee Water Company, Shenango Valley Water Company (with its Ohio subsidiary, Masury Water Company), Hudson Water Company (now Southern New Hampshire Water Company), and Freeport Water Company (now the Freeport Division of Maine Water Company). In 1946 Consumers also owned a 50% interest in Dartmouth Real Estate Company (now The Dartmouth Company). Consumers operated not only its water utilities and Dartmouth Real Estate Company but also, by contract, Casco Bay Power and Light Company (Maine), Leadville Water Company and Leadville Land Company (Colorado), and Newport Water Company (Maine). At that time Consumers also played a significant role in the management of Biddeford and Saco Water Company, then and still the largest investor-owned water utility in the State of Maine.

In 1946, twenty years after its incorporation, Consumers was still under the direction of its original President, Vernon F. West. Consumers' board was made up of three of its original founders, Vernon West, Harold Payson, and Philip Burgess; two representatives from H. M. Payson & Co. (a Portland investment banking firm then active in Consumers' financial affairs), Phillips Payson and John McInnes; and two others from the Company management, Fletcher Means and James Coburn.

During the first ten years of John White's employment, little of much significance occurred for Consumers. The management continued to maintain essentially the status quo while wrestling with construction projects, long overdue because of the Depression and the war. This work was made difficult by substandard earnings of certain subsidiaries, occasioned primarily by the financings for the new projects, coupled with a reluctance of state commissions to grant timely or appropriate rate relief. In that period, power company revenues were increasing so rapidly that for them rate relief was unnecessary. Commissions were slow to comprehend why water utilities could not survive in the same manner. Regulatory lag, unchecked by reforming legislation such as statutory time limits, was a significant factor.

The work was varied, interesting, and challenging for the Company engineer. Operation of Casco Bay Power and Light involved the maintenance and replacement of underwater power cables interconnecting the major islands of Casco Bay near Portland. Leadville Water Company required occasional trips to Colorado (by train, not air). The unique feature of Leadville (elevation 10,000 feet ±) was the maintenance and operation of steam tracer lines to prevent winter freezing of even the main lines. Near the end of John's first decade of work, a major problem facing the Company was the solution of a growing supply problem for Springfield City Water Company (Missouri), Consumers' largest subsidiary. When a consulting engineer recommended a new large reservoir on one side of town, skeptics requested a second opinion. The second engineering firm recommended a reservoir on the other side of town. Finally, a third firm was engaged to break the deadlock. Interestingly enough, that third firm, Malcolm Pirnie, Engineers, is the same firm Consumers has teamed up with in 1984 to form a jointly-owned service company, Consumers/Pirnie Utility Services Company.

The second decade of John White's employment was considerably more dynamic for Consumers Water Company. Due in part to the delay in solving the supply problem for Springfield, aggravated by an untimely drought, the city elected to purchase the utility. The utility plant of Springfield City Water

Company was sold on December 30, 1957, and that company was completely liquidated the following year. The sale resulted in an after-tax gain of some $5,700,000, a major strengthening of Consumers' balance sheet and a doubling of the book value of each Consumers common share from $17.43 to $35.13 (not adjusted for subsequent stock dividends). The sale was so significant that there was even speculation as to whether the Company should be liquidated. The resolve of the board, however, was to capitalize on the new financial strength and liquidity of the Company by embarking on a major acquisition program.

Under the direction of Fletcher W. Means, then president of the Company, Consumers acquired Camden and Rockland Water Company in 1959, Newport Water Company in 1962, Wilton Water Company in 1963, and both Wiscasset Water Company and Damariscotta-Newcastle Water Company in 1964. All were Maine utilities. Also in 1964 the Company acquired its first New Jersey property, Blackwood Water Company. In 1965 the Company purchased Hamilton Square Water Company (New Jersey) and Wanakah Water Company (New York).

At the Company's Annual Meeting in April, 1966, Fletcher Means was elected Chairman of the Board and John W. L. White was elected President and Chief Executive Officer.

Left: *Six of Consumers' seven key people shortly before John White's election to the presidency.* Left to right: *Fletcher W. Means, President; Gerald H. Lamprey, Operations Engineer; John W. L. White, Vice President; William T. Evans, President of Shenango Valley Water Company; Robert H. Varney, President of Camden and Rockland Water Company; John J. Russell, Vice President.* Photo by William D. Holmes, President of Kankakee Water Company.

Below: *Consumers' 1967 Board of Directors.* Left to Right: *Benjamin R. Alexander, David R. Hastings, II, Albert F. Hauptfuhrer, John J. Russell, John W. L. White, Fletcher W. Means, George S. Payson, William B. Skelton, II, John McInnes, and Eliot B. Payson.*

Mergers And Acquisitions

By the time John White became President, the excess cash and equity capital of the Company had been completely utilized in the aggressive acquisition program following the sale of Springfield City Water Company. Moreover, there were not a great many water utilities available for acquisition. Nevertheless, the Company continued to search out and cultivate possibilities for further growth. The Company's objective was not growth for growth's sake but rather to find situations that could improve the overall profitability of the Company and increase the likelihood of gains from the occasional sales of properties.

In the acquisition game, tangible results do not immediately follow one's efforts. It was not until 1968 that renewed activity began to pay off. Early in the year the Company purchased for cash Oakland Water Company (Maine, 642 customers). Near the end of the year the Company acquired, through a registered exchange of Consumers preferred stock, the water utility serving Sayre, Pennsylvania (3,773 customers), and The People's Water Company serving Phillipsburg, New Jersey (6,584 customers). Shortly thereafter, in February, 1969, the Company purchased Westminster Water Company (Pennsylvania, 1,150 customers). Westminster became the nucleus of the Company's Erie Suburban Water Company, one of the most rapidly growing properties of the Consumers system for the next fifteen years. In 1971 the Company consummated one other small acquisition, that of Kezar Falls Water Company (Maine, 391 customers). Throughout this period; and still today, Consumers' acquisition strategy included two basic principles.

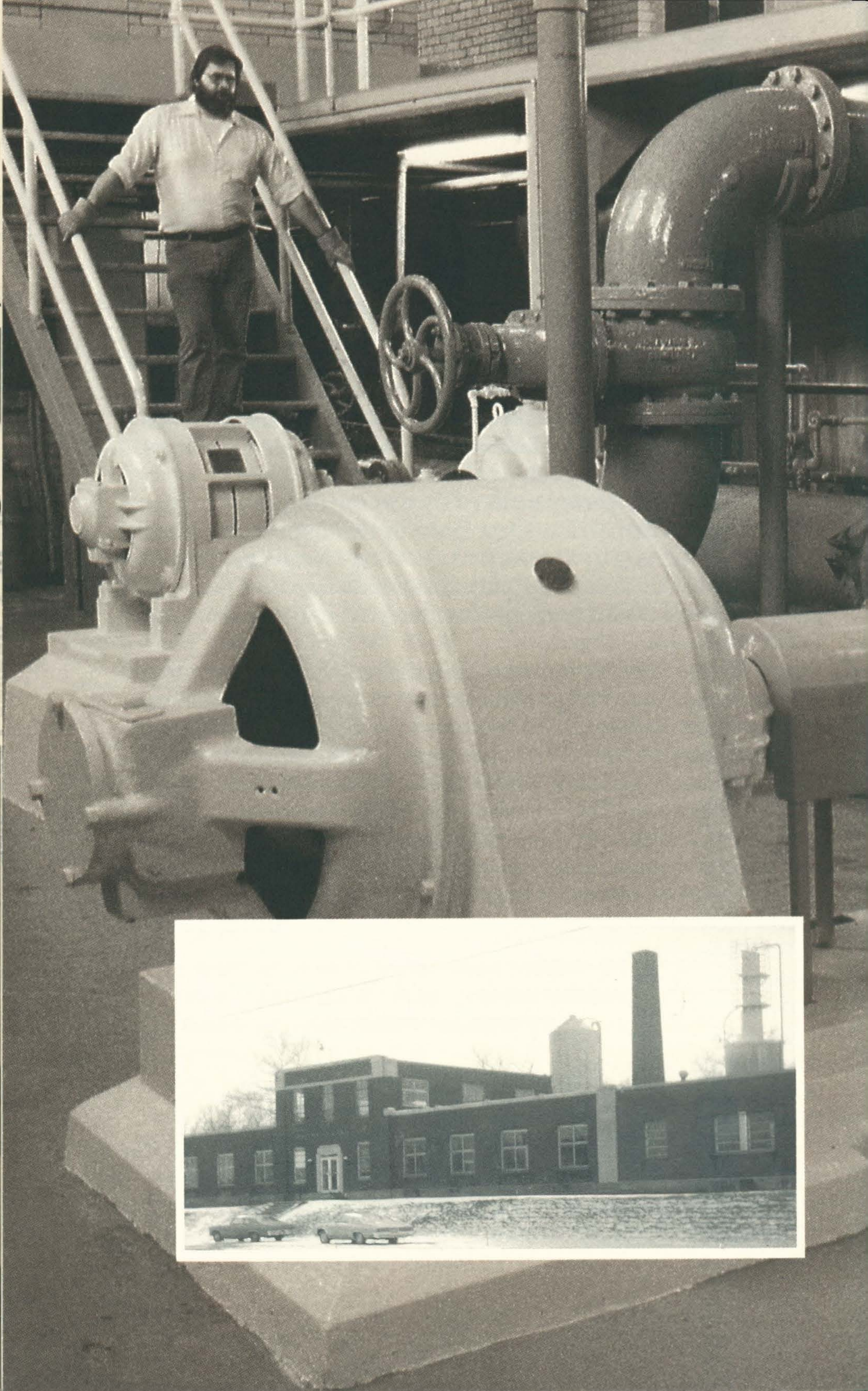
1. Each acquisition should reasonably be expected to have a positive impact on earnings per share.
2. Each acquisition should be sufficiently large to justify the anticipated ongoing management time.

The second criterion meant that to enter a new regulatory jurisdiction, a utility should have some 5,000 or more customers. However, for an additional operation in a state where the Company was already operating, a smaller utility would be acceptable. Furthermore, even smaller utilities were acceptable candidates if they could become nearby "satellites" of existing systems, especially if they held potential for eventual interconnection. Satellites were basically a means of controlling and expanding territory for existing utilities.

During the period covered by this writing, the Company acquired many small developer systems that are not specifically mentioned, primarily for Kankakee Water Company, Erie Suburban Water Company, Garden State Water Company, and Hudson Water Company (now Southern New Hampshire Water Company).

In October, 1970, Consumers made its first move toward the most significant acquisition of its history. For several years the Company had been making low-keyed overtures to officials of Ohio Water Service Company. During 1969 and 1970 another company had assembled a 30% block of Ohio's common stock. In the fall of 1970, that company elected to dispose of its block and, out of the blue, contacted Consumers Water Company. In less than a week Consumers negotiated terms for a purchase of the stock for cash. It was not until 1972, however, that terms to complete the acquisition were agreed upon. On March 23, 1973, Consumers acquired the remaining 70% of the common stock of Ohio Water Service Company by an exchange of one and one-third common shares of Consumers for each share of Ohio. This nearly doubled the size of Consumers and more than doubled the number of common shareholders. Three Ohio directors joined Consumers Water Company's Board of Directors.

In July, 1972, Kankakee Water Company acquired all the common stock of Willowbrook Utility Company which was providing both water and sewer service to a small but growing real estate development located approximately thirty miles north



of Kankakee. Consumers had first entered the field of sewage collection and treatment in 1970 when Kankakee Water Company acquired the Bourbonnais sewage collection system within its own water franchise territory. Shortly thereafter, Erie Suburban Water Company contracted for the operation of a small sewage collection and treatment plant within its service territory. Kankakee also leases and operates the Bourbonnais waste water treatment plant.

Once Ohio Water Service Company became part of the Consumers system, Consumers was operating twenty-six different water utilities, almost double the fourteen utilities in the portfolio when John White became President seven years earlier. As this growth occurred, the Company moved to streamline the management and facilitate the financing of these entities, especially the smaller ones. In 1969 the Company merged Blackwood Water Company, Hamilton Square Water Company, and The People's Water Company to form Garden State Water Company. In 1971 the Company merged The Sayre Water Company and Erie Suburban Water Company to form Pennsylvania Water Company. Finally, in 1973, Consumers' "seven dwarfs," Freeport Water Company, Newport Water Company, Wilton Water Company, Wiscasset Water Company, Damariscotta-Newcastle Water Company, Oakland Water Company, and Kezar Falls Water Company were merged to form Maine Water Company.

Up to this point in John's presidency, only one utility had been sold, namely, Winterport Water Company (Maine, 253 customers) in 1970 for a gain of over $62,000.

Inside and outside the 5.5 million gallons per day (MGD) treatment plant at Massillon, Ohio. Massillon is the largest division of Consumers' largest acquisition—Ohio Water Service Company. In 1984 the capacity of this plant is being expanded to 8.5 MGD at a cost of $2 million.

In the ten years following the Ohio acquisition, in spite of continued efforts to cultivate prospects, there were no further acquisitions other than small developer systems adjacent to existing operations. Management's focus was on improving the quality of service of its existing operations and maximizing the return on its investment. The market price of the Company's common stock, chronically below book value, handicapped the Company's ability to make attractive offers.

The only significant utility acquisition since the Ohio merger was the purchase in 1984 of Park Forest South Utilities Company, Inc., for $2,000,000 in cash. Park Forest South (recently renamed Consumers Illinois Water Company) has both a water utility and sewer operation, each of which serves some 1,400 customers in a planned and growing community within a few miles of Willowbrook Utility Company and twenty miles south of Chicago.

Diversification

Consumers' slogan, "Not Just Another Utility," was coined by John White. When it was coined, the primary justification was that within Consumers' portfolio of operating subsidiaries was Dartmouth Real Estate Company (now The Dartmouth Company). Consumers acquired control of The Dartmouth Company in the early 30s when, due to the impact of the Depression, the company was on the verge of bankruptcy. Because Dartmouth's tenants were unable to pay their rent, the real estate company was unable to meet its mortgage obligations. Consumers agreed to meet the mortgage obligations in exchange for 50% of the stock. In 1957 Consumers' ownership moved up to 64% as Dartmouth issued both additional common stock and unsecured debentures to finance the development of a major industrial park. In the late 60s, the interest of all but one minority shareholder was purchased, and in 1976 Consumers' ownership of Dartmouth reached 100%.

From time to time, management has assessed both the wisdom of retaining that non-utility subsidiary and, alternatively, the possibility of expanding Dartmouth and/or pursuing still further diversification from the water utility business. Consistent with the characteristics of its industry, The Dartmouth Company has never produced operating income even close to Consumers' investment standards or the levels of its water subsidiaries. However, over the years Dartmouth has been an attractive investment for Consumers, primarily due to the gains realized from the periodic sales of its properties.

These sales have not only generated attractive numbers for Consumers' income statement but have also provided equity capital for new and larger investments for Dartmouth. Dartmouth's payout has been relatively low so that it could expand its portfolio of real estate investments.

During the first fifteen years of John White's presidency, the Company did make several modest attempts to diversify into other non-regulated businesses. The most noteworthy were an experiment with a lawn sprinkling business within a few of the Company's service territories and a domestic water softening business aimed at customers near, but not within, a different mix of service territories. None of the ventures was successful, primarily because the Company did not make a major commitment to launch the new businesses.

In the late 1970s and early 80s, the country experienced both double digit inflation and double digit interest rates. In spite of aggressive rate case activity, most utility commissions were unwilling to grant rates that would give Consumers' operating subsidiaries a reasonable chance to earn a fair return in that environment. The result was that earnings and dividends could not advance as fast as inflation, and the Company's stock price languished around 70% of book value. There was little consolation in the fact that most utilities were suffering the same fate. John White was not satisfied with merely making the best of circumstances. With the blessing of the Board of Directors, the Company screened a few management consulting firms and eventually engaged Harbridge House of Boston to lead management through a formal strategic planning program. A key part of that program would be to determine whether or not it would be advisable for the Company to further diversify in a more aggressive manner. The process took almost six months and involved many meetings of the Company's top management, both with and without participation from the Company's Board of Directors. In February, 1982, it was concluded that in the interest of both better earnings and an improved stock price, the Company should attempt to expand its non-utility business. Letters were mailed to many business and professional people announcing the Company's intentions and soliciting contacts and suggestions. Virtually overnight numerous opportunities came to the attention of the Company.

As a part of the strategic planning process, the Company established five key criteria for the selection of a new company or line of business. They were as follows:

1. *Profitability:* Should have a record of, and prospects for, at least a 15% return on equity.
2. *Location:* The northeast quarter of the country, preferably in New England.
3. *Type:* A company in manufacturing, distribution, or service with a strong position or so-called "niche" in its market.
4. *Management:* One of proven experience and willingness to continue in the business.
5. *Size:* An investment of from \$2 to \$5 million so that the commitment would be significant and yet not too burdensome should operating results be less rewarding than anticipated.

By early summer, after looking at several possibilities, a contact with two companies in the manufactured housing business appeared to be promising. Investigation and negotiations led to an agreement in principle by early fall followed by a definitive purchase and sale agreement before year-end. On March 28, 1983, the Company exchanged 125,000 common shares for all of the shares of Burlington Homes of New England and Schiavi Homes Corp. Burlington builds in a modern plant a line of manufactured homes that is at the top of the industry in both quality and price. The homes are sold through a network of independent dealers that extends through all of New England and into eastern New York and northern New Jersey. Schiavi Homes Corp. is the largest retailer of manufactured housing in New England and has outlets in Augusta, Oxford, and Sanford, Maine. Schiavi buys some 20% of Burlington's output and, by coincidence, Burlington homes account for approximately 20% of Schiavi's sales. Each of the two new companies met the criteria established by the strategic planning process and, in addition, they complement each other and the activities of The Dartmouth Company. The three companies, now called Consumers' Home Group, work closely with each other. To enhance the business of Schiavi and Burlington, The Dartmouth Company formed a new subsidiary, The Arcadia Company, the mission of which is to locate and develop land suitable for either manufactured housing parks or subdivisions oriented toward manufactured housing placed on permanent foundations. The positive impact of this first significant diversification effort is further described in Chapter VI, Financial Growth.

Manufacturing plant of Burlington Homes of New England, Oxford, Maine.

Dartmouth, Burlington, and Schiavi now account for approximately 30% of Consumers' business. The Company intends to have its water utility business remain its primary line. Once the two new businesses have been fully assimilated, the Company will consider either further expansion in the real estate and housing business or possibly one or two other lines of business that meet the criteria established by the strategic planning process.

Physical Growth

The previous two chapters, "Mergers and Acquisitions" and "Diversification," suggest the physical growth of Consumers Water Company under John White's leadership. The statistics of this chapter will give the reader a more precise understanding of how much the Company changed and grew during the eighteen years.

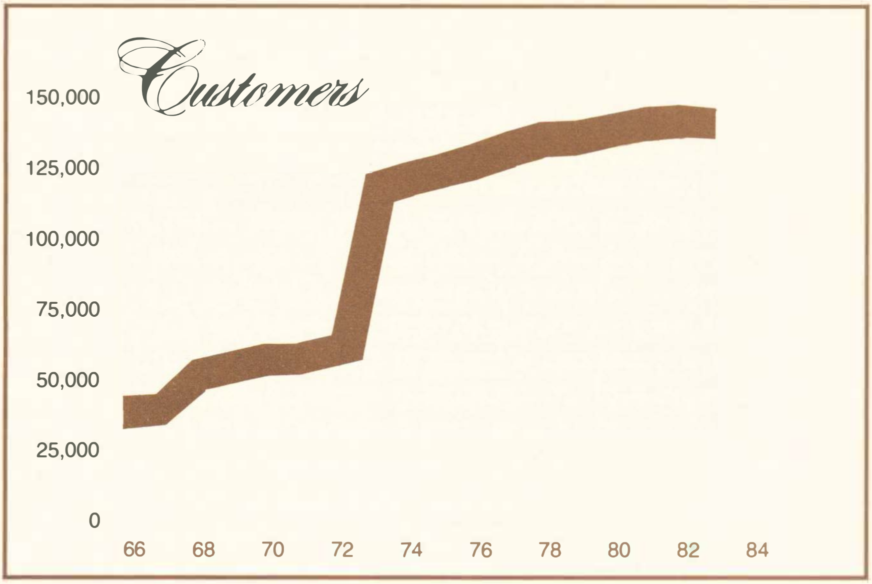
A certain amount of growth would have occurred without the Company's active efforts to acquire additional water companies in new jurisdictions. However, with the exception of Hudson Water Company, which since 1966 has more than doubled in size, none of the systems owned by Consumers in 1966 has experienced rapid growth in the past eighteen years. In total, the number of customers served by the fourteen systems in 1966 grew 62.85%, from approximately 45,000 to 74,000. The addition of thirteen utility systems changed the percentage growth to 225.86% and elevated the total number of customers served on December 31, 1983, to over 147,000. All the above figures are, of course, net of both small losses in service territories and the sale of the Company's utilities in Winterport, Newport, and Wilton, Maine.

Annual pumpage has not increased by a similar amount over the same period of time. Primarily due to the newly-acquired companies, annual pumpage did increase 177% from 9,543 million gallons per year to 26,392 million gallons per year. More noteworthy, however, is the fact that from 1973 to 1983, a decade during which the number of customers served increased almost 19%, annual pumpage decreased by over 12%. That apparent inconsistency is attributable to a significant drop in industrial demand, only part of which was replaced by the domestic consumption of new customers. The change is attributable primarily to commission policies of placing a disproportionate amount of necessary revenue increases on industrial customers. That policy stimulated industries to undertake water conservation programs including such measures as recycling systems. If the sole motive were to reduce rate increases for domestic consumption, in the long run little progress was made since less and less industrial consumption only led to more frequent rate requests and no significant switch of total revenue to the industrial load. On the other hand, the policy has been successful in reducing the need for expensive new sources of supply and treatment capacity.

From 1966 to 1984 the number of water utility employees increased from 159 to 418. That 163% increase is less than the 226% increase in number of customers. The slower growth in employees is not attributable to economies of scale since the Company's new acquisitions were primarily medium and smaller sized companies with characteristics similar to its long-time holdings. The drop in employees per customer is due primarily to both mechanization of utility construction and repair and modern techniques for customer accounting and data processing.

The Company's investment in original cost water utility plant during John White's presidency increased from $27.9 million to $138.6 million. The 395% increase overstates, somewhat, the actual growth in utility plant since new construction on a unit cost basis is so much more expensive than older plant, some of which dates back over one hundred years. The reason why the dollar amount did not increase even more is because much of the growth has come from the acquisition of systems that date back just as far as the original Consumers systems. Perhaps the most meaningful measure of how much Consumers' water utility plant grew during John White's presidency is the miles of water main in service. That figure jumped from 639 miles in 1966 to 2,092 miles on December 31, 1983, a 227% increase.

As already mentioned, Consumers' non-utility investment also grew significantly over the eighteen years. The cost of The Dartmouth Company's property in 1966 stood at $3.0 million. By the end of 1983, even after the sale of its largest rental property that year, the book cost of Dartmouth's properties totaled $10.9 million.


Customers
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1750
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1250
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Also a part of Consumers' properties is the fixed assets of Burlington Homes of New England and Schiavi Homes. The building housing the manufacturing operation of Burlington is leased; nevertheless, the fixed assets of those two companies (exclusive of inventories) amount to over $750,000.

A final measure is the total assets of Consumers Water Company. On December 31, 1966, assets totaled $27 million; on December 31, 1983, assets totaled $156 million. That jump amounts to a 477% increase, whereas during the same period of time, the Consumer Price Index increased approximately 208%.

Financial Growth

The financial growth of Consumers Water Company over the thirty-eight years of John White's employment has been steadily upward, highlighted by occasional spurts caused by sales of properties, new acquisitions, and periods of significantly improved earnings. It is ironic that the most dramatic financial growth occurred when the Company's largest utility subsidiary was sold. As mentioned before, in 1957 the Company's Springfield, Missouri, utility was sold to the city for \$20.7 million, some 1.61 times the net book value of the plant. On an original cost basis, the Springfield system amounted to approximately 62% of Consumers' holdings when it was sold. The after-tax gain of \$5.7 million resulted in an increase in the book value of each Consumers share of over 100%. The market price of the shares experienced a comparable increase.

Before focusing on the financial progress during John White's presidency, it is interesting to note the financial posture and progress of the Company during his earlier years of employment. In 1946 the Company was paying no cash dividends and many of the companies were experiencing severe financial pressures as they struggled to update and expand their systems following fifteen years of depression and wartime constraints. A good example is the situation at Shenango Valley Water Company. In the post-war years, the momentum of that area's wartime industrial prosperity continued unabated. Accelerated new home construction combined with increased industrial demands severely taxed the system. The Company had the will to meet the demand, but unresponsive regulation placed Shenango in precarious financial circumstances. Bank credit was exhausted, long-term financing unavailable, invoices to vendors long overdue, and, worst of all, the water system was unable to meet peak demands. The situation was so bad that the local manager went to great efforts to avoid public exposure on city streets or elsewhere. On hot summer evenings when pressures at higher elevations dropped below acceptable standards, the manager would "retreat" to the treatment plant both to avoid irate phone calls and to give the appearance that he was trying to do something about the matter. In reality, there was little that could be done without significant capital expenditures. Eventually, a trip to Harrisburg, Pennsylvania, by John White, Fletcher Means (subsequently John White's predecessor as president), and an influential Pennsylvania attorney resulted in emergency rate relief followed shortly thereafter by re-established credit and badly needed plant improvements. Today the Shenango water utility is a "flagship" of the Consumers system and a model for operational and maintenance standards.

Another example of Consumers' financial progress is illustrated by the stock certificate shown on the inside of the front cover. It was given to John as a gift or bonus by Vernon West in 1947, only a year or so after his initial employment. Vernon West was one of the founders of the Company and served as its President from 1926 to 1951. It was not until 1983 that John White focused on the significance of the stock certificate. For over twenty years the certificate had been in the custody of a local bank as collateral against loans John had made to purchase common shares of the Company. As he stated at the Company's 1984 Annual Meeting where he showed the certificate publicly, the three names on the certificate, Vernon West, Fletcher Means, and John White, are three of the four Presidents in the Company's history (exclusive of John Parker, not yet CEO). Their tenure accounts for fifty-two of the fifty-eight years of the Company's existence. More interesting, however, is the handwritten value per share posted by John when it was awarded—$2.00. He recounted that Vernon West's words of advice when he made the presentation were, "Hang onto this—someday it may be worth something." Since that time the Company's stock has split or paid stock dividends such that each share in 1947 has grown to five shares. Moreover, the current price per share is approximately $20. Thus, in the intervening thirty-seven years, the value, as even Vernon West may not have dreamed, has increased fifty times over.

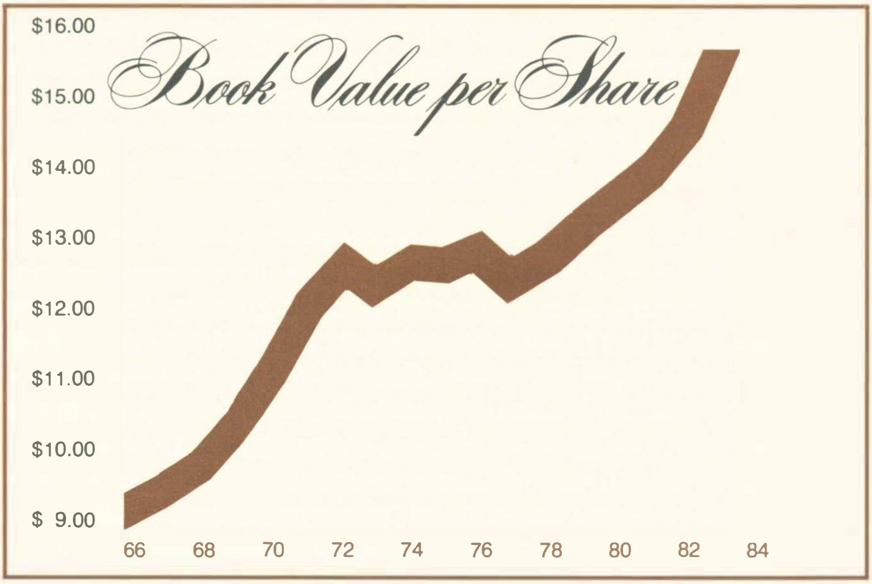
Consumers paid its first cash dividend in 1930 and its second a year later. Dividend #3, declared in August, 1951, was the first of the 33 year record of consecutive quarterly dividends that continues today. Both before and since 1951 Consumers has paid occasional dividends in common stock ranging from 2% to 100%. Every year from 1959 to 1978, Consumers paid a stock dividend, usually 2%, 3%, or 4%. This practice grew to be very popular with a large number of Consumers' shareholders and was one of many factors that helped to generate Consumers' unusually loyal shareholder base. As most astute investors realize, however, a shareholder is no better off after a stock dividend than he was before since the percentage increase in number of shares is offset by an identical percentage decrease in the intrinsic value per share. Moreover, the practice significantly complicates the determination of cost per share when such accounting is required for reporting sales to the IRS.

The stock dividend policy was one of the few battles with the Board of Directors that John White did not win. Because of his orientation towards the wishes of the shareholders and his belief that a majority did, in fact, want stock dividends continued, he spoke out strongly against those who advocated its abandonment. In a characteristic manner, however, once his cause was lost, he graciously turned his attention to other matters.

More important than the thirty-three year series of uninterrupted quarterly dividends is the Company's twenty-seven year record of continously *increased* cash dividends. That record has been sustained in part because of the stock dividends in some years which, without an increase in the quarterly cash payments, nevertheless resulted in greater payouts to those who retained their stock dividends. That record has been so jealously preserved that in 1975, a year in which Consumers' earnings took a severe decline, the Company continued its cash dividend rate and declared another stock dividend. The resultant payout ratio that year amounted to 103%.

The dollar increase in the Company's plant investment was cited in the previous chapter. Growth of existing systems has generally been financed by (1) internally generated funds including significant retained earnings, (2) developer contributions, and (3) borrowed monies, generally short-term debt to be replaced, eventually, by long-term bonds. Major acquisitions have been accomplished by the issuance of stock, usually common and occasionally preferred, while most smaller systems have been purchased for cash. In the early 1970s, the Company's growth in retained earnings did not keep pace with borrowed monies as a few systems were purchased for cash and the growth of existing systems accelerated. For the first time in approximately twenty-five years, the parent company sold long-term debentures and eventually, in 1977, carried out its first sale of new common stock in the open market. Because the market price was only 84% of book value, the 125,000 shares sold resulted in a 4.15% reduction in the Company's book value per share. The need for the sale and the resulting dilution was not taken lightly by management. Whereas the Company's priority before had been on service with the belief that financial success would follow, a greater emphasis was placed on financial control. The result has been that during the six years following 1977, with no adverse impact on quality of service, the Company's equity ratio gradually increased from 28.7% to 30.8% immediately prior to the Schiavi/Burlington acquisition.

The financial growth of the Company during John


Book Value per Share
$16.00
$15.00
$14.00
$13.00
$12.00
$11.00
$10.00
$ 9.00
66
68
70
72
74
76
78
80
82
84

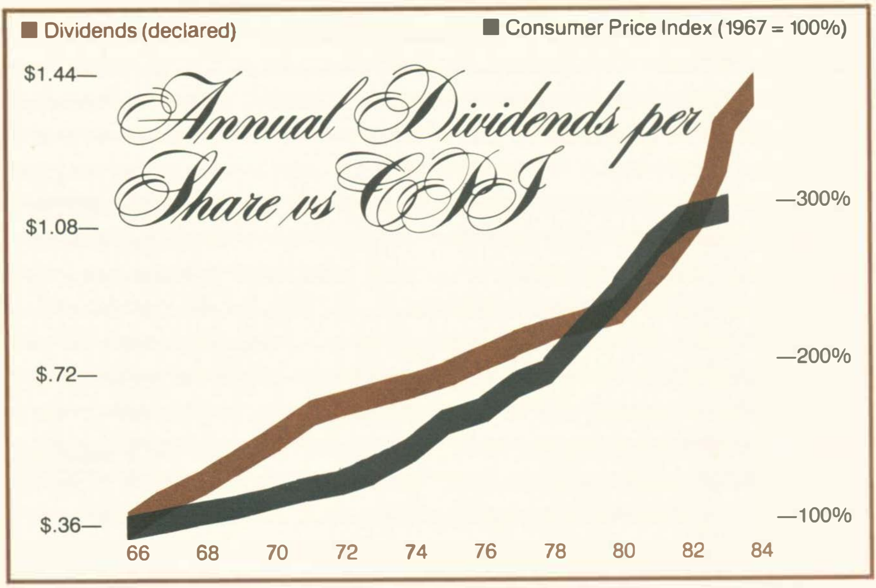

Earnings per Share
$3.00
$2.50
$2.00
$1.50
$1.00
$ .50
0
Gains from Sales of Property
Earnings from Operations
66
68
70
72
74
76
78
80
82
84

White's presidency has indeed been significant. In 1966, total capitalization amounted to $23.6 million, common shareholder investment $7.6 million, and earnings from operations $548,000. By the end of 1983, total capitalization amounted to $106.9 million, common shareholder investment $37.2 million, and earnings from operations $4,489,623. The percentage increases are: capitalization 352%, common shareholder investment 388%, and earnings from operations 720%. Of more importance to the common shareholder is the fact that during the same period, after adjustment for stock dividends, book value per share increased 70% from $9.25 to $15.71, and earnings per share from operations increased 203% from $0.65 to $1.97. Also during this same period market value per share increased 121% from $10.00 to $22.00 1/8.

Over the same period of time, the Company has experienced significant gains from periodic sale of properties. As previously discussed, those sales have come from both a gradual roll-over of The Dartmouth Company's portfolio of income producing properties and the occasional sale of portions of or entire utility systems. The Company experienced gains from sales of property in seventeen of the eighteen years. Those gains aggregated $3.76 million and averaged $221,000 per year. Because the nature of the Company has not changed (with the exception of the Schiavi/Burlington acquisitions), there is no reason to believe that the Company's pattern of periodic sales will not continue. As one stock analyst commented a few years ago, "A unique feature of Consumers Water Company is its storehouse of unrealized values." Thence arises management's contention that stock analysts should not discount the Company's earnings from occasional sales. Consistent with that assertion is the establishment of the Company's targeted long-term return on equity which has always included a significant factor for gains from sales of properties. As John White has expressed it, this process amounts to a "recycling of the Company's equity." The process is particularly appropriate for utilities which are, in most jurisdictions, regulated on an original cost basis. However, it is available only to a few companies, like Consumers, which consist of not one or a few large utilities but rather a portfolio of many small utilities, most of which are susceptible to sale. As long as a utility is retained by the Company, its earnings are limited by the regulatory process. In fact, except for growth and new investment, real returns tend to decline in true value as the value of a dollar declines. Periodic sales at or close to fair value return to the Company the true value of its investments, and when those new dollars are reinvested, the returns to the shareholder are then increased.

A basic objective of the Company, one championed by John White, has been to have the Company's earnings and cash dividends keep pace with inflation. As mentioned in Chapter IV, during the accelerated inflation of the late 1970s and early 1980s that objective was not being met and thus the Company's move to further diversification. However, over the span of John White's presidency, the results have indeed been acceptable. In 1966 the Company earned 67¢ per share, declared cash dividends of 36¢ per share, and the CPI was 96.7. In 1983 the Company earned $2.43 per share, paid dividends at the rate of $1.24 per share, and the CPI was 303.5. Thus, as the CPI increased 214%, dividends increased 244% and earnings increased 263%. As the above statistics suggest, the payout ratio at the start and end of John's presidency was approximately the same, albeit some fluctuations in the intervening years. In 1966 dividends declared were 52.8% of earnings and in 1983 51.2%.

Thus, the true test of the Company's management and growth during John White's presidency yields highly acceptable grades. Growth for growth's sake all too frequently does little for shareholders. In the case of Consumers, had the Company not been aggressively seeking out further growth, both immediately before and during John White's presidency, it is doubtful that shareholders' income could have kept pace with the inflationary environment. Furthermore, after only one year the diversification into the manufactured housing business has, in fact, improved earnings from operations on a per share basis as well as in the aggregate.



Note: On August 1, 1984, Consumers' Board voted to increase the quarterly dividend to 35¢ per share, an annual rate of $1.40.

Why It All Happened Management Style

Little can be gained from the documentation of the growth of Consumers Water Company during John White's presidency without an explanation of why it all happened. It happened because of John's leadership, his management style, and the type of people he chose to have work with him. That includes the Board of Directors, all levels of management of the parent and its subsidiaries, and, through them, the hourly employees of the Company. Obviously, such staffing did not fall into place upon his election to the presidency. If ever there were a fault in John White's management style, it was his reluctance to trim bad wood. His concern for the individual and faith in people's ability to improve themselves led him to defer difficult decisions concerning management staffing. Nevertheless, as time progressed, Company staffing reflected more and more John's style and his conviction that the key to the Company's success was to staff the Company with individuals highly motivated, well-rounded, skilled in the required disciplines, and, most important, capable of independent thought and action. These characteristics were especially important for a company which, until the Schiavi/Burlington acquisition, had a little over 400 employees working in twenty-five remote locations.

As for himself, there are many words and phrases to describe John White and his own management style. A few key ones, not in order of significance, are as follows:

Quiet Mannered—He was never known to raise his voice or swear at someone.

Modest—He never hesitated to give credit where credit was due and never sought the limelight.

Persistent—Once he became convinced of a concept or course of action, if it were not soon accepted or accomplished, he would repeatedly loop back to achieving this objective in spite of apparently overwhelming odds and repeated indifference or opposition by others. For certain goals, this persistence could last for years.

High Ethical Standards—John set high ethical standards for himself and demanded the same of his fellow employees. John could be a tough negotiator, but no adversary ever need suspect him of deviousness or deception.

Loyalty To The Company—The welfare of the Company always took priority over his own personal gain or gratification. The extent of his loyalty (and also ethical standards) is illustrated by his treatment of travel expenses. As CEO and also a leader and spokesman for the entire industry, each year he would travel to more than one convention, meeting, or conference, for many of which it was customary for wives to attend. One could never tell when the contacts or relationships established through one's spouse might inure to the eventual benefit of the Company. Nevertheless, John was acutely conscious of the image to regulators and shareholders of wives traveling around the country at Company expense. Consequently, he set and adhered to a standard for himself that he did not mandate on anyone else in the Company, namely, John White, and not the Company, paid for the incremental travel expenses for his wife, Molly, to accompany him to conventions or any other business trips.

Belief In Personal Motivation And Proprietary Ownership—John was convinced that the success of the Company depended on the extra effort on the part of employees at all levels to provide superior service and capitalize on available opportunities. To encourage such motivation, he personally championed and obtained approval from the Board for (1) the Company's Stock Savings Plan, which periodically pays to participating employees shares of Company stock, (2) an employee Stock Bonus Plan, which awards stock bonuses to key employees if profit center earnings objectives are met or exceeded as well as to any employee who demonstrates superior service or initiative, (3) the Company TRASOP, which last year evolved into a PAYSOP, both of which are federally subsidized retirement programs that must be funded with newly-issued Company stock, and (4) a Key Employees Stock Option Plan which, at the urging of John White, has been carried down to lower levels of management than for most publicly-traded companies. The net result of these four stock programs was that immediately prior to the acquisition of Schiavi and Burlington, over 75% of the Company's employees were owners, or beneficial owners, of common shares of the Company and, as such, had a vested interest in the Company's financial success.

Knowledge Of And Attention To Detail—John White's education and long service with the Company enabled him to be both a registered professional engineer and a recognized financial expert, especially for public utilities. As such, there are few areas of the business with which he was not thoroughly familiar. His mastery of Company details and capacity to keep current in his knowledge and outlook stemmed in no small part from his willingness to devote the necessary time. Homework, both weekdays and weekends, was standard procedure. His secretary, Jean Cousins, had to learn to transcribe dictation not just sprinkled with the background sounds of his home but also the hum of his automobile, the PA announcements of airports, and the steady roar of ascending and cruising jets. When asked to make or participate in a decision, if sufficient detail were not readily available or summarized, he would dismiss his staff to "get the facts" before a conclusion would be reached.

Concern For The Individual—As mentioned before, John White's concern for the individual could and did have some adverse impact on his managerial effectiveness. On balance, however, the results were positive. John made a point of visiting *each* of the Company's twenty-five operations *every year*. One objective was to keep informed of local problems and opportunities. A second was to get to know and maintain his relationship with rank and file employees. A manifestation of his respect for individuals was his reluctance to issue direct orders. Whenever possible, his approach was to enlighten people on various circumstances or opportunities so that they would voluntarily take the appropriate action. As the manager of one of the Company's key operations stated at the Company's 1984 Top Management Meeting as he presented John with a memento in anticipation of his forthcoming retirement, "I never heard you issue a direct order, but whenever you advocated or suggested something, I knew that it was the appropriate thing for me to do."

Treatment plant of Shenango Valley Water Company. In 1984 the brick stack was removed with the retirement of the steam pumping facilities. The steam pumps, recently replaced by diesel driven pumps, had been the plant's standby system since the installation of electric pumps in 1951.

Innovative—In spite of being a thirty-eight year veteran in the industry and knowing all the tricks of the trade, John White never ceased to be innovative. He was not one to say, "That's the way it's always been done." That is not to say that John's mind was extremely creative. Rather, because he read extensively, he was always discovering new ways that other companies and other industries were doing things. If anything, he was innovative to a fault in that he would want to initiate with Consumers, a relatively small company, many of the complicated programs and techniques of infinitely larger companies with professional staffs for implementation and a broad base to absorb the cost. He not only sought out new avenues himself, he also encouraged employees at all levels to innovate. Allied to that concept was his In-House Specialist program which he championed in spite of lukewarm support from some areas and levels of the Company. The concept was to encourage individuals to keep up-to-date with the latest techniques in certain disciplines, innovate if they could, and make their expertise available to others who might be facing a problem in a certain area. For a Company split into twenty-five small operations, the concept was sound and has certainly been beneficial over the long run. Further documentation of his interest in innovation is his personal initiation of the Management Innovation Award Contest of the National Association of Water Companies when he was President of the Association. The contest has been sponsored annually ever since. John White's presidency of the Association in 1972 is further documentation of his leadership and respect within the industry.

Concern For The Shareholder—There are probably few, if any, Chief Executive Officers of publicly-traded companies who have had as much concern for the individual shareholders as John White. This applied to holders of just a few shares as well as those who held larger blocks. To John, they were individuals, a portion of whose savings were committed to the Company.

He took most seriously their trust and faith in the future of Consumers Water Company. Every new shareholder was written a personal letter welcoming the investor to the Consumers family. There were several standard forms for such letters, but each recipient was screened to determine whether the investor was either a friend of John White's or anyone else in the Company. For example, if the mailing address was in Kankakee, Illinois, before writing, Bill Homes, President of Kankakee Water Company, would be asked whether he, or

Filtration room of the Kankakee Water Company Treatment Plant

someone else in the Company, knew the individual. If the reply was positive, a personal touch would be added. Thus, it is not surprising that Consumers' family of shareholders is an unusually loyal one. One of the greatest frustrations for John was the trend towards stock ownership in street name or common accounts for trust departments whereby the true identity of the beneficial shareholder is not available.

Dedication To Quality Service—Starting with his first year as President, each year's Annual Report has included a page entitled "Quality Water Service Is Our Primary Goal." The text of that page goes on to explain the implications of that claim as it applies to customers, employees, and shareholders. John would frequently explain the need to satisfy all three constituencies and, in addition, the fact that Quality Water Service is in the best interest of each. Every day John's focus remained on that primary goal.

The above characteristics led to, and effectively maintained, a highly decentralized operation. There are three other significant water utility holding companies in the United States. Consumers' management is of the opinion that none of them is as decentralized as Consumers. Consumers' philosophy has been to hire, develop, and appoint subsidiary managers and presidents who are well-rounded managers in the true sense of the word and not merely operators of a utility plant. That requires a significant degree of knowledge of financial matters, public relations, and personnel management, as well as the technicalities of water utility operation, maintenance, and construction. More significant, the presence of such people makes it appropriate to grant authority to make significant decisions at the local level which, in turn, generates a high degree of loyalty and esprit de corps.

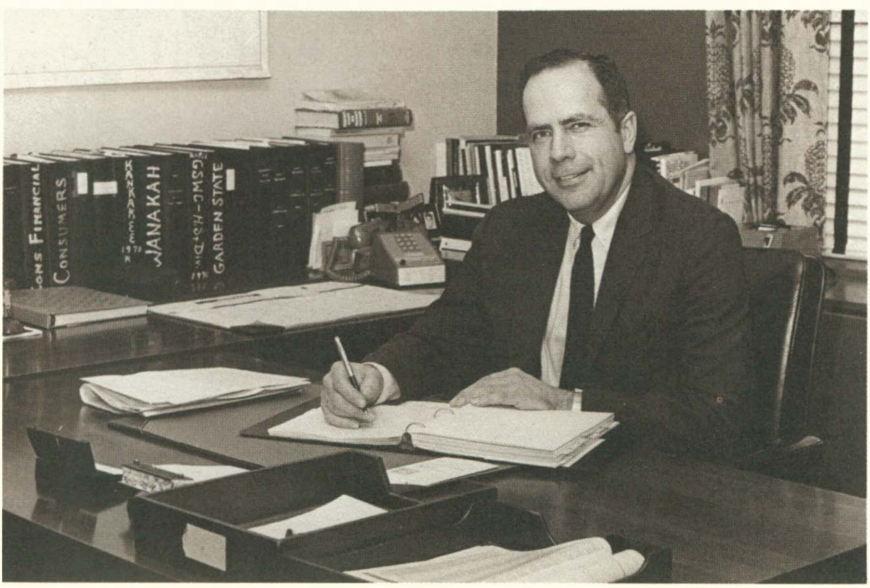
Decentralization does not mean that the parent company has abdicated control. If there is one area where the Company is less than fully decentralized, it is on the financial side. Following the 1977 stock sale, the Company resolved to tighten its financial controls. Each subsidiary prepares its own budgets annually for both operations and capital construction. Those budgets are often modified after review and comment by parent company personnel. Furthermore, as the year progresses, the parent company receives monthly reports and, as unforeseen circumstances arise, works with local management to bring about corrective action so that financial targets can be reached. In addition, the parent company's Vice President—Engineering, Paul Noran, visits each subsidiary at least once each year to make comprehensive reviews of both their construction and operating programs. By that process, standards of service are maintained and financial performance is enhanced. The entire process is a democratic give-and-take with a due respect for each subsidiary's independence and required authority to meet its agreed upon objectives.

John White's management style was not radically different from that of his predecessor, Fletcher Means, who served the Company well. Nevertheless, over the course of eighteen years the character of the Company grew closer and closer to John's own ideas on how it should be structured and operated. John White would be the last to claim that either he or the Company is perfect, but, on the other hand, the eighteen years of progress documented in this book are positive testimony for his style.

Top: *Consumers' Portland office staff shortly after John White's election to the Presidency.*

Left to right: *John W. L. White, President; Gordon W. Hibbard, Treasurer and Superintendent of Dartmouth Real Estate Company; John van C. Parker, Engineer; Peter N. Johnson, Chief Engineer; Arthur Bernier, Assistant Treasurer. (Missing, John J. Russell, Vice President and Treasurer.)*

Below: *John at the Company's 95 Exchange Street offices, 1970.*


CONS FINANCIAL
CONSUMERS
KANKAKEE
JANAKAH
GARDEN STATE

Consumers' 1983 Board of Directors

Left to right: *John E. Menario, William B. Russell, James E. Mitchell (Advisory), Jack S. Ketchum, David R. Hastings, II, John van C. Parker, Eliot B. Payson* (rear), *John McInnes (Advisory), John E. Palmer, Jr., and John W. L. White.*
Insert: *John H. Schiavi* (left) *and Richard B. Ryon.*

The Legacy

It would be entirely uncharacteristic of John White to step down from full-time service with the Company in anything but the best of condition. Certainly, at the end of 1983, and so far in 1984, the Company has been experiencing record earnings and a strong balance sheet. Earnings per share have increased for each of the last eight years. More important for the future, however, is that the properties are, with minor exceptions, in A-1 physical condition. Most important, the Company and its subsidiaries are staffed with skilled and experienced operating employees, staff professionals, and managers. As John White stated at the Company's 1984 Top Management Meeting, "The three most important factors for a Company's success are people, people, and people."

It is also interesting to note that in one respect the Company has come almost full cycle during the eighteen years of John White's presidency. In 1966 most of the parent company staff and the key officers of the subsidiary companies were relatively young. The average age of the top nine people in the Consumers organization was 43. For the next ten years there was relatively little turnover, and the average age, therefore, increased almost one year per year. Then, as retirements began to occur and staffing increased with the Company growth, the rate of increase declined and eventually the average began to fall. At the Company's 1984 Top Management Meeting, the relative youth, vitality, and enthusiasm of the thirty-four key people of the organization were readily apparent. Exclusive of John White, the average age was 44 years. Moreover, on balance, the group seemed to be more professional and more knowledgeable of managerial techniques than ever before. Of the top five officers of the parent company and the eight heads of subsidiary companies, all but one have Bachelor's Degrees and seven hold advanced degrees. The average number of years of experience with the Consumers organization or the subsidiary company amounted to twelve years.

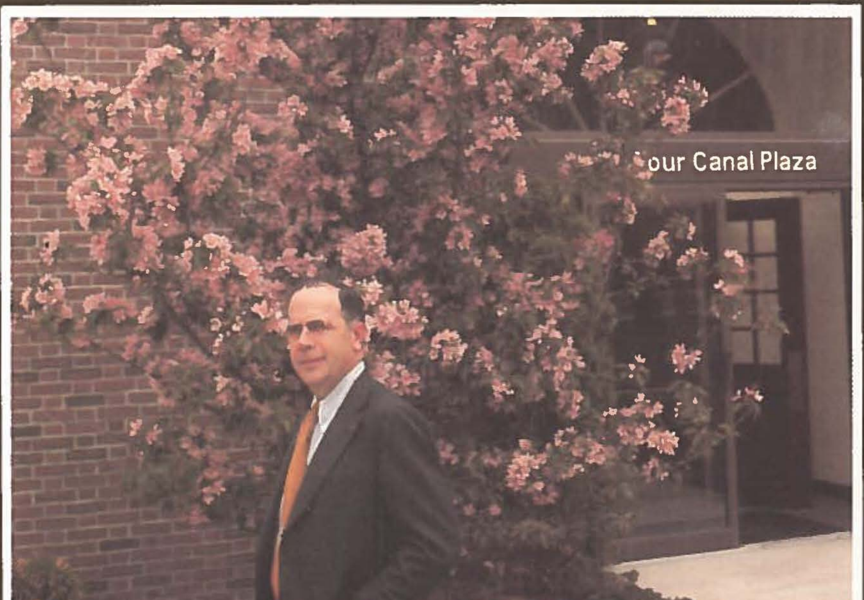
As John retires from his term as Chief Executive Officer, he also leaves the Company with an unusually strong Board of Directors. Of the twelve directors attending his retirement, only three, including John himself, have uninterrupted board service since before April, 1966. While Consumers' directors are normally nominated by the board itself and elected by the shareholders, John White has certainly played a leading role in the selection of new and replacement directors. Consumers' board consists of highly qualified, successful, and independently thinking business and professional people with a wide variety of training and experience. They are decidedly oriented towards the interest of the Company's shareholders and, as in the past, can be expected in the future to play a significant role in guiding the Company's management towards further progress.

Thus, as John steps down from full-time service with Consumers, he can be justifiably proud of the physical condition of its properties, the financial strength of the Company, and, most important, the cadre of dedicated professionals who remain to extend the eighteen years of progress even further. All of Consumers' customers, employees, and shareholders owe him a hearty thanks and best wishes for many years of healthy retirement.


ME-2964-J

Left: *John White aboard "The Scallop Queen" in Harraseeket Harbor within sight of his home in South Freeport, Maine. The heavily rigged, 16', seaworthy (?) craft has no less than three engines aboard utilized for various functions of John's unique scallop dragging operation. Insert photo is Captain John and his lovely first mate, Molly, always a loyal supporter for John at work and play. Maine's scallop season runs from November 1 to April 15. In the summer months "The Scallop Queen" is rerigged for hauling lobsters and crabs.*

Below: *John outside the current Company offices near Annual Meeting time.*



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Four Canal Plaza
Portland, Maine 04112