

J. Francis

REPORT

OF THE

DIRECTORS TO THE SHAREHOLDERS

OF

The Bell Telephone Company of Canada

For the Year ended 31st December,

1920



MONTREAL:

THOS. V. BELL, LTD., PRINTERS

REPORT

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of Canada

For the Year ended 31st December,

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Officers :

L. B. McFARLANE,	-	President.
C. F. SISE,	- - -	Vice-Pres. & General Manager.
K. J. DUNSTAN,	- -	Vice-President.
W. H. BLACK,	- -	Secretary.
WM. GEORGE SLACK,	-	Treasurer.
E. PALM,	- - -	Comptroller.

Directors :

*HUGH PATON,	*W. F. ANGUS,
*L. B. McFARLANE,	GEO. H. THOMSON,
*C. F. SISE,	H. B. THAYER,
*THOS. AHEARN,	GLYN OSLER,
†*ANDREW J. DAWES,	GEO. D. MILNE,
*F. W. MOLSON,	EDWARD K. HALL,

*Members of Executive Committee.

†Since deceased.

TO THE SHAREHOLDERS :

Your Directors respectfully submit the following report on the business and financial condition of the Company for the year 1920, being the forty-first year of the Company's operations.

Our orders for new telephone facilities, both local and long distance, have been greater than any previous year, and our outstanding difficulty has been to meet the enormous demand for service. We were not able to satisfy all requests, but had a net gain of 38,885 subscribers' stations, or $11\frac{1}{2}$ per cent., being the greatest yearly gain in the history of the Company.

The gross receipts show an increase of \$2,809,635, but owing to the mounting costs the expenses for the year, including interest, exceeded the revenue, as will be seen from the financial report.

The dividends declared during the year have been paid out of surplus of profits accumulated prior to 1st of January, 1917. No normal income tax, supertax or surtax is payable by the Shareholders in respect thereof, under a ruling of the Commissioner of Taxation dated 23rd December, 1920. This exemption does not apply to the dividend paid on 15th January, 1920.

The very lengthy delay in obtaining a rate decision — a period of over two years — and our consequent inability to properly finance in the meantime for needed expansion, have crippled our efforts to properly serve the public. Early in 1918 it was found that the greatly increased cost of operation made it essential that there should be a substantial and immediate increase in our rates. Application was therefore made to the Board of Railway Commissioners for Canada in October, 1918, for an increase of 20%. In May, 1919, the Commissioners, after testimony, ordered temporary relief by allowing a ten per cent. increase, being only one-half of the sum asked for, and it proved entirely inadequate to meet even the so-called emergency.

The Board retained the conduct of the case, and requested us to furnish detailed monthly returns for the succeeding year. After the expiration of that

period, on August 5th, 1920, we renewed in more detail our application, and asked for a general readjustment of rates.

This application is still before the Commissioners for decision. Our case was ably presented, and we are hopeful of receiving a favourable decision.

Until a decision on the Rate Case is given by the Commission, it will only be possible to finance for future capital needs at prohibitive cost. Your Board has felt that this is not in the interest of subscribers or shareholders, and have therefore suspended expenditure under the 1921 Budget, hoping that rates may be authorized whereby we will earn a fair return, insure a profit which will compare favourably with the return from other investments of a similar character and thereby attract capital at reasonable rates.

In the month of April \$5,500,000. of Bonds were offered and sold to the highest bidders at 93.75% in New York funds, which netted us 102.2% in Canadian funds. These Bonds bear interest at the rate of 7%, and fall due at the same date as our outstanding Bonds, namely, 1st April, 1925.

The amount received from this Bond issue was spent on construction during the year; and as our cash for capital account was thus exhausted, we were in December, with great regret, forced to close our construction work, reduce staff to the lowest margin of safety and dispense with the services of a considerable number of valuable employees.

Construction of Exchange buildings was necessarily at a standstill owing to our restricted resources. Needed additions and alterations were made to our premises at Quebec, London, Kingston, and the "Beach" office, Toronto. We also completed the purchase of property on Notre Dame Street, Montreal, adjoining the Head Office Building, to provide for pressing growth in the "Main" Exchange.

As the capital powers of the Company were approaching exhaustion, it was considered prudent to apply to Parliament for an enlargement. A Bill was accordingly presented and passed by both Houses, and

received the Royal Assent on the 16th June. This Act increases the authorized share capital from \$30,000,000. to \$75,000,000., and provides that, instead of the power to issue Bonds being limited to the amount of 75% of the actual paid-up capital stock, the Directors, when authorized by a By-Law passed and approved by the votes of not less than two-thirds in value of the subscribed stock of the Company represented at a Special General Meeting called for the purpose, may issue bonds, debentures or debenture stock for such amounts as may be approved by the Shareholders, and secure the same by one or more Deeds of Trust creating such mortgages, charges or encumbrances upon the whole or any part of the property of the Company, present and future, as may be described therein.

Another financial transaction of special interest was the Stock Purchase Plan for Employees, which was approved by your Board and became effective in August. By this Plan employees are given the right to purchase at par one share for each \$300. or fraction thereof of the annual rate of pay which they were receiving at 1st of May, but not exceeding twenty shares, they agreeing to pay for the same by deductions from wages. Interest on the unpaid balance is charged at the rate of 4% per annum, and the account is credited with an amount equal to dividends declared during the purchase period. The Plan was promulgated in response to many requests by employees that they be given an opportunity to become shareholders on an easy payment plan. The possession of a financial interest in the Company by the employees appeared to the Board to be of mutual advantage.

The offer was taken advantage of by 2,271 employees for an amount of 8,548 shares, an average of 3.76 shares each. A Board of Trustees has been appointed. It is the duty of these Trustees to receive from the Company, from time to time, stock certificates of a value in excess of the total credits to the subscribing employees, and 3,000 shares have been issued to them under the terms of the Deed of Trust.

Additional shares will be issued as the sum of the payments increases.

During the past year many important improvements were made to our plant, and we are now in a position to give universal Long Distance service to our subscribers. Even at our smaller offices subscribers have been connected to very distant points, both in Canada and the United States, and those at our larger offices demand long haul connections daily. For example, Montreal, Toronto, Ottawa and Hamilton subscribers have had satisfactory commercial conversations with cities in Florida, California, Manitoba, British Columbia and the Maritime Provinces.

Our engineers closely follow the development of the Art generally, but specially of the Multiplex System—or Wired Wireless as it is commonly called—by which a number of messages are sent simultaneously over one circuit, and this system will be used in our plant as soon as the necessity for extension arises. Its adoption is purely a question of first cost and annual charges. The Multiplex is as yet expensive, both in first cost and annual charges.

Great advances have been made by Wireless Telephony, but in its present state it is not as reliable as the wire system; and if wires can be run and maintained between two given points, it is more efficient and economical to use the wire system.

Wireless or Radio transmission is now used as complementary to the wired telephone systems, and as further improvements in the apparatus are effected its use will be extended as auxiliary to our present service.

The Employees' Pension and Benefit Plan, which became effective on the 1st of July, 1917, completed three full years on the 31st of December, 1920. As provided in the By-Law establishing it, the Board will investigate the working of the Plan, obtain an actuarial report thereon, and order such changes (if any) as may be required, within the limits of the By-Law approved by the Shareholders, so that the Fund set aside to meet the calls thereon shall be sufficient.

Mr. K. J. Dunstan, who has zealously served the

Company from its inception and for years past as Division Manager of the Western Division, has been appointed Vice-President, headquarters, Toronto. The growing importance of our business in Ontario rendered it advisable to appoint an official who, while not a Director, would represent the Executive, and devote himself to carrying out the Company's policy within that Province.

In our last Annual Report the Board referred to the death of two of its members in 1920, and we have now to report with keen regret the passing of another member of the Board, Mr. Theodore N. Vail, who died on the 16th of April, 1920. Mr. Vail was elected a member of the Board on the formation of the Company in 1880, and served for seven years. He was re-elected in 1907, so that his services as a Director of this Company extended over a period of twenty years. Mr. Vail was pre-eminent in the telephone world, and it is impossible to adequately express the value of his services, unsparingly given, to this Company.

We have also to deplore the recent death of Mr. Andrew J. Dawes, a director of the Company for six years, who served with great diligence at all times both on the Board and Executive Committee.

Mr. Edward K. Hall, Vice-President of The American Telephone and Telegraph Company, was elected to succeed Mr. Vail, and has brought to the Board very valuable experience in the telephone business.

The Board cheerfully and gratefully acknowledges the loyal and efficient work of the officers and employees, and the co-operation between all Departments and all ranks to deliver to our customers—the Public—the product we were incorporated to supply, namely, an efficient telephone service.

The financial statements, and the usual statistics, are appended hereto.

All of which is respectfully submitted.

C. F. SISE,

L. B. McFARLANE,

Vice-President and General Manager.

President.

MONTREAL, 24TH FEBRUARY, 1921.

BALANCE SHEET, DECEMBER 31, 1920.

ASSETS

Real Estate.....	\$ 5,165,860.48
Telephone Plant, etc.....	51,729,192.44
Furniture, Tools and Supplies.....	2,311,708.40
Cash	186,888.50
Bills and Accounts Receivable.....	1,682,601.32
Investments	2,843,327.87
	<u>\$63,919,579.01</u>

LIABILITIES

Capital Stock Issued.....	\$22,657,000.00
	(5%-\$11,149,000.00)
Bonds 1925.....	(7% - 5,500,000.00).... 16,649,000.00
Accounts Payable.....	918,603.26
Accrued Liabilities not due.....	720,879.78
Due to Bank.....	837,572.10
Unearned Revenue.....	21,524.24
Employee's Benefit Fund.....	500,000.00
Surplus and Reserves.....	21,614,999.63
	<u>\$63,919,579.01</u>

Approved for Board of Directors,

L. B. McFARLANE,
Director.

HUGH PATON,
Director.

E. PALM,
Comptroller.

THE PRESIDENT AND DIRECTORS

BELL TELEPHONE COMPANY OF CANADA.

We certify that we have examined the financial books and 31st December, 1920, and that we have obtained all the information. In our opinion the above Balance Sheet and relative statements show a true and correct view of the state of the Company's affairs, according to the books of the Company.

Montreal, 9th February, 1921.

COMPARATIVE STATEMENT OF EARNINGS AND EXPENSES FOR THE YEARS 1919 AND 1920.

	1919	1920	Increase
Telephone Revenue.	\$14,149,119.97	\$16,513,384.44	\$2,364,264.47
Operation Expense.	6,735,310.40	9,106,078.22	2,370,767.82
Current Maintenance. ...	2,507,791.78	3,569,162.87	1,061,371.09
Depreciation.	2,316,200.00	2,885,400.00	569,200.00
Taxes.	654,602.50	734,700.00	80,097.50
Total Telephone Expenses	12,213,904.68	16,295,341.09	4,081,436.41
Net Telephone Earnings.	1,935,215.29	218,043.35	1,717,171.94*
Sundry Net Earnings. ...	218,108.94	663,479.53	445,370.59
Total Net Earnings.	2,153,324.23	881,522.88	1,271,801.35*
Deduct Interest.	670,208.22	913,483.97	243,275.75
Balance.	1,483,116.01	31,961.09†	1,515,077.10*
Deduct Dividends 8%. ...	1,440,000.00	1,800,010.00‡	360,010.00
Balance Carried to Surplus	Credit 43,116.01	Debit 1,831,971.09	1,875,087.10*

† Deficit.

* Decrease.

‡ 1920 Dividends \$1,800,010.00 charged to Surplus previous to 1917.

E. PALM,
Comptroller.

Records of The Bell Telephone Company of Canada for the year ended and explanations required by us.
Statement of Earnings and Expenses are properly drawn up so as to exhibit a true and correct view of the financial condition of the Company to the best of our information and the explanations given to us, and as

P. S. ROSS & SONS, Chartered Accountants.
Auditors.

STATISTICS

	At Dec. 31, 1920.	Increase during Year
Number of Company Stations.	376,361	38,885
Number of Connecting and Miscellaneous Stations.	113,212	6,981
Total Stations	489,573	45,866

Number of Miles of Wire.....	1,040,986
Number of Central Offices.....	413
Number of Employees, 31st December, 1920	12,132

Average Daily Connections 1920—Exchange.....	2,899,522
Average Daily Connections 1920—Long Distance.....	29,458

The following statements show the growth and revenue of the Company in five year periods, beginning at 1900.

Year	Central Offices	Number of Subscriber Stations	Long Distance	
			Wire Miles	Pole Miles
1900	343	40,094	21,350	6,525
1905	526	82,351	37,082	8,645
1910	508	138,370	54,133	8,861
1915	449	242,784	79,908	9,297
1920	413	376,361	102,187	9,549

UNDERGROUND

Year	Miles Conduit	Miles		Miles Wire
		Single Duct	Miles Cable	
1900	47	321	157	30,686
1905	100	573	264	94,132
1910	191	1,015	453	208,956
1915	300	1,860	820	450,665
1920	626	2,396	1,142	641,053

Total Assets, and percentage of Net Earnings thereto, in five year periods.

Year	Total Assets (Excluding Cash and Receivables)	Exchange Revenue	Long Distance Revenue	Misc. Revenue and Revenue from Outside Investments	Expenses	Net Earnings	% Net Earnings to Total Assets
1900	\$7,498,762.	\$1,137,660.	\$ 359,801.	\$ 116,801.	\$1,177,582.	\$ 436,680.	5.8%
1905	14,062,605.	2,342,870.	901,367.	273,357.	2,512,696.	1,004,898.	7.1
1910	22,541,382.	3,838,019.	1,415,352.	257,314.	3,781,109.	1,729,576.	7.6
1915	39,789,807.	7,156,302.	2,306,536.	171,836.	7,412,689.	2,221,985.	5.6
1920	62,050,089.	11,748,513.	4,764,872.	663,479.	16,295,341.	881,523.	1.4

DIAGRAM
 SHOWING THE GROWTH IN
TELEPHONES
 OWNED BY
The Bell Telephone Co.
 OF CANADA,
 FROM
 DEC. 31, 1880 - DEC. 31, 1920



