

REPORT  
OF THE  
DIRECTORS TO THE SHAREHOLDERS  
OF  
THE BELL TELEPHONE  
COMPANY *of* CANADA

FOR THE YEAR ENDED  
31st DECEMBER  
1937

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DIRECTORS TO THE SHAREHOLDERS  
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THE BELL TELEPHONE  
COMPANY *of* CANADA

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THE BELL TELEPHONE COMPANY  
OF CANADA

DIRECTORS

*HON. THOS. AHEARN, P.C.	-	-	-	Ottawa
*W. F. ANGUS	-	-	-	Montreal
HON. HENRY COCKSHUTT, LL.D.	-	-	-	Brantford
C. P. COOPER	-	-	-	New York
*K. J. DUNSTAN	-	-	-	Toronto
SIR GEO. GARNEAU	-	-	-	Quebec
W. S. GIFFORD	-	-	-	New York
*C. EDOUARD GRAVEL	-	-	-	Montreal
*J. E. MACPHERSON	-	-	-	Montreal
HON. S. C. MEWBURN, K.C.	-	-	-	Hamilton
*LT.-COL. HERBERT MOLSON, C.M.G.	-	-	-	Montreal
GLYN OSLER, K.C.	-	-	-	Toronto
*ARTHUR B. PURVIS	-	-	-	Montreal
*C. F. SISE	-	-	-	Montreal
*P. F. SISE	-	-	-	Montreal

\*Members of Executive Committee.

OFFICERS

C. F. SISE	P. A. MCFARLANE
<i>President</i>	<i>Vice-President</i>
J. E. MACPHERSON	P. A. MCFARLANE
<i>Vice-President</i>	<i>Vice-President</i>
F. JOHNSON	PIERRE BEULLAC, K.C.
<i>Vice-President</i>	<i>General Counsel</i>
J. CLEUGH	F. G. WEBBER
<i>Comptroller</i>	<i>Secretary</i>
Eastern Area	Western Area
J. N. GROLEAU	J. H. BRACE
<i>General Manager</i>	<i>General Manager</i>
Montreal	Toronto

# Fifty-Eighth Annual Report of the Directors

FOR THE YEAR ENDED 31st DECEMBER, 1937



## *To the Shareholders:*

Your Directors respectfully submit the following report of the Company's operations for 1937 and of its financial position at the end of the year.

The improvement in general business activity noted in the report for 1936 continued during the greater part of 1937. There was, however, a slowing up during the latter part of the year which resulted in a smaller gain of telephones in service and of long distance messages during the last few months.

During the year 199,740 telephones were connected and 162,296 disconnected, a net gain of 37,444 as compared with 23,842 in 1936.

At the end of the year 746,051 telephones were in service comprising 265,255 business and 480,796 residence telephones; 77,536 were extension stations.

Residence telephones are still more than 47,000 below the total in service at the end of 1930 while business telephones are almost 9,000 above the peak year.

Long Distance revenue for 1937 was still 10 per cent below the high point reached in 1930.

Other telephone systems in Ontario and Quebec with which we interchange service now number 869, serving 141,111 telephones.

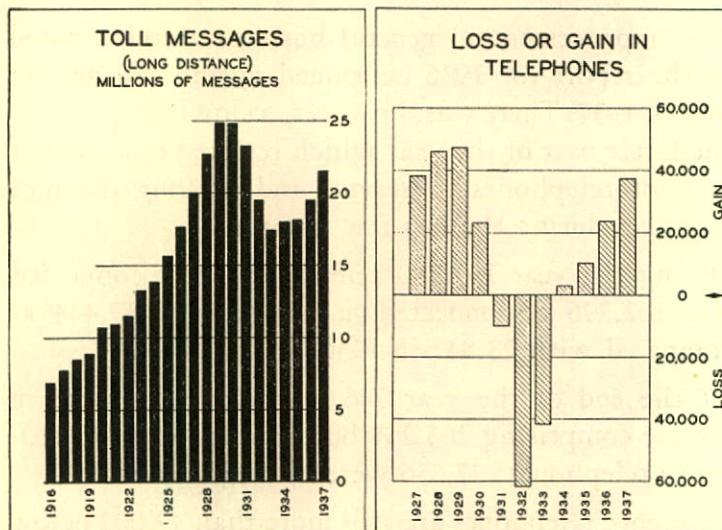
## Revenues

Local service revenue was \$29,578,862, an increase of 4.8 per cent over 1936.

Long distance revenue was \$9,338,953, an increase of nearly 10 per cent.

Miscellaneous revenues and other income were \$2,072,-112, an increase of 17.2 per cent over 1936.

From all sources the gross revenue was \$40,989,927, an increase of 6.4 per cent over the total of 1936 but still \$1,714,857 below the total of 1930, the highest year.



## Expenses

The higher level of business activity during 1937 and the resulting increase in telephones in service and in long distance messages necessitated the addition of a substantial number of new employees. Wages and working conditions were adjusted in keeping with

present day trends, with a consequent increase in pay roll costs. The elimination, towards the end of 1936, of most of the short time under the "spreading of work" policy also increased pay roll costs.

All of these factors are reflected in operation and current maintenance expense which shows an increase over the year 1936 of \$1,590,454 or 8.5 per cent.

Taxes have also continued to grow and for 1937 were 5.3 per cent higher than for the previous year and 67 per cent higher than in 1930, the year of highest gross revenue.

#### **Net Income and Dividends**

The net income available for dividends amounted to \$6,112,939 or \$7.75 per share of average outstanding capital stock.

A dividend of \$1.50 per share was paid for the first quarter of 1937. Subsequent quarterly dividends were at the rate of \$2.00 per share, the rate paid without interruption from 1891 to 1932. Dividends for the year thus amounted to \$7.50 per share, or a total of \$5,914,181, leaving a balance of \$198,758 carried to earned surplus.

#### **Financing**

The only permanent financing during the year was the issue of 5,515 shares of capital stock, of a par value of \$551,500, to employees who had completed instalment payments on subscriptions under the Employees' Stock Plan.

#### **Distribution of Stock**

As of December 31, 1937, there were 20,151 shareholders, an increase of 395 during the year. This is the first increase in the number of shareholders since 1932.

Those living in Canada number 18,877, or 93.7 per cent, and they hold 68.4 per cent of the outstanding stock. The percentage of stock held by shareholders in Canada is now the highest in the Company's history.

The percentage of shareholders residing in the United Kingdom and other parts of the British Empire is 2.0 holding 4.4 per cent of the stock, while 4.3 per cent of shareholders live in the United States and other foreign countries and hold 27.2 per cent of stock. The latter figure includes the American Telephone and Telegraph Company's holding of 23.7 per cent.

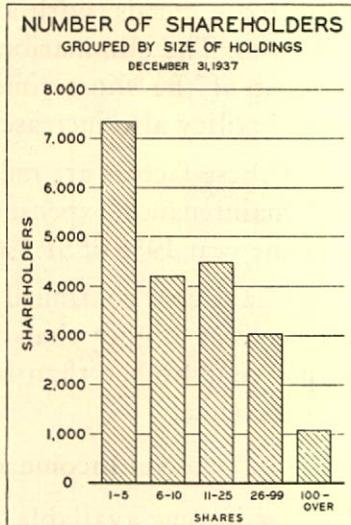
The average holding per shareholder (excluding American Telephone and Telegraph Company) is 30 shares.

The proportion of women shareholders continues to increase and is now 56.7 per cent. They hold 23.4 per cent of the stock.

Employees numbering 3,520 hold 30,951 shares, representing 3.9 per cent of the total outstanding.

### Plant

Gross additions to the Company's plant in 1937 amounted to \$15,261,000 of which the principal items were:



Land and Buildings.....	\$ 539,000
Central Office Equipment.....	2,602,000
Subscribers' Station Equipment.....	7,026,000
Outside Plant.....	4,470,000

The original cost of plant retired from service during the year was \$10,916,000.

Gross construction expenditures in 1937 exceeded 1936 by \$4,576,000, an increase of 43 per cent. The increase in the construction level was caused by additional demands for service and greater activity in the replacement or modernization of plant where improved service and economy of operation could be effected.

### Buildings

A central office building for a new Atlantic dial office in Montreal was completed during the year. Smaller dial central office buildings were erected at Drummondville, Pointe Claire and Whitby.

Buildings to house new manual equipment were erected at Ste. Agathe, Tillsonburg and Wallaceburg. The Barrie building was extended to accommodate additional long distance equipment.

### Real Estate

Improvements in transmitters and in cables have made it possible to house several exchange units in one building. For example, the Lancaster Building, Montreal, contains Lancaster, Plateau, Harbour, Marquette and Belair exchange units. Similar concentration has been made in other Montreal and Toronto buildings. As a result we have had several vacant buildings in Montreal, Toronto, Windsor and elsewhere. Taxes, maintenance and insurance on idle

property are a continuing expense offset by no return, and such buildings have been sold as opportunity offered. In 1936 and 1937 we disposed of the Westmount, Walnut and Belair exchanges in Montreal; Trinity, Lakeside and Gerrard in Toronto; Burnside in Windsor and the Ste. Anne de Bellevue building.

### Equipment

Progress was made in converting from manual to dial operation a number of central offices where the operating economies and service advantages have made this desirable. At the end of the year there were 452,423 dial-operated telephones, representing 90.5 per cent of the telephones in those places where dial service is given, and 60.6 per cent of the total company telephones.

The initial installation of dial equipment in Ottawa was completed during the year, replacing the Queen manual office which had been in service since 1908. This conversion placed 16,800 telephones or 43 per cent of the Ottawa-Hull area under dial operation—the largest single conversion project in Canada to date. At the same time a new long distance switchboard of the latest type was placed in service.

Additional dial equipment was installed in Hamilton to permit the final conversion of the former Regent office from manual to dial. Dial equipment replacing magneto switchboards was put into operation at Bowmanville, Drummondville and Pointe Claire.

New central energy manual switchboards were installed at St. Jerome, Goderich, Wallaceburg, Thetford Mines, Tillsonburg and Ste. Agathe, replacing magneto equipment.

### Long Distance Plant

Increasing usage of long distance facilities necessitated additional circuits on a number of routes. Open-wire construction and carrier systems were employed to provide new circuits. These carrier systems provide additional channels by superimposing high frequency carrier current on the existing wire circuits. By this means 24 additional long-haul circuits were provided in 1937 between key points. A new toll cable was completed between Toronto and Barrie, about 60 miles.

### Trans-Canada Telephone System

Traffic over the Trans-Canada System continued to be handled in a satisfactory manner. On the average, calls were completed in slightly over 3 minutes, and for about 80 per cent of the calls the connection was established while the customer remained at the telephone.

The increase in traffic was quite substantial, amounting to about 23 per cent over 1936. Between Montreal and Saint John, N.B., two additional circuits were provided. One additional circuit was made available between the following cities—Montreal-Halifax, Montreal-Winnipeg, Toronto-Winnipeg and Toronto-Calgary. The new circuit between Toronto and Calgary, some 2,200 miles in length, is the longest direct telephone circuit in the Empire.

### Overseas Telephone Service

Traffic during 1937 over the direct Montreal-London channel operated in co-operation with the Canadian Marconi Company and the British Post Office, was about 56 per cent greater than in the previous year.

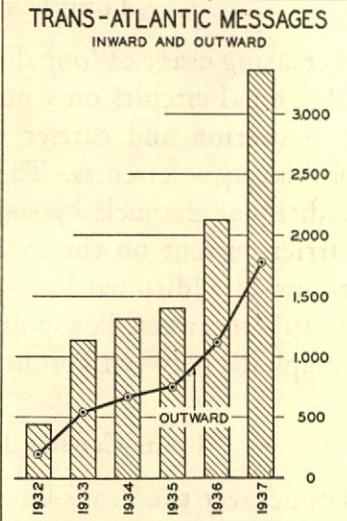
Overseas service was extended to one or more points in Alaska, Bulgaria, China, Haiti, Iraq and Southwest Africa. The service is now available to 71 countries or territories, and to 23 ships. Almost 90 per cent of the offered business resulted in completed calls.

#### Maintenance

The Company's plant continued to be well maintained. Reports of trouble on long distance circuits were at about the same low level as in the previous year. Troubles reported by customers were less than one per telephone per year. Troubles reported were promptly cleared, over 82 per cent on business telephones within two hours, and over 92 per cent on residence telephones within four hours.

#### Service

The standard of service rendered by the Company was continued at a high level throughout the year. The proportion of local calls completed was 83.4 per cent, and of long distance calls, 93.7 per cent of the total. Long distance connections were established on the average in 85 seconds. The proportion of calls completed while the calling party remained at the telephone was 91.6 per cent of the total.



### Rates

Rate reductions were introduced in April and May, estimated to effect annual savings to subscribers of approximately \$600,000. These included reductions in rates for hand sets, rural line service, directory listings and on telephones for persons with impaired hearing; reductions also in service connection and move charges, and on short-haul messages.

Effective July 1, reductions were made in many rates to overseas countries and to ships at sea.

In order to meet the changing public need, arrangements were completed to introduce a new service in the suburban areas adjoining the cities of Toronto and Montreal. This new service, known as Suburban Zone Service, was made available January 1st, 1938, on an optional basis. Residents in communities contiguous to Toronto or Montreal may continue a purely local service at present rates or may subscribe for a combined local and metropolitan service.

### Sales

Promotion of the sale of adequate services and equipment to subscribers was well received. A commendable contribution was again made by the general body of employees, resulting in a substantial development in the newer equipments and refinements of service.

### Employees' Benefit Plan

During the year 1937, benefits and pensions were paid in 2,815 cases under the Plan for Employees' Pensions, Disability Benefits and Death Benefits, amounting to \$546,644, divided as follows:

	No. of Cases	Amount
Pensions.....	420	\$271,344
Accident Benefits (including expenses)	141	9,496
Sickness Benefits.....	2,169	217,106
Death Benefits.....	85	48,698

### Employees' Stock Plan

To encourage thrift and systematic saving amongst employees, those who have completed six months' continuous service are permitted, under the Employees' Stock Plan, to purchase at a fixed premium, shares of your Company's capital stock (one share for each \$300 annual salary), paying for it by deductions from pay at the rate of \$3.00 per share per month. Employees who have acquired shares under the Plan may also assign the dividends on such shares in the purchase of additional shares up to a fixed maximum. Of 9,771 employees eligible to subscribe for stock in the Company, 7,018 are now subscribing for 37,507 shares.

### Life Insurance

Under the Employees' Life Insurance Plan adopted in 1927, whereby premiums are paid through monthly deductions from pay, 2,801 employees are carrying \$10,471,100 of life insurance—an average per employee of \$3,746.

### Board of Directors

Your Directors record with sincere regret the death in June last of Mr. George Caverhill of Montreal, for fifteen years a member of the Board of Directors and of its Executive Committee. Mr. Caverhill's long business experience, sound judgment, and sterling

character enabled him to render to your Company service of conspicuous value.

Mr. C. Edouard Gravel of Montreal was appointed a Director in July last, to fill the vacancy caused by the death of Mr. Caverhill.

Staff

Throughout the year the men and women of the Company continued to merit high praise for their loyalty and efficiency. Our sincere thanks are extended to them.

For the Board of Directors,

C. F. SISE,  
*President.*

Montreal, February 9, 1938.

**THE BELL TELEPHONE COMPANY OF CANADA**  
**DESCRIPTIVE BALANCE SHEET—DECEMBER 31, 1937**

**Assets**

**FIXED CAPITAL:**

Land and Buildings.....	\$ 20,593,975.17
Cost of real estate owned by the Company.....	
Telephone Plant and Equipment.....	172,127,563.20
Cost of central office and subscribers' station equipment, poles, wire, cable, underground conduit, right-of-way, etc.	
General Equipment.....	3,635,335.43
Cost of office furniture and fixtures, storeroom and garage equipment, motor vehicles and tools and implements.	
	\$196,356,873.80

**INVESTMENT SECURITIES:**

Subsidiary Companies.....	\$ 13,537,938.06
Other Investment Securities.....	549,632.12
Cost of shares in Subsidiary Companies and other investment securities. The aggregate of market values where available and book values where market values are not available exceeds the stated cost.	
	14,087,570.18

**CURRENT ASSETS:**

Cash.....	\$ 971,214.02
Cash available for current needs.	
Temporary Cash Investments.....	3,936,185.00
Principally Dominion and Provincial Government short term securities at cost. Market value as of December 31, 1937, \$3,900,500.00.	
Material and Supplies.....	3,091,095.17
Material and supplies held at cost in storerooms and yards less a reserve of \$38,083.97. Physical inventories were taken during September and October, 1937.	
Notes Receivable from Subsidiary Companies.....	336,900.00
Notes due on demand or within one year from date of issue.	

**Accounts Receivable and Other Current Assets:**

Subsidiary Companies.....	\$ 27,214.14
Customers and Others and Other Current Assets.....	3,369,049.91
Current accounts due the Company for service (less provision for uncollectible accounts), interest, dividends, rents and sundry miscellaneous items; also cash held by employees and agents as working funds.	
	3,396,264.05
	11,731,658.24

**DEFERRED DEBITS:**

Prepayments.....	\$ 704,840.31
Rents, taxes, insurance, cost of directories and other expenses prepaid and applicable to period subsequent to December 31, 1937.	
Discount on Funded Debt.....	1,249,351.76
Balance of unamortized discount and expense pertaining to bonds outstanding.	
Other Deferred Debits.....	172,109.45
Miscellaneous items, the final disposition of which had not been determined at December 31, 1937.	
	2,126,301.52

**TOTAL ASSETS.....** \$224,302,403.74

Approved for Board of Directors:

W. F. ANGUS, Director.  
 ARTHUR B. PURVIS, Director.

THE BELL TELEPHONE COMPANY OF CANADA

DESCRIPTIVE BALANCE SHEET—DECEMBER 31, 1937

Liabilities

CAPITAL STOCK:

Common Stock—Authorized 1,500,000 shares, par value \$150,000,000.00—Outstanding fully paid 791,224 shares..... \$ 79,122,400.00

LONG TERM DEBT:

Bonds—5% First Mortgage:  
 Series A—Maturing March 1, 1955..... \$ 30,000,000.00  
 Series B—Maturing, June 1, 1957..... 30,000,000.00  
 Series C—Maturing May 1, 1960..... \$14,500,000.00  
 Less—Held in Treasury..... 7,000,000.00  
 \_\_\_\_\_ 7,500,000.00  
 Notes..... 7,435,390.53  
 Notes sold to Trustee of Pension Fund.....  
 \_\_\_\_\_ 74,935,390.53

CURRENT LIABILITIES:

Notes Payable to Subsidiary Companies..... \$ 108,640.51  
 Notes payable on demand.  
 Advance Billing and Payments and Customers' Deposits..... 1,041,049.49  
 Advance billing and payments for telephone service.  
 Accounts Payable and Other Current Liabilities:  
 Subsidiary Companies..... \$1,098,216.70  
 Other Accounts Payable and Other Current Liabilities.....  
 Current Liabilities..... 1,128,638.45  
 Amounts owing for supplies, pay rolls and sundry miscellaneous items which are in process of settlement..... 2,226,855.15  
 \_\_\_\_\_ 3,376,545.15

ACCRUED LIABILITIES NOT DUE:

Taxes..... \$ 1,171,549.12  
 Dominion, Provincial and Municipal taxes applicable to period ended December 31, 1937, but not due until after that date.  
 Other..... 2,432,951.08  
 Interest, dividends and rents applicable to period ended December 31, 1937, but not due until after that date.  
 \_\_\_\_\_ 3,604,500.20

DEFERRED CREDITS:

Employees' Stock Plan—Instalment Payments..... \$ 1,716,520.31  
 Instalments paid by employees who are subscribing for capital stock, together with interest thereon.  
 Other Deferred Credits..... 2,520.38  
 Miscellaneous items, the final disposition of which had not been determined at December 31, 1937.  
 \_\_\_\_\_ 1,719,040.69

DEPRECIATION RESERVE.....

Provision for the ultimate retirement of depreciable plant when it has served its useful life.

PREMIUMS ON CAPITAL STOCK.....

Amount received in excess of par value.

UNAPPROPRIATED SURPLUS:

Capital Surplus:  
 Balance at January 1, 1937..... \$2,107,591.07  
 Miscellaneous Additions (net)..... 45,061.24  
 \_\_\_\_\_  
 Balance at December 31, 1937..... \$ 2,152,652.31  
 Earned Surplus:  
 Balance at January 1, 1937..... \$2,273,937.57  
 Surplus for year (after dividends).... 198,758.22  
 Miscellaneous Additions (net)..... 298.14  
 \_\_\_\_\_  
 Balance at December 31, 1937..... 2,472,993.93  
 \_\_\_\_\_ 4,625,646.24

TOTAL LIABILITIES..... \$224,302,403.74

J. CLEUGH, Comptroller.

THE BELL TELEPHONE COMPANY OF CANADA

DESCRIPTIVE INCOME STATEMENT

Year Ended December 31, 1937

TELEPHONE OPERATING REVENUES..... \$ 40,622,893.96

Revenues from local and toll service, telephone directory advertising and miscellaneous telephone operations.

Less:

Uncollectible Operating Revenues..... 122,661.65  
Revenues which have proved to be uncollectible.

TOTAL OPERATING REVENUES..... \$ 40,500,232.31

TELEPHONE OPERATING EXPENSES:

Operation Expenses..... \$ 11,942,393.21

Cost of operating the telephone property, including operators' wages and expense of handling messages, billing and collecting subscribers' accounts, directories, sickness, accident and death benefits, pensions, rents, etc. (Salaries paid to Executive Officers \$124,599.98; Salaries and fees paid to Counsel and other legal advisers \$26,490.06; and fees paid to Directors and members of the Executive Committee \$29,521.25 of which \$6,046.25 was paid and accounted for by Subsidiary Companies.)

Current Maintenance..... 8,403,000.55

Cost of inspection, repairs and rearrangements required to keep the telephone plant and equipment in good operating condition.

Depreciation..... 7,634,863.00

Provision to meet loss of investment when depreciable property is retired from service, based on rates of depreciation for the different classes of property which spread this loss of investment uniformly over its service life.

TOTAL OPERATING EXPENSES..... \$ 27,980,256.76

NET OPERATING REVENUES..... \$ 12,519,975.55

Operating Taxes:

Income Taxes..... \$ 1,105,200.00

Other Taxes..... 1,855,200.00  
Dominion, Provincial and Municipal taxes applicable to the current year.

2,960,400.00

NET OPERATING INCOME..... \$ 9,559,575.55

Net Non-Operating Income:

Income from Investment Securities..... \$ 264,218.47  
Dividends and interest received from investment securities owned by the Company.

Other Non-Operating Income (net)..... 102,814.37

Interest on temporary cash investments and other miscellaneous income less expenses incident thereto including Income Taxes of \$22,000.00 on non-operating income.

367,032.84

INCOME AVAILABLE FOR FIXED CHARGES..... \$ 9,926,608.39

Fixed Charges:

Bond Interest..... \$ 3,375,000.00

Interest charges on outstanding bonds.

Other Interest..... 368,322.62

Interest charges on other debt obligations.

Amortization of Discount on Funded Debt..... 69,556.92

Proportion of debt discount and expense applicable to the year in connection with outstanding bond issues.

Other Charges..... 789.63

3,813,669.17

BALANCE AVAILABLE FOR DIVIDENDS..... \$ 6,112,939.22

Dividends..... 5,914,181.00

BALANCE FOR EARNED SURPLUS..... \$ 198,758.22

J. CLEUGH, Comptroller.

Montreal, Que.,

January 31, 1938

## AUDITORS' CERTIFICATE

THE BELL TELEPHONE COMPANY OF CANADA,  
Montreal.

We have made an examination of the financial accounts of The Bell Telephone Company of Canada for the year ended December 31, 1937. In connection therewith we examined or tested accounting records of the Company and supporting evidence and made a general review of its accounting methods but we did not examine the details of all transactions. We have obtained all the information and explanations we have required.

The operations of the Subsidiary Companies for the year ended December 31, 1937, resulted in a net profit. The accounts of The Bell Telephone Company of Canada herewith submitted do not incorporate the net assets and operating results of the Subsidiary Companies otherwise than as investments and through inclusion of dividends received.

In our opinion, based upon such examination, the attached Balance Sheet and Income Statement are drawn up, in accordance with accepted principles of accounting consistently maintained by the Company during the year under review, so as to exhibit a correct view of the financial position of the Company at December 31, 1937, and of the results from operations for the year ended that date, according to the information and explanations received by us and as shown by the books of the Company.

(Signed) P. S. ROSS & SONS,

*Chartered Accountants,*

*Auditors.*

# STATISTICS

December 31, 1937

## NUMBER OF TELEPHONES:

Company Owned—Manual Service.....	293,628
"      " —Dial Service.....	452,423
	<hr/>
Connecting and Miscellaneous.....	141,111

Total Telephones..... 887,162

NUMBER OF CENTRAL OFFICES..... 401

NUMBER OF OWNED BUILDINGS..... 108

MILES OF POLE LINES..... 23,164

## MILES OF WIRE:

In Underground Cable.....	2,383,833
In Aerial Cable.....	883,474
Open Wire.....	219,327
	<hr/>

MILES OF SUBWAY (Length of Street Occupied)..... 3,486,634

943

MILES OF DUCT..... 4,875

## AVERAGE DAILY CONNECTIONS: (Year 1937)

Local.....	5,471,000
Toll.....	59,000

## NUMBER OF EMPLOYEES:

Male.....	4,881
Female.....	5,282
	<hr/>

10,163

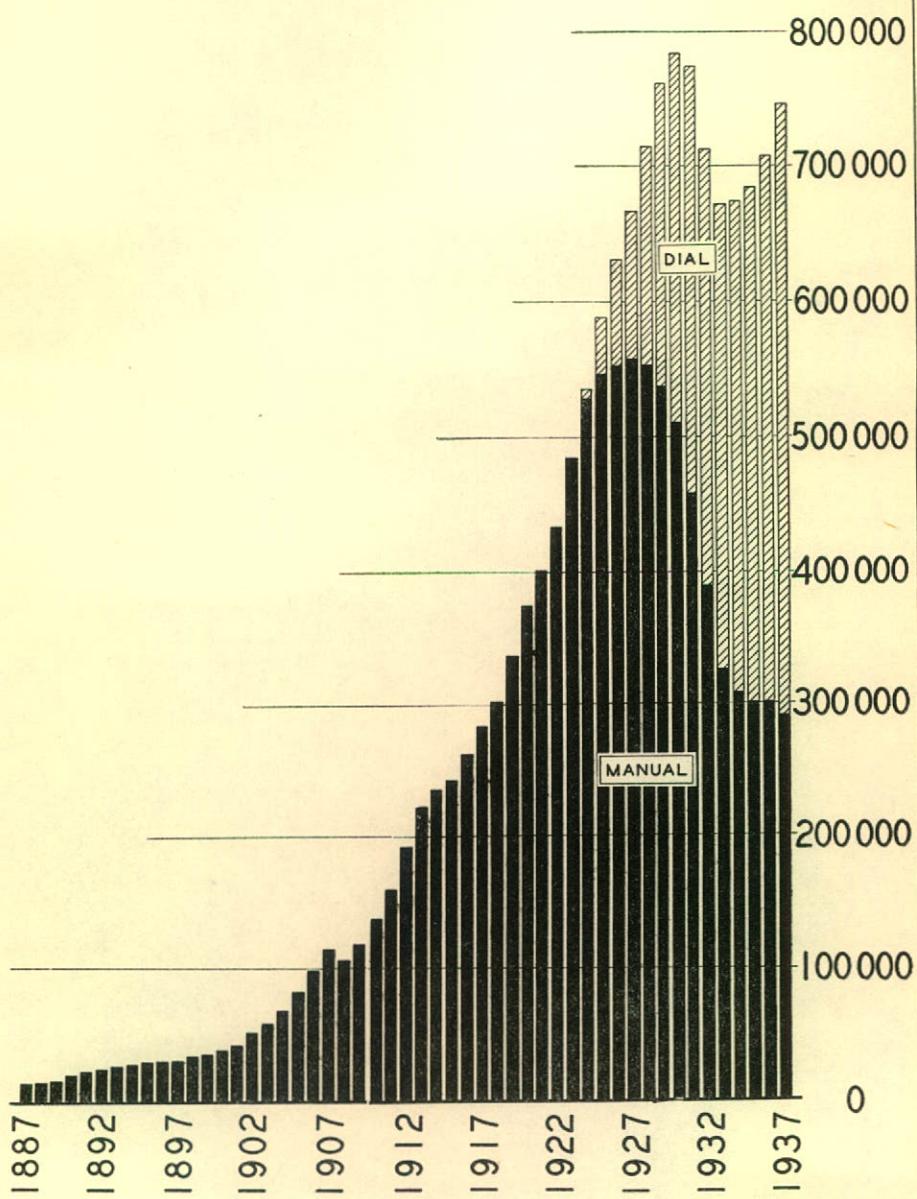
TOTAL PAY ROLL FOR YEAR 1937..... \$16,738,188

## NUMBER OF SHAREHOLDERS:

In Canada.....	18,877
Elsewhere.....	1,274
	<hr/>

20,151

## GROWTH IN NUMBER OF TELEPHONES OWNED BY COMPANY









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