Twentieth Annual Report

The Pure Oil Company

Chicago

For the Year Ended December 31, 1933
The Pure Oil Company

GENERAL OFFICES, CHICAGO

DIVISION OFFICES
NEW YORK, N. Y.
COLUMBUS, OHIO
PHILADELPHIA, PA.
MINNEAPOLIS, MINN.
PITTSBURGH, PA.
TULSA, OKLA.
CINCINNATI, OHIO
BEAUMONT, TEX.
ATLANTA, GA.
FORT WORTH, TEX.
SAGINAW, MICH.

OCEAN TERMINALS
NEW YORK, N. Y.
MARCUS HOOK, PA.
SAVANNAH, GA.
SMITH'S BLUFF, TEX.
MOBILE, ALA.
NORFOLK, VA.
PENSACOLA, FLA.
MIAMI, FLA.
JACKSONVILLE, FLA.
TAMPA, FLA.

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OFFICERS

B. G. Dawes . . . . . . . Chairman of the Board . . . . . . . . . . Columbus, Ohio
H. M. Dawes . . . . . . . President . . . . . . . . . . . . . . . . . . Chicago
W. E. Hutton . . . . . Vice-President . . . . . . . . . . . . Cincinnati, Ohio
R. W. McIlvain . . . . Vice-President . . . . . . . . . . . Chicago
C. B. Watson . . . . . Vice-President . . . . . . . . . . . Chicago
N. H. Weber . . . . . Vice-President . . . . . . . . . . . Chicago
F. S. Heath . . . . . Vice-President . . . . . . . . . . . Columbus, Ohio
Rawleigh Warner . . Vice-President and Treasurer . . . . Chicago
I. S. Wescoat . . . . Vice-President and Secretary . . . . Chicago
C. H. Jay . . . . . Asst. Secretary and Treasurer . . . . . . Chicago
R. L. Milligan . . . Asst. Secretary and Treasurer . . . . Chicago
A. M. Brereton . . . Comptroller . . . . . . . . . . . . . . . . . Chicago

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DIRECTORS

B. G. Dawes
H. M. Dawes
I. B. Humphreys
W. E. Hutton
Rawleigh Warner

W. F. Burdell
W. C. Fairbanks
F. S. Heath
J. E. Otis
R. W. McIlvain
C. B. Watson
Twentieth Annual Report of the Directors of
The Pure Oil Company
For the Year Ended December 31, 1933

CHICAGO, MARCH 5, 1934.

TO THE STOCKHOLDERS:

Herewith is submitted the twentieth annual report of The Pure Oil Company.

Conditions in the oil business have in the past year been subject to the most sudden and violent changes. While this applies to all phases and aspects of its operation, it is perhaps best illustrated in the matter of prices. The fluctuation in the base price in East Texas and Mid-Continent crude is a concrete example.

PRICES

On October 15, 1932, Mid-Continent crude was quoted by the larger purchasers at $1.04, while on May 9, 1933, it had declined to 25c. On December 31, 1933, it had advanced to $1.00. On October 15, 1932, East Texas crude was quoted at $1.10 and on April 25, at 10c. The variation from the low to the high of Mid-Continent crude was 400% and the variation in East Texas was 1,000%. The experience of your company is not essentially different from that of nearly all other integrated units, and these fluctuations resulted during the first six months in heavy losses, which were, however, more than offset during the last six months of the operation.

The tank car price of U. S. motor gasoline or its equivalent in the Mid-Continent area varied from a high of 5c for below 60 octane gasoline on September 12, 1933, to a low of 1½c on April 18. The price on January 1, 1934, was 3½c. The retail price of gasoline reflected, of course, over the period the changes in the price of wholesale gasoline, but the percentage of variation was very much less because the costs of transportation, marketing, and taxes are fixed. It should also be noted that the average tank car price for Mid-Continent below 60 octane gasoline in the last year was 3.11c per gallon; that the average in 1932 was 3.92c; and that the previous five-year average was 5.88c.

The following obvious inferences should be emphasized:

First, that the average price of gasoline is very much below the previous five-year average which is considered abnormally low; and second, that the January 1 price of gasoline is higher than the average for 1933, although very materially lower than the five-year average. The natural inference from this is that prices are too low to be considered normal, but that the trend is manifestly better.

The total sales of petroleum products by The Pure Oil Company were in volume within 1% of those of 1932. Notwithstanding this fact, the amount realized was 5½% less for the refined products than in the previous year.

FINANCIAL

The net quick asset position of the company has been maintained during the current year. It should be remembered that $2,000,000 of funded indebtedness was retired, reducing the amount outstanding to a total of $30,500,000. In view of the uncertainties that have existed during the past year and the fact that the lowest prices in the history of the industry have prevailed at times, the management believes that the balance sheet showing is satisfactory. Perhaps this is more manifest if the conditions are recalled which existed in June when East Texas oil was selling at 10c per barrel.

At the time the bank moratorium went into effect the company had on deposit in 311 accounts in 164 banks $2,980,000. At the present time only $13,775.38 of this amount is in closed institutions.

The trend since the operation of the N. R. A. has been definitely towards increased expenditure for labor. It is estimated that during 1934 the requirements of the N. R. A. will increase labor costs over $2,000,000. Nothing more than an estimate can be made as yet. The law provides for the procedure and the company must as rapidly as possible during the next year make an equalization on a fair basis between all classes of employees.

The item shown in the balance sheet under the title Employees' Savings Investment Fund represents amounts contributed for the purchase of the preferred stock of The Pure Oil Company from the general market and is held for employees. At December 31, 1933, this Fund, including the amounts contributed by the Company, was represented mainly by 28,606 shares of 6% preferred and 6,842 shares of 8% preferred stock. The fund is payable in cash or stock on April 1, 1939.

PRODUCTION

The operations of the Production Department have been carried on under unusual difficulties this year. The embarrassment of dealing with a commodity which varied in price from 10c to $1.00 in a few
months is obvious. The amount which the company is permitted by the various curtailment authorities to produce from its various fields has been subject to uncertainty and frequent change. The Pure Oil Company is fortunate in operating in fields where the production is severely curtailed as it results in lower initial costs, less current expense and greater ultimate recovery. On the other hand, this has resulted in a condition under which it is permitted to produce a smaller proportion of its actual available reserves than most units of the industry. For example, at the present time our gross production in the Van field is curtailed to 26,865 barrels daily. Our engineers believe that our property in the Van field is capable of producing from four to six times that amount over a long period. The same situation as at Van prevails in a lesser degree in the Michigan fields. The result of this is that while the company has wells already drilled that are capable of supplying many times its requirements, they have been shut back by the proration authorities to such an extent that it has been compelled to buy 3,917,300 barrels of oil at a cash cost of $3,702,700, thus materially decreasing its earnings. This curtailment has added materially to the burdens of the management, but doubtless in the last analysis will work greatly to the benefit of the company. Unfortunately the drilling operations of the company cannot be cut off in proportion to its requirements for crude on account of drilling obligations and the necessity of protecting property rights.

The company owns more than half of the field in the Midland district in Michigan. The oil in this section is produced from a lime formation, which, as a rule, declines somewhat rapidly from its initial production, but after a few months the wells usually reach a minimum production rate which is fairly well maintained. In view of the very large acreage that the company owns, it is reasonable to expect that this property will be a source of large revenue for many years to come. It is estimated that the potential of the field is in the neighborhood of 100,000 barrels daily. The amount at which it is prorated at the present time is 29,000 barrels.

While the company is operating in thirty-five oil fields, it has, in recent years, concentrated its development work upon very large tracts, so that in two major oil fields—namely, Van and Michigan, it owns more than half of the producing property. In the Louise Field in Wharton County, Texas, and in Gueydan in Vermillion Parish, Louisiana, it would appear at the present moment that the company had practically all of the productive territory. It is too early in their development to speculate accurately on the possibilities of these two fields, but the prospects are definitely encouraging.

Our engineers believe that the company enters the year 1934 with larger crude reserves in the ground than was the case of the beginning of the previous year, although 22,278,400 barrels of oil have been produced during the year.

**MARKETING**

The volume of the company's sales was within a fraction of one percent of the same as for the previous year. The requirements of the petroleum code have changed materially the procedure in the marketing of oil products. The company has felt that in this period of adjustment it should be sufficiently aggressive to maintain its volume, but that it was not sound practice to extend its markets unduly because of the uncertainties as to future developments and because of a feeling that nothing should be done which might in any way have the effect of increasing the tension of the situation at a time when constructive efforts are so earnestly attempted.

**PIPE LINES AND TRANSPORTATION FACILITIES**

Through its ownership in steamships, barges, terminals, pipe lines and trucks, the company is able to conduct its transportation operations at minimum costs. This, coupled with the possession of adequate ocean and other terminals and the strategic location of refineries to consuming areas, has put the company in a favorable position in this respect. These operations have been carried on this year without unusual incident.

In August a gasoline pipe line was completed from the company's refinery at Toledo to Detroit. The few months that it has been in operation indicate that it will prove to be a profitable venture. The company has carried on its development of transportation in inland waterways to advantage and is now operating barges on the Kanawha, Ohio, Warrior, Savannah and Mississippi Rivers.

**TAXES**

The increasing governmental burdens which are put on industry in general and oil in particular have assumed very serious proportions. An indication of this is the expenditure by the company of approximately $300,000 per year for the preparation of statements, questionnaires, and various other forms required by state and federal governments and trade associations. It is estimated that 19,000 of these have to be prepared each year.

In connection with the gasoline tax, it is interesting to note that $716,000,000 was collected from the industry by various governmental units, which is very nearly equal to the wholesale value of all automobiles and trucks produced in 1933, according to the statistics of the National Automobile Chamber of Commerce. Only a portion of this amount was expended
on the building or maintenance of roads. The gasoline tax averaged about $1.25 per gallon, which is more than 30% of the average retail price and more than 100% of the average wholesale price. The discrimination against the industry which is evidenced by these figures is probably accounted for by the ease with which tax can be collected. Regardless of what one’s views may be on the sales tax on all commodities, there is certainly no justification for assessing such a terrific penalty on one industry. The effect of such discriminatory treatment of one industry is clearly injurious to all.

**Reconstruction**

The past year has been one of experimentation in all industries. Many novel and some radical expedients have been suggested, but the clear intent of those who have given their thought to the formulation of policies for the oil business has been to preserve private initiative to the greatest extent possible and to invoke governmental help only when its peculiar conditions require it.

One cannot intelligently consider the problem of oil without hearing constantly in mind the characteristic which distinguishes it from other commodities. All other minerals are fixed in the place at which they are formed. When an oil well is drilled, however, the oil flows beneath the surface from one ownership to another. This is the reason for destructive overproduction and competitive drilling which has occurred periodically through the years. To control and regulate the operation of privately owned properties is justified and necessary in the production of oil only because the drilling and rate of production of any one well has an effect on every other in the field. The regulation of the drilling and the rate of production of oil wells is a function which would naturally rest with the states were it not for the fact that, to a great extent, all states serve a common market. If equity is to be established between the owners of individual oil producing properties, it is necessary to extend control over fields and into the states.

To regulate the flow of commerce between states is a recognized function of the federal government, and to accomplish this in the matter of oil requires that it should act as an umpire between the states with power to act, and that it should exercise whenever necessary the implied right to see that the operation of the industry within a state should be made to conform to the necessities of the nation.

The solution of the oil problem does not require the development of any new principles, but an evolution and an application of old ones. No great industry has less of the characteristics of a public utility, and yet on account of the peculiar circumstances connected with the production of its raw material, it will probably always require a degree of supervision. It may reasonably be assumed that the legal and physical problems involved can be met, but the best interests of the public as well as those engaged in the business require that it should be carried on in a way which will not do violence to the traditions of American business. The initiative which is a prerequisite to an undertaking involving the hazard of periodic discovery to maintain a constant supply must be preserved. The producing of oil is not a task which will ever be successfully performed under a civil service regime.

Were there not so many evidences of a real crystallization of opinion as to the desired objective the bitter factional differences which have developed in the industry in the past few months would be very discouraging. It is, however, becoming constantly more evident to the rank and file that if the industry is to be self-governing it must become so by the recognition and representation of all the legitimate elements involved in its operation. General realization of this is a long step forward.

Individuals who have in the past been in position to exercise arbitrary control are coming to realize that in the future their best interests will lie in the exercise of moderation and proper consultation with all of the industry in the determination of policies. Those who have not before exercised the influence to which they may have considered themselves entitled must, on the other hand, learn to use their new power wisely and fairly. All of this takes time, but clearly the evolution towards a real self-governing industry is under way. Trying as the period has been in retrospect, it will be recognized as one of progress. The opportunity for statesmanship and leadership which has been given to the Honorable Harold L. Ickes as the Oil Administrator is very great. Confidence in his honesty of purpose and ability and courage is general throughout the industry and a vital factor in constructive efforts.

**Summary**

To summarize the results of the company’s operations, it may be said that the condition reflected by its balance sheet shows a slight improvement in spite of the most adverse conditions the industry has ever known; that the amount of its reserves and the value of its properties have increased; that the volume of its business has been maintained; and the cost of its operations has been decreased. The reserves of crude oil have not only been maintained but increased. Its properties are in as good physical condition as at any other time in its history. With the resumption of normal conditions and reasonable prices which seem imminent, it should be one of the first to respond to improved conditions.

Respectfully submitted,

Henry M. Dawes, 
President.
The Pure Oil Company

CONSOLIDATED BALANCE SHEET

ASSETS

<table>
<thead>
<tr>
<th>CURRENT ASSETS:</th>
<th>$2,869,376.66</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$2,869,376.66</td>
</tr>
<tr>
<td>Receivables (including current accounts of $1,044,620.87 from affiliates) less reserves—</td>
<td>$807,274.85</td>
</tr>
<tr>
<td>Notes and acceptances</td>
<td>5,187,554.03</td>
</tr>
<tr>
<td>Accounts</td>
<td>5,994,828.88</td>
</tr>
<tr>
<td>Inventories—</td>
<td></td>
</tr>
<tr>
<td>Crude and refined oils (at the lower of cost or market)*</td>
<td>$13,519,110.51</td>
</tr>
<tr>
<td>Materials and supplies (at cost or lower)</td>
<td>2,637,012.53</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INVESTMENTS AND ADVANCES (at cost):</th>
<th>$16,156,123.04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affiliated companies (not consolidated)</td>
<td>$7,494,320.47</td>
</tr>
<tr>
<td>Non-affiliated companies</td>
<td>4,379,987.95</td>
</tr>
<tr>
<td>Gold Notes of company's issue ($105,000.00 principal amount)</td>
<td>91,875.00</td>
</tr>
</tbody>
</table>

| EMPLOYEES' SAVINGS INVESTMENT FUND (represented mainly by preferred stock of company's issue—See President's letter) | 1,996,588.61 |

<table>
<thead>
<tr>
<th>PROPERTY, PLANT, EQUIPMENT, LEASEHOLDS, RIGHTS, ETC. (as appraised by company engineers under authority of Board of Directors as of April 1, 1932, plus subsequent net additions at cost and minus subsequent depreciation and depletion provisions); including rights and other intangibles of $19,591,001.67:</th>
<th>$183,610,576.15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross book value</td>
<td>$183,610,576.15</td>
</tr>
<tr>
<td>Less—Reserve for depreciation and depletion, and revaluation reserve</td>
<td>81,008,200.17</td>
</tr>
<tr>
<td></td>
<td>102,602,375.98</td>
</tr>
</tbody>
</table>

| PREPAID AND DEFERRED CHARGES                                      | 1,820,267.11   |

*In accordance with the established practice of the companies and the custom understood to be followed generally in the oil industry, the companies' inventory costs are based on market prices of crude oil at the time of production or purchase, and if market at the end of the year is lower, inventories are adjusted to market.

To THE BOARD OF DIRECTORS,
THE PURE OIL COMPANY:

We have made an examination of the consolidated balance sheet of THE PURE OIL COMPANY AND SUBSIDIARY COMPANIES as at December 31, 1933, and of the statement of consolidated income and surplus accounts for the year ended that date. In connection therewith, we examined or tested accounting records of the company and the principal subsidiaries consolidated herein, and other supporting evidence, and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions. We did not examine the accounts of the affiliated companies not consolidated. Our review of the statements prepared by these companies indicated that the inclusion of the accounts of such companies as would normally be consolidated, would not have a material effect on the financial position, and would increase the consolidated net profits as shown for the year 1933 by $1,840,491.24.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statement of income and surplus accounts, subject to the foregoing comments relative to affiliated companies not consolidated, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, the financial position of the companies at December 31, 1933, and the results of their operations for the year ended that date.

Chicago, Illinois,
February 23, 1934.

ARTHUR ANDERSEN & CO.,
Accountants and Auditors.
TWENTIETH ANNUAL REPORT, 1933

C. H. SHEET—DECEMBER 31, 1933

LIABILITIES

CURRENT LIABILITIES:
- Notes payable: $3,109,139.80
- Accounts payable: $5,344,357.46
- Accrued liabilities: $1,562,227.69

DEFERRED PURCHASE OBLIGATIONS:

<table>
<thead>
<tr>
<th>Ten-Year 5 1/2% Sinking-Fund Gold Notes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(yearly principal redemption requirements of $2,000,000.00)</td>
<td></td>
</tr>
<tr>
<td>Due August 1, 1937</td>
<td>$14,500,000.00</td>
</tr>
<tr>
<td>Less—Notes for February 1, 1934 redemption cancelled by trustee</td>
<td>$500,000.00</td>
</tr>
<tr>
<td>Due March 1, 1940</td>
<td>$17,000,000.00</td>
</tr>
<tr>
<td>Less—Notes for March 1, 1934 redemption cancelled by trustee</td>
<td>$500,000.00</td>
</tr>
</tbody>
</table>

EMPLOYEES' SAVINGS INVESTMENT FUND
(cash receipts from employees on subscriptions to company's 6%-preferred stock, less cash rebates on April 1, 1933)

MINORITY INTEREST IN CAPITAL STOCK AND SURPLUS OF SUBSIDIARIES
(includes capital stock of a book value of approximately $1,125,000 to be purchased over a period of years)

CAPITAL STOCK:
- Cumulative preferred—Authorized 900,000 shares, par value $100.00, outstanding 300,000 shares

<table>
<thead>
<tr>
<th>Rate</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 1/2%</td>
<td>2,644</td>
</tr>
<tr>
<td>6%</td>
<td>167,316</td>
</tr>
<tr>
<td>8%</td>
<td>130,000</td>
</tr>
<tr>
<td>Total</td>
<td>300,000</td>
</tr>
</tbody>
</table>

(Cumulative dividends unpaid at December 31, 1933—$1,929,267.00)

<table>
<thead>
<tr>
<th>Rate</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common</td>
<td>30,383,700.00</td>
</tr>
<tr>
<td>Total</td>
<td>60,383,700.00</td>
</tr>
</tbody>
</table>

SURLUS (per summary attached):
- Paid-in surplus: $26,249,106.42
- Earned surplus: $9,517,552.57

CONTINGENT LIABILITY:
As guarantor on Great Lakes Pipe Line Company notes payable: $300,000.00
The Pure Oil Company and Subsidiaries

CONSOLIDATED INCOME AND SURPLUS ACCOUNTS

For the Year Ended December 31, 1933

INCOME ACCOUNT

GROSS OPERATING INCOME .............................................. $54,233,383.44
COSTS, OPERATING AND GENERAL EXPENSES (before taxes) .......... 42,841,344.35

Net operating income before taxes, depreciation and depletion ........ $11,392,039.09
TAXES ................................................................. 1,797,141.90

Net operating income before depreciation and depletion ............ $9,594,897.19
DIVIDENDS, OTHER INTEREST, Etc. (net) .......................... 224,797.50

Net profits before interest charges on gold notes, depreciation, depletion, etc. .......... $9,819,694.69
INTEREST AND DISCOUNT ON GOLD NOTES .......................... 2,063,928.00

Net profits before interest charges on gold notes, depreciation, etc. .... $7,755,766.69
DEPRECIATION AND DEPLETION ....................................... 7,108,120.02

Net profits before minority interest .................................. $647,646.67

SUMMARY OF SURPLUS ACCOUNTS

<table>
<thead>
<tr>
<th>Description</th>
<th>Paid-in Surplus</th>
<th>Earned Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance December 31, 1932</td>
<td>$26,239,816.42</td>
<td>$8,835,227.41</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profits for the year and discount on gold notes purchased, as above</td>
<td>—</td>
<td>811,086.48</td>
</tr>
<tr>
<td>Discount on purchase of preferred stock of subsidiary company</td>
<td>9,290.00</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>$26,249,106.42</td>
<td>$9,646,313.89</td>
</tr>
<tr>
<td>Deduct—Cash Dividends on Preferred Stock</td>
<td>—</td>
<td>128,761.32</td>
</tr>
<tr>
<td>Balance December 31, 1933</td>
<td>$26,249,106.42</td>
<td>$9,517,552.57</td>
</tr>
</tbody>
</table>

Consolidated
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Consolidated
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Consolidated
Add: I
TWENTIETH ANNUAL REPORT, 1933

The Pure Oil Company and Subsidiaries

CONSOLIDATED INCOME AND EQUITY IN ASSOCIATED COMPANIES’ PROFITS

THE FOLLOWING TABULATION HAS BEEN PREPARED BY THE COMPANY

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Operating Income Before Depreciation and Depletion</td>
<td>$9,594,897.19</td>
</tr>
<tr>
<td>Less Depreciation and Depletion</td>
<td>7,108,120.02</td>
</tr>
<tr>
<td>Consolidated Net Operating Income</td>
<td>$2,486,777.17</td>
</tr>
<tr>
<td>Add: Profits on Gold Notes Purchased</td>
<td>$355,883.15</td>
</tr>
<tr>
<td>Dividends, Other Interest, Etc. (Net)</td>
<td>224,797.50</td>
</tr>
<tr>
<td>Total</td>
<td>$3,067,457.82</td>
</tr>
<tr>
<td>Less Minority Interest</td>
<td>192,443.34</td>
</tr>
<tr>
<td>Consolidated Net Income Before Interest Charges on Gold Notes per Income Account</td>
<td>$2,875,014.48</td>
</tr>
<tr>
<td>Add: Equities in Net Income of Controlled Affiliated Companies</td>
<td>158,491.24</td>
</tr>
<tr>
<td>Consolidated Net Income Before Interest Charges on Gold Notes</td>
<td>$3,033,505.72</td>
</tr>
<tr>
<td>Add: Equities in Net Income of Associated Companies</td>
<td>834,021.17</td>
</tr>
<tr>
<td>Consolidated Net Income Before Interest Charges on Gold Notes Plus Equity in Net Income of Associated Companies After All Charges</td>
<td>$3,867,526.89</td>
</tr>
</tbody>
</table>

THE PURE OIL COMPANY,

HENRY M. DAWES,

President.
The Pure Oil Company

TRANSFER AGENTS
GUARANTY TRUST COMPANY OF NEW YORK, New York
CITY NATIONAL BANK AND TRUST Co., Chicago, Illinois
THE PROVIDENT SAVINGS BANK & TRUST Co., Cincinnati, Ohio
P. G. MILLER, Columbus, Ohio

REGISTRARS
CENTRAL HANOVER BANK AND TRUST Co., NEW YORK, New York
OHIO NATIONAL BANK, Columbus, Ohio
FIRST NATIONAL BANK, Cincinnati, Ohio
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST Co., Chicago, Illinois