To the Shareholders:

The year 1937 has seen a number of noteworthy developments in the Company’s history. Most important are: the payment of all of the Company’s outstanding long-term and bank indebtedness; the retirement of its 8% stock; and the increase in working capital. These developments should be considered as the culmination of events which have taken place over a considerable period of years, and none of them can be properly appraised if considered as entirely detached from the broad aspects of the Company’s operations, the general situation in the oil industry and the economic background.

The year has been one of conflicting trends and of such basic uncertainty as to make particularly difficult the problem of orienting current operations with permanent policies. There are certain assumptions, however, which must be made if an industrial institution is to survive and prosper. If these assumptions are not wisely made, no sound policy can be evolved.

The management in its operations has assumed that private operation and ownership of property will be maintained and that confiscation through taxation will not reach such a point as to destroy them. If this is accepted, it follows that the primary consideration must be a course of action which would result in building a solid, permanent property of stable earning capacity, even though at times this might involve a temporary impairment of current showing. Unfortunately, under the limitations of conventional and proper bookkeeping, authorities agree that it is impossible in the oil business to make balance sheets and earnings statements which convey a completely adequate picture of not only current earnings but increased values.

A striking single illustration of values which are only partially reflected on the balance sheet is the increase of the crude reserves of the Company in the past twelve years. In 1925 the reserves were approximately 73,000,000 barrels, while at the present time I should estimate them at between 400,000,000 and 500,000,000 barrels. A similar condition of increased property values which are only partially set up on the books would hold if a comparative valuation were made of nearly all of the Company’s other properties, although none would show so large an increase as production.
During the twelve years which showed this large increase in producing reserves, as well as the development of other properties, the funded and bank debt of the Company was completely paid. This period includes the years of the great depression.

CURRENT EARNINGS

The $11,400,000 earnings showed an increase of $3,700,000 over the previous year and were reasonably satisfactory. They were unfavorably affected by drastic reduction in the amounts of crude oil which state authorities permitted the Company to produce. In 1936, the Company produced 7,621,000 (net) barrels from its largest property, the Van unit, but in 1937, it was permitted to produce only 6,917,000 barrels from the same property. The price of crude has held very well throughout the year, but the prices of refined products were not maintained at parity with it during the latter months. While there was an increased demand for gasoline, the general curtailment of industrial and manufacturing activities resulted in a materially decreased demand and lower prices for fuel oil. There was an increase in consumption of household heating oils, but it was not sufficient to offset the lower sales of products for industrial purposes.

FINANCIAL

A plan for an issue of new preferred stock was outlined in last year's annual report. At a stockholders' meeting on March 26, 1937, the directors were given authority which enabled the company officers to proceed with negotiations providing for the issuance and sale of this stock. The stock was issued, delivered and paid for on October 22, 1937.

In the period necessary for compliance with the provisions of the laws governing the issuance of securities, and at the time the new stock was ready for delivery, the general level of securities prices was much lower than that prevailing at the time the issue was projected. A total of 442,434 shares of 5% convertible preferred stock were issued, for which the company received $43,137,292.50 after payment of underwriting commission.

The salient provisions of the stock issued were as follows: A cumulative 5% preferred stock, convertible into common stock, for a period of ten years from date of issuance, convertible at the date of issuance for a period of three years at $2.22% after this three-year period, the price at which the common stock should be available for exchange increases periodically to a maximum of $30. per share, and the conversion rights cease entirely in 1947.

On July 1, 1937, the Company retired its outstanding note issue. Under the provisions of the warrants attached to these notes, the holders had exercised their right to purchase 696,870 shares of common stock at $15. a share, and the Company received therefor $10,453,050. This sum was devoted to the retirement of these notes in accordance with the trust indenture. The total amount of such notes retired since January 1, 1937, was $28,500,000.

The Company also redeemed its 8% preferred stock, aggregating 76,620 shares, at a price of $110. per share and accrued dividends, requiring $8,581,440. During the year $5,000,000 in short-term bank loans were retired.

In summarizing the foregoing, it will be apparent that as a result of these transactions the Company is now without any long-term or bank indebtedness; it has during the year retired its 8% stock; and it has increased its working capital.
MARKETING

The Company's marketing operations have been conducted this year with increased efficiency and at lower costs. The general policy has been to concentrate upon securing greater volume through the existing facilities rather than to attempt to secure more outlets. Commercial and other low priced sales have been subordinated to those which offer more profit.

The Company does not have sufficient production and refining capacity to meet the full demand for its products. In the retail marketing of gasoline in any locality, there is a minimum volume which must be sold if reasonable economy is to be effected. The requirement of this situation is the principal reason for any sales in excess of the Company's productive capacity. The consumer demand for its products was such that, notwithstanding this conservative approach, the actual sales of the Company increased 4.47% during the year.

TRANSPORTATION

The transportation system has been operated with increasing efficiency. Through the Wabash Pipe Line Company, whose stock is wholly owned by The Pure Oil Company, 47 miles of eight and ten-inch pipe line was built from the Company's new field in Southern Illinois to a connection with the Illinois Pipe Line at Martinsville, Illinois. This provides for economical pipe line transportation to the Company's refineries at Toledo, Newark and Cabin Creek (West Virginia), as well as to other refineries situated in those districts.

Arrangements have been made under which the Company will participate in a pipe line from the northern section of its present line at Van to the East Texas oil fields. This will materially increase the tonnage of the Van-Beaumont line.

PRODUCTION

The total net production of the Company was 20,308,000 barrels, (100,000 barrels less than was produced in 1936). The Texas production of the Company, particularly the Van field, has been more drastically restricted than ever in the history of its operation.

As a result of a survey and study extending over eight years, the Company acquired 283,000 acres of leases in Clay, Jasper, Richland and Wayne Counties in Southern Illinois. The first well drilled on this acreage reached a producing sand in March 1937 and was a small producer as was the next completion. On May 23, 1937, the third well, the Bunyan Travis No. 1, was completed at a depth of about 3,000 feet, and its initial production was approximately 2600 barrels per day. At the time of writing this report, the Company had completed 130 producing wells, and since the date of the discovery well, has recovered 2,850,000 gross barrels of oil. The present production is from a limestone formation, and the gas volume and pressures are not high. The first few weeks of decline from the first day's production is usually rapid, but when wells are put upon the pump, production is maintained remarkably well. The distance from the northernmost production of the Company to the southernmost is approximately 20 miles, with a number of different small fields interspersed. This acreage is, to an unusual degree, in a solid block, with indications that a very large proportion of the productive territory is within its borders. The prospects are that the daily rate at which the oil can be withdrawn will not be very high, but that ultimate recovery from this Illinois property will be very much larger than
the Company has ever received from any of its discoveries, with the single exception of the Van field. It is too early to make any accurate estimate of the total reserves, but at this time the Company's engineers feel that the portion of the property now explored has reserves in excess of \(100,000,000\) barrels.

**REFINING**

During a period of over two years, the Company has been engaged in a program of rehabilitating and building its refining equipment. While it always has been the policy of the Company to maintain its physical equipment in good condition, much of it had become obsolete. While lack of available cash resources was partly responsible for a deferment of this work, the management felt that, before undertaking any elaborate building program, it would be advantageous to await the final development of certain new processes that were being tested. With the completion in August of this year of work now under way at Smiths Bluff (Texas), the Company will be equipped with the latest and most modern units known to the industry. While the efficiency of the old plants was about equal to the average of the industry, these recent installations, whose aggregate cost over three years, including 1938, will be approximately \(12,000,000\), will very definitely put the Company in the forefront in this field.

Much of the benefit which will be realized from the installation of this new equipment will, of course, come directly from increased efficiency. The possibilities are, however, that over a long period greater benefits will be realized because of the flexibility and adaptability of the new units. This means, in effect, that the Company will be in a position to switch its refining output so as to produce relatively greater quantities of the products which are, at any given time, commanding the most advantageous prices. The increased capacity of these units will put the refining operations more nearly in balance with the other phases of the Company's operations.

**ACCOUNTING METHODS**

During the last few years, there has been considerable effort amongst accountants to bring about uniform methods with much attention directed to inventory accounts. Absolute uniformity, however, is not feasible. In an integrated oil company, there are some relatively small interdepartmental profits inevitably reflected in the inventory account. To the greatest extent that is possible, however, the Company has conformed to the recommended practice in the inventory accounts shown on the accompanying balance sheet.

It has been the custom of the Company in past years to carry its inventories as though each department had operated independently of the others, but if the departmental costs were above market, adjustments were made at the end of the year and inventories were reduced to market. However, in the years prior to 1937, costs have been affected by certain of these interdepartmental profits which were genuine, but which could only be actually realized when the products were sold. To eliminate from the inventories all such profit, which had not actually been realized by sales, the Company reduced its inventory book values on January 1, 1937, by \(1,915,000\), which was charged to earned surplus. This results in inventory book values being carried at approximately \(2,500,000\) below market at December 31, 1937. This change is made in the interest of uniformity and conventionality, and should not be considered as indicating that the values previously carried on the books were too high.

Had the Company continued the accounting method in effect prior to 1937, its earnings for the current year would have been slightly larger.
TAXES

The upward trend in taxes continued during the year. In addition to the numerous taxes paid by the Company and its affiliates, there were either paid or accrued gasoline and other product taxes amounting to approximately $35,000,000 for the account of federal, state and other governmental authorities. It may be well to recall that the original purpose of the gasoline tax was to provide funds for constructing and maintaining highways. During recent years, a substantial proportion has been diverted to other governmental uses, thus increasing the unfair burden of taxation borne by the automotive and oil industries.

SUMMARY

For the first time in many years, the stocks of crude in tanks in the United States have increased. There is nothing alarming about their present size, particularly in view of the increased consumptive capacity of the country. At December 31, 1937, stocks of gasoline were 14,630,000 barrels in excess of those a year ago and were estimated to represent 60 days of supply as compared with 52 days of supply on hand on the corresponding date in 1936. The prices of crude are approximately the same as they were at the beginning of the year, but the prices of refined products are not on a proper parity with them.

Due to the conservation laws of the various states, the production of crude is on an artificial and restricted basis. In view of the fact that oil is an exhaustible, migratory, natural resource, this policy has met with general approval. If these conservation laws are wisely and temperately administered, it would seem reasonable that the price of crude could be kept at the present figure. While the lack of parity between the refining and marketing prices and those of crude imposes great hardships upon those phases of the business, a lower price for crude would not serve to restore parity but simply to establish the whole industry on a lower level. This condition has resulted in closing down a number of small refineries in the Mid-Continent Field and Texas,—an unfortunate development, as the non-integrated refiners perform a real economic function in the industry. Their operation is important in maintaining a condition of healthy competition, and they provide a constantly available supply of products for the jobber and non-integrated marketer.

Governmental policies seem to be opposed to such co-operative measures as were undertaken during the N. R. A. period and that immediately following it, and the industry is having difficulty in making those adjustments which are necessary to restore a healthy condition in its marketing and refining phases. It is to be hoped that this situation may be clarified and defined during the coming year so that it may be possible to determine intelligently what course of action can be taken for the general good.

Respectfully submitted,

HENRY M. DAWES, President.
ASSETS

CURRENT ASSETS:
Cash in banks and in transit, working funds, etc. $10,459,929
Receivables—
Notes $1,069,087
Accounts 8,144,803
Less—Reserve for doubtful receivables $9,213,890

Inventories, quantities and condition determined by the companies—
Crude oil (Note 1) $3,807,971
Refined oils and merchandise (Note 1) 13,644,442
Materials and supplies, at current cost less allowance for condition 3,964,716

INVESTMENTS, ADVANCES, ETC.:
Investments in and advances to subsidiaries not consolidated, at cost (Note 2) $4,798,112
Investments in securities of other companies (Note 3) 4,623,308
Deferred receivables, etc., less reserve of $159,130 1,047,015

PROPERTY, PLANT, EQUIPMENT, LEASEHOLDS, RIGHTS, ETC. (Notes 4 and 5):

<table>
<thead>
<tr>
<th>Classification</th>
<th>Gross</th>
<th>Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producing</td>
<td>$114,118,610</td>
<td>$58,509,051</td>
</tr>
<tr>
<td>Transportation</td>
<td>16,565,530</td>
<td>7,066,923</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>26,504,175</td>
<td>9,293,513</td>
</tr>
<tr>
<td>Marketing</td>
<td>37,986,814</td>
<td>15,248,868</td>
</tr>
<tr>
<td>Other properties</td>
<td>2,910,170</td>
<td>1,059,376</td>
</tr>
<tr>
<td>Total</td>
<td>$198,085,299</td>
<td>$91,177,731</td>
</tr>
<tr>
<td>Net total</td>
<td></td>
<td>$106,907,568</td>
</tr>
<tr>
<td>Contracts, rights, patents, trade-marks, etc.</td>
<td>19,694,286</td>
<td>126,601,854</td>
</tr>
</tbody>
</table>

PREPAID AND DEFERRED CHARGES 655,676

$178,442,460

The attached notes are an integral p
Y-FOURTH ANNUAL REPORT • 1937

(Ohio) AND SUBSIDIARIES

Statement—December 31, 1937

LIABILITIES

Current Liabilities:

- Bank loans of subsidiaries ........................................ $ 334,516
- Purchase obligations, etc. ...................................... 2,920,075
- Accounts payable .................................................. 8,516,996
- Dividends payable January 1, 1938 .............................. 970,077
- Accrued liabilities .................................................. 1,689,580
- Due holders of 8%-cumulative preferred shares called for redemption January 1, 1938 .......................... $ 7,224,560

Less—Cash on deposit with redemption agents .................. 7,224,560

$ 14,431,244

Long-Term Debt:

- Deferred purchase obligations, etc. .......................... 2,665,760

Minority Interests in Capital Stock and Surplus of Subsidiaries
(approximately $700,000 under commitments for purchase over a period of years):

- Capital stock ......................................................... $ 2,423,890
- Surplus ................................................................. 930,076

3,353,966

Capital Stock and Surplus:

Capital stock—

- Cumulative preferred—authorized 1,000,000 shares, par value $100; outstanding 725,431 shares, including 4,500 shares held in treasury (Note 6)

<table>
<thead>
<tr>
<th>Rate</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>442,434</td>
</tr>
<tr>
<td>5½%</td>
<td>188</td>
</tr>
<tr>
<td>6</td>
<td>282,809</td>
</tr>
</tbody>
</table>

725,431 $ 72,543,100

- Common—authorized 10,000,000 shares, no-par value (Note 6)—outstanding 3,982,031 shares, assigned value $10 per share .......................... 39,820,310 $112,363,410

Surplus (per summary attached)

(Notes 4 and 7)—

- Paid-in surplus .................................................. $ 28,418,120
- Earned surplus ................................................... 17,634,749

Total capital stock and surplus before deducting treasury stock .................................................. $158,416,279

Less—6%-cumulative preferred shares held in treasury; 4,500 shares at cost ........................................ 424,789 157,991,490

Contingent Liabilities (Note 8)

$178,442,460

† part of the above statement.
### INCOME ACCOUNT

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Operating Income</strong> (after elimination of intercompany sales, etc.)</td>
<td>$119,097,644</td>
</tr>
<tr>
<td><strong>Costs, Operating and General Expenses</strong> (exclusive of depreciation and</td>
<td>$95,972,835</td>
</tr>
<tr>
<td>depletion)</td>
<td></td>
</tr>
<tr>
<td><strong>Taxes</strong> (including income taxes and $4,269 Federal surtax on undistributed</td>
<td>3,818,681</td>
</tr>
<tr>
<td>profits)</td>
<td>99,791,516</td>
</tr>
<tr>
<td><strong>Net operating income before depreciation and depletion</strong></td>
<td>$19,306,128</td>
</tr>
</tbody>
</table>

Other Income:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends (Note 3)</td>
<td>$2,192,221</td>
</tr>
<tr>
<td>Interest and discount earned</td>
<td>314,407</td>
</tr>
<tr>
<td>Profit on disposition of capital assets, etc. (net)</td>
<td>234,576</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$22,047,332</td>
</tr>
</tbody>
</table>

Other Deductions:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on purchase obligations, etc.</td>
<td>$297,962</td>
</tr>
<tr>
<td>Cash discounts allowed</td>
<td>262,914</td>
</tr>
<tr>
<td>Net income before depreciation and depletion, interest charges on</td>
<td>$2,486,456</td>
</tr>
<tr>
<td>sinking-fund notes redeemed, etc.</td>
<td></td>
</tr>
</tbody>
</table>

**Provision for Depreciation and Depletion** (including lease bonuses paid)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income before interest charges on sinking-fund notes redeemed, etc.</td>
<td>$13,075,428</td>
</tr>
</tbody>
</table>

**Interest Charges on Sinking-Fund Notes Redeemed, Etc.:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and discount on sinking-fund notes, to date of redemption</td>
<td>$645,277</td>
</tr>
<tr>
<td>Interest on bank loans, to date of repayment of loans</td>
<td>437,679</td>
</tr>
<tr>
<td>Net income before minority interests</td>
<td>$11,992,472</td>
</tr>
</tbody>
</table>

**Income Applicable to Minority Interests**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income carried to earned surplus</td>
<td>$5,403,805</td>
</tr>
</tbody>
</table>

The attached notes are an integral
ANY AND SUBSIDIARIES

and Surplus Accounts

December 31, 1937

SURPLUS ACCOUNTS

<table>
<thead>
<tr>
<th>Paid-in Surplus</th>
<th>Earned Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BALANCE—DECEMBER 31, 1936</strong></td>
<td>$27,074,691</td>
</tr>
</tbody>
</table>

**ADD:**

- Net income for the year, per income account: $11,403,805
- Excess of amount received ($15 per share) over assigned value ($10 per share) of common shares sold through the exercise of warrants attached to fifteen-year 4 3/4% sinking-fund notes (including $501 arising from sale of common shares through exercise of subscription warrants): **3,484,851**

**DEDUCT:**

- Cash dividends declared—
  - On preferred shares: **$2,700,705**
  - On common shares: $995,104
- Amount of dividends accrued on 8% cumulative preferred shares from October 1, 1937 to date of redemption: **149,142**
- Elimination of estimated amount of interdepartmental profits in inventories at January 1, 1937 (Note 1): **1,915,000**
- Premiums and unamortized discount and expense charged off on redemption of 4 3/4% sinking-fund notes: **2,319,569**
- Premium of $10 per share on 8% cumulative preferred shares called October 23, 1937 for redemption on January 1, 1938: **$766,200**
- Commissions and expenses in connection with the issuance of 5% cumulative-convertible preferred shares: **1,375,222**

**BALANCE—DECEMBER 31, 1937** | **$28,418,120** | **$17,634,749**

part of the above statements.
THE PURE OIL COMPANY

THE PURE OIL COMPANY AND SUBSIDIARIES

Notes Relating to and Made a Part of the
Consolidated Financial Statements

For the Year Ended December 31, 1937

NOTES:

(1) Prior to December 31, 1937 the companies' inventories of crude and refined oils were priced on a basis which included certain interdepartmental profits. As of December 31, 1937 the company and its subsidiaries adopted the policy of pricing inventories of crude and refined oils at cost, on the "last-in first-out" method computed on an annual basis beginning with the inventories at January 1, 1937. In connection therewith the companies eliminated from the inventories at January 1, 1937 and charged to earned surplus $1,915,000 representing the estimated amount of interdepartmental profits which had been included therein. It is estimated that the consolidated net income reported for 1937, based on the above method of pricing inventories, is approximately the same as the amount which would have been reported on the pricing bases used in prior years. Inventories of crude and refined oils at December 31, 1937 are stated at approximately $2,500,000 below market.

(2) Investments in and advances to subsidiaries not consolidated include (a) $3,467,830 representing 75% of the outstanding capital stock of and advances to a subsidiary whose assets consist mainly of undeveloped concessions in Venezuela, South America, and (b) $1,330,282 representing 99.11% of the outstanding common capital stock (presently nonvoting) and 64.3% of the preferred stock of and advances to a domestic marketing subsidiary. The South American subsidiary follows the policy of capitalizing carrying charges, which are advanced by the parent company, and therefore reports no profit or loss; the marketing subsidiary reported a nominal profit for 1937.

(3) Investments in securities of other companies consist of (a) capital stock of Great Lakes Pipe Line Company at a cost of $1,328,400; (b) capital stocks of Hickok Oil Corporation at a cost of $1,008,455 of which $422,969 represents approximate market price of 5% preferred stock of that company received as a dividend in 1937 and recorded in the income account in that amount; (c) capital stocks of Ajax Pipe Line Corporation at a cost of $755,058 (in December 1937 a cash dividend of $550,000 was received from Ajax Pipe Line Corporation and reinvested in second preferred stock of that company in January 1938); and (d) other security investments at a cost of $1,530,538. The foregoing securities are not listed.

(4) As at April 1, 1932, the net ledger amount of the parent company's tangible properties was reduced (either directly or through the reserves for depreciation and depletion) to reflect fair value as determined in an appraisal as of that date by company executives under authority of the board of directors. Subsequent additions and the properties of subsidiaries are included at cost, and subsequent retirements and provisions for depreciation and depletion have been made on the basis of appraisal or cost values. Contracts, rights, patents, trade-marks, etc. are stated at values determined in the above-mentioned appraisal, plus relatively minor additions at cost and are considered by the company to represent intangibles of a character which do not require amortization.

In reflecting such appraised values, the company charged the net amount of $28,083,743 to paid-in surplus. Had the company charged to earned surplus such portion of the above adjustment as would have exhausted the balance in earned surplus at that date, the balance in the consolidated earned surplus account at December 31, 1937 would be reduced to $7,279,982 and the balance at that date in the consolidated paid-in surplus account would be increased to $38,772,887.

(5) Since January 1, 1934, the company has provided for depletion by applying to the total barrels produced an "over-all" rate (per barrel) determined by dividing the total amount of producing properties subject to depletion by the net oil reserves (in barrels) estimated by the company's
production engineers. The "lease" or unit method of providing depletion is used by many oil-producing companies. Both the "lease" and "over-all" methods contemplate the ultimate amortization of the investment in oil-producing properties on the basis of estimated oil production; however, the yearly provisions to date under the "over-all" method have been materially less than would have been the case under the "lease" method. This is due to the fact that a disproportionate amount of oil has been produced from leases having a relatively high book value. The application of the "lease" method to such production would require a depletion provision on a basis believed to be inconsistent with the company's total oil reserves. Under the "over-all" method depletion is computed upon the basis of the average rate for all producing leases.

(6) The 5%-cumulative-convertible preferred shares may be exchanged, at the option of the holders thereof, for common shares on the basis of 4½ shares of common for each share of preferred to October 1, 1940 with the number of shares of common for each share of preferred decreasing thereafter. At December 31, 1937, 1,990,953 common shares were reserved for such conversion.

(7) So long as any preferred shares are outstanding the company may not pay any dividend on its common shares which will (a) reduce consolidated current assets below an amount equal to twice consolidated current liabilities or (b) reduce consolidated surplus below an amount equal to two years' dividend requirements of the preferred shares of the company and of the preferred shares of its subsidiaries held by minority interests.

(8) The companies are contingently liable under pending lawsuits, all of which, in the opinion of the Counsel of the company, are ordinary and routine in the oil industry and will result in an ultimate liability not exceeding $300,000.

AUDITORS' CERTIFICATE

To the Board of Directors,
The Pure Oil Company:

We have made an examination of the consolidated balance sheet of THE PURE OIL COMPANY (an Ohio corporation) and its subsidiaries as at December 31, 1937 and of the consolidated statements of income and surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the companies 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.

As set forth in Note 4 of the financial statements, the company, as of April 1, 1932, reflected an adjustment of its properties by a charge to paid-in surplus. In our opinion, the preferable treatment would have been to charge to earned surplus such portion of the adjustment as would have exhausted the balance in earned surplus at that date.

Subject to the comments in the foregoing paragraph and to the lower provisions to date under the method of determining depletion as explained in Note 5 of the financial statements, in our opinion, based upon the examination referred to above, the accompanying consolidated balance sheet and related statements of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review except for the change in policy of valuing inventories as set forth in Note 1 of the financial statements, the financial position of the companies at December 31, 1937, and the results of their operations for the year ended that date.

ARTHUR ANDERSEN & CO.
Accountants and Auditors

Chicago, Illinois,
February 25, 1938.
THE PURE OIL COMPANY
GENERAL OFFICES, CHICAGO

OFFICERS

B. G. Dawes ................ Chairman of the Board ................ Columbus, Ohio
Henry M. Dawes .............. President ...................... Chicago
R. W. McIlvain ............. Vice-President ...................... Chicago
C. B. Watson ............... Vice-President ...................... Chicago
N. H. Weber ................ Vice-President ...................... Chicago
Rawleigh Warner ............ Vice-President and Treasurer ........... Chicago
L. S. Wescoat ............... Vice-President and Secretary ........... Chicago
C. H. Jay ................ Asst. Secretary and Treasurer ........... Chicago
R. L. Milligan ............. Asst. Secretary and Treasurer ........... Chicago
W. V. Keeley ............... Asst. Secretary and Treasurer ........... Chicago
Curtis Dawes ............... Asst. Secretary and Treasurer ........... Chicago
A. M. Brereton ............ Comptroller ...................... Chicago

DIRECTORS

* Sewell L. Avery          J. A. Elkins          J. E. Otis
  Philip R. Clarke         W. C. Fairbanks       Rawleigh Warner
  B. G. Dawes              J. H. McCoy           C. B. Watson
  Henry M. Dawes

*Elected as of January 5, 1938.

TRANSFER AGENTS

Guaranty Trust Company of New York, New York
The Provident Savings Bank and Trust Co., Cincinnati, Ohio
The City National Bank and Trust Co., Columbus, Ohio
P. G. Miller, Chicago

REGISTRARS

Central Hanover Bank and Trust Co., New York
First National Bank, Cincinnati, Ohio
The Ohio National Bank of Columbus, Columbus, Ohio
City National Bank and Trust Company of Chicago, Chicago

The accompanying report and financial statements are submitted for the general information of the shareholders of The Pure Oil Company, and are not intended for use in connection with any sale or purchase of, or offer or solicitation of offers to buy or sell any shares or securities of this company.