



G. Wallace F. McCain Institute for Business Leadership

University of New Brunswick

Case Study: The New Brunswick Telephone Company* (NBTel)

* Amber Putnam prepared this case under the supervision of Dr. Barry Boothman, Faculty of Business Administration, University of New Brunswick, for the purposes of classroom discussion rather than to illustrate either effective or ineffective management practice. The G. Wallace F. McCain Institute provided financial support for the production of this case. Copyright 2009, by the G. Wallace F. McCain Institute.

ASSIGNMENT...

What cultural challenges accompany a transition from a monopoly player to a high-tech company competing in many sectors?

What are NBTel's competitive advantages at the time of the case? Its competitive disadvantages?

How should NBTel think about the lost long distance market share? How should they manage this growing problem?

Gerry Pond looked out his office window to the Saint John harbour in 2008, turning his back on the stack of Board materials on his desk. He remembered the original development of NBTEL's "Achieving 2000 Now!" strategy when he was Vice President of Planning, and how so much had changed over the past eight years. In 1990, the company was the only significant telecommunications service provider in New Brunswick; now, it had spent the last three months in an aggressive pricing war in the long distance market. Pond had to prepare himself, the Board, and the company for the future. So far, Pond believed that the strategy had worked. Despite revenue losses in the long distance market, the company was doing well. Pond, who was CEO from 1994 to 1999, describe the situation this way:

We were sharing more of the pie, but the pie was growing, and despite losses in long distance revenues, our revenues were increasing in our other lines of business. Other companies were losing significantly more market share than NBTEL though. How could we maintain our success over time? Could the 'Achieving 2000 Now!' strategy carry us much further? What would happen to the company in an industry where mergers and acquisitions had become the new trend?

With financial advisors telling the company to consider a merger, despite continued success in multiple markets, Pond had much to think about before the Board meeting.

"Was I very confident in our continued success and strategy? No. But I had every confidence in our team, which I think is a critical factor. As long as you have good people, you're confident that you'll figure it out," said Pond.

The History of NBTEL

The New Brunswick Telephone Company, headquartered in Saint John, New Brunswick (See **Exhibit 1** for a map of NB) purchased the New Brunswick telephone assets of the Bell Canada Company in 1889. NBTEL became the sole telephone operating company in NB in 1973 with the purchase of the last small telephone operation, Madawaska Company. It was the fourth-largest shareholder owned telephone company in Canada, providing a wide range of telecommunications services, including local and long distance calling, data, broadcast, general mobile and paging services.

NBTEL was a publicly traded company in which Bell Canada held a significant interest. NBTEL was subject to the jurisdiction of the New Brunswick Board of Commissioners for Public

Utilities (Public Utilities Board, or PUB) with respect to rates charged for its local exchange service and long distance services within New Brunswick.ⁱ NBTel had a regulated rate of return, set by the PUB. If the company earned more than the allowed rate, an application to the PUB was required to reduce rates.

Leading up to, and including much of the 1980s, NBTel enjoyed monopoly status for voice services, but not data, within New Brunswick, with long distance revenues accounting for the largest portion of total company income. It was becoming quite evident that, based on the changing condition of telecommunications within the U.S., competition in New Brunswick's telecommunications sector was imminent. The PUB held a hearing in 1983 to review the factors surrounding the issue of opening up competition in the industry. The purpose was not to make a decision at that time, but to weigh all the aspects for future decisions. NBTel executives were concerned that if competition entered the market, it would not be financially feasible to continue service in all areas of the province, based on two basic principles:

- *Value-of-service pricing*: based on a perceived value of what the service was worth to customers. Recognizing that fewer customers were not incurring toll charges, subscribers in urban areas paid higher rates than rural customers did. Businesses, considered to have a higher usage than personal subscribers, paid correspondingly higher rates; and,
- *System-wide price averaging*: long distance rates that were, for example, 100 kilometres from origin to destination, were all priced the same across New Brunswick. Similarly, customers in similarly sized communities were charged the same rate for local service, regardless of the actual cost of providing the service.ⁱⁱ

NBTel restructured in 1985, becoming a wholly-owned subsidiary of Bruncor Inc. NBTel's common shares were no longer publicly traded; however, preferred shares continued to be listed in the Toronto Stock Exchange (TSX) and Montreal Exchange.ⁱⁱⁱ Bruncor became the largest publicly traded company in New Brunswick. The restructuring allowed the company flexibility to take advantage of new business opportunities and enhance future earnings. NBTel diversified in telecommunications and the information technology (IT) sector, while Bruncor Inc. acted as a management holding company with interests in telecommunications, real estate, and financial services. Bruncor Inc. acquired Bruntel Holdings Ltd. from NBTel during the restructuring.

Bruncor made an investment that same year in Oromocto-based Process Technology Limited (PTL) operating in the semi-conductor industry. NBTel and Blue Cross of Atlantic Canada (now known as Medavie Blue Cross) reached an agreement to create a jointly owned data-processing services company, Dacacor Atlantic Inc., with NBTel as the primary shareholder. Dacacor provided patient-care data processing services along with financial and control systems to the hospital community (See **Exhibit 2** for Bruncor's corporate structure in 1987). In the early 1990s, Dacacor developed the province's Vital Statistics system for the government, which

maintained all vital events in the province (birth, marriage, and death), and was designed to provide while-you-wait service for vital events. Another Datacor system, ClaimNet, allowed pharmacies to electronically send a customer's insurance claim directly to the appropriate insurer.

NBTel saw the beginnings of competition within the industry in 1987, stemming from a decision by the PUB to allow NBTel customers to purchase their own equipment and attach this equipment to NBTel's network; previously NBTel was the sole provider of the main telephone. Against this backdrop, NBTel prepared for a fight over market share on many fronts.

The History of Telecommunications in the US and Canada

Prior to the 1990s, the telecommunications industry was a monopoly. There were two major players in North America; American Tel & Tel (AT&T), regulated by the Federal Communications Commission (FCC), and Bell Canada, which was regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). The deregulation of the U.S. industry was far ahead of the Canadian industry; however, leaders in Canadian telecommunications predicted what changes were coming by watching the U.S. markets.

The divestiture of AT&T in the U.S., brought on by the Sherman Act¹ impacted Canada quite significantly by increasing competition, decreasing regulation, and lowering prices. Two of the main issues were the threat of Canadian telecommunication facilities being bypassed and a higher cost of companies performing business transactions within Canada compared to the U.S. This had an additional impact to local network services. If long distance customers began using other non-Canadian companies, this would affect the amount of subsidization available for local networks. Consumers would then begin looking for alternatives to local network service providers.

Adding to the complexity within the Canadian market was a two-tiered system of regulation; both the CRTC and the provincial regulatory body regulated telecommunications companies. In both the U.S. and Canada companies were subject to rate-of-return regulation, which set a maximum return on investment over and above their operating costs. The primary products offered were local and long distance service. Long distance service fees were highly profitable, and the companies used these fees to subsidize local rates to provide universal coverage at a flat rate to all users. This universal coverage was a requirement of the companies coming from the regulatory bodies.

¹ A U.S. statute created to limit cartels and monopolies.

Competition within telecommunications also meant innovation, which raised a concern that Canada would lose its innovative edge to the U.S. industry. Canadian businesses would then be faced with competitors that had access to new services and technology south of the border. Thus began the deregulation of the telecommunications industry in Canada.

NBTel's Competitive Strategy

NBTel's "TeleSolutions 24 – Achieving 2000 now!" strategy was developed in 1990. Pond, NBTel's vice president of planning at the time, and the rest of the management group, saw the U.S. telecommunications industry changing and understood that NBTel would face increased competition. He explained the situation:

The strategy involved major change for NBTel. The plain old telephone service was considered a cash cow. Employees wondered why change was required, when from their perspective, the company was still a monopoly and their market position was protected and still highly profitable. Our methodology involved engaging as many people as we could, tell the story of what was happening elsewhere, and explain why change was necessary before we hit the wall.

NBTel outlined a three-pronged set of initiatives and instituted many structural changes. The strategy was expected to position NBTel within a new type of consulting service offering, based upon its development as a 'world class' telecommunications company. The three approaches in the strategy focused on customer service, expanded diversification into related businesses, and imports and exports.

Customer Service

The customer services initiatives focused on meeting and exceeding customer expectations. NBTel focused on 24/7 customer service, enhancing their call centre capabilities to answer calls and process requests for service more efficiently, and provide repair services at the customers' convenience. Self-serve technologies and product innovation were deemed vital to delivering quality customer service. Innovating, both with and for their customers, was the cornerstone of the company's growth strategy.

Diversification

NBTel and Bruncor continued to invest in other companies, forming new partnerships beyond its traditional boundaries with the expectation of developing new technologies. The investment focus changed to new growth businesses that evolved out of the technologies, services and innovations they had embarked on within their core telecommunications business.

NBTel interActive Inc. (NBI) operated through two divisions. One division was responsible for developing and providing interactive voice response (IVR) services and real-time billing platforms for prepaid card and prepaid mobility services for several telecommunications companies. It was the largest company in Canada processing these transactions. The other division designed and supported advanced network services, specifically for education and healthcare industries. The company, created in 1993, also introduced the TalkMail™ and CallMall™ (Screenphone-based) services.

Connectivity Managed Network Services Inc. (Connectivity), created in 1997, provided computer telephony integration (CTI) solutions to call centres (enhanced call centre services aimed at improving the productivity and service characteristics of contact centres).

In 1996 partnerships with Health Futures Canada and HealthFutures LLC were formed to develop and market enhanced interactive network applications for healthcare and other organizations in Canada and the U.S.

New North Media Inc. (New North) offered interactive display-based marketing (called CallMall) and information services, such as home shopping and banking through a screen display phone. The company's services expanded to Ontario, Quebec, Alberta, Saskatchewan, Australia (through a major carrier), and the U.S.

Tele-Direct Atlantic managed the partnership of the four Stentor² members serving Atlantic Canada (Prince Edward Island, NB, Nova Scotia, and Newfoundland). Tele-Direct Atlantic produced telephone directories for the four Atlantic Provinces.

Import/Export

In 1987, New Brunswick made electoral history when voters swept Frank McKenna and his Liberal party, handing McKenna all 58 seats. McKenna campaigned on a strong economic development strategy, including a big push to attract large corporations to the province. It was through this strategy that NBTel negotiated a partnership with the Government of New Brunswick to work together to build a call centre sector using NBTel's modern telecommunications network and provincial government tax incentives. From 1989 to 1993 nearly 1,500 jobs were created; 14 businesses established call centres or telemarketing operations in the province. NBTel developed new technologies, often in partnership with other companies and these innovations were used to either expand NBTel's core telecommunications business in New Brunswick or export it to other jurisdictions around the world via the partner company.

² The largest telephone carriers formed a cooperative in 1931, known as the Trans Canada Telephone System (TCTS), changing its name to Telecom Canada in 1975, and Stentor Canadian Network Management in 1992. The group consisted of the Bell Telephone Company of Canada, MT&T, NBTel, Manitoba Government Telephones, Saskatchewan Government Telephones, Alberta Government Telephones, and B.C.Tel. Stentor was a way of sharing profit across the entire network.

These three approaches required three major areas of investment to carry out the strategy, consisting of the development of a digital network, the adoption of a process improvement methodology, and a focus on self-service technologies.

Creation of a digital network with digital switches versus older analogue technology created a low cost, more flexible platform for the delivery of its core services. Digital switches were very capital intensive, costing millions of dollars to install and maintain. Since NBTel was a small company operating in a rural market, they had to find ways to make less go farther. Working with Canadian technology corporation Nortel increased the capacity of the digital switches and increased the physical serving territory, ultimately reducing the number of switches required and thus, the overall cost. These digital switches would be used to introduce new technologies, such as voice mail and caller ID. In 1993, New Brunswick became the first jurisdiction in North America to offer a fully digital switching network. New Brunswick led Canada in the distribution of the technology that provided the ability to transmit information regarding the identification of a calling party (call ID)^{iv}.

NBTel adopted Socio Tech System (STS) involving significant support and involvement from its unionized workers to improve all processes and create a team-based environment. To provide 24/7 customer service, NBTel required the participation of union members, moving from a non-shift work environment to adaptable scheduling determined by customer demand, which was primarily in the late afternoon or early evening hours. Senior management worked closely with the union. A promise was made to the union that union positions would not be reduced and a union member was added to the senior management team. Negotiations took two years, including a series of employee briefing sessions on how the company was being repositioned for a competitive marketplace. The effort resulted in significant union buy-in and very few grievances.

NBTel's Products and Innovations

In 1997, Pond received the Canadian Information Productivity Association (CIPA) Innovator of the Year award in recognition of NBTel's commitment to innovation in both its services and practices, with a focus on pricing strategies, continued innovation, and self-service technologies.

Pricing Initiatives

NBTel offered a number of pricing incentives to both business and residential customers. These included discounts on time-of-day calls, as well as calls to phone numbers within a certain radius of the originating call. Air Miles were awarded for long distance calls and volume discounts were offered to business users.

LivingLABTM

This was a location within the NBTel Saint John office to research and test new technologies. This was a unique collaboration between NBTel, other leading-edge communication companies, and New Brunswickers themselves. Once products or services were developed in the Lab, they were launched in a beta or prototype mode to select customers to allow more end-user refinement. Once these technologies were developed through these joint ventures, they could then be sold to other telephone companies in other areas for additional profit. Some of NBTel's LivingLABTM partners included BKM, NBPower, Newbridge³, Royal Bank, and Sun Microsystems.

The Result

NBTel's revenues and earnings were impacted by technological change and deregulation. For instance, line services dominated the telephony sector throughout most of the 20th century but quickly lost market share to cellular services, which was introduced in 1989 and soon became the fastest growing segment of the sector. Long distance services were a key component of NBTel's operations and accounted for 60 per cent of the firm's revenues in 1990. The CRTC also reduced NBTel's permissible earnings range for 1992 to between 11.5 per cent and 12.5 per cent, less than what the company earned in 1992.

In 1995, the CRTC authorized competition in local markets. NBTel's managers remained confident that the firm could retain most of the local service market. The company's strategy was predicated upon its advanced telecommunications infrastructure, innovative products, low pricing structure, high productivity and dedicated employees.

NBTel still held 100 per cent of the local service market in 1996, 91 per cent of the long distance market, and 71 per cent of the cellular market.^v The company retained a 91 per cent share of the long distance market through July 1998. NBTel's largest competitors in the long distance market were AT&T, Sprint Canada, and Fonorola. Between 1992 and 1998, 36 per cent of NBTel's customers switched to an alternate long distance carrier, but with a 70 per cent win-back rate, the company was successful in maintaining a high market share. However, their portion was decreasing on a steady basis as more competitors entered the market. In fact, the percentage of market share dropped from 99 per cent in 1993 to 93 per cent in 1995, and then to 91 per cent in 1997.

Inside the company, there were other issues. The union, displeased by the new structure, which included a higher number of technical, non-unionized jobs was seeing a decline in membership. The diversification strategy involved the creation of more external businesses and jobs, which

³ Now Alcate-Lucent

decreased the number of positions inside NBTel and within the union. Feeling these pressures, union leaders were threatening to break their Socio-Tech Systems agreement if more union positions were not created.

Employees of the basic telephone service were also displeased. New technologies and new processes were introduced to NBTel. Revenue and resources were needed to increase these new businesses as part of the continued success of the company. Due to the focus on new areas of the business, employees working within the basic telephone service area felt they were not seeing the benefits of NBTel's new direction and they began to feel left behind and unimportant. This created tension between employees, pitting those working in the core services against those working with new products. Pond felt this tension; "The company needed to be like a family with grandparents, parents, and children living together, all feeding off one another, all to become a better family. Everyone had a role. Unfortunately, we had a ways to go in this regard."

Meanwhile, NBTel's holding company, Bruncor, discontinued business in the financial and real estate sectors, becoming a communications-focused management-holding company (see **Exhibit 3** for Bruncor's structure in 1998).

By the end of October 1998, NBTel's market share had dropped to 88 per cent after a three-month price war among competitors for long distance services. New flat-rate monthly pricing packages were introduced by competitors in the residential market while per-minute prices continued to decline in the business market. NBTel continued to emphasize quality customer service at a reasonable price. It was the only major telecommunications company in Canada to maintain a \$20 (CDN) basic service charge and not take advantage of a 1998 CRTC decision to increase price caps. As the company continued to lose market share, it also offered additional packages to customers at reduced rates. The lowered rates created more long distance phone calls for NBTel.

NBTel Mobility was fighting for market share as well, expecting the introduction of new digital personal communications services (PCS) to compete with existing cellular services. PCS offered customers some new digital-enabled features. In 1998, NBTel Mobility held 77 per cent of the cellular market in New Brunswick and NBTel held 86 per cent of the Internet market. The company was granted a cableTV license by the CRTC, becoming the first company allowed to offer cable TV service in Canada. In late 1998, NBTel had over 30 competitors in every market except for local services (See **Exhibit 4** for description of competition by market).

Pond understood that based on the number of other major telecommunications service providers in Canada, the current success of NBTel would not be guaranteed for long.

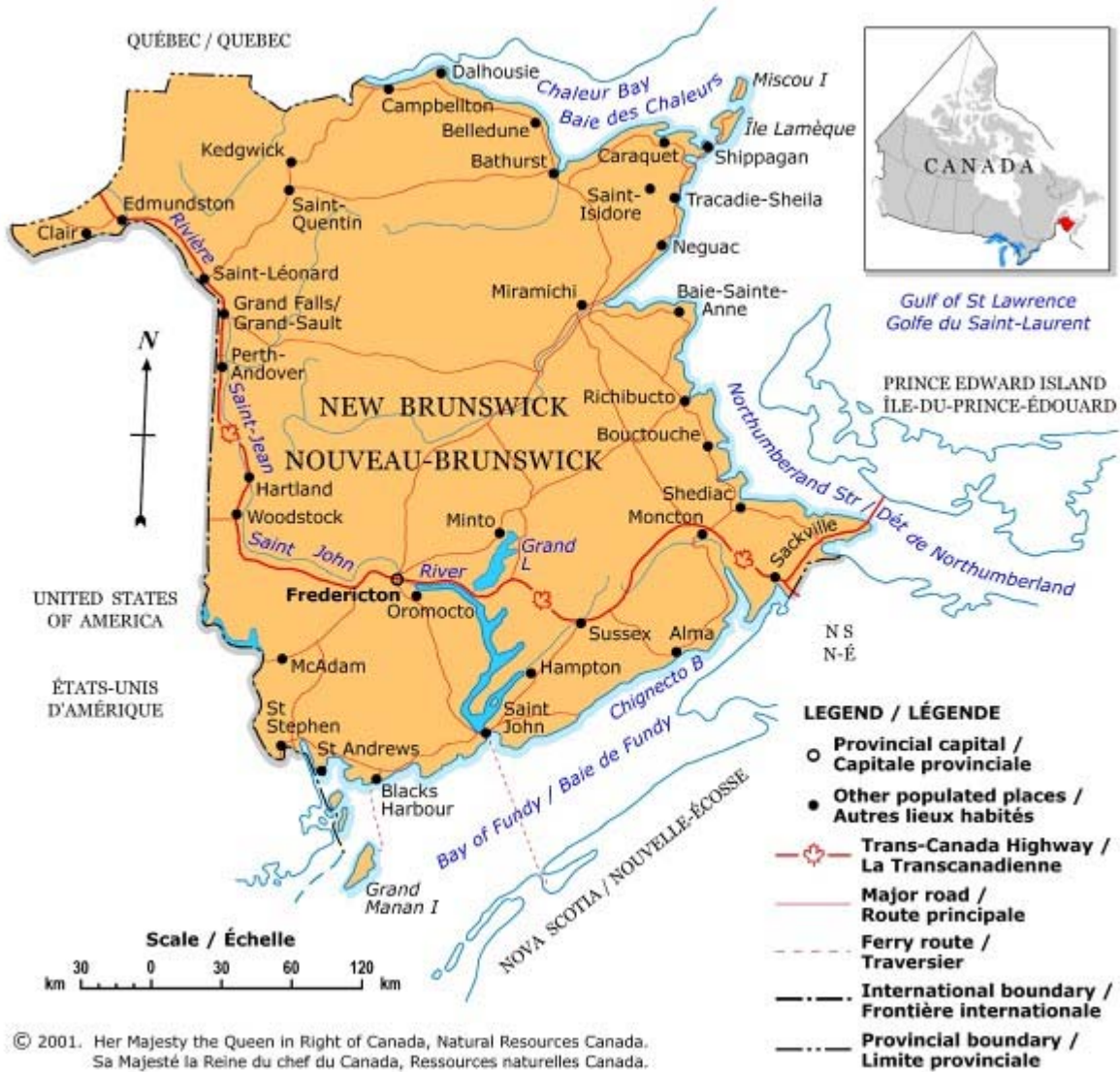
Pond contemplated what to do next. Long distance had just suffered the most significant market loss since competition entered the market (see **Exhibit 5** for 11-year operational data). Other areas such as cellular and Internet were growing. The company could now provide cable TV

services, adding new sources of revenue to the company (see **Exhibit 6 and 7** for consolidated balance sheet and income statements). NBTel's financial advisors continued to comment on the industry trend of mergers and acquisitions, suggesting NBTel consider merging with one or more of the Atlantic telecommunication companies. BCE, NBTel's major shareholder, shared this view.

With all this in mind, Pond began preparing his recommendation and action steps for the upcoming Board meeting; considering the transition NBTel had made from a monopoly to a high-tech company and the changing marketplace.

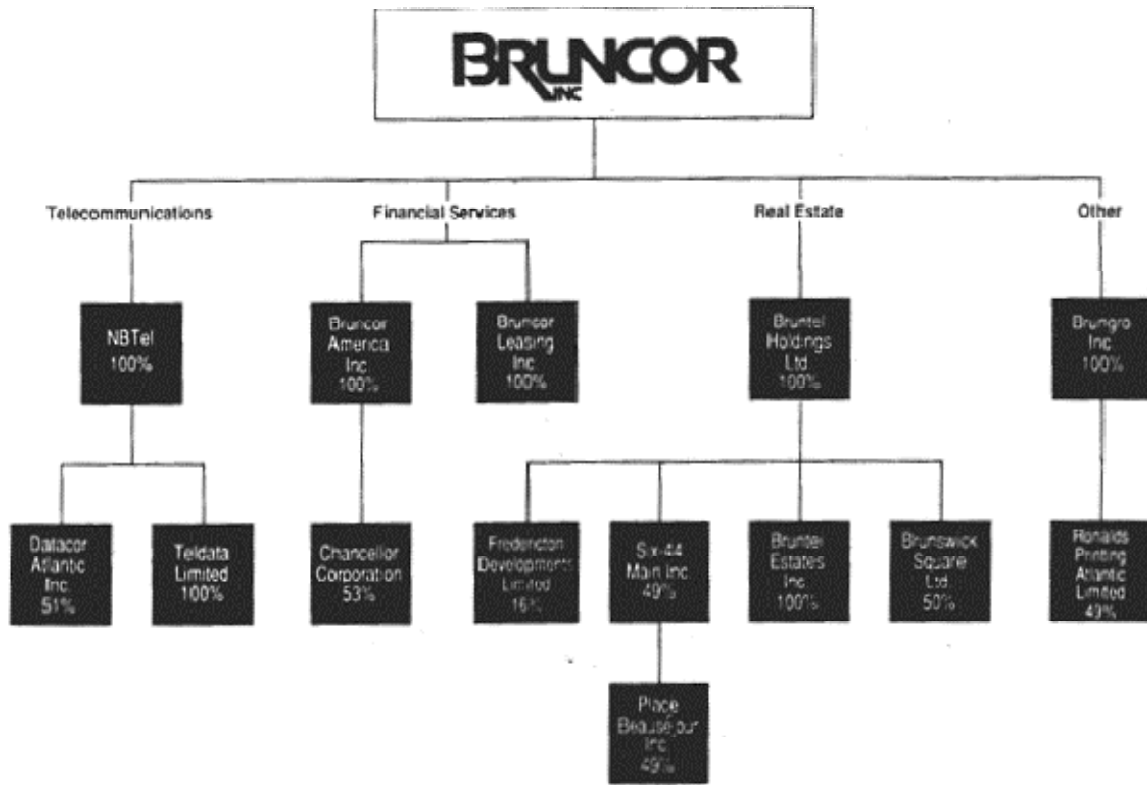
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Exhibit 1 Map of New Brunswick



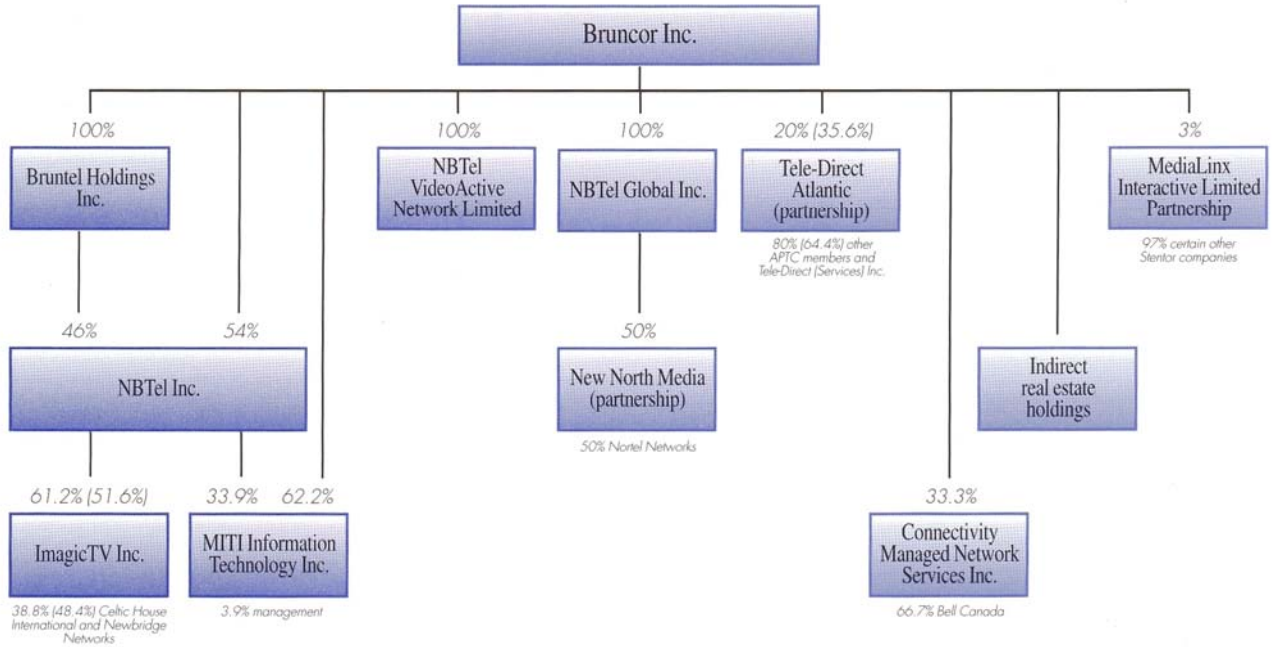
Source: Knight's Info Canadian Collection website, <http://members.shaw.ca/kcic1/index.html> accessed October 26, 2008; image by Natural Resources Canada.

Exhibit 2 Bruncor Inc. Structure in 1987



Source: Bruncor Annual Report 1987.

Exhibit 3 Bruncor's corporate structure in 1998



Voting interest is shown first, earnings participation shown within brackets. As of February 11, 1999.

Source: Bruncor Annual Report 1998.

Exhibit 4 Competition by Market

What we do

Bruncor at a glance

	What we do	Who we do it for	Who does it with us
<i>Our established businesses</i>			
NBTel	Local service (voice)	300,000+ customers in New Brunswick	MT&T, Island Tel and NewTel
	Long distance (voice)	88% of the New Brunswick market, including call centres	Stentor Canadian Network Management
	Data and multimedia (including Internet)	Local, national and multinational business customers; 60,000 Internet (NBNet™, Sympatico™ and Vibe™) customers (86% of New Brunswick Internet market)	MediaLinx, Bell Nexxia 100 Internet dealers in New Brunswick
MITI	Information technology	Business and government customers in Atlantic and central Canada	Various teaming arrangements including one with NBTel
NBTel Mobility	Wireless services	78,000 cellular customers 26,000 paging customers	Mobility Canada 75 dealers in New Brunswick
Tele-Direct Atlantic	Telephone directories	NBTel, MT&T, Island Tel, NewTel	MT&T, Island Tel, NewTel and Tele-Direct (Services) Inc.
<i>Our emerging opportunities</i>			
NBTel	Television	Licensed to provide services in Moncton and Saint John	ImagicTV, PixStream, Scientific-Atlanta
NBTel Global	Online government services Prepaid cellular software Advanced software applications and consulting	Nortel, U S West and potentially other communications services providers worldwide	Nortel Networks, COMMTECH
NBTel VideoActive Network Limited	Advanced network services	Government and large businesses in New Brunswick	Atlantic Health Sciences Corporation (tele-health services)
New North Media	Interactive screen-phone services	Telephone companies worldwide Energy and other utilities Banks and trust companies	Nortel Networks
Connectivity	Network-based computer telephony integration services	Call centre customers in Canada including Imperial Oil, Bell Sympatico and Canadian Firearms Registry	Bell Canada, Genesys, MITI, Servicesoft Technologies
ImagicTV	Interactive television software	NBTel and potentially telephone companies worldwide	Newbridge Networks Element 14



Who else does it	How much we did	How well we did
No one, although this market is now open to competition	Revenues: \$234 million	Revenues up 3%
AT&T Canada, Sprint and 30+ others in New Brunswick	Revenues: \$148 million Minutes: 836 million	Revenues down 11% Minutes up 4%
AT&T Canada, Fundy Telecom, Sprint	Revenues: \$55 million	Revenues up 24% <i>VideoActive™</i> network passes 80,000 homes and 10,000 businesses
DMR, GE Capital, xwave solutions	Revenues: \$84 million	Revenues up 24%
Cantel AT&T, Fundy Telecom, Pagenet, Pagemart	Revenues: \$55 million	Revenues up 11% Market share grew to 77%
Local directory producers Other advertising media	Revenues: \$43 million	Revenues up 2%
Fundy Cable, Star Choice, satellite service providers	Start-up in 1999	Start-up in 1999
Boston Communications Group Software companies worldwide	Bruncor's intellectual property revenues: \$19.5 million 300+ visits to the <i>LivingLAB™</i>	Revenues up 126%
AT&T Canada, Fundy Telecom, Sprint	Advanced network services revenues: \$2.8 million	Revenues up 22%
SmartServe Online Gladsis	Revenues: \$3.0 million	Revenues down 28% Market trials in New Zealand and United Kingdom
Customer equipment suppliers IBM Canada	Revenues: \$0.6 million	Secured seven national customers in first year of operation
Other software development companies	Research and development activities	Launched international marketing efforts



Source: Bruncor Annual Report 1998.

Exhibit 5 10-year operational data (all \$ in CDN)

11-year review

Selected financial and operating data *(unaudited)*

	1998	1997	1996	1995
Financial statistics				
Earnings from continuing operations per common share <i>(a)(b)</i>	\$ 1.30	\$ 1.15	\$ 1.04	\$ 0.85
Earnings (loss) per common share <i>(b)</i>	\$ 1.30	\$ (0.45)	\$ 1.04	\$ 0.85
Dividends declared per common share <i>(b)</i>	\$ 0.65	\$ 0.64	\$ 0.64	\$ 0.64
Payout ratio <i>(a)</i>	50.0%	55.7%	61.5%	75.3%
Return on common shareholders' equity <i>(a)</i>	17.8%	13.9%	13.3%	11.3%
Average common shares outstanding <i>(in thousands) (b)</i>	43,621	43,490	43,476	43,418
Income statement summary (\$ in thousands) <i>(c)</i>				
Operating revenues	597,999	539,884	450,865	405,143
Operating expenses	466,557	415,815	335,029	302,460
Interest expense	33,093	32,108	34,102	35,109
Other income	13,012	433	4,609	4,799
Minority interests	184	—	—	—
Income taxes	37,204	42,456	41,110	35,486
Income from continuing operations	56,755	49,938	45,233	36,887
Income before extraordinary item	56,755	49,938	45,233	36,887
Net income (loss)	56,755	(19,610)	45,233	36,887
Dividends on preferred shares	—	—	—	—
Net income (loss) applicable to common shares	56,755	(19,610)	45,233	36,887
Financial position items at December 31 (\$ in thousands)				
Total assets	827,680	799,323	886,217	844,609
Shareholders' equity	335,085	302,040	349,274	331,713
Minority interests	365	—	—	—
Long-term debt of continuing operations <i>(including current portion)</i>	349,221	351,574	336,056	333,155
Miscellaneous statistics				
Registered common shareholders <i>(December 31)</i>	13,285	12,949	12,380	12,396
Price earnings multiple based on continuing operations: <i>(a)</i>				
Based on highest price for year	25.0	20.0	15.4	14.8
Based on lowest price for year	12.7	12.2	10.3	11.6
NBTel statistics				
Operating revenues <i>(in thousands) (c)(d)</i>				
Local voice services	233,768	227,378	183,005	161,834
Long-distance voice services	149,097	167,102	144,303	132,262
Wireless services	54,633	49,063	39,859	35,175
Data and multimedia services	52,501	44,028	35,321	32,980
Other net operating revenues	17,076	20,671	21,726	20,929
Total operating revenues	507,075	508,242	424,214	383,180
Operating expenses <i>(in thousands) (c)</i>				
Network access services <i>(December 31)</i>	598,099	566,974	547,189	529,328
Long-distance conversation minutes <i>(in thousands)</i>	836,307	805,843	730,690	622,984
Gross construction <i>(in thousands)</i>	112,491	140,487	123,998	106,821
Return on common shareholder's equity <i>(a)</i>	12.3%	12.6%	12.8%	11.6%
Times interest earned before taxes	3.8	3.9	3.8	3.3

(a) 1997 information is before extraordinary item.

(b) Information has been restated for the 1998 two-for-one stock split.

	1994	1993	1992	1991	1990	1989	1988
	\$ 0.84	\$ 0.84	\$ 0.87	\$ 0.80	\$ 0.82	\$ 0.78	\$ 0.82
	\$ 1.07	\$ 0.18	\$ 0.88	\$ 0.82	\$ 0.78	\$ 0.10	\$ 0.79
	\$ 0.64	\$ 0.64	\$ 0.64	\$ 0.62	\$ 0.61	\$ 0.60	\$ 0.60
	59.8%	366.8%	72.4%	75.9%	78.2%	632.5%	76.5%
	14.9%	2.3%	12.2%	11.9%	11.6%	1.3%	11.3%
	43,394	43,358	41,688	39,360	38,564	38,476	38,124
	385,568	384,479	373,510	358,656	345,325	324,831	297,342
	290,731	289,409	274,913	267,220	256,420	241,111	211,851
	34,412	32,452	36,582	36,058	35,217	30,078	24,969
	7,158	5,177	8,139	4,909	5,637	4,965	3,950
	—	—	167	306	401	691	806
	30,210	29,771	32,147	26,733	25,509	26,323	30,725
	37,373	38,024	37,840	33,248	33,415	31,593	32,941
	47,438	9,383	38,494	34,017	31,643	5,464	31,708
	47,438	9,383	38,494	34,017	31,643	5,464	31,708
	906	1,813	1,813	1,813	1,813	1,813	1,813
	46,532	7,570	36,681	32,204	29,830	3,651	29,895
	826,526	922,616	925,478	879,494	826,530	748,719	694,316
	322,033	328,342	342,011	307,308	284,947	278,506	293,555
	—	—	—	4,335	4,537	8,270	9,692
	316,164	326,461	347,778	349,316	345,941	298,604	260,415
	13,243	13,552	13,507	13,591	13,748	14,601	13,270
	16.2	14.5	11.9	11.6	11.7	12.3	11.5
	13.5	11.2	10.2	10.1	9.8	10.6	10.0
	146,880	138,310	129,663	120,639	109,251	98,880	95,734
	140,669	155,497	164,789	165,564	168,633	163,179	145,596
	26,238	20,872	16,346	13,874	11,720	9,052	8,604
	30,339	30,167	28,696	25,892	24,723	23,436	20,626
	20,220	20,081	14,251	13,210	12,223	12,618	14,339
	364,346	364,927	353,745	339,179	326,550	307,165	284,899
	274,091	272,142	256,915	247,196	237,873	222,670	197,839
	502,584	480,314	461,100	447,721	431,286	411,391	392,268
	558,419	511,797	446,833	405,442	366,306	328,168	291,981
	89,152	95,438	107,036	105,908	107,655	95,723	85,679
	10.4%	12.1%	13.3%	13.3%	14.0%	14.1%	15.5%
	3.0	3.1	3.0	3.0	2.9	2.8	3.4

(c) 1997 operating revenues and expenses have been restated to reflect the restatement of contribution and settlement expenses. See note 1 to the financial statements.
(d) Operating revenues have been restated to reflect the reporting of data and multimedia revenues.

Source: Bruncor Annual Report 1998.

Exhibit 6 Consolidated Balance Sheet

Consolidated Balance Sheets

(dollars in thousands) 1998 1997 1996

Assets

Current

Cash	5,321	4,019	3,367
Notes receivable from affiliated companies	-	-	2,607
Accounts receivable	120,513	109,332	101,674
Prepayments	9,927	8,711	5,598
Current assets of discontinued operations	-	780	1,087
	135,761	122,842	114,333

Investments	5,389	17,909	8,637
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Property, plant, and equipment, net	658,337	652,982	740,003
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Other assets

Deferred charges, net	1,516	1,409	6,730
Goodwill, net	16,367	-	-
Deferred income tax	10,310	-	-
Investments and fixed assets of discontinued operations	-	3,377	16,514
	28,193	4,786	23,224

Total assets	827,680	798,519	886,217
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Liabilities and Shareholders' Equity

Current

Accounts payable and accrued charges	67,686	57,840	61,148
Notes payable to affiliated companies	-	5,000	-
Income taxes payable	2,873	9,038	7,098
Dividends payable	7,097	6,960	6,956
Interest accrued on long-term debt	6,913	6,543	6,639
Debt due within one year	87,079	61,960	104,630
Current liabilities of discontinued operations	-	2,002	9,405
	171,648	149,343	195,876

Long-term debt	317,920	334,361	271,013
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Deferred income tax	-	7,113	62,369
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Deferred pension costs	2,662	5,662	5,144
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Minority interest in subsidiary company	365	-	-
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Long-term debt of discontinued operations	-	-	2,514
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Shareholders' equity

Capital stock	190,599	186,407	186,196
Contributed to surplus	19,744	19,774	19,774
Retained earnings	124,255	95,859	143,304

Foreign currency translation	457	-	-
	335,085	302,040	349,274
Total liabilities and shareholders' equity	827,680	798,519	886,217

Source: Bruncor Annual Reports 1996, 1997, and 1998.

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Exhibit 7 Consolidated Income Statements

Consolidated Statement of Income

(dollars in thousands except per share amount)

	1998	1997	1996
Operating Revenues			
Local services	250,861	195,688	180,209
Long-distance services	148,322	179,139	180,845
Data and multimedia services	54,663		
Wireless services	54,633		
Information technology	50,511		
Emerging businesses	28,324		
Mobility services		47,439	39,859
Directory services		20,069	18,994
Other services	16,505	42,386	34,385
Uncollectible operating revenues	-5,820	-6,988	-7,530
		477,733	446,762
Operating expenses			
Salaries, computer costs, and other			178,020
Pension and other employment benefits			10,132
Computer costs and other		109,668	
Salaries, pension and other employee benefits	102,610	86,988	
Depreciation	113,288	110,039	101,902
Telephone plant expense		46,969	44,975
Other operating expenses	191,626		

Settlement and contribution expenses	59,033		
	466,557	353,664	335,029
Operating income	131,442	124,069	111,733
Other income	13,012	433	8,712
Other charges			
Interest on long-term debt	30,215	30,830	32,346
Restructuring of subsidiary assets	17,218		
Short-term interest		1,278	1,756
Minority interest on subsidiary company	184		
	50,495	32,108	34,102
Income before income taxes	93,959	92,394	86,343
Income taxes	37,204	42,456	41,110
Income before extraordinary item	56,755	49,398	
Extraordinary item*	-	-69,548	
Net income		-19,610	45,233
Earnings per share from income before extraordinary item	1.30	2.30	
Loss per share from extraordinary item	-	-3.20	
Earnings per common share	1.30	-0.90	2.08

* In the fourth quarter of 1997 NBTel determined that it was no longer appropriate to prepare its financial statements using account methods prescribed by regulation. As a result, an extraordinary non-cash charge of \$69,548, net of income taxes of \$56,108, was recorded against income.

Source: Bruncor Annual Reports 1996, 1997, and 1998.

Glossary of Terms

Analog System – a telecommunications system that converts human speech into electrical signals that constantly vary in volume and frequency. These signals are converted back into sound waves when they reach their destination.

Digital system – a telecommunications system that encodes signals into a series of easily transmitted on-and-off pulses, and then back into voice. In addition to providing a higher quality, more flexible voice transmission, digital technology is the best medium for the transmission of data and video signals.

Fibre optics – thin strands of glass that carry light that is flashed on and off in a way that represents the information being transmitted. At the other end of the fibre, a light sensor reads the light pulses and converts the signal back into its original form of voice, video, or data.

Interactive – a telecommunications service that is characterized by the two-way transfer of information between users or between a user and the host computer of a service provider.

Telecommunications – the transmission of voice, data, or video signals.

Rate-of-Return – under rate-of-return a company is allowed to earn revenues sufficient to cover expenses plus a percentage return on investment (the rate base). Mathematically the formula is:

$$R = E + r.B$$

Where R is revenue requirements, E is operating expenses, including depreciation, r is the permissible rate of return, and B is the rate base or total investment.^{vi}

Common Carrier – this refers to a telecommunications company which provides services to the public under license or authority as provided by a regulatory body. It provides universal service, without discrimination for the public convenience and necessity.

Source: Casewriter.

List of Acronyms

Automatic Number Identification	(ANI)
Bell Canada Enterprises	(BCE)
Bell Operating Companies	(BOCs)
British Columbia	(BC)
Calling Line Identification	(CLID)
Canadian-National Canadian-Pacific Telecommunications	(CNCPT)
Canadian Overseas Telecommunications Corporation	(COTC)
Canadian Transport Commission	(CTC)
Computer Telephony Integration	(CTI)
Customer Premise Equipment	(CPE)
Department of Communications	(DOC)
Extended Area Service	(EAS)
Federal Communications Commission	(FCC)
Federal Radio Commission	(FRC)
Gross Domestic Product	(GDP)
Interactive Voice Response	(IVR)
Interstate Commerce Commission	(ICC)
NBTel interActive Inc.	(NBI)
New Brunswick	(NB)
Personal Communications Services	(PCS)
Process Technology Limited	(PTL)
Public Utilities Board	(PUB)
Radio-television and Telecommunications Commission	(CRTC)
Regional Bell operating companies	(RBOCs)
Socio Tech System	(STS)
Trans Canada Telephone System	(TCTS)

Source: Casewriter

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End Notes

ⁱ NBTel 1982 Annual Report

ⁱⁱ NBTel 1984 Annual Report

ⁱⁱⁱ NBTel 1989 Annual Report

^{iv} New Brunswick/NBTel brochure

^v 1996 Bruncor Annual Report

^{vi} Pg 171 Telecommunications in Canada, Babe