TIDE WATER ASSOCIATED OIL COMPANY

AND

SUBSIDIARY COMPANIES

ANNUAL REPORT

1936
The accompanying report and financial statements are respectfully submitted for the general information of the stockholders of Tide Water Associated 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 securities.
To the Stockholders of

Tide Water Associated Oil Company:

Introductory:

The eleventh annual report of your Company, accompanied by a Consolidated Balance Sheet as of December 31, 1936, and the related Income Statement for the year ending that date, are submitted herewith. Such financial statements are designated "Consolidated Statements" reflecting, as they do, the assets, liabilities, and operating results of your Company, and also those of its wholly owned subsidiaries, except one wholly owned foreign subsidiary the assets and operations of which are very nominal in amount. The accounts of your Company and of the subsidiaries included therein have been examined by Price, Waterhouse & Co. and its Certificate of Audit is a part of this report.

During the period covered by all prior annual reports, your Company was a holding company, deriving its income chiefly from dividends paid by its subsidiaries, Tide Water Oil Company and Associated Oil Company. On November 30, 1936, these subsidiaries were merged into your Company. Accordingly, this report relates to its activities as a holding company for eleven months and as an operating company for one month.

Following the merger, the refinancing program of your Company and its subsidiaries, initiated in August 1935, was completed. This program embraced the refunding and refinancing of all funded debts and Preferred Stock. The immediate benefits that will flow from the merger and refinancing program will be reflected in the Company's operations during the year 1937, but all of the permanent and continuing savings and advantages will not be reflected as a whole until the calendar year 1938 and thereafter, as the financing was not completed until April 1, 1937, when the then outstanding shares of the 6% Preferred Stock of the Company were redeemed. It is estimated that on the basis of existing tax laws a direct saving in taxes of approximately $600,000 annually will be one of the permanent benefits from the merger and refinancing and that, in addition, dividends on Preferred Stock and annual interest charges will be reduced approximately $1,115,000, resulting in an aggregate annual saving of $1,715,000. Additional benefits expected from consolidating the operations of the subsidiaries in one company may not be estimated at this time. The merger and refinancing program is reviewed in another part of this report.

During the past five years this Company has reported increases in annual earnings. Its consolidated net income of $10,217,928 for the past calendar year, after allowing $1,212,119 for Federal income tax, is by far the largest net income reflected in the annual reports since 1929, and is $2,352,227 more than the net income for the year 1935. This net income of $10,217,928 for the year 1936 compares with $7,865,700 for 1935; $5,810,700 for 1934; $7,265,300 for 1933, and $4,718,700 for 1932. The net income for the five years according to the annual reports issued for those years aggregated $35,878,300.

In the same period your Company paid in dividends a total of $23,213,665, of which $19,179,179 were paid to its stockholders owning Preferred Stock, and only $4,034,486 to its stockholders owning Common Stock. The holders of Preferred Stock received approximately 83% of the total dividends paid, although the par value of their shares of stock amounted to less than one-half of the Company's total capitalization and surplus.

The disadvantage to Common stockholders resulting from the Company's capital structure and the increasing tax burdens imposed on it because of its "holding company" character are thus apparent.

Accordingly the Directors sought to eliminate the disadvantages attending the Company's previous capital structure and the increasing tax burdens imposed on it because of its "holding company" character by merging the subsidiaries into your Company and by refinancing the 626,221 shares of its 6% Preferred Stock and other funded indebtedness, in order that the charges ahead of the Common Stock equity might be reduced and the holders of Common Stock enjoy a higher per-
centage of the Company's total earnings without in any way whatsoever trespassing on the rights and privileges of the holders of its Preferred Stock.

In order that the stockholders may be fully informed on the important changes made in your Company's capital structure to accomplish the merger and refinancing, that program will be explained in this report before reviewing the operations and earnings for the year 1936.

**Merger:**

Your Company was organized in the year 1926 under the laws of the State of Delaware. Between the date of its organization and November 30, 1936, it acquired 99.13% of the Capital Stock of Tide Water Oil Company, and 98.21% of the Capital Stock of Associated Oil Company.

Beginning with the year 1934, holding companies became subject to various tax disadvantages. Prior thereto Federal income taxes of a corporation and its subsidiaries were levied upon their consolidated taxable net income, the enterprise being treated as a whole, and, for tax purposes, dividends received from other corporations could be excluded from its income subject to the normal income tax. Amendments to the Federal income tax laws of 1934 denied corporations the right to file consolidated returns, and required each corporation to file a separate return and pay taxes on its separate taxable net income. Losses, if any, of one subsidiary no longer could be offset against profits of another subsidiary in the same group, with the result that the aggregate income taxes payable by the corporations in the group might be substantially greater than the amount payable by them if taxed on the basis of a consolidated return. Subsequent successive amendments to the Federal Revenue Laws first imposed a tax on ten percent of all dividends received by one corporation from another, and later taxed fifteen percent of all such dividends. Moreover, Federal excess profit taxes and the recently imposed tax upon undistributed net income of corporations added to the tax burdens of holding companies. The problem presented by the relatively heavy annual charges for interest and dividends on the senior securities of your Company and its subsidiaries was of even greater importance. On August 1, 1935, such securities of the Company and subsidiaries consisted of:

- Secured 5¼% promissory notes due United States Shipping Board .................. $ 2,081,640
- Tide Water Oil Company (New Jersey) 5% Cumulative Preferred Stock ........... 19,506,600
- Tide Water Associated Oil Company 6% Cumulative Preferred Stock ............ 62,622,100

Total ................................................................. $84,210,340

Annual interest and dividend charges thereon amounted to $4,841,942.

Moreover, the redemption provisions of the 5% Preferred Stock of Tide Water Oil Company and the 6% Preferred Stock of your Company required the payment of $5.00 per share when redeemed.

The premiums for the redemption of the outstanding shares of the 5% Preferred Stock totalled $975,330 and for the redemption of the 6% Preferred Stock $3,131,105, an aggregate of $4,106,435, and, together with the principal sum of $84,210,340, presented the problem of financing $88,316,775.

As a result of careful study of these problems and their solution it was finally determined to attack them progressively, first, by retiring the 5% Preferred Stock of Tide Water Oil Company, second, by liquidating into their parent companies certain subsidiaries of Tide Water Oil Company and Associated Oil Company, third, by merging these companies into your Company, and as part of such merger, by amending its Certificate of Incorporation to facilitate the above refinancing.

On August 15, 1935, Tide Water Oil Company's issue of 195,066 shares of 5% Preferred Stock was retired by the payment of $19,506,600, plus the premium of $975,330, or a total of $20,481,930, $19,000,000 thereof with the proceeds of a five year bank loan in that amount and the balance of $1,481,930 out of the Company's working capital. The bank loan was made in anticipation of its repayment through the proposed financing, but it was negotiated for a term of five years as an assurance against any possible delay in the completion of that program.

During the year 1936, both prior and subsequent to the merger, the properties and operations of certain subsidiaries were consolidated with those of their respective parents, and, in connection therewith, Tide Water Oil Company, a Delaware corporation, acquired substantially all the assets of the New Jersey company bearing the same name. In October, 1936, the most important step in the consolidation program, which also constituted a necessary step preliminary to the completion of the refinancing
program, was initiated, when an agreement for the merger of Tide Water Oil Company (Delaware) and Associated Oil Company (California) into your Company was executed, having among others, the following objectives:

(1) There would be no increase in the total number of shares of Capital Stock as a result of the merger.

(2) The total capitalization would consist of 626,221 shares ($62,622,100 par amount) of 6% Preferred Stock of the par value of $100 per share, 873,779 shares of Preferred Stock without par value, authorized but not issued, to take the place of the equal number of authorized shares of the 6% Preferred Stock (although only the foregoing 626,221 shares were actually outstanding), and 10,000,000 shares of Common Stock of the par value of $10 each, to replace the authorized shares of Common Stock without nominal or par value (the change from no par common to $10 par common will save the Company approximately $19,000 annually in franchise tax, and will benefit the stockholders through reduction in transfer taxes when dealing with par value compared with no par value stock.)

(3) The issuance of a Preferred Stock without par value in such series and with such rights, privileges, and preferences as the Directors might deem best for the Company, except that the redemption price should not exceed $105 per share so long as any of the 6% Preferred Stock remained outstanding, and that the dividends should not exceed $6.00 per share per annum.

A copy of the Merger Agreement accompanied by an explanatory letter, dated October 16, 1936, was mailed to every stockholder of Tide Water Oil Company, of Associated Oil Company, and of your Company. The stockholders of each of said companies at meetings separately called and held, approved the plan of merger.

According to the stock ledger of your Company, shares of its 6% Preferred Stock outstanding were owned by 13,204 stockholders, and the Common Stock was owned by 20,354 stockholders. Of these holders of the respective classes of stock, a total of 10,362 stockholders owning approximately 81% of the issued and outstanding shares of the 6% Preferred Stock, and a total of 16,102 stockholders owning 78.78% of the issued and outstanding shares of Common Stock, voted in favor of and approved the Merger Agreement.

Out of the total of 35,624 stockholders of the three merging corporations owning an aggregate of 11,216,673 shares of all classes of stock of the three companies, only nine stockholders representing only 28 shares of Preferred Stock and only 24 shares of Common Stock of your Company and 4,402 shares of the Capital Stock of Associated Oil Company voted against the merger. No stockholder of Tide Water Oil Company voted against it.

As contemplated in the letter of October 16, 1936, which accompanied the proposed Merger Agreement, the Board of Directors has been enlarged to include such of the officers and directors of Tide Water Oil Company and Associated Oil Company as were not then Directors of your Company.

On the completion of the merger, three divisions of your Company were established—Tide Water Eastern Division, Tide Water Mid-Continent Division, and Associated Division on the Pacific Coast, thereby securing the most efficient method of operating. Each Division is operated by executives of the former subsidiaries, and the operations of the three Divisions are coordinated under the direction of the Executive Vice-President.

It is hoped that the addition to the Directorate of your Company of Officers and Directors of the former subsidiaries who were not theretofore Directors of your Company, and the retention by its operating divisions of the trade names under which the operations of the former subsidiaries were conducted in their respective territories, will preserve the valuable good will and trade they had acquired.

Refinancing:

The merger prepared the way for the completion of the refinancing program inaugurated with the retirement of the 5% Preferred Stock of Tide Water Oil Company by the payment of $20,481,930, to cover $19,506,600 in principal and $975,330 in premiums.

The Merger Agreement specifically authorized the Board of Directors to issue Preferred Stock convertible into Common Stock on such terms and conditions as it should determine, and your Directors carefully studied the kinds of securities which could be then sold on terms advantageous to the Company and its stockholders. After careful and thorough consideration, the Board of Directors decided to issue $40,000,000 principal amount of Fifteen Year 3½% Sinking Fund Debentures, and 500,000 shares of $4.50 Cumulative Convertible Preferred Stock without par value.
Kuhn, Loeb & Co. and Lehman Brothers, associated with a representative group of underwriters, purchased the Debentures at 99% of their principal amount of $40,000,000, plus accrued interest, and offered them to the public at 101% plus accrued interest.

The Company offered to the holders of the 626,221 shares of its 6% Preferred Stock then outstanding the right to exchange one share of the 6% Preferred Stock for one share of the new $4.50 Cumulative Convertible Preferred Stock without par value and $2.00 in cash, and subject to the prior exchange rights of the 6% Preferred stockholders offered its Common stockholders the right to subscribe for the $4.50 Preferred Stock at $103 per share, plus accrued dividends. The underwriters named above agreed to purchase at $103 per share, plus accrued dividends, all shares of the $4.50 Preferred Stock not taken pursuant to the exchange and subscription offers. Underwriting commissions were to be paid at the rate of $1.25 per share as a "stand-by charge" for each of the 500,000 shares of $4.50 Preferred Stock issued and $1.50 per share additional for each share purchased by the underwriters.

Of the total issue of 500,000 shares of $4.50 Cumulative Convertible Preferred Stock without par value, 389,133 shares were exchanged for a like number of shares of the 6% Preferred Stock, and 47,535 shares of such $4.50 Preferred Stock were subscribed for by holders of shares of Common Stock of your Company. Thus over 87% of the total of 500,000 shares of $4.50 Preferred Stock were taken by stockholders of your Company. The remaining 63,332 shares were purchased by the underwriters.

The cash proceeds from the sale of said Debentures and $4.50 Preferred Stock (after deducting all underwriting commission, but before payment of expenses) amounted to $50,299,303. The Company applied such proceeds as follows:

1. $778,266 to reimburse the Company for cash payments made to 6% Preferred Stockholders pursuant to the exchange offer;
2. $17,000,000 for the payment of the unpaid balance of the five year bank loan previously referred to;
3. $1,800,000 for the payment of a temporary bank loan previously effected to retire the unpaid balance of the United States Shipping Board indebtedness; and
4. $25,249,872 to redeem on April 1, 1937, the 237,088 shares of 6% Preferred Stock not exchanged pursuant to the exchange offer.
5. After such application of proceeds and payment of the expenses incident to the merger and financing, there remained as an addition to working capital approximately $5,000,000.

All shares of 6% Preferred Stock having been exchanged or redeemed, the Board of Directors at its meeting on April 2, 1937, adopted a resolution approving amendments to its Certificate of Incorporation providing, among other things, for the elimination therefrom of all references to the 6% Preferred Stock. This amendment will be submitted for the approval of the stockholders at their Annual Meeting on May 6, 1937.

The capital structure of your Company other than Common Stock now consists of:
- Fifteen Year 3½% Sinking Fund Debentures, in the principal amount of $40,000,000
- 500,000 shares of $4.50 Cumulative Convertible Preferred Stock without par value, stated at $50,000,000

The interest on the Debentures, dividend requirements on the $4.50 Preferred Stock, amortization of bond discount and expense, and premium to be paid into the sinking fund, amounting initially to $3,727,500 per annum, compares with the $4,841,942 of annual charges on senior securities as of August 1, 1935, when the first step in the merger and financing program was taken. The reduction of not less than $1,115,000 in dividends of Preferred Stock and interest thus effected, combined with estimated tax savings, on the basis of existing tax laws, of not less than $600,000 indicate total savings through the completion of the merger and refinancing program (and consequently a reduction in charges before income available for Common Stock dividends) of approximately $1,715,000 annually.

There has been appropriated from the increased working capital resulting from the merger and refinancing program the sum of $1,950,000 for the installation at the Company's refinery at Avon, California, of additional cracking facilities and equipment, and also for a polymerization unit for the production of gasoline from refinery gases now utilized only for their fuel value. In addition to increasing earnings, cracking and polymerization processes will permit a reduction in the annual purchases of crude oil otherwise necessary for the manufacture of an equivalent volume of gasoline.
Merger and Refinancing Costs:

The foregoing plan of merger and refinancing was adopted and carried through with the realization that the benefits accruing therefrom could not be attained without considerable expense. At the outset the Company was faced with the redemption of the 5% Preferred Stock issue of Tide Water Oil Company, as well as the 6% Preferred Stock of Tide Water Associated Oil Company, necessitating, if both issues were called for redemption, the payment of premiums totaling $4,106,435. It was also anticipated that the liquidation of the various subsidiaries of Tide Water Oil Company and Associated Oil Company, in order that these corporations might merge into your Company, would entail additional costs and that the financing program with underwriting charges and commissions would add considerably to the total, all ultimately to be borne by your Company. However, the conviction that the benefits would greatly outweigh the costs has been amply sustained.

The total expenses of all character (including the payment in 1935 of the total premium of $975,330 on redemption of the Tide Water Oil Company 5% Preferred Stock, charged against surplus in that year, the redemption premium of $1,185,440 paid on the shares of 6% Preferred Stock actually redeemed, and $778,266 paid to 6% Preferred stockholders who accepted the exchange offer, a combined total of $2,939,036 incident to the entire merger and financing program amounted to $4,442,668. Approximately $575,000 of this sum has been recovered through payment of lower interest rate on bank loans, the proceeds of which were applied to the redemption of the 5% Preferred Stock of Tide Water Oil Company. Of the balance of $3,867,668, $246,000 was charged against earnings for the year 1936. The total sum of $4,442,668, less the amount of $575,000 already recovered, will be entirely recovered through the annual savings of approximately $1,715,000 in a little more than two years.

Net Income—$10,217,928:

After all charges including the allowance of $1,212,119 for Federal income taxes, the net income for the year 1936 was $10,217,928 or $1.11 per share on the average number of shares of Common Stock outstanding during the year. A comparison of these earnings with those of the preceding year as set forth in the annual report for the year 1935, indicates:

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<th></th>
<th>1936</th>
<th>1935</th>
<th>Change</th>
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<tbody>
<tr>
<td>Net income from operations</td>
<td>$10,217,928</td>
<td>$7,865,701</td>
<td>+$2,352,227</td>
</tr>
<tr>
<td>Preferred Stock dividend requirements</td>
<td>3,757,326</td>
<td>3,757,326</td>
<td>—</td>
</tr>
<tr>
<td>Net income applicable to Common Stock</td>
<td>6,460,602</td>
<td>4,108,375</td>
<td>+$2,352,227</td>
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<td>Per share, on the average number of shares outstanding</td>
<td>$1.11</td>
<td>$.73</td>
<td>+ $.38</td>
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The main factors contributing to the increase are (1) a substantial increase in the Company's production of crude oil; (2) increased volume of sales of products, and increased realizations thereon; and (3) income derived from recent investments in properties and securities. However, not all changes in operations and economic conditions were favorable. Costs and expenses of doing business were increased very substantially through higher prices for purchased crude oil, products, labor, and materials. While these higher prices may indicate improved economic conditions, they add greatly to the costs of operations. Moreover, your Company has to bear its part of the general increase in Federal and State taxes. However, the advantages outweigh the disadvantages, and this report indicates that your Company has shared appreciably in the recent improvement in business conditions.

A comparison between revenues and expenses of the years 1936 and 1935 shows that the total volume of business transacted during the year 1936 amounted to $124,584,176 against a total of $107,950,085 reported for the year 1935, an increase of $16,634,091 or 15%. A proportionate increase is noted in the cost of products sold and marketed, the total being $90,646,105, or $12,636,017 (16%) in excess of similar costs for the preceding year. The gross profit on sales was 27%, and while no greater than the percentage of gross profit for the year 1935, the greater volume of sales contributed to the larger gross profit in dollars and cents. The charges for depreciation, depletion, and amortization of properties, aggregating $13,291,233, did not rise with the increase in sales. This favorable condition is largely responsible for the increase in the net income per dollar's worth of sales from 7.3 cents in 1935 to 8.2 cents in 1936. This improvement in return per dollar's worth of sales is doubly important when there is a sizable increase in the total business.
Federal, State and County taxes (exclusive of Federal income taxes) paid and charged to operations during the year 1936 aggregated $3,949,371, reflecting an increase of $826,700, or 26.5%, over the amount paid during the preceding year. Federal income taxes for the year 1936 have been estimated at $1,212,119 compared with $680,000 reserved out of the earnings of the preceding year, due to greater net earnings subject to tax. In addition to taxes payable out of gross income, your Company and its former operating subsidiaries collected from consumers for Federal and State Governments a total of $26,706,190 representing taxes on sales of gasoline, lubricating oils, and other products. Gasoline taxes alone aggregated $25,680,854 or approximately 44% of the gross revenue from sales of motor fuel subject to such taxes.

Money expended for properties and equipment employed in the various operations of the Company is charged to capital account, and to the extent that such assets are subject to exhaustion, physical deterioration, or obsolescence, their cost is charged against operations during the period of their useful life. It will be apparent that the most important element in the determination of these charges is an estimate of the number of years during which a facility or property may contribute to earnings through its employment in the Company’s business. In these studies our officials and engineers have the benefit of many years’ experience in operating the various classes of assets employed in the oil industry, and it is the practice of this Company to review and revise the estimates from time to time for the purpose of insuring sufficiently high charges for depreciation and depletion, while avoiding an understatement of remaining book values of assets through excessively high rates.

In pursuance of its practice of reviewing its depreciable properties annually and revising depreciation rates in the light of the latest operating information, certain adjustments in rates, generally downward, were effected in the year 1936. Furthermore, certain properties still in operation had been fully depreciated or their depreciated book values had reached estimated salvage values, resulting in a further reduction of annual depreciation charges. The total provision for depreciation and depletion for the year 1936 amounted to $12,579,959, as compared with $13,268,810 for the year 1935, a decrease of $688,847.

The assets, liabilities, and operating results of partly owned affiliated companies are not consolidated with those of your Company and its wholly owned subsidiaries. However, the balance sheet includes the book value of investments in capital stocks of such companies, under the caption “Investments and Advances,” and the income statement includes dividends received from them. During the year 1936, the total dividends received from such companies and included in the income statement under “Other Income,” amounted to $371,947, while your Company’s share of the net income of these affiliated companies, on basis of stock ownership therein, totaled $620,242.

Operations:

Supplementing the foregoing comments on “Net Income” a review of the operations of the important departments of the former subsidiaries of your Company, Tide Water Oil Company and Associated Oil Company, for eleven months of the year and of the Divisions of your Company following the merger for the last month of the year, may prove of interest.

Production:

During the year 1936 your Company and its consolidated subsidiaries produced 19,942,620 barrels of crude oil against 18,376,712 barrels during the year 1935, an increase of 1,565,908 barrels or 8.5%. Notwithstanding the depletion of 19,942,620 barrels of crude oil during the year, your Company’s petroleum engineers estimated that its crude oil reserves on January 1, 1937 had increased 11,800,000 barrels, even though 19,942,620 barrels of crude oil were produced. This increase in oil reserves was due to development of production and acquisition and extension of producing properties, the details of which acquisitions are considered herein under the paragraphs “Property and Equipment” and “Producing Division.”

The properties of your Company are capable of producing a volume of oil considerably larger than that produced during the year 1936, but voluntary or compulsory curtailment regulations limited its net production of crude oil for the year to 19,942,620 barrels. Its daily average net production during the year was 54,488 barrels. It is now producing about 60,000 barrels net daily. To supplement its own allowable production, your Company purchased 36,506,000 barrels during 1936 to meet the requirements of its refineries and sales departments.

Your Company had 3,265 oil producing wells as of December 31, 1936, and 1,601 oil wells shut in. The latter are also capable of producing, but are shut in to comply in an overall manner with conservation programs.
Transportation:

There were transported during the year 1936, entirely or in part through pipe lines and by marine equipment owned and operated by your Company, 90,957,000 barrels of crude oil and products, compared with 86,813,000 barrels during the year 1935.

On March 6, 1937, one of the Company's ocean-going tankers, the "Frank H. Buck," having a carrying capacity of 65,000 barrels of crude oil, was sunk in a collision off the port of San Francisco and is a total loss, but the tanker and its cargo were fully covered by insurance.

Manufacturing:

In the year 1936, a total of 40,684,114 barrels of crude oil were run through stills at your Company's refineries for the manufacture of gasoline, kerosene, fuel oil, lubricating oils, and other products, an increase over the year 1935 of 3,120,190 barrels, or 8.3%. Approximately 90% of all motor gasoline marketed was manufactured at the Company's refineries.

The research departments are constantly keeping abreast of current developments and discoveries in the refining art, and trained and skilled chemists and engineers are steadily engaged in efforts to improve the quality of the Company's products, increase the ultimate yield from crude oil of products of higher realization, and create new products to assist and meet the demands of the consuming public.

Sales:

During the year 1936, a total of 57,111,081 barrels (42 gallons to a barrel) of crude oil, gasoline, kerosene, fuel oil, lubricating oils, and other refined products were sold, an increase of 6,638,982 barrels, or 13% over the sales volume for the year 1935.

All classes of sales, with the exception of kerosene, were at realizations higher than those of the previous year. It is also important to note that the principal gain in sales volume was in territories already served by your Company's sales facilities. The sales from Company owned service stations, operated in most instances by sublessees, reflect substantial increases obtained through improved and aggressive merchandising programs. Increased sales through existing plants and facilities have, as already indicated, very obvious advantages. A total of approximately 270 bulk distributing plants and 1,318 service stations, practically all of which are located in the United States and either owned or leased by the Company, are engaged in distributing the Company's products, and large quantities of products are also shipped directly from refineries to customers by vessels, tank cars, and tank trucks. Many thousands of resellers likewise distribute the Company's products to consumers located in the Eastern, Mid-Continent, and in the Pacific Coast regions of the United States, as well as in the Philippine Islands and the Territory of Hawaii.

Balance Sheet Comments:

In reviewing the Balance Sheet, stockholders should remember that, with some exceptions, the various classes of assets are carried at values substantially lower than their actual value or replacement cost. The Balance Sheet therefore states briefly, in the form of parenthetical and other notes, the basis of valuation used for such assets. Inventories of crude oil, products and materials, investments and advances, and properties and equipment are carried at cost or lower than cost.

Current Assets and Current Ratio:

Total current assets amounted to $50,344,287 as at December 31, 1936, compared with a total of $49,957,378 reported a year ago. Cash and marketable securities amounted to $7,561,656, and accounts and notes receivable to $10,918,757. Accounts receivable represent amounts due from customers and others for crude oil, products, services, or other considerations furnished them. Ample reserves have been provided to cover possible losses on the above accounts. The total balance of accounts receivable is approximately equal to one month's sales.
Inventories of crude oil and products, valued at cost lower than market, are shown at $28,786,146 compared with a total of $23,518,199 reported as at December 31, 1935. The increase is due to larger volume and higher average costs resulting from increases in costs of purchased crude oil and products. Total inventory volume of crude oil and products at December 31, 1936, amounted to 22,050,700 barrels, equal to about 4½ months' sales volume compared with 20,434,900 barrels on hand at December 31, 1935.

The ratio of current assets to current liabilities, based on the balance sheet as of December 31, 1936, was 2.74 to 1.

**Litigation:**

The Balance Sheet item of $1,016,011.64 "Cash Deposited in Escrow, pending outcome of litigation for which no liability is included herein" represents:

(a) $750,000 deposited in banks at Los Angeles, California, in lieu of bonds on appeals from three judgments rendered against Associated Oil Company and which were fully explained in the Annual Report for the year 1935. The appeals are still pending in the Supreme Court of the State of California and there have been no final judgments in the proceedings. The amount in escrow is deemed sufficient to cover all judgments if all appeals are decided against the Company.

(b) $266,011.64 in cash and Treasury Certificates in hands of conservator and deposited by him in banks at Austin, Texas, as this Company's possible liability in connection with action pending in Travis County, Texas, entitled "State of Texas vs. Tide Water Oil Company, et al." wherein the State of Texas is seeking to recover a total of 177 acres of land in the so-called Lewis "B" lease in the Conroe Field, Montgomery County, Texas. This Company owns a one-half interest therein, acquired by purchase from the Strake Petroleum Company. When said action was instituted, a conservator was appointed to receive and hold for the account of the parties to the action, all the proceeds from lease operations. Your Company's deposits at December 31, 1936, amounted to the foregoing $266,011.64. The bonus consideration paid by this Company for the said lease at the time of purchase is protected by the warranty of Strake Petroleum Company, and current earnings are being deposited with the conservator, hence, if the plaintiff is successful, the Company would suffer no financial loss, but would forfeit the leasehold.

Some publicity has been given to the demands of three stockholders, who did not vote in favor of the merger, for the payment of the value of their holdings. Likewise it has been published in the newspapers that one of such stockholders has attacked the merger, and that an action was begun by the United States Government against several major oil companies, including your Company, for the recovery of oil lands of great value. On account of their minor character, none of these subjects would be noted in this report except for the widespread publicity given them. However, in view of this publicity and the importance given to them in the daily press, it is deemed proper to advise the stockholders.

Under the statutes of the States of Delaware and California, any stockholder of the companies parties to the merger who did not vote in favor thereof was entitled, for a limited period now expired, to demand payment of the value of his stock to be determined and paid in the manner provided in such statutes. Beechwood Securities Corporation, Baar-Cohen Co., Charlotte G. Rapp and John E. Rapp are the only stockholders of your Company who have made such a demand. These stockholders hold 1,024 shares of the Common Stock of your Company, for which your Company offered (the offer being declined) $20.00 per share.

The holders of 4,944 shares of the Capital Stock of Associated Oil Company at the date of the merger have made a similar demand for payment. In addition, on December 21, 1936, a proceeding was instituted in the District Court of the United States for the Northern District of California, Southern Division, by Beechwood Securities Corporation against Associated Oil Company and your Company, seeking to nullify and set aside the above described merger. Plaintiff is the owner of 260 shares of the Capital Stock of Associated Oil Company. The case is still pending, but your Company is advised by counsel that in his opinion plaintiff will not prevail.

On January 20, 1937, the United States of America instituted an action against several major oil companies, including your Company, to recover title to Section 36, Township 30 South, Range 23
East, M. D. B. & M., located in the Elk Hills Oil Field, in California. Your Company never had or claimed any interest in the above described property, but over a period of time purchased oil produced therefrom. Plaintiff now seeks to recover not only the title to the property, but also from purchasers of oil produced from said property the value of such oil. Your Company's liability, if judgment were recovered, would be comparatively small.

**Investments and Advances:**

This group includes investments in capital stocks of affiliated companies engaged in one or more branches of the petroleum industry, including the transportation of oil by pipe line. Cash advances to several of such companies to cover construction expenditures are also included.

The investment in foreign companies represents chiefly the cost of a 50% stock interest in the Mitsubishi Oil Company, owning and operating a refinery near Tokyo, Japan, the products of which are marketed in Japan.

The principal change during the year 1936 in the assets under this heading was the Company's investment in 172,743 shares of the Capital Stock of South Penn Oil Company at a total cost of $6,046,005. South Penn Oil Company is one of the most important producing companies in the Pennsylvania Field and produces a particularly high grade crude advantageous to your Company in the manufacture of some of its lubricants, and your Company is South Penn's largest customer for such crude. Both companies are, and for many years have been, equal owners of the Bradford Transit Company, a Pennsylvania corporation, which owns the most important pipe line gathering system serving that field. The price paid for the stock of South Penn was $35.00 per share, and such stock is now selling on the New York Curb Exchange at approximately $43.00 per share.

In order to provide part of the money necessary for the purchase of the shares of South Penn Oil Company, your Company and the then Associated Oil Company sold to South Penn for investment at $17.00 per share a total of 176,471 shares of the Common Stock of your Company, of which 132,328 shares were acquired by Associated Oil Company at less than $10.00 per share, and 44,143 shares were held in your Company's treasury. At the time of their sale to South Penn Oil Company, shares of Common Stock of your Company were selling on the New York Stock Exchange at $17.00 per share.

The 101,969 shares of the Capital Stock of Mission Corporation were purchased during the early part of the year 1935 at an average cost of about $10.95 per share. Mission Corporation stock is now selling on the New York Stock Exchange at approximately $31.00 per share.

**Properties and Equipment:**

The net book value of properties and equipment amounted to $120,062,336 as at December 31, 1936, compared with $117,806,258 reported as at December 31, 1935, an increase of $2,256,078. This represents the difference between (a) gross additions to property and equipment at cost during the year, less retirements and sales, and (b) net amount of depreciation, depletion, and amortization credited to the reserves during the year.

The total amount expended during the year 1936 for additions and improvements to properties and equipment amounted to $18,754,200 as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Producing</td>
<td>$14,816,200</td>
<td>79.0</td>
</tr>
<tr>
<td>Transportation</td>
<td>353,200</td>
<td>1.9</td>
</tr>
<tr>
<td>Refining</td>
<td>1,136,500</td>
<td>6.1</td>
</tr>
<tr>
<td>Marketing</td>
<td>2,158,100</td>
<td>11.5</td>
</tr>
<tr>
<td>Miscellaneous Items</td>
<td>290,200</td>
<td>1.5</td>
</tr>
<tr>
<td>Total</td>
<td>$18,754,200</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The Company's constant aim has been to acquire both prospective and proven oil lands and to develop its oil properties, first, in order that its earnings may be enhanced from increased production of crude oil at cost substantially lower than the cost of crude oil purchased from others, and, second, so as to increase its crude oil reserves. Pursuant to this policy, in addition to expenditures for drilling and equipping wells and for acquisition of oil lands and leases, your Company acquired during the year 1936 the assets of Terrabella Investment Company, which included:

1. A 2.6797% interest in the Kettleman North Dome Association, which controls the development of 8,200 acres of land in the Kettleman Hills Oil Fields in California and certain royalties and bonus royalties in said oil fields, stated on the books of your Company at $3,210,000

2. Net current assets ................................................................. 700,000

The acquisition of the assets of Terrabella Investment Company was advantageous to your Company. Engineers and geologists of your Company, after thorough investigation reported that in their opinion the present discounted value of such assets, which also included $700,000 in net current assets, was $7,453,000. For the Capital Stock of Terrabella Investment Company (which was subsequently liquidated) your Company issued 230,000 shares of its Common Stock which at the time was selling on the New York Stock Exchange at $17.00 per share. For the purpose of determining the figure at which the stock should be deemed to have been issued and at which the investment to be acquired should be stated on the books of the Company, the Board of Directors of your Company determined that the value of the assets was equal to at least $17.00 per share of such 230,000 shares, or at least $3,910,000.

The Terrabella reserves are estimated (without any credit for deeper production claimed by geologists) at 7,580,000 barrels of Kettleman Hills crude oil, a crude oil of high gasoline content, and the current annual earnings on the property acquired approximate $530,000, or 16.5% on the sum of $3,210,000 assigned on the books of the Company as the cost of the oil properties.

A total of 216 wells were completed by your Company during the year, exclusive of previously established producers requiring deepening or redrilling in order to increase their production. As at December 31, 1936, there were 18 wells being drilled in the Mid-Continent producing areas and in California.

A portion of the expenditures of the Producing Division was for exploratory work conducted for the purpose of discovering new reserves of crude oil. Modern exploratory methods are of assistance in the discovery of oil pools and in reducing the loss in fruitless prospecting work.

Transportation:

This Division expended only $353,200, chiefly for the replacement and extension of pipelines and additions to existing marine equipment.

Manufacturing:

The expenditures of the Manufacturing Division were limited to a total of $1,136,500 for a number of improvements and additions to existing facilities and for equipment needed to increase the ultimate yield from crude oil of higher realization products and to give practical application to improved refining methods developed by the research department.

Marketing:

This Division's expenditures aggregated $2,158,100. A substantial portion of this amount was expended for the modernization of existing service stations and for the construction of new service stations deemed necessary to serve newly developed residential districts and territories not adequately served by your Company's facilities. Relocation of highways and changes in design of gasoline pumps and other station equipment also required expenditures which are included in the above total. Expenditures for water terminals, designed to reduce transportation costs and afford facilities for the handling of products transported by vessels, amounted to $270,000.
Liabilities:

The Company's liabilities, exclusive of Capital Stock and surplus, but including bank loans, aggregating $18,800,000 and reserves of $3,216,619, as of December 31, 1936, totaled $39,651,654. The total of all such liabilities reported as at December 31, 1935, amounted to $42,448,456. The indicated decrease of $2,796,802 is due to a reduction of bank loans and purchase money obligations and the elimination of amounts representing that portion of the net worth of Tide Water Oil Company and Associated Oil Company not owned by your Company as at December 31, 1935. On the completion of the merger on November 30, 1936, such minority interests were acquired by your Company.

Current liabilities amounted to $18,354,031, including $3,800,000 in bank loans paid on the completion of the Company's refinancing program.

During the year 1936 your Directors deemed it prudent to increase the reserve for Federal income taxes for prior years (in the process of adjustment) by $1,600,000, of which $1,350,000 was charged to surplus and $250,000 to current income for that year.

Capital Stock:

There was no change during the year 1936 in the number of issued and outstanding shares of the 6% Cumulative Preferred Stock, the total number being 626,221 shares. The Common Stock issued and outstanding as at December 31, 1936, amounted to 6,288,511 \(\frac{1}{2}\) shares, having a par value of $10.00 each.

In accordance with the terms of the Merger Agreement dated October 15, 1936, the shares of Common Stock without nominal or par value outstanding in the hands of the public at the time of the effective date of the merger were converted into an equal number of shares of the par value of $10.00 each. The relative rights of the Common Stock to dividends and to share in the assets were not affected by this conversion.

For practical purpose, we may, therefore, compare the 6,288,511 \(\frac{1}{2}\) shares of Common Stock outstanding as at December 31, 1936, with the 5,642,342 shares outstanding as at December 31, 1935, arriving at an increase of 646,169 \(\frac{1}{2}\) shares, issued or sold as follows:

1. Private sale to South Penn Oil Company on September 18, 1936 at $17 per share (some of these shares were previously held in the Company's treasury and some were owned by Associated Oil Company) .................................................. 176,471 shares
2. Shares issued in exchange for the entire Capital Stock of Terrabella Investment Company .................................................. 230,000 shares
3. Shares issued in exchange for 19,110 shares of the Capital Stock of Tide Water Oil Company and 41,050 shares of the Capital Stock of Associated Oil Company, less scrip for fractional shares aggregating 43 whole shares, purchased by your Company for cash .................. 149,649 \(\frac{1}{2}\) shares
4. Shares issued under the Management Stock Plan approved by the stockholders .................................................. 90,049 shares

Total .................................................. 646,169 \(\frac{1}{2}\) shares

The sale of 176,471 shares of your Company's Common Stock to South Penn Oil Company, consummated concurrently with the purchase of 172,743 shares of that Company's Capital Stock has been explained elsewhere in this report, and the exchange of 230,000 shares for the entire Capital Stock of Terrabella Investment Company has been shown in connection with gross expenditures during the year 1936 for property and equipment. A total of 149,692 \(\frac{1}{2}\) shares were issued for shares
of Tide Water Oil Company and Associated Oil Company acquired at the time of the merger effective November 30, 1936, on the basis of the authorized exchange ratios, namely, 3 shares of Tide Water Associated for 1 share of Tide Water Oil and 2¼ shares of Tide Water Associated for 1 share of Associated Oil, and there were sold for cash to participants in the Management Stock Plan, heretofore approved by the stockholders, 90,049 shares.

Stockholders are again reminded that, at this date, all shares of the 6% Cumulative Preferred Stock outstanding as at December 31, 1936, have been redeemed in cash or exchanged for shares of the new $4.50 Cumulative Convertible Preferred Stock without par value, and that 500,000 shares of the said $4.50 Preferred Stock are now outstanding.

Consolidated Surplus:

The consolidated surplus of $25,634,444 as at December 31, 1936, compares with $21,336,760 reported as of December 31, 1935. The increase of $4,297,684 represents the difference between (a) net income of the year 1936 plus net credit adjustments, and (b) deductions for dividend disbursements, as follows:

Consolidated Surplus, December 31, 1935 ........................................ $21,336,760
Additions:

Consolidated Net Income of the year 1936 ........................................ 10,217,928
Surplus Adjustments (hereinafter referred to) .................................... 460,982

Deductions:

Dividends paid or declared
Preferred ........................................... $3,757,326
Common ........................................ 2,623,900 6,381,226

Consolidated Surplus, December 31, 1936 ........................................ $25,634,444

The credit of $460,982 shown in the foregoing tabulation is the net aggregate of a number of charges and credits against surplus account during the year, as detailed in the Statement of Income and Surplus. The principal charges were for loss on sale of undeveloped oil lands which by drilling during the year proved unproductive, payment of certain prior years’ income taxes, and setting aside of additional reserves for income taxes for other prior years.

Surplus was credited with an aggregate of $2,845,297 as the result of the sale of 176,471 shares of Common Stock of your Company to South Penn Oil Company and the exchange of 230,000 shares of Common Stock of your Company for the entire Capital Stock of Terrabella Investment Company, which sum represents the difference between the $10.00 per share in each instance allocated to capital and the amount or value of the consideration for which the Company’s shares were issued.

The miscellaneous credits to surplus during the year cover adjustments resulting from acquisition at the time of the merger of minority interests in Tide Water Oil Company and Associated Oil Company and cancellation of the shares of Common and Preferred Stocks of your Company held in the Treasury on November 30, 1936 when the merger became effective.

Dividends:

It will be recalled that on July 1, 1935, the 6% Cumulative Preferred Stock was placed on a current dividend basis. During the year 1936 such dividends amounted to $6.00 per share, or a total of $3,757,326. The Common Stock was placed on a quarterly dividend basis of 15 cents per share, effective with the dividend paid on June 1, 1936. Previously, in December 1935, a dividend of 25 cents per share was declared, payable on January 15, 1936. In addition thereto, the total Common Stock dividends declared and paid during the year 1936 amounted to 45 cents per share, or a total of $2,623,900 on the number of shares entitled to such dividends. Total dividend declarations including dividends on the 626,221 shares of Preferred Stock therefore aggregated $6,381,226, compared with consolidated earnings of $10,217,928. The Directors hope that the result of the merger and refinancing program and the improved earnings will, in the future, permit a greater percentage of income to be allocated for dividends on the Common Stock.
The Federal income tax returns of Tide Water Oil Company and Associated Oil Company for the eleven months ended November 30, 1936, will reflect taxable net incomes in amounts smaller than the total of their dividend distributions, and consequently no Federal tax on undistributed profits will be payable by them. Likewise, your Company will pay no such tax, since its taxable net income was considerably less than the Preferred and Common Stock dividends disbursed by it during the year. An undistributed profits tax of $1,600 will be payable by one of the small subsidiaries of the Company.

Conclusion:

The improvement in conditions in the petroleum industry is most encouraging. It is hoped that there will be further improvement to compensate for the necessary increases in wages, the mounting cost of materials and supplies, and the progressive burden of taxes.

The Officers and Directors acknowledge with appreciation the loyal, faithful, and efficient service of the Company's many employees and the unfailing support of the Company's stockholders.

Respectfully submitted,

BOARD OF DIRECTORS,

By William F. Humphrey,
President.
ASSETS

CURRENT AND WORKING ASSETS:

Cash in banks and on hand ........................................... $ 6,972,348.01
Marketable securities (at cost, less reserve of $101,741.67 for reduction to market quotations) ....................... 589,507.50
Accounts receivable:
Trade .......................................................... $ 9,684,990.25
Other .......................................................... 1,044,474.54
Less—Reserve for doubtful accounts ............................. 524,662.45
Notes and trade acceptances receivable ...........................
Due from employees .................................................
Inventories, confirmed by responsible officials as to quantities and condition:
Crude and heavy fuel oil (at cost, lower than market) .......... $ 14,317,628.53
Refined oil products, finished and in process (at cost, lower than market) ...... 14,468,517.77
Less—Reserve for doubtful accounts ............................. 524,662.45
Materials and supplies (at cost or below) ....................... 3,072,392.21
CASH DEPOSITED IN ESCROW, pending outcome of litigation for which no liability is included herein .................................................... 1,016,011.64
INVESTMENTS AND ADVANCES:
Investments in capital stocks of affiliated companies (at cost or below):
More than 50% owned:
Foreign ...................................................... $ 386,461.15
Domestic ................................................ 3,230,161.79
Not more than 50% owned:
Foreign ................................................ 1,512,655.60
Domestic ................................................ 1,193,519.31
Advances to affiliated companies .................................. 1,244,812.57
South Penn Oil Company—172,743 shares of capital stock (at cost) ........ 6,046,005.00
Mission Corporation—101,969 shares of capital stock (at cost) ........ 1,116,517.52
Other investments and receivables (at cost or below) ........ 2,762,013.54
17,492,146.48
PROPERTIES AND EQUIPMENT (Note B)

<table>
<thead>
<tr>
<th>Gross Book Figures</th>
<th>Depletion, Depreciation and Amortization Reserves</th>
<th>Net Book Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil production .....</td>
<td>$136,658,714.08</td>
<td>$69,894,701.80</td>
</tr>
<tr>
<td>Transportation .....</td>
<td>54,119,497.72</td>
<td>36,842,401.48</td>
</tr>
<tr>
<td>Refining ............</td>
<td>52,154,345.20</td>
<td>35,243,145.53</td>
</tr>
<tr>
<td>Marketing ..........</td>
<td>36,361,420.65</td>
<td>18,106,378.99</td>
</tr>
<tr>
<td>Miscellaneous .......</td>
<td>3,521,190.74</td>
<td>2,666,004.14</td>
</tr>
<tr>
<td><strong>$282,815,168.39</strong></td>
<td><strong>$162,752,831.94</strong></td>
<td><strong>$120,062,336.45</strong></td>
</tr>
</tbody>
</table>

DEFERRED CHARGES:
Prepaid taxes, insurance and rents .................................. $ 1,341,081.74
Other deferred expenses ................................................. 937,449.75
1,878,531.49
$190,793,332.70
# Balance Sheet

**R 31, 1936**

## LIABILITIES

### CURRENT LIABILITIES:
- Notes payable to banks, due within one year (Note F) .......... $3,800,000.00
- Purchase money obligations, due within one year .............. 161,374.39
- Accounts payable, trade .................................. 6,458,931.57
- Wages and miscellaneous accounts payable .................. 1,926,726.16
- Accrued interest ....................................... 150,708.93
- Accrued taxes—property, oil, excise, etc ..................... 3,845,205.87
- Dividend on preferred stock, payable January 2, 1937 ........ 939,331.50
- Provision for estimated Federal taxes on 1936 income ......... 1,071,752.53

**Total Current Liabilities** .................................. $18,354,030.95

### DUE TO AFFILIATED COMPANIES ........................................... 2,029,417.51

### DEFERRED LIABILITIES:
- Notes payable to banks, due serially to 1940 (Note F) ........ $15,000,000.00
- Purchase money obligations .................................. 925,172.56

**Total Deferred Liabilities** ........................................ 15,925,172.56

### RESERVES:
- Reserve for additional Federal taxes and contingencies (Note C) .......... $1,996,604.39
- Reserve for repairs on marine equipment .................... 1,023,969.42
- Other reserves ......................................... 196,044.91

**Total Reserves** .................................................. 3,216,618.72

### DEFERRED CREDITS ..................................................... 126,414.09

### CAPITAL STOCK AND SURPLUS:

#### Preferred stock, 6% cumulative, $100 par value:
- Authorized and outstanding (Note F) .................. 626,221 shares $62,622,100.00

#### Preferred stock without par value:
- Authorized but unissued (Note F) ...................... 873,779 shares

#### Common stock, $10 par value:
- Authorized (Note D) .................................. 10,000,000 shares
- Issued ........................................... 6,288,554½ shares
- Less—Held in treasury ......................... 43 shares
- Outstanding, including shares held for exchange .......... 6,288,511½ shares

**Surplus, per attached statement** .......................... 25,634,443.87

**Total Capital Stock and Surplus** .................................. 151,141,658.87

**Total Liabilities and Surplus** .................................. $190,793,312.70
### Tide Water Associated Oil Company and Subsidiary Companies

#### Consolidated Statement of Income and Surplus

For the Year Ending December 31, 1936

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of petroleum products, together with revenue from other operations</td>
<td>$124,584,176.07</td>
</tr>
<tr>
<td>(exclusive of intercompany transactions) (net)</td>
<td></td>
</tr>
<tr>
<td>Cost of products sold and selling expenses (exclusive of amounts shown</td>
<td>$90,646,105.30</td>
</tr>
<tr>
<td>separately below)</td>
<td></td>
</tr>
<tr>
<td>Other income:</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>$318,008.99</td>
</tr>
<tr>
<td>Dividends received from affiliated companies (Note E)</td>
<td>$3,194,747.05</td>
</tr>
<tr>
<td>Other dividends received (Note E)</td>
<td>$306,624.55</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>$499,327.43</td>
</tr>
<tr>
<td>Other expenses:</td>
<td></td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>$3,168,411.72</td>
</tr>
<tr>
<td>Taxes, other than Federal income taxes</td>
<td>$3,949,371.49</td>
</tr>
<tr>
<td>Insurance</td>
<td>$857,416.08</td>
</tr>
<tr>
<td>Interest</td>
<td>$817,445.08</td>
</tr>
<tr>
<td>Rentals on undeveloped leaseholds</td>
<td>$420,660.48</td>
</tr>
<tr>
<td>Net income before depreciation, depletion, amortization, etc.</td>
<td>$26,220,673.94</td>
</tr>
<tr>
<td>Deduct:</td>
<td></td>
</tr>
<tr>
<td>Provision for depreciation and depletion</td>
<td>$12,579,959.34</td>
</tr>
<tr>
<td>Amortization of undeveloped leasehold costs</td>
<td>$711,273.96</td>
</tr>
<tr>
<td>Dry hole losses and property retirements (net)</td>
<td>$1,123,010.29</td>
</tr>
<tr>
<td>Provision for contingencies (Note C)</td>
<td>$250,000.00</td>
</tr>
<tr>
<td>Provision for estimated Federal taxes:</td>
<td></td>
</tr>
<tr>
<td>Normal tax on 1936 income</td>
<td>$1,210,518.90</td>
</tr>
<tr>
<td>Surtax on undistributed profits</td>
<td>$1,600.00</td>
</tr>
<tr>
<td>Net income from operations for the year applicable to interest</td>
<td>$10,217,927.53</td>
</tr>
<tr>
<td>of Tide Water Associated Oil Company</td>
<td></td>
</tr>
<tr>
<td>Add:—Profit on sale or redemption of securities and reduction in reserve</td>
<td>$322,883.71</td>
</tr>
<tr>
<td>therefor</td>
<td>$10,540,811.24</td>
</tr>
<tr>
<td>Surplus at January 1, 1936</td>
<td>$21,336,760.47</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>Excess of value assigned by directors to investment in capital stock</td>
<td>$1,610,000.00</td>
</tr>
<tr>
<td>of company acquired (and subsequently liquidated) over stated value of</td>
<td></td>
</tr>
<tr>
<td>common stock issued therefor</td>
<td></td>
</tr>
<tr>
<td>Amount received from sale of treasury common stock in excess of stated</td>
<td>$1,235,297.00</td>
</tr>
<tr>
<td>value</td>
<td></td>
</tr>
<tr>
<td>Discount on treasury preferred and common stock sold or cancelled during</td>
<td>$522,670.58</td>
</tr>
<tr>
<td>the year</td>
<td></td>
</tr>
<tr>
<td>Equity of minority interests acquired in excess of cash paid or par value</td>
<td>$525,172.85</td>
</tr>
<tr>
<td>of common stock issued therefor</td>
<td>$3,893,140.43</td>
</tr>
<tr>
<td>$32,015,669.92</td>
<td></td>
</tr>
<tr>
<td>Deduct—Dividends paid or declared:</td>
<td></td>
</tr>
<tr>
<td>Preferred stock</td>
<td>$3,777,326.00</td>
</tr>
<tr>
<td>Common stock</td>
<td>$2,623,900.05</td>
</tr>
<tr>
<td>Surplus at December 31, 1936, per balance sheet</td>
<td>$25,634,443.87</td>
</tr>
</tbody>
</table>

Above statement does not include the amount of $26,706,190 collected for the Federal Government and State governments in the form of taxes and tax payments.
TIDE WATER ASSOCIATED OIL COMPANY

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1936

(A) The consolidated balance sheet includes the accounts of all wholly owned domestic subsidiary companies, and of The Tide-Water Pipe Company, Limited (99.99% owned) and Tide Water Oil Company of Canada, Ltd. (100% owned). The consolidated statement of income and surplus includes the results of operations of the above companies together with those of Tide Water Oil Company and Associated Oil Company, which were merged with and into the company on November 30, 1936, and of other subsidiaries which were dissolved during the year.

(B) Properties and equipment are stated at reduced book figures as at January 1, 1932 (which, in so far as it is practicable to determine, were not in excess of aggregate cost in cash, bonds or capital stock taken at par value), plus subsequent additions at cost except for certain properties acquired in 1935 and stated at less than book value (lower than cost) of an investment exchanged therefor; certain properties acquired in 1936 have been stated at an amount equal to $17 per share for common stock issued therefor.

(C) Federal income taxes for several prior years are in process of adjustment. Payments of $852,234.23 (including interest of $302,578.20) made in 1936 for taxes of certain subsidiaries for years prior to 1929 were charged to surplus and payments of $246,836.31 (including interest of $93,122.94) were charged to the reserve therefor. Substantial additional assessments proposed by Revenue Agents have been based, in large part, upon provisional disallowance of deductions for depreciation and depletion and it is estimated by the company officials that the amounts to be paid will be materially less than the proposed assessments. Additions aggregating $1,600,000 have been made during the year to the reserve for additional Federal taxes and contingencies, of which $250,000 has been charged to income from operations.

(D) The holders of 4,944 shares of capital stock of Associated Oil Company and of 1,024 shares of common stock of the company demanded, and (subject to statutory provisions) are entitled to receive in cash, the value of their shares determined in the manner provided under the laws of California and Delaware, respectively, in lieu of the 12,148 shares of $10 par value common stock of the company into which their shares were converted pursuant to the merger and which are included in the shares shown as issued and outstanding in the accompanying balance sheet.

Pursuant to the company's Management Stock Plan, which terminated on December 31, 1936, there were outstanding subscriptions for 188,754 shares of common stock at $10 per share payable on or before December 31, 1941. During the year 1936, 90,049 shares (including 51,330 shares of treasury stock) were issued to participants under the Plan at $10 per share in cash.

(E) The dividends received from domestic affiliated companies and credited to income in 1936 were $8,814.80 less than the proportionate share of net earnings of these companies. Undistributed net profits of foreign affiliated companies for the year 1936 amounted to $239,480.47, part of which is subject to exchange restrictions. Profits or losses of the above companies are not taken up in the books of the company except when received as dividends. "Other dividends received" included $259,114.50 from South Penn Oil Company and $45,886.05 from Mission Corporation.

(F) Since December 31, 1936, the company has:

(a) authorized and issued $40,000,000 principal amount of fifteen-year 3½% sinking fund debentures due January 1, 1952;

(b) authorized and issued 500,000 shares of $4.50 cumulative convertible preferred stock;

(c) called for redemption on April 1, 1937 the then outstanding 6% preferred stock not previously exchanged for the $4.50 preferred stock and

(d) repaid bank loans in the amount of $18,800,000.

The net increase in cash balances as a result of these transactions will approximate $5,000,000 after deducting approximately $3,500,000 representing net premiums, discount, commissions and other expenses.
New York, April 12, 1937.

To the Board of Directors of
Tide Water Associated Oil Company

We have made an examination of the consolidated balance sheet of Tide Water Associated Oil Company and subsidiary companies as at December 31, 1936 and of the consolidated statement of income and surplus for the year 1936. In connection therewith, we examined or tested accounting records of the companies consolidated and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions. We also made similar examinations of the accounting records of certain of the affiliated companies not consolidated, and accounts prepared by other accountants or by the companies were produced to us for the remainder.

In our opinion, based upon such examination and subject to the sufficiency of the reserve for Federal taxes in process of adjustment, the accompanying balance sheet and related statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their combined position as at December 31, 1936 and the results of operations for the year.

Price, Waterhouse & Co.
Tide Water Associated Oil Company

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K. R. HANKINSON

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EXECUTIVE SECRETARY
J. P. EDWARDS

Transfer Agents

Tide Water Associated Oil Company, New York, N. Y.
The Anglo California National Bank of San Francisco,
San Francisco, Calif.

Registrars

The Chase National Bank of the City of New York,
New York, N. Y.

Bank of America National Trust and Savings Association,
San Francisco, Calif.
TIDE WATER ASSOCIATED PRODUCTS

The branded products of this company are:

TYDOL GASOLINE
Available in the Eastern States and Mid-Continent

VEEDOL MOTOR OILS—GREASES
100% PENNSYLVANIA
SOLD NATIONALLY

TYCOL INDUSTRIAL LUBRICANTS
Available in the Eastern States and Mid-Continent

ASSOCIATED GASOLINE
CYCOL MOTOR OILS
AVON INDUSTRIAL LUBRICANTS
Available in the Pacific Coast and Rocky Mountain States

It is hoped that stockholders will use such of the Company's products as are available to them, and that they will interest their acquaintances and friends to do likewise. The best of materials and technical skill and a long established reputation for quality underlie these products.