

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

FOR THE YEAR ENDED
31st DECEMBER

1935

PURVIS HALL
LIBRARIES

MAR 14 1944

McGILL UNIVERSITY

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

FOR THE YEAR ENDED
31st DECEMBER
1935

THE BELL TELEPHONE COMPANY OF CANADA

DIRECTORS

*HON. THOS. AHEARN, P.C.	-	-	Ottawa
*W. F. ANGUS	-	-	Montreal
*GEO. CAVERHILL	-	-	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
*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
President

J. E. MACPHERSON
Vice-President

P. A. MCFARLANE
Vice-President

F. JOHNSON
Vice-President

F. G. WEBBER
Secretary

J. CLEUGH—*Comptroller*

J. R. LOGAN—*Treasurer*

FIFTY-SIXTH ANNUAL REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31st DECEMBER
1935

To the Shareholders:

Your Directors respectfully submit the following report of the Company's operations for the year 1935 and of its financial position at the end of the year.

During the year, 169,596 telephones were connected and 159,270 disconnected, making a net gain of 10,326 as compared with 3,300 in the previous year. Most of the gain in telephones occurred in the latter part of the year, reflecting the recent improvement in general business.

There were 684,765 telephones in service at the end of 1935, of which 246,004 were business and 438,761 residence services. Of the total in service, 71,395 were extension telephones.

Other telephone systems in Ontario and Quebec with which we interchange service now number 860, serving 138,447 telephones which is an increase of 2,291 during the year.

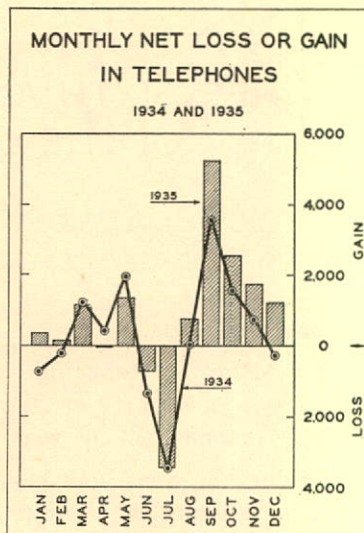
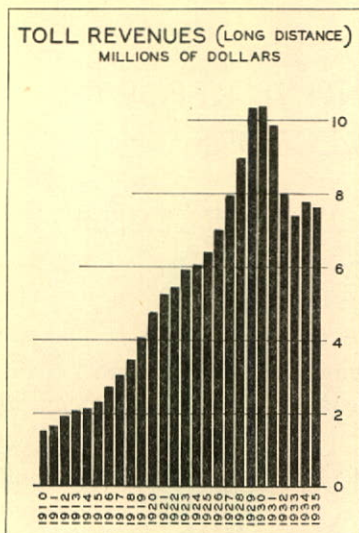
Long distance usage was slightly higher than in 1934, the gain being entirely in the latter half of the year. Notwithstanding the increased usage, long distance revenue declined \$148,579, indicating a greater proportion of short-haul and reduced rate messages.

REVENUES

Local service revenue was \$27,290,573, an increase of 1.4 per cent over the year 1934.

Long distance revenue was \$7,627,996, a decrease of less than 2 per cent from 1934 after adjustment of revenues now classified as miscellaneous revenues.

Miscellaneous revenues and revenue from outside investments were \$1,651,226, a decrease of 7.5 per cent from 1934 after allowance for the adjustment mentioned above.



From all sources the gross revenue for the year 1935 was \$36,569,795, an increase of one quarter of one per cent over the total of 1934.

EXPENSES

The effect of the elimination of the discount from employees' wages in 1934 continued into 1935 and is mainly responsible for the increase of approximately two per cent in telephone operating expenses. The sub-normal volume of business still compels the spreading of work and all officers and employees remain on part time, with proportionate reductions in pay.

Taxes for the year 1935 have continued to grow at a greater rate than business and at \$2,462,600 show an increase in excess of 4 per cent over 1934.

Interest expense was reduced by \$191,915 as compared with 1934, due chiefly to repayment of bank loans.

The net income available for dividends amounted to \$4,475,-223 or \$5.76 per share of average outstanding capital stock.

Dividends were continued during the year at the rate of \$6.00 per share, and it was necessary to draw upon earned surplus to the extent of \$186,397 to meet the total dividends to shareholders amounting to \$4,661,620.

FINANCING

Other than the sale of 5,229 shares of capital stock to employees on the instalment plan, no financing was undertaken in 1935. These shares, having a total par value of \$522,900, were issued to employees who had completed payments on subscriptions under the Employees' Stock Plan.

Loans from the Company's bankers, which at the end of 1934 totalled \$1,200,000, were entirely liquidated. For this purpose reserve funds were used as well as amounts received from employees on subscriptions under the Employees' Stock Plan.

DISTRIBUTION OF STOCK

As of December 31, 1935, there were 19,967 shareholders, a decrease of 177 during the year. Those living in Canada number 18,652, or 93.4 per cent, and hold 66.8 per cent of the outstanding stock.

The percentage of shareholders residing in the United Kingdom and other parts of the British Empire is 1.9, holding 5.3 per cent of the stock, while 4.7 per cent of shareholders live in the United States and other foreign countries and hold 27.9 per cent of stock. The latter figure includes the American Telephone and Telegraph Company's holding of 24.1 per cent.

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

The proportion of women shareholders has now reached 56.3 per cent. They hold 23.3 per cent of the stock.

Employees numbering 3,454 hold 29,919 shares, representing 3.8 per cent of the total outstanding.

PLANT

Gross additions to the Company's plant in 1935 amounted to \$9,311,000, of which the principal items were:

Land and Buildings	\$ 548,000
Central Office Equipment	1,254,000
Subscribers' Station Equipment	4,785,000
Outside Plant	2,493,000

Expenditures for gross construction during the year were at about the 1934 level. Nearly half the total was necessitated by

the day-by-day orders from customers for the installation or moving of telephones and private switchboards. Other expenditures were determined by service demands and replacements.

The original cost of plant retired from service during the year was \$10,181,000. This was somewhat above the 1934 level and was largely represented by removals of subscribers' station equipment. A large proportion of plant displaced was manual central office equipment superseded by dial.

BUILDINGS

An extension to the HArgrave building in Toronto was completed during the year, to provide space for additional equipment.

Land has been purchased and plans approved for the erection at the corner of Albert and O'Connor Streets in Ottawa of a building to house dial switching apparatus. It is planned to convert gradually the telephone service at the Capital to the dial system. The first unit will probably be placed in service in the latter part of 1937.

The old "Main" Exchange building in Montreal—the head office of the Company from 1897 to 1929—has been demolished. The portion of the building formerly occupied by the Main exchange and toll equipment had remained vacant since the removal of the apparatus in 1929 and 1932, respectively, as had also a considerable part of the office space. Reconstruction and modernization of the building for rental purposes would have cost a substantial sum. The property was offered for sale but no reasonable offers were received. The surplus office space already available in Montreal with resulting low rentals indicated the economy of demolishing the building rather than of continuing to maintain it or of attempting to modernize it.

EQUIPMENT

Extensions to dial exchanges have been made where service demands required additional apparatus, and conversion to dial from manual operation has been carried out where the ultimate operating economies and service advantages have made it desirable. At the end of the year, there were 383,942 dial-operated

telephones, representing 91.6 per cent of the total telephones in centres where dial service is given, and 56.1 per cent of the total company telephones.

A dial central office was opened at Sorel early in the year, replacing the manual office in that exchange. Two new dial offices were placed in service in Toronto, involving the retirement from service of the Hudson and Gerrard manual offices.

TOLL PLANT

Expenditures on long distance plant were due mainly to necessary reconstruction work and the repair of storm damage.

Work was completed on a toll cable extending between the main Hamilton-Buffalo toll cable at Beamsville and Niagara Falls, a distance of 25 miles.

MAINTENANCE

The condition of the Company's plant has been kept at high operating efficiency throughout the year. Cases of trouble on our long distance lines were fewer. Those reported by subscribers were also at a lower level than in 1934, being at the low rate of one per telephone in ten months. Over 81 per cent of troubles on business telephones were cleared within 2 hours, and 92 per cent on residence telephones within 4 hours.

SERVICE

During 1935, the high standard of service rendered during recent years was further improved. The percentage of local calls completed increased to 84.0 per cent from 83.3 per cent in 1934 and long distance calls completed were 94.0 per cent as compared with 93.8 per cent in 1934.

A factor which contributes to the high average speed of service on long distance calls is the practice of handling as many connections as possible while the customer remains at the telephone. During the year, the number of calls so handled was 92.6 per cent of the total.

On more than 96 per cent of the orders for the installation of telephone equipment, an appointment for a suitable time was made beforehand with the subscriber. It is interesting to note

that in over 98 per cent of these cases installation was made at the time specified.

LONG DISTANCE RATE CHANGES

Effective June 1st, Evening Long Distance rates in force between 7 p.m. and 8.30 p.m. were eliminated and the Night Rate period advanced to 7 o'clock. This has resulted in substantial savings to toll users as shown by the greater volume of messages and the lower revenue.

SALES PROMOTION

The activities of the regular sales forces were again supplemented by participation in sales work by all employees under the Everybody Selling Plan. During the year, employees, other than the regular sales force, made sales of 51,000 items of service which contributed a substantial amount of annual revenue.

EMPLOYEE-MANAGEMENT RELATIONS

Relations between employees and management continued on the most cordial terms during the year. The plan of scheduled joint conferences has been continued with mutually satisfactory results. At the request of Traffic employees, the plan of employee representation in that department has been amended to widen its scope to include all Traffic employees. A revised plan covering relations between Plant employees and management was made effective during the latter part of 1934. The mutual confidence and cooperation indicated by such relationships are an assurance of a continued high standard of service to the public.

OFFICIAL CHANGES

Mr. E. Palm, Vice-President in charge of Accounts and Finance, retired from active service on October 1st. Your Directors take pleasure in recording their appreciation of Mr. Palm's capable work in the service of your Company. In 1910 he was appointed Chief Accounting Officer and became successively General Auditor, Comptroller, and Vice-President in charge of Accounts and Finance. Mr. F. Johnson was appointed a Vice-President to succeed Mr. Palm.

EMPLOYEES' BENEFIT PLAN

During the year 1935, benefits and pensions were paid in 2,094 cases under the Plan for Employees' Pensions, Disability Benefits

and Death Benefits, amounting to \$460,014, divided as follows:

	<i>No. of Cases</i>	<i>Amount</i>
Pensions.....	385	\$242,148
Accident Benefits (including expenses)...	131	12,675
Sickness Benefits.....	1,534	166,872
Death Benefits.....	44	38,319

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.

Of 9,253 employees eligible to subscribe for stock in the Company, 5,549 are now subscribing for 25,497 shares.

LIFE INSURANCE

Under the Employees' Life Insurance Plan adopted in 1927, whereby premiums are paid through monthly deductions from pay, 2,566 employees are carrying \$9,031,000 of life insurance—an average per policy of \$3,520.

STAFF

The results recorded in this report were made possible through the continued interest of the employees in the problems of the Company and their efficient work, for which, and for their loyalty and dependability, your Directors wish to express their appreciation.

For the Board of Directors,

C. F. SISE,

President.

Montreal, February 12th, 1936.

THE BELL TELEPHONE COMPANY OF CANADA

DESCRIPTIVE BALANCE SHEET—DECEMBER 31, 1935

ASSETS

FIXED CAPITAL:

Land and Buildings.....	\$ 20,540,908.80	
Cost of real estate owned by the Company.		
Telephone Plant and Equipment.....	166,223,750.92	
Cost of central office and subscribers' station equipment, poles, wire, cable, underground conduit, right-of-way, etc.		
General Equipment.....	3,705,070.97	
Cost of office furniture and fixtures, storeroom and garage equipment, motor vehicles and tools and implements.		
		<u>\$190,469,730.69</u>

INVESTMENT SECURITIES:

Subsidiary Companies.....	\$ 12,974,697.89	
Other Investment Securities.....	515,086.12	
Investment in stocks at cost.		<u>13,489,784.01</u>

CURRENT ASSETS:

Cash and Special Deposits.....	\$ 849,832.29	
Cash available for current needs and funds on special deposit.		
Material and Supplies.....	3,738,820.00	
Material and supplies held at cost in storerooms and yards less a reserve of \$34,709.97. A physical inventory was taken during September, 1935.		
Notes Receivable from Subsidiary Companies.....	155,200.00	
Notes due on demand or within one year from date of issue.		
Accounts Receivable and Other Current Assets:		
Subsidiary Companies.....	\$ 25,534.00	
Customers and Others and Other Current Assets.....	2,868,310.54	
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.		
		<u>2,893,844.54</u>
		<u>7,637,696.83</u>

DEFERRED DEBITS:

Prepayments.....	\$ 619,313.78	
Rents, taxes, insurance, cost of directories and other expenses prepaid and applicable to period subsequent to December 31, 1935.		
Discount on Funded Debt.....	1,388,465.60	
Balance of unamortized discount and expense pertaining to bonds outstanding.		
Other Deferred Debits.....	107,060.46	
Miscellaneous items, the final disposition of which had not been determined at December 31, 1935.		
		<u>2,114,839.84</u>
TOTAL ASSETS.....		<u><u>\$213,712,051.37</u></u>

Approved for Board of Directors:

W. F. ANGUS, Director.
GEORGE CAVERHILL, Director.

THE BELL TELEPHONE COMPANY OF CANADA

DESCRIPTIVE BALANCE SHEET—DECEMBER 31, 1935

LIABILITIES

CAPITAL STOCK:

Common Stock—Authorized 1,500,000 shares, par value \$150,000,000.00—Outstanding fully paid 779,380 shares.....	\$ 77,938,000.00
-----------------------------------------------------------------------------------------------------------------	------------------

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
	<hr/> 7,500,000.00
Notes.....	6,093,730.22
Notes sold to Trustee of Pension Fund.....	<hr/> 73,593,730.22

CURRENT LIABILITIES:

Notes Payable to Subsidiary Companies.....	\$ 107,510.62
Notes payable on demand.....	
Advance Billing and Payments and Customers' Deposits.....	957,723.80
Advance billing and payments for telephone service and deposits as security for payment of bills.....	
Accounts Payable and Other Current Liabilities:	
Subsidiary Companies.....	\$ 508,277.73
Other Accounts Payable and Other Current Liabilities.....	911,844.76
Amounts owing for supplies, pay rolls and sundry miscellaneous items which are in process of settlement.....	<hr/> 1,420,122.49
	2,485,356.91

ACCRUED LIABILITIES NOT DUE:

Taxes.....	\$ 777,666.90
Dominion, Provincial and Municipal taxes applicable to period ended December 31, 1935, but not due until after that date.....	
Other.....	1,989,196.14
Interest, dividends and rents applicable to period ended December 31, 1935, but not due until after that date.....	<hr/> 2,766,863.04

DEFERRED CREDITS:

Employees' Stock Plan—Instalment Payments.....	\$ 964,787.12
Instalments paid by employees who are subscribing for capital stock, together with interest thereon.....	
Other Deferred Credits.....	1,691.59
Miscellaneous items, the final disposition of which had not been determined at December 31, 1935.....	<hr/> 966,478.71

DEPRECIATION RESERVE.....

45,982,775.63

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

PREMIUMS ON CAPITAL STOCK.....

6,333,829.74

Amount received in excess of par value.

UNAPPROPRIATED SURPLUS:

Capital Surplus:	
Balance at January 1, 1935.....	\$ 2,022,121.98
Miscellaneous Additions (net)	26,005.37
	<hr/>
Balance at December 31, 1935.....	\$ 2,048,127.35
Earned Surplus:	
Balance at January 1, 1935.....	\$ 1,890,851.06
Deficit for year (after dividends)..	186,397.26
Miscellaneous Deductions (net)...	107,564.03
	<hr/>
Balance at December 31, 1935.....	1,596,889.77
	<hr/> 3,645,017.12

TOTAL LIABILITIES..... \$213,712,051.37

J. CLEUGH, Comptroller.

THE BELL TELEPHONE COMPANY OF CANADA

DESCRIPTIVE INCOME STATEMENT

Year Ended December 31, 1935

TELEPHONE OPERATING REVENUES.....	\$ 36,329,042.98	
Revenues from local and toll service, telephone directory advertising and miscellaneous telephone operations.		
Less:		
Uncollectible Operating Revenues.....	144,613.82	
Revenues which have proved to be uncollectible.		
TOTAL OPERATING REVENUES.....		\$ 36,184,429.16
TELEPHONE OPERATING EXPENSES:		
Operation Expenses.....	\$ 10,604,282.47	
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 \$124,341.08; salaries and fees paid to Counsel and other legal advisers \$24,602.32; and fees paid to Directors and members of the Executive Committee \$28,510.00, of which \$4,810.00 was paid and accounted for by Subsidiary Companies.)		
Current Maintenance.....	7,255,887.31	
Cost of inspection, repairs and rearrangements required to keep the telephone plant and equipment in good operating condition.		
Depreciation.....	7,758,892.28	
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.....		25,619,062.06
NET OPERATING REVENUES.....		\$ 10,565,367.10
Operating Taxes:		
Income Taxes.....	\$ 722,600.00	
Other Taxes.....	1,740,000.00	
Dominion, Provincial and Municipal taxes applicable to the current year.		
		2,462,600.00
NET OPERATING INCOME.....		\$ 8,102,767.10
Net Non-Operating Income:		
Income from Investment Securities.....	\$ 215,256.70	
Dividends and interest received from securities owned by the Company.		
Other Non-Operating Income (Net).....	25,495.66	
Interest on bank balances and other miscellaneous income less expenses incident thereto including Income Taxes of \$9,000.00 on non-operating income.		
		240,752.36
INCOME AVAILABLE FOR FIXED CHARGES...		\$ 8,343,519.46
Fixed Charges:		
Bond Interest.....	\$ 3,375,000.00	
Interest charges on outstanding bonds.		
Other Interest.....	401,519.08	
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.....	22,220.72	
		3,868,296.72
BALANCE AVAILABLE FOR DIVIDENDS.....		\$ 4,475,222.74
Dividends.....		4,661,620.00
Dividends to owners of outstanding common stock.		
DEFICIT CHARGED TO EARNED SURPLUS.....		\$ 186,397.26

J. CLEUGH, Comptroller.

MONTREAL, QUE.,

January 31, 1936.

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, 1935. 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, 1935, resulted in a net loss which was fully covered by the combined surpluses of such Subsidiary Companies. 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, 1935, 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, 1935

NUMBER OF TELEPHONES:

Company Owned—Manual Service.....	300,823	
“ “ —Dial Service.....	383,942	
		684,765
Connecting and Miscellaneous.....		138,447
Total Telephones.....		823,212

NUMBER OF CENTRAL OFFICES..... 400

NUMBER OF OWNED BUILDINGS..... 110

MILES OF POLE LINES..... 23,791

MILES OF WIRE:

In Underground Cable.....	2,325,441	
In Aerial Cable.....	819,837	
Open Wire.....	222,035	
		3,367,313
MILES OF SUBWAY (Length of Street Occupied).....		961

MILES OF DUCT..... 4,751

AVERAGE DAILY CONNECTIONS: (Year 1935)

Local.....	4,912,600
Toll.....	49,500

NUMBER OF EMPLOYEES:

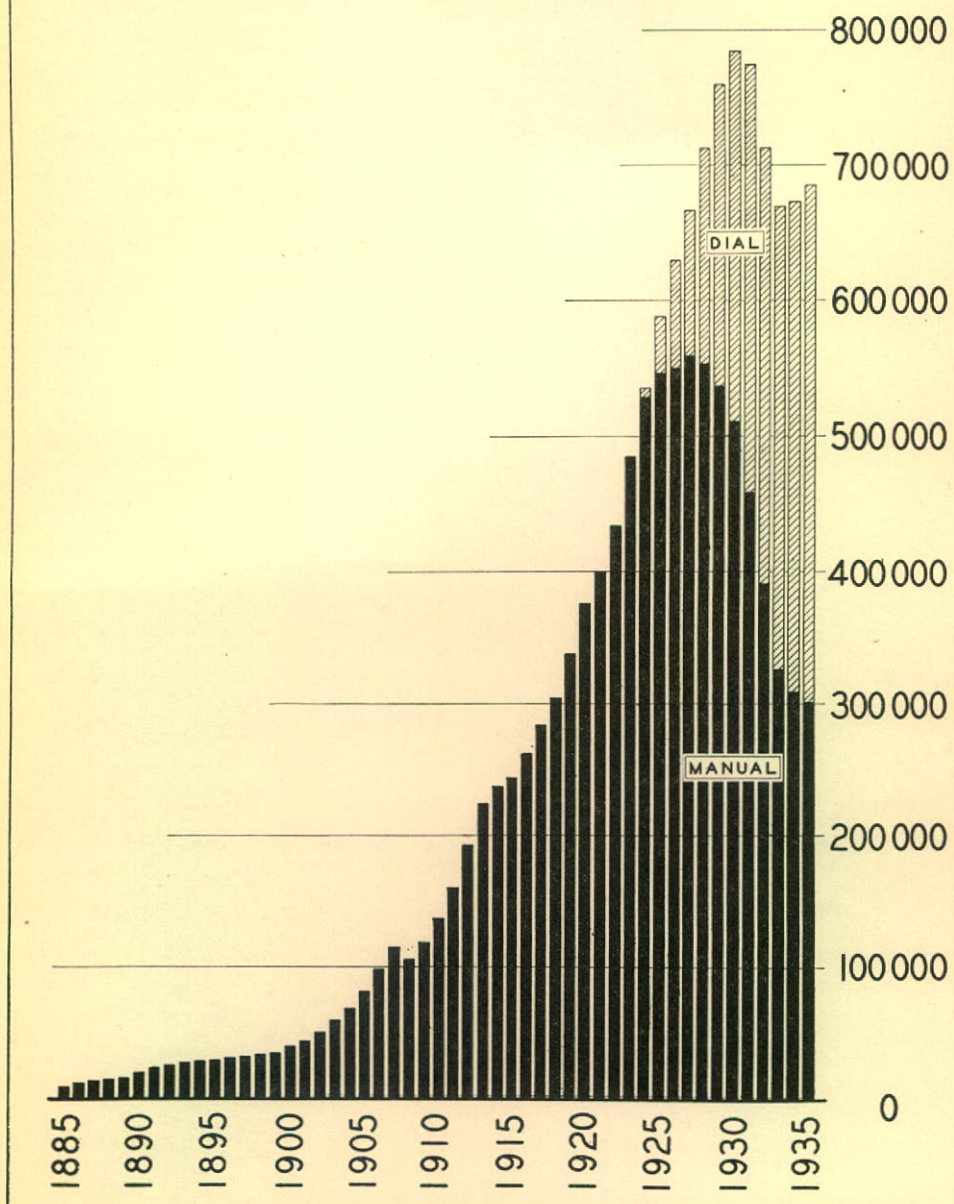
Male.....	4,481	
Female.....	4,980	
		9,461

TOTAL PAY ROLL FOR YEAR 1935..... \$14,328,744

NUMBER OF SHAREHOLDERS:

In Canada.....	18,652	
Elsewhere.....	1,315	
		19,967

GROWTH IN NUMBER OF TELEPHONES OWNED BY COMPANY







PRINTED IN CANADA