ANNUAL REPORT 1943
THE PURE OIL COMPANY
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1943
THESE MEN

HAVE GIVEN THEIR LIVES

IN THE SERVICE

OF THEIR COUNTRY

ARMSEY, GEORGE E., Illinois Producing Division
HEBERT, JENNINGS P., Gulf Coast Producing Division
MATHER, RICHARD, Chicago Office
RAY, SAMUEL A., Texas Producing Division
TRACY, KENNETH E., Wisconsin Marketing Zone
ZITNIK, CHARLES E., Jr., Mid-West Marketing Zone
To the Shareholders:

The first concern of the owners of the stock of The Pure Oil Company is that its properties and organization may be conducted in such a manner as will render the greatest service to the country in time of crisis. The services of one-quarter of its manpower have been given to the Government for the Armed Forces and other forms of war activity. The Company has, nevertheless, in the war years been able to increase its production of crude oil; has carried on the largest refinery construction program in its history; and has increased the variety and volume of war products. All departments in the organization of the Company have played their part in an admirable way. This has been made possible by the assumption of additional duties, longer hours and intensified effort by those who have remained in its employ. The rank and file of the supervising personnel, in particular, have made a contribution which is outstanding.

Great as has been the contribution of the civilian personnel, it is not comparable to that of the soldiers and sailors whose sacrifice may involve life itself. We who remain at home are proud to pay tribute to our associates who are engaged in the front lines. The Company has endeavored, at considerable financial cost, to equalize as well as it can the status of those who are in the Service with those whose duty requires them to remain in civilian life. The management is studying the problem of absorbing into its organization all those who have gone to war, and doing so in such a way that they may resume their work with little, if any, handicap on account of their absence. In view of the outlook for the industry and for the Company, there seems every prospect that this can be accomplished to a very great extent. It is the first of all post-war problems in importance.

FINANCIAL

The earnings of the Company were $13,874,517, as compared with $13,761,826 in 1942. The sum of $3,908,607 was distributed in dividends to the Preferred Shareholders and $2,985,765 to the Common Shareholders. Earned surplus account was increased by
$6,980,145. Crude production was increased and sales prices were slightly higher. Opposed to these favorable considerations was the increase in taxes and general operating expenses. During the year, the Company completed its construction program of war facilities and paid $9,000,000 from income on this account. Working capital increased slightly during the year.

The earnings of the Common Stock showed $2.50 per share, as compared with $2.47 per share in 1942.

It will be observed that in its main statistical showing, the results of the Company's operations in the past year were closely comparable with those of the previous year. Nevertheless, many of the conditions to which it was obliged to conform its operations were widely different in the two years. In 1942, the most difficult task of the industry was that of transportation, which has been gradually solved, but an equally acute problem developed in connection with the supply of crude oil in 1943.

**COST AND PRICE OF CRUDE OIL**

The oil industry has been created and carried on through the operation of those incentives which, through the years, have been the dynamic force of our economic system. Contrary to normal procedure, during this war period, prices of crude oil have been set by the Government, which has not recognized the fact that costs have increased and that, as a whole, the industry is being forced to spend more money in producing crude petroleum than it gets back in the way of price.

The specious argument is made that because some oil companies show good profits in their annual statements, they are being fairly recompensed for their production operations. But the financial statements of the oil producer do not reflect the fact that the oil he is selling today has been paid for largely by previous exploratory and development operations, and that much of the apparent profit that is shown is in fact a reflection of previous years' operations, and that this oil, drawn from developed reserves, can not now be replaced at the former costs.

The petroleum company is in exactly the same situation as a merchant who is selling an inventory bought at a low price level, but which he can not replace except at a ruinously advanced cost. This does not apply to every individual producer or corporation because some, due to unusual circumstances, whether exceptional efficiency or sheer good luck, will, from time to time, make discoveries that prove very profitable. Obviously, an adequate permanent supply of crude oil can not be secured in any other way than through compensatory prices unless the traditional philosophy of American economic development is a false one.

The petroleum industry has been bearing and will continue to bear its share of the burdens entailed by war-time necessity, but no industry or government can long combat the laws of economic gravity.
REVOLUTION IN TRANSPORTATION

Of the petroleum products used in the United States before 1942, roughly 40% were consumed by states supplied almost entirely by water transport through the Gulf of Mexico and the Atlantic Seaboard. Peace-time requirements for this section of the country have been increased tremendously by military demands for overseas use and the increased industrial consumption incident to the war. The amount required for these extraordinary purposes is not available for publication and has varied very largely from time to time. The transportation problems involved by the interruption of this ocean traffic were colossal.

The performance of the railroads in this emergency has been magnificent. The normal amount of products conveyed by rail to this area was less than 100,000 barrels per day, but at various times in the last year it has reached a grand total of more than 900,000 barrels a day. In order to help meet the demands for the seaboard area and exports for war, it was necessary for the oil industry to construct terminals, reverse existing pipe lines, and carry through a construction program for the building of new pipe lines that would have seemed inconceivable if necessity had not compelled it. As a part of this program the supply of crude oil to refineries was often handled in ways which disregarded normal economic and physical considerations. The crude was at times arbitrarily taken away from certain refineries and given to others more favorably situated to meet the transportation emergency. This produced acute shortages in domestic supply at many points and the necessity for rationing products.

Much of this is familiar to the average citizen who has felt the pinch of the necessary readjustments in his social and business life. It is reviewed here in order to show the background under which The Pure Oil Company and all other units of the industry have had to carry on their activities. It has involved a regimentation which is repugnant to everyone sympathetic with our traditional methods of industrial accomplishment. The emergency has been met, but the dislocation and costs make no intriguing appeal for continuing war methods when the emergency is over. It is a splendid demonstration of the adaptability of free and independent industry to meet emergency conditions. It further proves that it is not necessary to impose a rigid, autocratic scheme of Government regimentation in peace time in order to be prepared to meet the severe exigencies of war. No other system could have acted with such promptness and flexibility nor demonstrated such willingness to sacrifice and to do voluntarily and cooperatively things which could not have been accomplished by the fiat of bureaucrats.

THE INDUSTRY'S REFINING DEVELOPMENTS

In referring to the over-all operations of the refining phase of the petroleum industry, it is hard to refrain from using superlatives which would seem to be exaggerations to the uninformed. A number of Government authorities have stated that there has not yet been a time when the military forces have not been adequately supplied with petroleum products. The implications of this statement are much wider than appear at first blush. The industry has not had the relatively simple task of increasing the amount of definitely determined products, but it has
THE PURE OIL COMPANY

cannot be required to make new products, many of which were only at the laboratory stage of development when the war commenced.

Perhaps the most dramatic and widely acclaimed accomplishment of this kind was the development of an entirely new industry based on petroleum derivatives. Except to the extent that a few small experimental plants had been built, the United States produced no raw rubber before the war. The responsibility for a permanent supply of rubber of satisfactory quality and necessary volume fell on the petroleum industry. The responsibility has been met. The goal is in sight. It is not a strained analogy to compare the accomplishment in building a great rubber-from-oil industry with such a problem as would have been involved in supplying America's flour if there had been insufficient wheat. It has been a far more difficult task than the production of high-octane aviation gasoline. Complicated as the gasoline problem was, it consisted, after all, in supplying an increased demand for a product that was already being produced.

It would be difficult to list the variety of products furnished by our oil refineries to carry on the war effort. Among them would be the rather obvious ones of all grades of gasoline, lubricants, special products for industrial and domestic heating and power, bases for explosives, rubber, plastics and paints.

Tremendous sums have been spent in the construction of new refineries and refining equipment. Progress in this respect has been limited only by the ability to secure, through priorities and otherwise, the necessary materials. It is only a brief span of years since the refining of oil products consisted merely in an elementary process of simple distillation. Today the refineries have become huge chemical plants, operating with a flexibility that makes it possible for them to produce hundreds of products which possess characteristics running all the way from that of the highest volatility to such durable materials as plastics.

The qualities of ingenuity, enterprise and courage shown by the refiners of the United States in the last three years are almost without parallel in industrial history. It is inconceivable that this accomplishment could have been achieved except that the industry has always exercised a free initiative, unhampered by Government regulation and regimentation. The oil industry has imposed upon itself temporary restrictions as a necessary patriotic sacrifice in meeting a great emergency, but its continued service to post-war America is dependent upon its ability to emancipate itself from those restrictions which can only be justified by war-time necessity.

PRODUCTION

The Company has produced this year 30,075,000 barrels of oil gross, and 26,233,000 barrels net, — an increase over the previous year in the gross production of 1,389,000 barrels and in the net production of 1,193,000 barrels. In the development of its properties, it may be said with assurance that in spite of this increased withdrawal, the Company's total discovered reserves in the ground at the end of the year are greater than they were at its beginning. If it had
not been for the Government’s need of all available crude oil and if the Company had operated on a strictly economic basis, some of the oil which has been produced in the past year would have been left in the ground because of the belief that it could be sold later at a higher price.

The operations of the Production Department have necessarily been made to conform to conditions that have never previously occurred in the conduct of the industry. In the last few years regulation has been confined to the oil producing states. It has been administered for the purpose of conserving a depleting national resource and for the preservation of equities as between owners of a commodity which would, without control, automatically pass underground from one ownership to another. The regulation imposed by the Federal Government as a war measure is fundamentally different and more detailed.

The issue of price has been referred to and the fact that the Office of Price Administration has imposed ceilings which compel the industry to operate on a basis which is not compensatory. The attitude of the Treasury Department towards the petroleum industry has also been discouraging to the exploratory activities which other departments of the Government have urged as necessary to provide an adequate supply of crude oil. This hostility was manifested in the efforts of the Treasury Department to reduce the depletion allowance on producing wells, which would have had the effect of decreasing ultimate profits as a result of an increased income tax. Fortunately, the Congress refused to accede to the Treasury’s recommendation. At the present time, the Treasury Department is, through conflicting and inconsistent rulings, attempting to decrease the income tax allowance for exploratory expenses. This is not only an attack upon the rights of property, but decreases the incentive for making exploratory operations. The Pure Oil Company is, however, continuing to push its exploratory program as aggressively as conditions will permit, and has added largely this year to its acreage in different sections of the country. This was done on the assumption that the attitudes of certain officials do not represent the fixed policy of the United States Government towards a vital industry. The oil industry is appreciative of the courageous and intelligent manner in which certain other agencies of the Government have advocated a constructive course, but it finds it difficult to plot its way through the conflicting policies of various governmental bureaus and authorities.

MARKETING

The complications incident to carrying on the marketing of oil products to the public these days are so obvious that it is not necessary to dilate upon them to any extent in this letter. The difficulty is primarily in securing even the limited amounts of products that the consumers are able to use under rationing. The problem is one of carrying on this operation in the most economical way possible. It would be wise to assume that this situation will not be improved before the war is ended.

Due to general conditions and to an aggressive effort on the part of our marketing organization, a constantly greater proportion of tires, batteries and other accessories is being sold through
service stations, many of which are carrying on to a greater extent than previously such
minor repairs and adjustments as heretofore have been made at garages. The volume of this
business has increased during the past year and has contributed to the over-all earning results,
which were slightly better in this department than in the previous year, due principally to
increased economy and efficiency in operation.

The customer naturally thinks of the marketing of gasoline in terms of the final transaction
when the product is put into his automobile. However, this is only the culmination of a long
series of integrated activities involving the maintenance of stocks and inventories at a very great
number of points, the transportation of a wide variety of oil derivatives to the service station
or the ultimate consumer, and the supply of tires, accessories, batteries, etc., to meet the con-
venience of the public. The use of the word "service" as applied to the stations through which
the oil industry has met its public is a very apt one as the operators perform a variety of func-
tions, treating as they do the essential needs of a large percentage of our population and catering
to their convenience to an extent that is almost unique in any form of marketing. In no
phase of the petroleum operation have the personnel met their problem with more courage
and directed more intelligent effort to meeting a difficult situation and rendering an essential
service.

In thinking of the operation of our Marketing Department, we should not be unmindful
of the close and cordial relationship which exists between it and our dealers. We have, to the
best of our ability, endeavored to conform all of our operations to their best interests and have
received a cooperation from them which is more than gratifying.

REFINING

The conditions under which our refineries operated during the past year were so abnormal
that careful discrimination should be used in attempting to draw conclusions from them. Be-
cause of the interruption in ocean shipments, the construction of new pipe lines and the almost
complete reorganization of the oil transportation system of the United States, the supply of
crude to the various refineries was distributed without regard to economic consideration. Fur-
ther, a refinery that was geared to produce one product would frequently be switched to another
as soon as it was put on stream. This is not a matter of complaint, but is a consequence of the
rapidly changing conditions which occur in war time. For these reasons, no exact measure of the
increased efficiency of the new construction can be set, but it is surely very great, and the
variety and quality of products have been tremendously increased. There has been a most
surprising demonstration of the flexibility of the modern equipment shown by the uses to which
the major construction units can be put.

Among the substantial refinery additions made by The Pure Oil Company are a thermofor
catalytic cracking unit, a hydroformer and extraction unit, and two catalytic polymerization units.
Illustrating their flexibility, the catalytic cracking unit installed at the Smiths Bluff refinery near
Beaumont, Texas, will be used both to produce the maximum of highest aviation base stock for aviation gasoline and also butylenes for movement to the Neches Butane Products Company for processing into a synthetic rubber base. This unit is designed in such a manner that when the Government's demand for these products has ended, it can be readily placed in operation for premium quality motor fuels, and should have a capacity for them that is double the amount it can produce for aviation use. It may also be operated to provide a source of many special products whose value is likely to be in excess of that of motor fuels. A similar flexibility prevails in all of the other units mentioned.

The Company has built for the production of war products and is operating between $16,000,000 and $17,000,000 worth of new equipment. About $3,500,000 consists of a plant which was built by it for the Government and will be operated during the war period by the Company for a nominal fee. The remaining expenditure of approximately $12,500,000 is for new equipment built and owned by the Company, and practically all of it has already been paid for out of current income and current resources of the Company. The management believes that nearly all of this can be immediately used after the war, so that the future demand for capital for refinery construction will for some time be less than normal.

The Company, in association with The Atlantic Refining Company, Gulf Oil Corporation, the Magnolia Petroleum Company, and The Texas Company, has designed and will operate for the Government the Neches Butane Products Company plant for the production of butadiene. These companies will supply the Neches Butane Products Company with the butylene which is the raw material for butadiene. This plant is not yet in complete operation, but when it is, it will be one of the largest producers of rubber base in the world. These companies, in furnishing this management and material, have approached the task with the intent of protecting themselves against loss, but with no desire for more than a nominal profit. Much of this undertaking was initiated before definite contracts were made, and the risk was cheerfully assumed by the various companies as one of their contributions to the war effort.

The volume of business handled through the refineries was slightly less than in 1942 and was determined by conditions which have been outlined. The capacity of the plants has materially increased. The inability to secure priorities and material has, of course, delayed completion of much construction, but all of the major units were in operation by the end of the year 1943.

The policy and practice of renegotiation of contracts has not developed to such an extent that it is possible to predict just how greatly it will affect the Company. As an entirety, however, it can be said that the Company's sales of material and services to the Government will have been made at a lower price than would have obtained in a free market and below the general scale of ceilings set by the Government for civilian uses. Under these circumstances, it is hardly reasonable to suppose that adjustments will be a matter of serious importance.

We feel that the contribution which our Company has made to the over-all war effort in the refining industry is one in which we may take a just pride.
THE PURE OIL COMPANY

TRANSPORTATION

The Company, in its general policies, has acted in the belief that economical transportation was one of the most important factors in its operations, and this has influenced the location of its refineries and the selection of its marketing territories. Through the years, it has developed its transportation system as special opportunities for doing so have presented themselves. Many of the adjustments and the construction necessary to make these transportation facilities, in operation before the war, into a complete system have been finished in the last two years. For example, the Company now has available complete pipe line transportation from its largest refinery at Smiths Bluff, Texas, to its marketing territory in the southeastern states. While many of the transportation changes were made under the spur of war-time emergency, the Company's expenditures for this purpose will almost all of them be justified on the basis of requirements after the war, since they have resulted in the completion of what for the time being is a unified transportation system.

While our transportation facilities are operating under abnormal conditions, there is no very great change in the earnings from previous years. Amongst the things which this department has done in the past year is to increase our barge and inland waterway facilities, and to secure a connection and a minority interest in the Bayou Pipe Line Company, which furnished the final pipe line link between the Smiths Bluff refinery and our marketing operations in the territory between Texas and Virginia. The Southeastern Pipe Line, which extends from Port St. Joe, Florida, to Chattanooga, Tennessee, in which The Pure Oil Company owns a large interest, expanded its facilities substantially. In addition to this, some minor additions to the crude pipe line carrying capacity of the Company were made.

The motor transport operations were continually going through adjustments for the purpose of releasing tank cars to provide for the emergency requirements for the eastern section of the country. It is perhaps not too much to say that practically all of the operations were dictated by the necessity of integrating our operations with the over-all national war-time crisis in oil transportation, which the industry has met with great daring, ingenuity and success.

POST-WAR CONDITIONS

The post-war problem of the petroleum industry is an essentially different one from that which will prevail in manufacturing industries. The contrast between its post-war problems and those of the automotive industry is striking. The construction of automobiles for civilian use has been almost completely discontinued, and great plants and organizations have been converted to the manufacture of planes, tanks, maritime equipment and machinery directly used in making war. This has involved the conversion of existing plants at tremendous expenditures for new construction. Just how much of these plant facilities can be utilized to advantage after the war can not be forecast, but it is perfectly obvious that there will have to be a major operation before these automotive institutions can function normally. While the petroleum industry has made tre-
mendous expenditures for the construction of refining equipment, this equipment, in contrast with the situation in the automotive business, can, in the main, be converted almost immediately to the production of peace-time products. The remarkable flexibility of modern refining machinery is such that it is possible to use it for a great number of products interchangeably without material construction modification. For example, much of the equipment that has been installed in the refineries for the production of rubber bases can be converted to the production of high-octane gasoline without extensive adjustments. The petroleum industry will have no serious problem of conversion.

The post-war demand for petroleum products will be largely determined by the availability and cost of the automobiles, trucks, tractors, airplanes, etc., for which they furnish the lubricants and most of the motive power. The automobile has in the past and will continue to be for many years the principal consumer of petroleum products. The tremendous advances that have been made in the design of internal combustion engines in recent years and the improvements in motor fuel may make it possible for the manufacturers of automobiles to offer better cars for less money. This, of course, would mean more cars for more people and a greater demand for petroleum products.

The increased demand for aviation purposes and diesel engines will be difficult to estimate, but undoubtedly is important. Further, as tending to increase the demand for petroleum products, the greater use of plastics, rubber bases and an almost infinite number of new products have been evolved by modern chemistry.

The cost of the discovery and production of the raw material, crude oil, will be greater in the future because of deeper drilling and generally increased costs. The progress in the technique of refining will offset somewhat the greater cost which will be involved in the production of crude, but it is very clear that it can not do so entirely. Nearly every product of the refineries will have a greater efficiency than before the war, and while the public will be obliged to pay higher prices, they will be for better products. In a word, while a gallon of gasoline will cost more, the motorist will get more miles for less money.

Within the compass of this report, it would be futile to attempt to discuss the broad national problems which all industry must meet within the next few years. It is, however, a comforting thought that we are dealing in a commodity which possesses the characteristics of both a necessity and a luxury. Moreover, on account of the geographical location of its properties and their physical condition, the Company can face the future with a flexible strength which should enable it to safely ride such storms as may develop or to share in any good fortune that may come to the nation.

By Order of the Board of Directors,

Henry M. Dawes, President.
## The Pure Oil Company

### Consolidated Balance Sheet

**ASSETS**

### CURRENT ASSETS:
- Cash in banks, in transit and working funds: $14,399,880
- U. S. Government securities, at cost: $1,150,180

### Receivables:
- Notes: $367,009
- Accounts: $14,319,957
  - Reserve for doubtful receivables: $696,485

### Inventories:
- Crude oil (Note 1): $5,696,214
- Refined oils and merchandise (Note 1): $11,617,146
- Materials and supplies, at current cost less allowance for condition: $6,217,468

### INVESTMENTS, ADVANCES, ETC.:
- Investments in and advances to subsidiaries not consolidated, at cost (Note 2): $6,200,515
- Investments in securities of other companies (Note 3): $4,353,091
- Deferred receivables, etc., less reserve of $760,377: $760,377
- Fund for replacement of equipment (U. S. Government securities): $1,842,500
- Postwar refund of excess profits tax: $239,588

### 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>$147,087,165</td>
<td>$72,657,494</td>
</tr>
<tr>
<td>Transportation</td>
<td>16,684,093</td>
<td>8,577,329</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>43,719,891</td>
<td>19,079,475</td>
</tr>
<tr>
<td>Marketing</td>
<td>39,680,593</td>
<td>16,852,605</td>
</tr>
<tr>
<td>Other properties</td>
<td>3,358,463</td>
<td>1,249,134</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$250,530,205</strong></td>
<td><strong>$118,415,947</strong></td>
</tr>
</tbody>
</table>

| Contracts, rights, patents, trade-marks, etc. | $132,114,238 | 151,721,877 |
|                                                | 19,607,619   |             |
| **Prepaid and Deferred Charges**               | $1,172,657   |             |

| **Total** | **$219,110,969** |

The attached notes are an integ:...
TIETH ANNUAL REPORT • 1943

(Ohio) AND SUBSIDIARIES

December 31, 1943

LIABILITIES

CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Purchase obligations, etc.</td>
<td>$525,382</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>10,880,789</td>
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<tr>
<td>Dividends payable January 1, 1944</td>
<td>977,155</td>
</tr>
<tr>
<td>Advance from U.S. Government agency on sales contract</td>
<td>1,050,000</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>1,940,649</td>
</tr>
<tr>
<td>Provision for Federal income taxes</td>
<td>$8,961,452</td>
</tr>
<tr>
<td>Less—U.S. Treasury tax notes</td>
<td>3,354,032</td>
</tr>
<tr>
<td></td>
<td>5,607,420</td>
</tr>
<tr>
<td></td>
<td>$20,981,395</td>
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</tbody>
</table>

LONG-TERM DEBT:

Deferred purchase obligations, etc.                            2,829,437

RESERVE FOR REPLACEMENT OF EQUIPMENT                            1,695,961

MINORITY INTERESTS IN CAPITAL STOCK AND SURPLUS OF SUBSIDIARIES (approximately $750,000 under commitments for purchase over a period of years):

Capital stock                                                 $1,572,229
Surplus                                                       834,926
                                                ________________
Total                                                       2,407,155

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>282,097</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, 5 and 6)—

Paid-in surplus                                                $28,207,088
Earned surplus                                                 50,626,503
                                                ________________
78,833,591  191,197,001

CONTINGENT LIABILITIES (Note 7)

$219,110,969

Part of the above statement.
# THE PURE OIL COMPANY

## Consolidated Income

*For the Year Ended*

## INCOME ACCOUNT

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Operating Income</strong></td>
<td>$136,248,478</td>
</tr>
<tr>
<td><strong>Costs, Operating and General Expenses</strong> (exclusive of depreciation and depletion)</td>
<td>$100,005,086</td>
</tr>
<tr>
<td><strong>Taxes</strong> (including income taxes and $1,961,200 excess profits tax less $196,120 postwar refund)</td>
<td>$10,289,048</td>
</tr>
<tr>
<td>Net operating income before depreciation and depletion</td>
<td>$25,954,344</td>
</tr>
<tr>
<td><strong>Other Income:</strong></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>$1,045,589</td>
</tr>
<tr>
<td>Interest and discount earned</td>
<td>422,243</td>
</tr>
<tr>
<td>Profit on disposition of capital assets, etc. (net)</td>
<td>54,607</td>
</tr>
<tr>
<td>Total</td>
<td>$27,476,783</td>
</tr>
<tr>
<td><strong>Other Deductions:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash discounts allowed</td>
<td>$352,857</td>
</tr>
<tr>
<td>Interest on purchase obligations, etc.</td>
<td>129,651</td>
</tr>
<tr>
<td>Net income before depreciation, depletion, etc.</td>
<td>$26,994,275</td>
</tr>
<tr>
<td><strong>Provision for Depreciation and Depletion</strong> (including lease bonuses paid)</td>
<td>12,585,670</td>
</tr>
<tr>
<td>Net income before minority interests</td>
<td>$14,408,605</td>
</tr>
<tr>
<td><strong>Income Applicable to Minority Interests</strong></td>
<td>534,088</td>
</tr>
<tr>
<td>Net income carried to earned surplus</td>
<td>$13,874,517</td>
</tr>
</tbody>
</table>

The attached notes are an integral part of the above statement.
### UETH ANNUAL REPORT 1943

**NY AND SUBSIDIARIES**

*Surplus Accounts*

December 31, 1943

**Surplus Accounts**

<table>
<thead>
<tr>
<th>Description</th>
<th>Paid-in Surplus</th>
<th>Earned Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance—December 31, 1942</strong></td>
<td>$28,207,088</td>
<td>$43,646,358</td>
</tr>
<tr>
<td><strong>Add—Net income for the year per income account</strong></td>
<td>—</td>
<td>13,874,517</td>
</tr>
<tr>
<td></td>
<td><strong>$28,207,088</strong></td>
<td><strong>$57,520,875</strong></td>
</tr>
<tr>
<td><strong>Deduct—Cash dividends declared on</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred shares</td>
<td>$ —</td>
<td>$3,908,607</td>
</tr>
<tr>
<td>Common shares</td>
<td>—</td>
<td>2,985,765</td>
</tr>
<tr>
<td></td>
<td><strong>$ —</strong></td>
<td><strong>$ 6,894,372</strong></td>
</tr>
<tr>
<td><strong>Balance—December 31, 1943</strong></td>
<td>$28,207,088</td>
<td>$50,626,503</td>
</tr>
</tbody>
</table>

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, 1943, 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.

Except for the effect of the adjustment mentioned in the foregoing paragraph and 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, 1943, 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 24, 1944.

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, 1943 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) $4,664,755 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) $1,417,060 representing 99.97% of the outstanding common capital stock (presently non-voting) and 88.70% 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 a relatively small net profit for 1943.

(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 and long-term installment notes of Southeastern Pipe Line Company at a cost of $475,000 and $1,805,633, respectively; and (c) other security investments, at cost or lower, of $979,411. 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, 1943 would be reduced to $40,271,736 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 yearly provisions to date under the "over-all" method have been materially less than would have been the case had they been determined on individual leases. This is due to the fact that a disproportionate amount of oil has been produced from leases having a relatively high book value. Both methods contemplate the ultimate amortization of the investment in oil producing properties on the basis of estimated oil production.

(6) The 5% cumulative convertible preferred shares may be exchanged, at the option of the holders thereof, for common shares on the basis of 3½ shares of common for each share of preferred through October 1, 1947 when the conversion privilege terminates. At December 31, 1943, 1,474,780 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.

Under a consent decree (dated December 23, 1941), surplus of subsidiary pipe line companies arising after December 31, 1941 is not available for dividends in excess of 7% per annum of the value of common carrier pipe line properties. The amount thus restricted at December 31, 1943 is approximately $300,000, based upon interpretation by Counsel for the company.

(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 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 $787,500 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 seven years. Any notes so purchased are to be subordinated to any other notes of such corporation held by the bank.

(8) The Navy Department, under the Federal statute authorizing renegotiation of contracts, is in process of reviewing the company's 1942 operations. The management believes that the effect, if any, of renegotiation for the years 1942 and 1943 will not be material.

(9) At December 31, 1943, the company and a subsidiary held net assets amounting to $912,053 as agents for the War Shipping Administration in the operation of tankers. Neither these net assets nor the obligation to account therefor are included in the balance sheet.

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 1944.
NOTICE OF THE 1944 ANNUAL MEETING OF SHAREHOLDERS, REQUEST FOR PROXY, PROXY STATEMENT AND PROXY WILL BE MAILED TO SHAREHOLDERS ON OR ABOUT MARCH 10, 1944.

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.