ANNUAL REPORT
1944
THE PURE OIL COMPANY

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 1944
THESE MEN
HAVE GIVEN THEIR LIVES
IN THE SERVICE
OF THEIR COUNTRY

ADLER, RAY H., Mid-West Marketing Zone
ARMSEY, GEORGE E., Illinois Producing Division
BRAWNER, CLIFTON T., Texas Producing Division
CARDER, CARSON E., West Virginia Marketing Zone
ESCUE, JESS E., Cabin Creek Refinery
FARIS, WAYNE M., Illinois Producing Division
HEBERT, JENNINGS P., Gulf Coast Producing Division
LINK, LOUIS W., Ohio Marketing Zone
MATHER, RICHARD, Chicago Office
MEEHAN, WILLIAM J., JR., Chicago Office
MILLS, MAURICE C., Illinois Producing Division
MONTGOMERY, ELLSWORTH P., Southwestern Producing Division
OXLEY, KERMIT D., Eastern Producing Division
PAULUS, DONALD R., Ohio Marketing Zone
RAY, SAMUEL A., Texas Producing Division
STEPHENS, TRAVIS D., Eastern Producing Division
TURNER, GILBERT E., Ohio Marketing Zone
TRACY, KENNETH E., Wisconsin Marketing Zone
WHITLOCK, JOHN E., Illinois Producing Division
ZITNIK, CHARLES E., JR., Mid-West Marketing Zone
To the Shareholders:

While the operations of The Pure Oil Company for the past year have been complicated by the war, a few salient figures show that substantial progress has been made. The net earnings of $16,392,178 show an increase of $2,517,661 over those of the previous year. The earnings per share on the common stock are $3.13 as compared with $2.50 in 1943. Of these earnings, an amount of $7,889,718 was declared in dividends and $8,502,460 added to the earned surplus. During the five years from 1940 to 1944 inclusive, undistributed earnings carried to surplus totaled $36,500,000. The net current assets of the Company were $40,100,000 or a ratio of $3.56 of assets to $1.00 of liabilities. This compares with net current assets of $32,100,000 on December 31, 1943 and $22,700,000 in 1940. Provision for federal income and excess profits tax for the year amounted to $7,500,000.

During the year, the Company had in operation five refineries whose potential throughput of crude oil at the end of the year is estimated at approximately 100,000 barrels per day. The daily average gross production of crude oil from properties owned and operated by the Company was 97,800 barrels. Of this, the net production to the Company was 85,400 barrels. This resulted in a gross production for the year of 35,800,000 barrels which was derived from 6,000 wells. Its branded products are sold through 10,416 retail outlets and 864 bulk distributing plants. In its transportation facilities are 1,225 miles of main and gathering crude oil pipe lines, wholly owned, and 941 miles of crude and product main trunk lines in which it has an interest of from 26% to 51% and other smaller minority interests. It has two ocean tankers and one lake tanker and a half interest in a company which owns and operates six medium sized tankers, as well as tugs and barges for ocean transportation. Through its inland transportation facilities, consisting of towboats, tugs and barges, it transports an important part of its products, and through inland waterways it has access to 23 states. It operates 13 ocean and lake terminals and has 27 terminals on pipe lines and inland waterways.
THE PURE OIL COMPANY

WAR-TIME POLICIES

In war years, the problems involved in the planning and operation of a company of widely diversified activities divide themselves sharply between those concerned with immediate emergencies and those pertaining to future operations.

The first objective of every decent man and institution in this past critical year has been to help in the war effort every day and in every way. No short or long-time policy of The Pure Oil Company has been permitted to interfere with this. The comments made on the various departments of the Company's organization will later in this report set forth the nature and extent of the Company's direct and indirect contributions to the war effort.

It has been possible to render this maximum service with a minimum of dislocation in its preparation to meet the uncertain conditions which will develop in the years to come. A management which fails during such an emergency to plan for the future is obviously delinquent in its duty. It is quite possible, however, to make such rigid plans as would prove embarrassing if the assumptions upon which they are based should later prove to be wrong. The prime consideration which the management of The Pure Oil Company has had in mind is to preserve a flexibility which will enable it to meet efficiently changing conditions as they develop. Through intensive application by the individual officers and by committees of the Company, and with the help of expert outside advice, post-war conditions have been given as intelligent and exhaustive a study as seems to be possible. Studies have been made on the basis of all of the varied hypotheses which have occurred to those in the organization and those which have been suggested by authorities not only in the petroleum industry but by others whose competence in dealing with national industrial affairs is well established. Naturally, the assumptions upon which the different plans have been founded are varied and many of them contradictory. This applies even to the thinking and the forecasting of the most eminent authorities. It is obvious, therefore, that the ideal course for the Company to pursue would be one based on conditions as they develop rather than a rigid adherence to hypotheses which may later prove false.

Therefore, while no rigid post-war plans have been or will be evolved, the Company is constantly alert to the necessity for preparedness in all of its activities, and there are certain definite things which, under all conditions, will be constructive and which are briefly enumerated herewith:

Adequate crude supply is the most complete protection available under any conditions, and on this account the Company's activities in the way of the acquisition of lands and leases for exploration have been carried on at the full, normal rate.

It is through refining operations that the greatest flexibility can be accomplished because of the variety of products which it can offer to the public. At the present
time, the refineries of the Company have reached a degree of development which
the management believes is fully abreast of the foremost in the industry. This makes
it possible to take advantage of the demands for a greater variety of products than
conceivable a few years ago and to shift from one product to another as public demand
and market conditions dictate, and to do so with a maximum of economy and efficiency.

The marketing of our products has been carried on in the last year under almost
completely artificial conditions, both as to price and quantities available. Due con-
sideration is being given as to future changes which may come about in marketing, but
the policy which has prevailed in recent years will be continued of concentrating on
securing the largest gallonage possible through a minimum number of outlets. It is
anticipated that the development of our marketing facilities will be largely confined
to the improvement and enlargement of those at present in operation rather than the
acquisition of new ones. In doing this, increased activities in the sale of tires, accessories
and merchandise collateral to the Company's main business in petroleum products
will be provided.

With the narrow margins which prevail in the petroleum industry, the utmost
economy of transportation is essential to successful operation. Involved in this is the
relative location of marketing facilities to refineries and production. This is a problem
to which the Company has applied itself in the last few years and considers, broadly
speaking, that it has been solved through territorial adjustments of its outlets. Ocean
and pipe line transportation has been highly developed, and in the last two years
particular emphasis has been placed upon the use of inland waterways.

The Company is preparing (and it is particularly qualified by its refinery develop-
ments) to meet needs for such new demands as occur in aviation, the more extensive
use of diesel and various other types of internal combustion engines, and new chemical
and industrial demands.

PERSONNEL

The success or failure of any corporation is dependent upon the men and women who
carry it on,—not alone management nor labor; not alone the white collar men nor any
other individual group, but the coordinated activity of all these people working for a
common purpose. In recognition of this, The Pure Oil Company has pledged itself to
the effort to maintain full employment for the men who have gone into the Service, as
well as for those who have carried on its activities in their absence. In the nature of the
case, it would be neither possible nor honest to say that this could be done with every
individual as future conditions are too uncertain, but it is our belief that it can be prac-
tically accomplished. The Company has been extremely liberal in extending assistance to
those who are in the Military Service. This has met with the deepest gratitude by the
THE PURE OIL COMPANY

recipients. Although we all have the most profound appreciation of the great hardships of our people who have gone to war, the difficulties and the sacrifices of many who have carried on the institution to which they will return must not be forgotten. The adjustments as between the men who have gone and the men who have stayed will be difficult, but the cordial attitude toward the returning military men which is exhibited by those who will welcome them back is a very gratifying thing and a sure indication that the problem will be worked out with justice and to the satisfaction of both groups.

PRODUCTION

The total amount of oil produced reached a gross of 35,800,000 barrels, or a net to the Company of 31,200,000 barrels in the past year—an average of 97,800 barrels daily gross production, and 85,400 barrels net to the Company. This is the largest annual production in the history of the Company.

It will be noted that the gross production is practically equal to the refinery capacity, so that in effect, the Company has produced the requirements of its refineries from its own properties. In the balance between production and refinery requirements, the gross crude oil production is most significant as, in nearly all cases, the royalty oil is sold to the producing company and is, therefore, available for its refineries. It is a matter of congratulation that in this one year the production and refinery capacities are in balance. This is an ideal situation. It is, however, absolutely impossible to maintain such a condition through the years as both the refinery and producing operations are subject to constant and radical changes, sometimes within a very short period, but the general policy of balanced volume between production, refining and marketing would seem to assure the highest degree of efficiency and security in earnings.

During the past year, the Company has carried on its geological work with a larger force and greater activity than at any time in its history. As a result of this, the holdings in undeveloped acreage have increased very largely through the year. The development of these properties will, in the normal course of affairs, be extended over a considerable period. The Company has made some discoveries in virgin territory which are not yet demonstrated to be highly important. During the year, the enlargement of producing territory in fields already in operation has been very gratifying. In one case, practically 4,000 acres of new producing territory has been added in this way, and in another a very substantial increase in the ultimate recovery is indicated through deeper drilling.

REFINING

In the year 1944, the refineries of The Pure Oil Company completed a construction program designed primarily to furnish war products. At Toledo, Ohio, we completed the
construction and have in operation a hydroformer, a complete toluene plant, and a catalytic
polymerization unit. At Smiths Bluff, Texas, we have in operation a thermofor catalytic
cracking unit and a sulphuric acid alkylation unit. At Newark, Ohio, our codimer unit is
in full operation. At Cabin Creek, West Virginia, our catalytic polymerization unit was
converted to produce codimer. With the help of these new installations and with our
regular line of equipment, we are able to produce large quantities of 100 octane gasoline,
toluene, xylene, 91 octane gasoline, 80 octane all-purpose gasoline and special components
for the highest octane aviation gasoline, as well as special diesel oil for both the Army and
Navy and large quantities of Navy fuel oil. We have, of course, produced during the
war period large quantities of aviation lubricants and a complete line of heavy lubricants
designed for tanks, trucks, etc. All of these are products which have been produced in
addition to our regular line of petroleum products.

In designing the new equipment, special emphasis was placed on the flexibility of the
units. Each unit can be easily and inexpensively switched to the manufacture of housebrand
gasoline, premium gasoline, a full line of commercial naphthas and whatever grade of
aviation gasoline will be needed for civilian use.

Plans are under way for the construction of a most modern plant for the manufacture
of lubricating oils and greases. This will involve a considerable investment. The Company
is fortunate in possessing a large reserve of oil which has unusual qualities for these
purposes, and this new plant, it is believed, will enable the Company to put out a product
of unique excellence. In addition to this, equipment will be provided which will increase
both in amount and variety the chemicals which can be recovered from refinery by-product
gases. The products of this additional equipment will be distributed primarily by water
into most of the territory in which our retail marketing operations are conducted. The time
during which these additions can be completed will be determined largely by the availability
of the materials for their construction. As soon as possible it is contemplated that the
Company will embark upon the construction of a new research laboratory which will expand
our research activities.

This general program may take some time for completion, but when accomplished
will put the Company in the unusual position of manufacturing from its own crude reserves
each of the products which it needs to market in volume to the public.

The Pure Oil Company, together with four other oil companies, designed and built
the Neches Butane Products Company plant for the Government near Beaumont, Texas,
and provided the technical and professional talent for its operation. This is one of the
largest plants in the world for the manufacture of butadiene, which is the base from which
synthetic rubber is produced. These five companies are furnishing the butylenes for this
plant.
It is through the development, construction and operation of this and similar plants that the oil industry has provided most of the base stock for synthetic rubber, and without this contribution nothing less than a disaster would have occurred in the transportation system of the United States.

MARKETING

The marketing of products to the civilian population was carried on in much the same way as in the previous year. Ceiling prices were set and quotas established by the Government. The volume of petroleum products sold and the earnings were approximately the same as in 1943. The sale of tires, batteries and general accessories was materially greater than at any time in the Company's history.

The Company has tried desperately to maintain at the highest possible standards its service and general operating conditions in its filling stations during the war years. As rapidly as conditions permit, they will be improved. Increased emphasis will be put upon schools for the education of service station attendants and salesmen generally. When priorities and materials are obtainable, all of the outlets will be rehabilitated and repaired, and a great many will be very much enlarged. The marketing of accessories and merchandise collateral to the sale of oil products will be greatly facilitated by these enlarged stations and will be pushed as aggressively as possible. The Company has surveyed the field of its marketing operations to discover those points at which it has outlets operating on short-term or expiring real estate leases, and it has acquired all of those situated in key localities or which are otherwise desirable.

It is not anticipated that the Company will need to extend the territory in which it markets its goods as it reaches practically all of the area to which it can make deliveries at rates as good as or better than its competitors. It has no desire to go beyond these limits.

Worthy of comment are the unusual difficulties to which those engaged in the marketing of our products are subjected. The draft which has been made upon manpower by the Military Services has been especially severe, necessitating longer hours and harder work on the part of the ones who have carried on. The Company congratulates itself on having, in addition to its own personnel, a body of independent dealers and jobbers who have handled its products through the years and who have met the exigencies of the situation with courage and enterprise.

The service which has been performed by the retail marketers has been of infinite value in keeping the great automotive transportation machinery of the country in operation. Not only have they had the responsibility of delivering the vital fuels and lubricants, but they have contributed greatly to the conservation and care of the automobiles.
TRANSPORTATION

One of the most difficult undertakings that confronted the petroleum industry after Pearl Harbor was that of transportation. At the beginning of the emergency, it was the chief bottleneck that threatened to slow down the whole war effort. At the present time, the industry can congratulate itself that it has solved this great difficulty to a remarkable extent. In doing so, complete cooperation between all of the units of the industry has been obtained, and the construction of new facilities and the rearrangement of the existing ones has taken place on a colossal scale.

During the year, the Company has not been obliged to carry on any major construction in its pipe line system, but has been constantly making readjustments to meet changing conditions with the effect of utilizing existing facilities to the maximum. Through its well organized and complete transportation structure, the Company has made a substantial contribution to one of the most serious war problems.

Barge transportation, with its inherent flexibility, has served beyond its normal peace-time uses to substitute for war-time loss of tanker capacity and to supplement pipe line and tank car movements of both crude oil and refined products. A fleet of 33 steel barges totaling 280,000 barrels capacity, pushed by 9 diesel powered towboats, operating over a stretch of 4,000 miles of river and intracoastal canals, has implemented the economical delivery of nearly 9,000,000 barrels of petroleum products over an average distance of 800 miles. Transportation by this means can be utilized in this territory in which the Company markets its gasoline. The ability to shift quickly from one form of transportation to another has played a dominant part in supplying the Company’s transportation needs in these troubled times and should be a valuable asset in solving the peace-time transportation problems.

The consent decree under which most pipe line companies have been operating since 1941 has been, and so long as it is in effect will continue to be, a serious impediment to the construction of new facilities, and in the long view will impede the operation of those economies which are a major advantage both to the industry and to the public.

RENEGOTIATION, ACCOUNTING PROCEDURE, ETC.

The sales on government contracts for the year 1942 and the supporting information were reviewed by the Government, and it was found that no excessive profits have been realized. Similar data covering 1943 sales were filed in September, 1944. No information as to the results of this examination has as yet been received. In view of
the basic situation and previous rulings of the Government, it is the opinion of the management that no adjustments of any importance will be required on such transactions in either 1943 or 1944.

The balance sheet of the Company, as a result of adjustments made in 1932, included in its property account under the terminology of "contracts, rights, patents, trademarks, etc." an amount of $19,523,031. After due consultation with independent auditors, the accounting treatment of this item was believed to be consistent with the accounting practice prevailing at that time. In the twelve years that have elapsed since this was done, there has been a trend in business practice which makes it preferable to eliminate intangible assets of this type. Accordingly, entries made in 1932 have been reversed, and the amount of $19,523,031 has been charged to surplus and the intangible assets carried at $1. As a result of this book adjustment, the balance sheet of the Company as presented herewith contains no intangible assets such as good will, patents or contracts. This does not represent any change in the condition of the Company which has taken place at any time during the twelve-year period.

Under wartime conditions, it is difficult to provide adequately through normal accounting channels for complete costs incident to current operations. Accordingly, the Company has established a reserve of $1,000,000 to cover such contingencies, which amount has been deducted from income for 1944.

GENERAL

It is hardly an exaggeration to say that all of the activities of the Company have been devoted to the promotion of the war effort. A very large part of its products has gone directly to the military forces and to the Government, and those products which have been distributed to the civilian population were used for the transportation of war material and war workers and for the preservation of the domestic economy.

Operations have been made infinitely difficult because of the detailed regimentation which has prevailed in the handling of manpower problems, as well as all of the activities in production, refining, transportation and marketing. Free play of ordinary human incentives has been largely suspended,—a condition which will result in an irreparable injury to the American spirit of enterprise and progress if continued when the war emergency is over. In spite of this, it is to the everlasting credit of the industry that it has carried on with courage and patriotism in the performance of its vital function. That the liaison between the Government and the industry has taken place with success reflects favorably on both, but the devastating effect of regimentation is so obvious as to harden the determination to eliminate it as quickly as conditions permit.
No one can intelligently forecast the outlook for the immediate future or the period of readjustment which will come after the war: it is impossible to say how long the war will last and what economic and social changes will follow it. This, of course, affects all industrial and commercial activities. It is reassuring, however, that the petroleum industry supplies a commodity which is essential in war and in peace, in depression and in prosperity. This has been true for many years, and the variety and nature of the new products which it can produce as a result of scientific and technical developments will, in the coming years, increase its importance in the economic structure of the country. No substitutes for petroleum products can be produced which will approach them in either economy or efficiency.

The Pure Oil Company has crude reserves which are very large, a transportation system which is highly developed, modern refineries, adequate marketing facilities, and a financial structure amply sufficient to support all of its activities. In all essential respects, it would seem to be ready to meet conditions as they develop with the highest flexibility and to preserve its properties and safeguard its earnings.

By Order of the Board of Directors,

HENRY M. DAWES, President.
### Current Assets:

- Cash in banks, in transit and working funds: $15,927,437
- U. S. Government securities, at cost: 1,912,000

#### Receivables—
- Notes: $326,921
- Accounts: 13,239,358

#### Less—Reserve for doubtful receivables:
- $13,566,279
- 313,763

#### Inventories—
- Crude oil (Note 1): $5,554,574
- Refined oils and merchandise (Note 1): 12,461,331
- Materials and supplies, at current cost less allowance for condition: 6,617,638

#### Investments, Advances, Etc.:
- Investments in and advances to subsidiaries not consolidated, at cost (Note 2): $6,503,390
- Investments in securities of other companies (Note 3): 4,237,771
- Deferred receivables, etc., less reserve of $828,319: 912,412
- Fund for replacement of equipment (U. S. Government securities): 1,842,500
- Postwar refund of excess profits tax: 447,514

#### Property, Plant and Equipment (Notes 4 and 5):

<table>
<thead>
<tr>
<th>Classification</th>
<th>Gross</th>
<th>Reserve</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producing</td>
<td>$156,354,972</td>
<td>$77,629,609</td>
<td>$78,725,363</td>
</tr>
<tr>
<td>Transportation</td>
<td>17,014,078</td>
<td>9,367,845</td>
<td>7,646,233</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>46,026,444</td>
<td>23,289,520</td>
<td>22,736,924</td>
</tr>
<tr>
<td>Marketing</td>
<td>40,837,601</td>
<td>18,319,591</td>
<td>21,718,100</td>
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<tr>
<td>Other properties</td>
<td>3,616,150</td>
<td>1,413,396</td>
<td>2,202,754</td>
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<tr>
<td>Total</td>
<td>$263,049,315</td>
<td>$130,019,761</td>
<td>$133,029,554</td>
</tr>
</tbody>
</table>

#### Prepaid and Deferred Charges:

- $858,032

#### Contracts, Rights, Patents, Trade-Marks, Etc.: $203,556,670

The attached notes are an integral part of this schedule.
FIRST ANNUAL REPORT • 1944

(Ohio) AND SUBSIDIARIES
—December 31, 1944

LIABILITIES

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>CURRENT LIABILITIES:</td>
<td></td>
</tr>
<tr>
<td>Purchase obligations, etc.</td>
<td>$ 486,984</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>11,832,237</td>
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<tr>
<td>Dividends payable January 1, 1945</td>
<td>977,168</td>
</tr>
<tr>
<td>Advance from U. S. Government agency on sales</td>
<td></td>
</tr>
<tr>
<td>contract</td>
<td>482,456</td>
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<tr>
<td>Accrued liabilities</td>
<td>1,726,923</td>
</tr>
<tr>
<td>Provision for Federal income taxes</td>
<td></td>
</tr>
<tr>
<td>Less—U. S. Treasury tax notes</td>
<td>10,854,431</td>
</tr>
<tr>
<td></td>
<td>158,961</td>
</tr>
<tr>
<td></td>
<td>$15,664,729</td>
</tr>
<tr>
<td>LONG-TERM DEBT:</td>
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<tr>
<td>Deferred purchase obligations, etc.</td>
<td>2,415,806</td>
</tr>
<tr>
<td>RESERVES:</td>
<td></td>
</tr>
<tr>
<td>For replacement of equipment</td>
<td>$ 1,695,961</td>
</tr>
<tr>
<td>For war-created contingencies (Note 6)</td>
<td>1,000,000</td>
</tr>
<tr>
<td></td>
<td>2,695,961</td>
</tr>
<tr>
<td>MINORITY INTERESTS IN CAPITAL STOCK AND SURPLUS</td>
<td></td>
</tr>
<tr>
<td>OF SUBSIDIARIES (approximately $750,000 under commitments for purchase over a period of years):</td>
<td></td>
</tr>
<tr>
<td>Capital Stock</td>
<td>$ 1,572,229</td>
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<tr>
<td>Surplus</td>
<td>1,031,515</td>
</tr>
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<td></td>
<td>2,603,744</td>
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<tr>
<td>CAPITAL STOCK AND SURPLUS:</td>
<td></td>
</tr>
<tr>
<td>Capital Stock—</td>
<td></td>
</tr>
<tr>
<td>Cumulative preferred—authorized 1,000,000 shares, par value $100; outstanding 725,431 shares (Note 7)—</td>
<td></td>
</tr>
<tr>
<td>Rate</td>
<td>Shares</td>
</tr>
<tr>
<td>5%</td>
<td>442,434</td>
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<tr>
<td>6%</td>
<td>282,997</td>
</tr>
<tr>
<td>725,431</td>
<td></td>
</tr>
<tr>
<td>Common—authorized 10,000,000 shares, no par value (Note 7)—outstanding 3,982,031 shares, assigned value $10 per share</td>
<td></td>
</tr>
<tr>
<td></td>
<td>39,820,310</td>
</tr>
<tr>
<td>Surplus (per summary attached)</td>
<td></td>
</tr>
<tr>
<td>(Notes 4, 5 and 7)—</td>
<td></td>
</tr>
<tr>
<td>Paid-in surplus</td>
<td>$ 19,038,823</td>
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<tr>
<td>Earned surplus since April 1, 1932</td>
<td>48,774,197</td>
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<tr>
<td>CONTINGENT LIABILITIES (Note 8)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$203,556,670</td>
</tr>
</tbody>
</table>

Part of the above statement.
### Consolidated Income
For the Year Ended

#### Income Account

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td><strong>Gross Operating Income</strong></td>
<td>$166,061,822</td>
</tr>
<tr>
<td><strong>Costs, Operating and General Expenses</strong></td>
<td>$121,898,705</td>
</tr>
<tr>
<td><strong>Provision for Depreciation and Depletion (including lease bonuses paid)</strong></td>
<td>$16,102,897</td>
</tr>
<tr>
<td><strong>Taxes (other than Federal taxes on income)</strong></td>
<td>$3,572,958</td>
</tr>
<tr>
<td><strong>Net operating income</strong></td>
<td>$24,487,262</td>
</tr>
<tr>
<td><strong>Other Income:</strong></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>$1,016,524</td>
</tr>
<tr>
<td>Interest and discount earned</td>
<td>$504,476</td>
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<tr>
<td><strong>Total</strong></td>
<td>$1,521,000</td>
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<tr>
<td><strong>Other Deductions:</strong></td>
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<tr>
<td>Cash discounts allowed</td>
<td>$374,004</td>
</tr>
<tr>
<td>Interest on purchase obligations, etc.</td>
<td>$110,473</td>
</tr>
<tr>
<td>Loss on disposition of capital assets, etc. (net)</td>
<td>$172,150</td>
</tr>
<tr>
<td><strong>Income before Federal taxes on income, etc.</strong></td>
<td>$25,351,635</td>
</tr>
<tr>
<td><strong>Provision for Federal Taxes on Income:</strong></td>
<td></td>
</tr>
<tr>
<td>Federal normal tax and surtax</td>
<td>$3,364,868</td>
</tr>
<tr>
<td>Federal excess profits tax (less postwar refund of $289,004 and debt-retirement credit of $177,000)</td>
<td>$4,194,038</td>
</tr>
<tr>
<td><strong>Income before provision for war-created contingencies and minority interests</strong></td>
<td>$17,792,729</td>
</tr>
<tr>
<td><strong>Provision for War-Created Contingencies (Note 6)</strong></td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Income before minority interests</td>
<td>$16,792,729</td>
</tr>
<tr>
<td><strong>Income Applicable to Minority Interests</strong></td>
<td>$400,551</td>
</tr>
<tr>
<td>Net income carried to earned surplus</td>
<td>$16,392,178</td>
</tr>
</tbody>
</table>

The attached notes are an integral part of the above statement.
## FIRST ANNUAL REPORT • 1944

### AND SUBSIDIARIES

**Surplus Accounts**

**December 31, 1944**

### PAID-IN SURPLUS

**Balance—December 31, 1943**

Charge to earned surplus of a portion ($10,354,766) of the reduction in the carrying value of the company's properties, recorded as at April 1, 1932, in order to exhaust the balance in earned surplus as at that date.

$ 28,207,088

Reversal of the amount set up (by corresponding credit to paid-in surplus) at April 1, 1932, representing the value assigned at that date to contracts, rights, patents, trade-marks, etc.

$ 38,561,854

**Balance—December 31, 1944**

$ 19,323,031

### EARNED SURPLUS

**Since April 1, 1932**

**Balance—December 31, 1943, as previously reported**

Charge to earned surplus of a portion ($10,354,766) of the reduction in the carrying value of the company's properties, recorded as at April 1, 1932, in order to exhaust the balance in earned surplus as at that date.

$ 50,626,503

Balance

$ 40,271,737

Add—Net income for the year

$ 16,392,178

$ 56,663,915

Deduct—Cash dividends declared on:

- Preferred shares
  $ 3,908,657

- Common shares
  3,981,061

$ 7,889,718

**Balance—December 31, 1944**

$ 48,774,197

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, 1944, 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.

Except for the effect of 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, 1944, 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.

Arthur Andersen & Co.

Chicago, Illinois,
February 26, 1945.
NOTES:

(1) Inventories of crude and refined oils are priced at cost, on the "last-in first-out" method, which in the aggregate is 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) $5,225,209 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) $1,278,181 representing 99.99% of the outstanding common capital stock (presently non-voting) and 90.20% 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 relatively small net profit for 1944.

(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 $1,683,653, respectively; and (c) other security investments at cost or lower, of $986,071. 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. As of November 1, 1944, the company wrote off to paid-in surplus contracts, rights, patents, trade-marks, etc. in the amount of $19,523,031 which had been set up (by corresponding credit to paid-in surplus) at April 1, 1932.

(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 provision for war-created contingencies represents costs applicable to the current year of a nature not subject to exact determination, including deferred maintenance, reconversion of facilities, replacement of inferior construction materials, etc.

(7) The 5% cumulative convertible preferred shares may be exchanged, at the option of the holders thereof, for common shares on the basis of $\frac{3}{32}$ shares of common for each share of preferred through October 1, 1947 when the conversion privilege terminates. At December 31, 1944, 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, 1944 is approximately $300,000, based upon interpretation by Counsel for the company.

(8) 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 $250,000. 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 $675,000 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 six years. Any notes so purchased are to be subordinated to any other notes of such corporation held by the bank.

(9) The company filed the required data for 1942 and 1943 under the Federal statute authorizing renegotiation of contracts and has been advised that no excessive profits were realized for 1942. The management believes that the effect, if any, of renegotiation for the years 1943 and 1944 will not be material.

(10) At December 31, 1944, the company and a subsidiary held net assets amounting to $488,311 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.
NOTICE OF THE 1945 ANNUAL MEETING OF SHAREHOLDERS, REQUEST FOR PROXY, PROXY STATEMENT AND PROXY WILL BE MAILED TO SHAREHOLDERS ON OR ABOUT MARCH 10, 1945.

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.