To the Shareholders:

The earnings of The Pure Oil Company were $15,285,255. In considering the large increase in earnings which this represents, it would be wrong to attach too much importance to any one item. To an unusual degree it is the result of a very considerable number of factors, including the rounding-out of development programs of previous years. Although prices so far as gasoline is concerned were lower than the five-year average, 1937-1941, they were higher than in 1940. Crude production was increased and sales volume was greater. As opposed to these favorable considerations was the increase in labor costs, taxes and general operating expenses, which were somewhat offset by improved efficiency.

The earnings of the common stock showed $2.86 per share as compared with $1.21 in 1940. $3,908,796 was disbursed in payment to the preferred shareholders and $1,990,494 to the common shareholders, and the earned surplus account was increased by $9,385,965.

Production

The year in crude production was a satisfactory one, the gross being 28,840,000 barrels and the net to the Company 25,164,000 barrels. This is the largest annual production that the Company has had.

New discoveries in Michigan and Texas and the development of the Cumberland field in Oklahoma have resulted in increasing the Company's reserves. This means, of course, that after
it had taken the gross amount of 28,840,000 barrels from its properties, it had at the end of the year a substantial amount more oil under ground than was the case at the beginning.

Reference was made in the last annual statement to the discovery of the Cumberland field in Oklahoma, of which The Pure Oil Company is the only operator. Its development during the year has been satisfactory, and forty-three wells have been drilled; no unproductive wells have been drilled in it. It has been proven a very fine property. During the year a new field has been developed by the Company at Ganado in the Gulf Coast area of Texas. The Company owns the entire operating interest in this field. Twenty-six wells have been drilled in this field, and one dry hole. The field has been developed to such a point that a very substantial reserve has been proven. In Michigan the Company, while not the largest holder in the newly developed field at Reed City, has very substantial interests which should be highly productive. The Illinois development has been more than satisfactory during the year and has conformed very closely to the Company's expectations.

The gross production of the Company was approximately 89% and the net 78% of the needs of the refineries. In considering this ratio of crude production to refinery needs, it is well to have in mind not only the net production of the Company, but the gross production, as the Company is, as a practical matter, under the necessity of purchasing the royalty oil which represents the difference between gross and net production. This ratio is sufficiently high to enable the Company to proceed in its refinery operations with assurance that its absolute needs will be provided by its own production, and the additional output which requires outside purchases of crude can become a matter of choice, so that the crude may or may not be purchased for this use, depending on market conditions.

It is, of course, impossible to maintain at all times any absolute balance between production, refining and marketing. Physical limitations, as well as general industrial conditions, make any permanent, rigid balance impossible, but it is a matter of congratulation that this balance should be perfectly satisfactory at this time, and the prospects for its future maintenance are favorable.

The possibilities of new discoveries and current production in 1942 will be greatly influenced by government policies, and it seems hardly likely that a course will be followed which might have the effect of either curtailing production or the development of reserves.

MARKETING

The Company's sales of gasoline increased about 10% over 1940 and its sales of other products approximately the same amount. During this period, it made no extensions of the territory in which it operated, and its building expenditures were confined almost entirely to the
rehabilitation of existing outlets. This increase is, therefore, indicative of the successful application of the Company's policy to increase sales per unit of outlet rather than by substantially increasing its marketing capital investments or extending its territory. This contributed to the materially increased profits.

The dealer's net price for gasoline before taxes showed an average of 9.49 cents per gallon in 1941 as contrasted with the average of 9.08 cents per gallon in 1940. The improvement in gasoline price, though helpful, clearly was necessary when the extremely low base from which it is measured is considered. The average retail price of gasoline for 1940 was the lowest since records have been kept, and during the last ten years there were only three years during which the average was lower than the 1941 average retail price.

TRANSPORTATION

Our pipe line operation showed a slightly increased profit over 1940.

During the year the Department of Justice instituted a suit against certain pipe line companies and their shipper-owners based on the theory that where shipping companies owned stock in pipe lines, any dividends above a limited return upon this stock were, in effect, rebates, and that those companies who had received dividends in excess of that amount were subject to a fine of three times the sums that were paid on this account. The Pure Oil Company was not a party to this suit. However, if it had been determined in accordance with the Government’s plea, it was to be presumed that similar suits would be instituted against all other shipping companies, including The Pure Oil Company, who owned or were interested in pipe line transportation corporations. Accordingly, a stipulation was entered into between the Government and those companies interested in pipe lines, under which it was agreed that the Government would not bring such suits provided those companies would agree not to declare dividends out of their pipe line companies’ earnings in excess of 7% on a valuation established by the Interstate Commerce Commission.

As at present organized, The Pure Oil Company will not be affected very materially. This is not the place to discuss either the wisdom of this move on the part of the Government or its legal background further than to say that the settlement was participated in by all of the companies operating under the same conditions as The Pure Oil Company. While perhaps not legally binding upon pipe line companies that might be organized in the future, its effect will be a very great deterrent to pipe line construction. If guaranteed or assured that a return of 7% could be made on their investment, the oil companies would undoubtedly be more than satisfied to build pipe lines for crude transportation. This, however, is not possible due to the uncertainties which are inherent in the business. The indefinite rate of exhaustion, the uncertain
development of new fields and shifting refinery demands are such in many cases as to involve risks which could be justified only because of the possibility of very substantial profits if successful. A limited profit of 7% will not stimulate or even permit the construction of pipe lines which are subjected to the possibility of 100% loss. The effect on the future building of such lines will be often prohibitive upon the promoters thereof and disastrous in many cases to smaller producers who will be deprived of this means of getting oil from new fields to markets in an economical way. This is so obvious as not to require extended discussion.

The Southeastern Pipe Line, extending from Port St. Joe, Florida, to Chattanooga, Tennessee, is not yet in full operation, but should be by the middle of March, 1942. The completion of this line has been delayed a matter of probably one year by legal obstruction. The railroads of this district enjoined the Pipe Line Company from crossing under their tracks. The courts did not sustain the contention of the Southeastern Pipe Line Company that existing laws gave it the right to make these crossings. The Company then applied to the Georgia Legislature for enabling legislation which was opposed by the railroads. This was not passed. Legislation was introduced into the Congress of the United States under what is generally referred to as the Cole Bill, which gave the President the right to grant such powers as were necessary to secure rights of way for pipe lines engaged in interstate commerce and essential for national defense. On the passage of the bill, the President issued, in accordance with its terms, a proclamation granting the right of eminent domain to the Southeastern Pipe Line Company. It was unnecessary, however, for the Company to avail itself of this authority, because when it was granted, the railroads withdrew their opposition, recognizing its futility, and it was possible thereafter to secure voluntarily from the local authorities the permits required.

This line can handle 30,000 barrels of petroleum products per day, thereby relieving the railroads of the burden of transporting a substantial amount by tank car, particularly at a time of emergency when their facilities are not sufficient to permit them to do it effectively or completely. It will decrease the need for tankers on the Atlantic Seaboard, which is a matter of vital national concern.

It is a matter of sincere regret, in view of the national emergency, that the construction of this line should have been delayed for so long a time. It is, however, a source of great satisfaction that The Pure Oil Company and the Gulf Oil Corporation, who jointly constructed the line, should have been able belatedly to make this very substantial contribution to national defense. It would not be proper to refer to this matter without expressing appreciation for the assistance given by the authorities in Washington, including particularly the President of the United States in issuing this proclamation; the Honorable William P. Cole, Jr.; and the Petroleum Coordinator for National Defense, the Honorable Harold L. Ickes.
The Company has developed its inland waterway transportation, both by river and lake, very materially during the past year. In doing so, it has been actuated not only by the desire to improve its transportation system, but to contribute as much as possible to the national needs and in relieving railway and ocean transportation, both of which without such relief would be inadequate for varying reasons.

No important additions were made to the crude oil pipe lines. A line running from the Cumberland field in Oklahoma to connecting pipe lines was built. The length of this line is approximately forty miles.

**REFINING**

While the operations of the refineries show a definite improvement, it represents the balance of many conflicting influences. On the favorable side, the benefits of the rather extensive rehabilitation program in which the Company has engaged are perhaps the most important. Substantial wage increases to refinery employees were made, but the unfavorable effect which they have on earnings is not entirely reflected in the operations for 1941, as many of them were made currently through the year, effective largely in the latter half. The cost of raw and other materials required for operation have increased at the expense of profits.

The reasons for improved recovery in prices are difficult to state, but a part of it, as applied to gasoline more particularly, is to be accounted for by the fact that in many districts where price wars have been carried to such extremes as to result in sales below cost, there has been a restoration to normal prices for those areas. While prices generally have shown an improvement, the average price of gasoline in 1941 was as previously stated below the five-year average and is still inadequate to such a degree that the smaller and less efficient units of the industry, many of them, will not be able to continue operations this year at present prices.

A ceiling on petroleum prices was set by the Government in the main at the levels which prevailed on November 7, 1941.

Decent regard for patriotic obligations requires that our operations of all kinds should be handled in the way which can contribute most to the country's war-time needs. In the pursuance of this policy, the Company has closed certain substantial contracts for the production of war materials. In addition to contracts actually closed and under which construction has commenced, it is negotiating with the Government in connection with participation in synthetic rubber plants and the construction and operation of plants for the production of alkylate, toluene and other commodities directly needed for war-time requirements.

**GENERAL**

In forecasting conditions which will govern affairs during 1942, it is impossible to do more than to enumerate some of the factors which are necessarily controlling. Just how they will
react upon one another is difficult to foretell, particularly as they must be considered against a background of world conditions which are radically changing from day to day.

The availability of basic materials is essential in the production of the commodities required for the prosecution of the war. In this process, however, certain other commodities will be made as by-products, which must affect the markets that had previously been supplied by them as primary products. For example, the production of 100 octane gasoline will result in the creation of larger amounts of lower octane gasoline. This will have the effect of reducing the octane number of commercial gasoline. On the other hand, it will probably not reduce costs correspondingly. The extent to which the increased demand of the Government for petroleum products will offset the increased production of by-products cannot be accurately measured.

Various estimates have been made as to the total volume of petroleum products that will be consumed in 1942. A great variety of hypotheses must be assumed on them, and about the only conclusion to be drawn from these estimates is that it will be reasonably commensurate with that of 1941. Back of all of this is the fact that the Government is controlling prices. In no combination of circumstances can it be expected that prices will not affect production and consumption. Unless prices are kept at a fair basis, none but the most highly efficient units in the industry can survive. It involves not only the matter of incentive but the survival of a large segment of the industry and a possible decrease in the production of essential commodities if such units are eliminated.

It must be assumed that in setting these prices, the Government will act not only with justice but with an enlightened self-interest, and that fair prices will be maintained. If excess profits are made by a small group, they will be equalized by excess profits taxes.

The industry is being called upon to supply practically all of the lubricants for war making, the motive power for mechanized units of the Army and the Navy, and a large proportion of the fuel for factories which produce armament and planes and war machines; to furnish the raw materials and build the plants for synthetic rubber; to largely supply the constituents of explosives; and to provide in the main its own transportation of these products,—all this, while it is providing for current domestic needs.

**AVOIDABLE DELAYS**

It is one of the duties of the industry to state as vigorously as it can the things which the Government can do to make the industry’s efforts effective. The simplification and consolidation of Government contacts which will result in a clear definition of policies and an understandable statement of its needs is essential. It is necessary to put the emphasis on getting things done, regardless of whether or not at some future date a meticulous investigation should disclose petty mistakes in the execution of a great plan.
A serious handicap to the smooth and efficient operation of cooperative effort is doubt as to the implications of certain laws upon which lawyers differ, and the representatives of the Government either have not the authority or have not chosen to make clear statements. Recently there have been decisions of the United States Supreme Court which have created very definite impressions on the minds of most of those who are charged with industrial management responsibility. Whether these impressions are correct or not is a subject upon which good lawyers may disagree radically. Their effect upon industry, however, is a thing which cannot be ignored. There is a general belief in industry that an agreement between a number of persons in the same industry becomes a conspiracy and is illegal and may be criminal if it in any way affects prices or might be used for that purpose regardless of whether, in fact, it was actually done. There are very few cooperative agreements between persons engaged in the same industry which do not or might not be construed as affecting prices, and the Government is pleading with industry for cooperation between its units. We find one branch of the Government urging men to do things which another branch declares may subject them to punishment. It is hard to believe that any one connected with the Government should approve of such a situation, and the only clean-cut cure for it is legislation. Another inhibition on industrial management is due to the conviction that recent decisions determine that immunity cannot be granted to those engaged in a cooperative undertaking even though it may be at the instigation and request of officials of the Government.

With indefinite laws, inconsistently interpreted, the citizen is obliged to carry on his business under the constant menace of prosecution, no matter how carefully and intelligently he may try to conform to what he believes to be the intent of these laws. Disregarding entirely his own interests in the situation, if he accepts one interpretation, he lays himself open to attack on a number of other theories. Any conscientious prosecutor is subjected to embarrassment (but not to penalty) on account of this situation and should welcome a clarification which would relieve him of the charge of trying to impose economic theories although his sole duty is the enforcement of the law. Legislation is the function of Congress and of Congress alone. If there is to be practically no limit upon the discretion of prosecuting officials to bring suits and enforce settlements, a condition will develop which is implicit with dictatorial possibilities.

If this situation were not susceptible of prompt and easy solution, it would perhaps be best not to dwell upon it and to expect men to continue to expose themselves to this hazard in order that they may perform a patriotic duty. It is to the everlasting credit of industry that they have been willing, to a remarkable degree, to take these risks, but the hesitancy and caution which this cloud of uncertainty throws over normal, natural and proper procedure is a severe handicap to both the representatives of the Government and to industrial management. The solution lies in simple legislation which has been advocated for years by high authority in both political parties,—legislation which would permit the representatives of industry to meet
together and come to agreements which are in the national interest and promoted by the National Government, without fear of punitive attack. This would not involve in any way the repeal or disregard of existing laws, but merely permit such activities to be carried on without penalty until there could be a judicial determination through injunctive procedure. After this has been done, it will be possible for men to act under laws which have been made clear by judicial interpretation, and pending this time could be relieved of the menace of prosecution, as the war does not stop for prosecutors.

The responsibility for this state of affairs does not rest, by any means, entirely with the statesmen, as industry has made no concerted effort along obvious lines for national relief, and has supinely accepted the situation. It would be natural to assume that many in public office who are bearing the burdens of the Government in the war effort will cooperate in urging such legislation on Congress.

The relations of the petroleum industry with the Honorable Harold L. Ickes, Petroleum Coordinator for National Defense, have been thoroughly cordial and completely cooperative. The delays that have occurred and the cross-purposes that have been developed have not been due to any lack of zeal on the part of the Office of the Petroleum Coordinator in forwarding the great war objectives, but to a general governmental organization which has the effect of diffusing responsibility and results in conflicting authority.

1942

The ordinary rules of budgeting and forecasting which prudent management customarily follows must be modified in the Company's operations in 1942 since the foundation assumptions upon which such planning must be based are uncertain. The one thing sure is that conditions will not be as they have been, and it would be very dangerous to proceed upon the basis of a rigid plan that would have the effect of both psychologically and directly interfering with the quick adjustments which changing conditions require. It is important, therefore, to maintain a high degree of flexibility in all of the Company's operations. The ability of the Company to do this is greatly increased by the fact that it has important producing properties in different sections so that if its operations in one are unduly curtailed, it may direct its activities to others. In addition to this, it has been the policy to develop properties territorially large enough so that its drilling can be determined principally by the needs of the Company and not through the compulsion of competitive drilling. In the producing department of the business, too, it would be unfortunate to neglect the exploratory work which is necessary for the maintenance or increase of reserves. This latter procedure is not only consistent with the Company's interest, but what seems to be the desires of the authorities at Washington.
As regards the adaptability of the refineries, the rehabilitation and construction work in recent years has been made with the intent of bringing about a condition under which adjustments could be made rapidly and effectively to meet such changes as might occur in crude supply and market necessities. Marketing operations have been controlled by producing and refinery needs.

There are, in addition to the basic one of flexibility, some general principles which emerge from the uncertainties and which it is safe to assume should be followed. Amongst these should be mentioned the desirability for the conservation of financial resources to such an extent that the necessity for extensive borrowing or new financing under unforeseeable conditions should be minimized. It would be unfortunate, however, if the Company, through timidity, did not maintain its properties and if it did not keep abreast of the industry in this respect. This is an obligation, especially as applied to refining operations, both on account of the war effort and in preparation for peace-time conditions.

The transportation of petroleum products during the war period is especially important, and the Company, through its participation in the construction of the Southeastern Pipe Line, has made an important contribution. It has also extended its use of inland waterways and will probably, during the year, take further steps to this end. Through the years the Company has devoted much thought to this problem of transportation and, we believe, at the present time has a degree of flexibility in this respect that will prove very helpful in the present emergency.

Summarizing and balancing general conditions, it is the opinion of the management that the Company at the beginning of this crucial period is in a strong position to meet developments.

By Order of The Board of Directors,

HENRY M. DAWES, President.
# Current Assets:
- Cash in banks, in transit and working funds: $9,521,365

## Receivables:
- Notes: $941,424
- Accounts: 9,497,779

Less—Reserve for doubtful receivables: 320,394

## Inventories:
- Crude oil (Note 1): $4,054,124
- Refined oils and merchandise (Note 1): 10,749,650
- Materials and supplies, at current cost less allowance for condition: 6,103,603

## Investments, Advances, Etc.:
- Investments in and advances to subsidiaries not consolidated, at cost (Note 2): $5,781,434
- Investments in securities of other companies (Note 3): 6,013,647
- Deferred receivables, etc., less reserve of $566,257: 1,322,159

## 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>$136,515,544</td>
<td>$64,271,004</td>
</tr>
<tr>
<td>Transportation</td>
<td>16,168,587</td>
<td>8,294,700</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>32,014,514</td>
<td>14,751,381</td>
</tr>
<tr>
<td>Marketing</td>
<td>37,932,431</td>
<td>14,324,426</td>
</tr>
<tr>
<td>Other properties</td>
<td>3,164,766</td>
<td>931,270</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$225,795,842</strong></td>
<td><strong>$102,572,781</strong></td>
</tr>
<tr>
<td><strong>Net total</strong></td>
<td><strong>$123,223,061</strong></td>
<td></td>
</tr>
</tbody>
</table>

Contracts, rights, patents, trade-marks, etc.: 19,665,964

Prepaid and Deferred Charges: 961,335

The attached notes are an integral part of this report.
EIGHTH ANNUAL REPORT * 1941

(Ohio) AND SUBSIDIARIES

December 31, 1941

LIABILITIES

CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase obligations, etc.</td>
<td>$486,069</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$8,211,969</td>
</tr>
<tr>
<td>Dividends payable January 1, 1942</td>
<td>$977,511</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>$6,152,721</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>$15,828,270</strong></td>
</tr>
</tbody>
</table>

LONG-TERM DEBT:

Deferred purchase obligations, etc.                  $2,952,147

MINORITY INTERESTS IN CAPITAL STOCK AND SURPLUS OF SUBSIDIARIES
(approximately $700,000 under commitments for purchase over a period of years):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital stock</td>
<td>$1,663,866</td>
</tr>
<tr>
<td>Surplus</td>
<td>$717,199</td>
</tr>
<tr>
<td><strong>Total Minority Interests</strong></td>
<td><strong>$2,381,065</strong></td>
</tr>
</tbody>
</table>

CAPITAL STOCK AND SURPLUS:

Capital stock—

Cumulative preferred—authorized 1,000,000 shares, par value $100; outstanding 725,431 shares (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>6%</td>
<td>282,997</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>725,431</strong></td>
</tr>
</tbody>
</table>

Common—authorized 10,000,000 shares, no par value (Note 6)—outstanding 3,982,031 shares, assigned value $10 per share...

<table>
<thead>
<tr>
<th>Shares</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>39,820,310</td>
<td>$112,363,410</td>
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</tbody>
</table>

Surplus (per summary attached) (Notes 4, 5 and 6)—

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid-in surplus</td>
<td>$28,207,088</td>
</tr>
<tr>
<td>Earned surplus</td>
<td>35,783,171</td>
</tr>
<tr>
<td><strong>Total Surplus</strong></td>
<td><strong>63,990,259</strong></td>
</tr>
</tbody>
</table>

CONTINGENT LIABILITIES (Note 7)

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$197,515,151</strong></td>
</tr>
</tbody>
</table>

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></td>
<td>$112,863,385</td>
</tr>
<tr>
<td><strong>COSTS, OPERATING AND GENERAL EXPENSES (exclusive of depreciation and depletion)</strong></td>
<td>$80,109,985</td>
</tr>
<tr>
<td><strong>TAXES (including income taxes and $236,256 excess profits tax)</strong></td>
<td>$7,745,180</td>
</tr>
<tr>
<td>Net operating income before depreciation and depletion</td>
<td>$25,008,220</td>
</tr>
<tr>
<td><strong>OTHER INCOME:</strong></td>
<td>$27,344,563</td>
</tr>
<tr>
<td>Dividends</td>
<td>$1,748,566</td>
</tr>
<tr>
<td>Interest and discount earned</td>
<td>$495,398</td>
</tr>
<tr>
<td>Profit on disposition of capital assets, etc. (net)</td>
<td>$92,379</td>
</tr>
<tr>
<td>Total</td>
<td>$2,376,343</td>
</tr>
<tr>
<td><strong>OTHER DEDUCTIONS:</strong></td>
<td>$26,885,438</td>
</tr>
<tr>
<td>Cash discounts allowed</td>
<td>$308,670</td>
</tr>
<tr>
<td>Interest on purchase obligations, etc.</td>
<td>$150,455</td>
</tr>
<tr>
<td>Net income before depreciation, depletion, etc.</td>
<td>$10,992,282</td>
</tr>
<tr>
<td><strong>PROVISION FOR DEPRECIATION AND DEPLETION (including lease bonuses paid)</strong></td>
<td>$15,893,156</td>
</tr>
<tr>
<td>Net income before minority interests</td>
<td>$607,901</td>
</tr>
<tr>
<td><strong>INCOME APPLICABLE TO MINORITY INTERESTS</strong></td>
<td>$15,285,255</td>
</tr>
<tr>
<td>Net income carried to earned surplus</td>
<td></td>
</tr>
</tbody>
</table>

The attached notes are an integral part of the above statement.
EIGHTH ANNUAL REPORT • 1941

ELEANOR AND SUBSIDIARIES

and Surplus Accounts
December 31, 1941

SURPLUS ACCOUNTS

<table>
<thead>
<tr>
<th></th>
<th>Paid-in Surplus</th>
<th>Earned Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance—December 31, 1940</td>
<td>$28,207,088</td>
<td>$26,397,206</td>
</tr>
<tr>
<td>Add—Net income for the year per income account</td>
<td>—</td>
<td>15,285,255</td>
</tr>
<tr>
<td></td>
<td>$28,207,088</td>
<td>$41,682,461</td>
</tr>
</tbody>
</table>

Deduct—Cash dividends declared on:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred shares</td>
<td>$ —</td>
<td>$3,908,796</td>
</tr>
<tr>
<td>Common shares</td>
<td>—</td>
<td>1,990,494</td>
</tr>
<tr>
<td></td>
<td>$ —</td>
<td>$5,899,290</td>
</tr>
</tbody>
</table>

Balance—December 31, 1941 | $28,207,088 | $35,783,171

The attached notes are an integral part of the above statement.

AUDITORS’ CERTIFICATE

To the Board of Directors and Shareholders,
The Pure Oil Company:

We have examined the consolidated balance sheet of The Pure Oil Company (an Ohio corporation) and its subsidiaries as of December 31, 1941, and the consolidated statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

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 and depreciation of producing properties as explained in Note 5 of the financial statements, in our opinion, the accompanying consolidated balance sheet and related statements of income and surplus present fairly the position of The Pure Oil Company and subsidiaries at December 31, 1941, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois,
February 20, 1942.

ARTHUR ANDERSEN & CO.
NOTES:

(1) In accordance with a policy adopted as of December 31, 1937, inventories of crude and refined oils have been priced at cost, on the "last-in first-out" method computed on an annual basis beginning with the inventories at January 1, 1937. Inventories of crude and refined oils at December 31, 1941 are stated in the aggregate below market. Merchandise other than refined oils is stated at the lower of cost (first-in first-out) or market.

(2) Investments in and advances to subsidiaries not consolidated include (a) $4,109,633 representing 75% of the outstanding capital stock of and advances to a subsidiary whose assets consist mainly of undeveloped concessions in Venezuela, South America, (b) $1,553,101 representing 99.11% of the outstanding common capital stock (presently nonvoting) and 78.82% of the preferred stock of and advances to a domestic marketing subsidiary, and (c) $118,700 representing all of the outstanding capital stock of another 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 subsidiaries reported relatively small profits for 1941.

(3) Investments in securities of other companies consist of (a) capital stocks of Hickok Oil Corporation at a cost of $1,093,047, of which $507,563 represents approximate market price of 5% preferred shares of that company received as dividends in prior years; (b) capital stock of Great Lakes Pipe Line Company at a cost of $1,335,820; (c) capital stock and long-term installment notes of Southeastern Pipe Line Company at a cost of $475,000 and $1,953,200, respectively; and (d) other security investments, at cost or lower, of $1,156,580. 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 net changes since the appraisal date 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, 1941 would be reduced to $25,428,404 and the balance at that date in the consolidated paid-in surplus account would be increased to $38,561,855.
(5) Since January 1, 1934, the company has provided for depletion and depreciation of producing properties 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 and depreciation by the net oil reserves (in barrels) estimated by the company's production engineers. The "lease" or unit method of providing depletion and depreciation 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 and depreciation provision on a basis believed by the management to be inconsistent with the company's total oil reserves. Under the "over-all" method, the provision for depletion and depreciation is computed upon the basis of the average rate for the estimated net oil reserves on 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 4 shares of common for each share of preferred through October 1, 1942, and 3 3/4 shares of common for each share of preferred through October 1, 1947 when the conversion privilege terminates. At December 31, 1941, 1,769,736 common shares were reserved for such conversion.

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.

(7) The companies are contingently liable under pending lawsuits, involving titles to properties and alleged damages of substantial amounts, and sundry other suits, all of which, in the opinion of Counsel of the company, are ordinary and routine in the oil industry and will result in an ultimate liability not exceeding $300,000. In addition, the parent company, jointly with various other oil companies, is defendant in certain treble damage suits involving substantial amounts, allegedly based on activities in violation of the Federal anti-trust laws. The company denies and is contesting liability on every such claim for damages and in the opinion of the Counsel of the company, under present circumstances, an estimate cannot be made of the ultimate liability, if any, which may be fixed upon the company in these suits.

In connection with a bank loan of a corporation in which the company has a minority stock interest, the company has agreed to purchase, at the principal amount and accrued interest, up to $1,012,500 of the notes of such corporation held by the bank in case of any default on such notes. Such notes are payable in equal annual installments over a period of ten years. Any notes so purchased are to be subordinated to any other notes of such corporation held by the bank.

The audit certificate of Arthur Andersen & Co. appears herewith and it is the intention of the Directors to continue the services of these accountants for the year 1942.
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
J. H. Botkin ............ Comptroller ............ Chicago

DIRECTORS

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Charles S. Cheston
Philip R. Clarke
B. G. Dawes
Henry M. Dawes
J. A. Elkins
J. H. McCoy
R. W. McIlvain
L. S. Wescoat
J. W. McIntosh
J. E. Otis
Rawleigh Warner
C. B. Watson

TRANSFER AGENTS

GUARANTY TRUST COMPANY OF NEW YORK, New York
THE CITY NATIONAL BANK AND TRUST Co., Columbus, Ohio
P. G. Miller, Pure Oil Building, Chicago

REGISTRARS

CENTRAL HANOVER BANK AND TRUST Co., New York
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.