

ANNUAL REPORT

OF THE

UNION OIL COMPANY OF CALIFORNIA

FOR THE YEAR ENDED
DECEMBER 31, 1913



—INCORPORATED, OCTOBER 17, 1890—

CAPITAL STOCK, (AUTHORIZED,) \$50,000,000

CAPITAL STOCK, (OUTSTANDING,) 31,292,800

Union Oil Company of California

PRINCIPAL PLACE OF BUSINESS OLEUM, CONTRA COSTA CO., CAL.

Office of

EXECUTIVE COMMITTEE

Union Oil Building

Los Angeles, California, March 30, 1914.

TO THE STOCKHOLDERS OF THE UNION OIL COMPANY OF CALIFORNIA:

Herewith you will find Balance Sheet of the Union Oil Company of California and Companies owned by it, as of date December 31, 1913; General Profit and Loss Account for the year 1913, and Summary of the Surplus Account. By comparing the figures therein with the Report for the year ended December 31, 1912, the net resultants of changes wrought and progress made become readily apparent. More detailed comment follows, which may serve to elucidate the various items, as well as to report the year's work, and afford some index for the future.

ASSETS:

OIL LANDS, RIGHTS AND LEASES, \$22,833,756.09.

No important additions were made to this account in 1913. The figures represent the book values of the Companies' various holdings of oil lands in fee, in fee as to mineral rights, by mineral location, and by leases. These holdings aggregate slightly over 240,000 acres, and are carried on the books of the Company at less than one hundred dollars per acre all told. But a small fraction of these holdings is being utilized for active production; they, therefore, offer a wide field for further development and production. As trade conditions justify and as further capital or earnings re-invested in the business permit, these resources will be utilized, adding greatly to the income, upon which they are now necessarily, in large part, a charge for taxes, interest and supervision.

OIL WELLS AND DEVELOPMENT, DRILLING TOOLS, ETC., \$7,531,374.92.

Additions to this account during 1913 amounted to \$991,746.98, chiefly represented by cost of new drilling. At December 31, 1913, 34 new wells were in process of drilling and 4 old wells were in process of deepening, with 288 wells in active production. Contrasted figures at December 31, 1912, show 276 producing wells, 28 in process of drilling and 2 old wells in process of being deepened. Ample depreciation reserves were set up during 1913 out of earnings to cover current impairment and exhaustion on these items, and in addition the sum of \$1,431,619.42 has been written off as of December 31st, 1912, to cover depreciation due to the abandonment of 69 wells for the period from 1902 to date, and as further depreciation allowance on drilling tools, etc. The account now stands on the books at an average cost of less than thirty thousand dollars for each producing well. A number of very valuable wells have been brought in since the first of January, 1914, and others are nearing completion. Net oil production for the year 1913 on the properties of the Union Oil Company of California and Owned Companies was 4,838,333 barrels—an increase over 1912 of 361,307 barrels. The cost of production decreased in 1913 one-half cent per barrel under 1912. An average of 25½ drilling rigs was kept in active operation throughout the year 1913, as against an average of 28 rigs in 1912, but more feet of hole were drilled in 1913 than in 1912. Better results, both as to drilling and production, are due to the use of the rotary on the one hand, and better efficiency in handling the work in all cases.

PIPE LINES AND STORAGE SYSTEM, \$4,223,438.36.

Additions to this account during the year amounted to \$169,179.57. Since January 1st, 1914, additional steel tankage has been ordered and is being installed for storage capacity of approxi-

mately 1,250,000 barrels. The items in this account represent only the pipe lines and storage of the Union Oil Company of California and Companies Owned, and do not include the Producers Transportation Company and other Companies Controlled but not Owned, investments in which are discussed under the caption of "Investments in Controlled Companies."

STEAMSHIPS AND TANK CARS, \$2,898,917.35.

Additions to this account during the year amounted to \$562,673.54. The chief part of this is represented by the purchase and conversion of the steel barge "Simla," and the purchase and conversion of the schooner "E. M. Phelps," into oil carriers with capacity, respectively, of 22,000 and 29,500 barrels. Since January 1st, 1914, a contract has been let for the construction of a modern steel tanker of the most approved type, with carrying capacity of approximately 66,000 barrels. This vessel will be completed early in 1915. Plans are also under way for the construction of a river vessel for use on the Sacramento and San Joaquin Rivers and in the sloughs and inlets of San Francisco Bay. All this tonnage has been urgently needed to care for the growth of domestic business dependent on ocean transport. Foreign trade has also been handicapped by lack of sufficient tonnage. Of the four large tankers chartered and spoken of in the last Report, two have already arrived and are in service, one is en route, and the other will arrive during the Summer, so that the foreign situation is now well in hand.

REFINERIES AND COMPRESSOR PLANT, \$2,460,515.67.

Additions and betterments for the year under review amounted to \$484,501.15. This includes the erection of a plant at Orcutt for the manufacture of high gravity gasoline from gas, abundant supplies of which are available in the adjoining fields. The first unit of the plant was completed in December, and is producing very satisfactory results. A second unit is on the ground, and will be installed this year. Additional tankage at the Oleum Refinery is included in the advances to this account during the year. The refining business for 1913 shows large increases in volume of manufactured products, but prices ruled lower, particularly in gasoline and asphaltum, which, with the fire in a portion of the plant, involving the loss of over \$40,000, materially reduced the current profit of that department. Extensive additions are needed at the several refining plants, and a new refinery at or near San Pedro to handle the increasing Southern business and to profit in the most advantageous way from the growing production of refinable oils in the Orange District on the Company's own properties, as well as on the properties of other producing companies which sell their oil as it comes from the well.

MARKETING STATIONS, \$3,384,447.59.

Additions and new stations under this heading cost, during 1913, the sum of \$602,981.59. The established stations of the Company throughout the Pacific Coast and Abroad are doing a flourishing business. More stations are needed, but extensions are necessarily limited to the capacity of the refineries to supply the merchandise. Competition has been much sharper during the year just closed, but its only effect at any point appears to have been in the way of lower prices for refined goods. The quality of the Company's product and the character of the service rendered to customers has uniformly operated to make our trade secure and to increase it. It should be noted that the investment under this heading includes very valuable water-front property at San Francisco and Seattle, and equally valuable property in Portland, Oregon.

OTHER PROPERTIES, \$521,173.88.

This item represents parcels of real estate, etc., not covered under other segregations. Additions during the year amounted to \$334,679.61, chiefly due to the transfer from the Union Tool Company, a Controlled Corporation, to the Union Well Supply Company, an Owned Company, whose assets and liabilities are included in the Balance Sheet herewith, of real estate and buildings at Mateo and Palmetto Streets, Los Angeles.

INVESTMENTS IN CONTROLLED COMPANIES, \$12,528,158.88.

This item represents the sum of investments, whether in the stocks or bonds of Companies Controlled, but not wholly Owned, plus current advances made to them. All these Companies are closely allied with the affairs and interests of the Union Oil Company of California. Stock in these Companies is carried on our books at the value as shown by our proportion of the capital stock and surplus of the Controlled Companies. The bonds sub-listed in the Balance Sheet are taken up at cost and the item of advances represents the actual cash advanced to the several

Companies over and above our ownership of stock and bonds. The principal Companies Controlled are the Producers Transportation Company, the Union Tool Company, the Outer Harbor Dock and Wharf Company, the Newlove Oil Company, and the Lake View Oil Company.

INVESTMENTS IN AFFILIATED COMPANIES, 592,707.69.

This represents the book value of investments in the stocks of Companies kindred in interest, but in which the Union Oil Company of California does not own the controlling stock. Payments on uncompleted contracts and advances to these Companies represents cash advanced to them or payments made for their account.

CURRENT ASSETS, \$8,290,845.81.

Items under this heading are self-explanatory. The figures are of actual inventory. In arriving at them a basic price of $32\frac{1}{2}c$ per barrel for crude oil was adopted, or $2\frac{1}{2}c$ less than was figured in the Balance Sheet of December 31, 1912, although selling prices on crude oil average about $2\frac{1}{4}c$ higher than in 1912. Present net prices at the well average from $36\frac{1}{2}c$ to $45c$ for fuel oil. Refined stocks were taken at refinery costs. Freight to station where stored is included in inventory costs. Bills Receivable and Accounts Receivable have been gone over in detail, all known losses eliminated, and a deduction made of \$85,000.00 to cover possible doubtful accounts through the year.

DEFERRED CHARGES, \$169,697.58.

This item now represents only taxes, insurance, interest, etc., paid in advance. The item of "Deferred Charges to Profit and Loss" appearing in the Balance Sheet of December 31, 1912, as \$1,024,741.30, and which amounted at December 31, 1913, to \$1,045,265.21, representing discount and expense in connection with the sale of bonds, debentures and serial notes, and amortisable throughout the life of the securities, has been written off the books. In general, it may be stated that all the assets of the Company have been gone over with the utmost care, and it is believed that the figures at which the various items are carried in the present Balance Sheet represent far less than the realizable values.

LIABILITIES:

With the exception of the items of Reserves and Surplus, the various captions of the Balance Sheet under Liabilities are self-explanatory, and show a marked improvement when contrasted with former years. Total direct and indirect bonded and other secured indebtedness, plus current obligations, are believed to show a smaller percentage of load against capital assets, and a larger percentage of security, both as to principal and interest, than any other large corporation in the country. The total debt of all kinds, direct and indirect, secured and unsecured, is less than 30% of the tangible assets at book values. The earnings of the Company available for interest are nearly seven times the interest. Since January 1, 1914, the remainder of the Serial Gold Notes, authorized as of May 1, 1913, have been sold. The amount, \$1,694,000, will be used, partly to meet sinking fund requirements of 1914 not otherwise provided for, partly in reduction of current indebtedness, and partly in needed facilities already indicated. In the past the Company has been handicapped by insufficient fixed capital, and until proper financing has been achieved, either by the sale of Treasury Stock, or by a Bond Issue of more satisfactory character than has hitherto been possible, it is inevitable that the larger portion of the earnings for several years to come will be required for sinking fund provisions and increased facilities to care for the steadily and rapidly growing business. It is interesting, and it may be profitable for stockholders to consider that term maturities, interest and sinking fund provisions for 1913 were equal to seven per cent on \$60,000,000—the same necessities in 1914 will require \$2,800,000—equivalent to seven per cent on \$40,000,000.

RESERVE FOR DEPRECIATION AND EXHAUSTION, \$5,893,855.45.

This item represents the amounts appropriated for depreciation of properties aside from impairments written off directly. Maintenance is charged to expense, and the depreciation reserve is added to year after year out of earnings.

GENERAL RESERVE ACCOUNT, \$10,000,000.00.

This account represents earnings and income re-invested through a period of years in additions to the properties, in the acquisition of stocks of subordinate companies, and increasing the reserve stocks of oil. It has become evident to your Board of Directors that many stockholders misunderstood the nature of the Surplus Account as carried in former Balance Sheets, and supposed it to represent funds available at any time for dividends. It has, therefore, been thought wise to take such re-investments out of Surplus Account and list them as a Reserve.

INSURANCE RESERVE ACCOUNT, \$250,000.00.

The many marketing stations and other widely separated buildings of comparatively moderate value have hitherto been insured the same as other risks. A reserve has now been set up, which will be credited with what would otherwise have been paid out in insurance premiums on these many small risks, and charged with any losses that may occur. It is believed that this will result in considerable economy. The larger risks of the Company are, of course, kept insured in the usual way.

SURPLUS, \$1,076,472.54.

After making the changes indicated in the treatment of the various Reserve Accounts, this item now represents available accumulated profits. It is intended hereafter, as yearly profits are ascertained, to apportion to Surplus Account only so much of Earnings as have not been invested for capital purposes.

In closing the comments on the Balance Sheet Items, it should be stated that the books and accounts of the Company have been re-organized and re-adjusted to conform to the results as ascertained, and recommendations as made, by Messrs. Price, Waterhouse and Company, Chartered Accountants.

GENERAL PROFIT AND LOSS ACCOUNT:

Operating profits for the year 1913 amounted to \$3,663,283.34, and Gross Sales to \$20,230,620.37. These contrast with Operating Profits of \$4,261,691.53, and Gross Sales of \$17,219,821.28, in 1912, showing an increase in Gross Sales of \$3,010,799.09, and a decrease in Operating Profits of \$598,408.19. The decrease is accounted for by fire losses at Portland and Oleum; to the lower basis at which actual inventories were taken; to the charging direct to the various operating departments of items hitherto carried in General Expense; to the loss due to the winding up of the business of the Union Well Supply Company; and to reduced selling prices on refined products.

PROPORTION OF PROFITS OF CONTROLLED COMPANIES in 1913 was \$1,026,271.75. This contrasts with a proportion in 1912 of \$835,863.86, and shows an increase of \$190,407.89. The increase is due chiefly to the better earnings of the Producers Transportation Company, the doubling of whose pipe line from Junction to Avila permitted large increases in the amount of oil transported without a corresponding increase in expense load.

MISCELLANEOUS REVENUE shows a falling off of \$117,194.23. GENERAL EXPENSE for 1913 shows an apparent decrease from the same item in 1912—it was, in fact, heavier because of adjustments and settlements made of accrued items. The apparent decrease appears because of the distribution to the operating departments of expense items properly belonging to them, but hitherto carried in General Expense. TAXES increased about \$20,000; INTEREST AND DISCOUNT about \$40,000 over the same items in 1912. Less money was borrowed, but interest rates were higher. Tax load is increasing, but during the current year—1914—it is intended to liquidate a number of Owned and Controlled Companies, and merge their assets in the remaining companies, which will tend to reduce general expenses, as well as to offset increased tax levies. DEPRECIATION allowed in 1913 was \$1,071,281.24. This amount was deducted from the year's earnings, and does not include maintenance, which was charged direct to expense.

NET PROFITS for the year amounted to \$2,526,230.51. This is, of course, after all deductions and allowances and is equivalent to 8.07% on the issued Capital Stock of the Company, as contrasted with net profit for 1912 of \$2,839,738.34, which was equivalent to 9.12% on the then issued Capital Stock. The causes for the decrease shown are given in the preceding comments. Dividends were paid during 1913 in amount \$1,311,780.63, equivalent to 4.2% on the issued Cap-

ital Stock. The balance of net earnings was passed to Surplus Account, the nature of which, and the changes in which are shown in the Summary of Surplus Account and in the comments made.

CHANGES IN PERSONNEL:

In May last, Mr. Robert Watchorn resigned as Treasurer. During the year resignations were received and accepted from Mr. C. F. Iredell, Auditor; Mr. W. L. Soleau, Comptroller; Mr. W. G. Tubby, Manager of Marine Department, and Mr. R. W. Fenn, Manager of Manufacturing Department. Mr. John Garrigues was elected Treasurer of the Company; Mr. R. D. Matthews, A. S. A. A., formerly of Messrs. Price, Waterhouse and Company, Chartered Accountants, was appointed Comptroller of the Company. The office of Auditor and the office of Assistant to the President have been abolished. In August, the three departments of Marine, Manufacturing and Sales at San Francisco were consolidated, and Mr. Alex. Sclater appointed General Manager of the Northern Division of the Company's business. In November, Mr. E. W. Clark, who was Manager of the Producer's Transportation Company, was appointed General Manager of the entire transportation interests of the Union Oil Company of California and its Owned and Controlled Companies.

The various departments of the business have been well maintained in the past year, and your Company enters upon the year 1914 better equipped in material and organization than at any time in the past. The magnitude of the business already built up, and the greatness of the opportunity in the present and for the future, should inspire us all with confidence.

Respectfully submitted by order of the Executive Committee.

LYMAN STEWART, President.

JOHN GARRIGUES, Treasurer.

**UNION OIL COMPANY
AND OWNED**

CONSOLIDATED BALANCE SHEET

ASSETS

PROPERTIES:

| | | |
|--|----------------|-----------------|
| Oil Lands, Rights and Leases..... | | \$22,833,756.09 |
| Oil Wells and Development, Drilling Tools, Gas and Water Lines, etc. | \$7,531,374.92 | |
| Pipe Lines and Storage System..... | 4,223,438.36 | |
| Steamships and Tank Cars..... | 2,898,917.35 | |
| Refineries and Compressor Plant..... | 2,460,515.67 | |
| Marketing Stations | 3,384,447.59 | |
| Other Properties | 521,173.88 | 21,019,867.77 |
| | | 21,019,867.77 |

INVESTMENTS IN CONTROLLED COMPANIES:

| | | |
|-------------------------|----------------|---------------|
| In Stocks | \$9,247,014.10 | |
| In Bonds | 1,766,387.50 | |
| Advances Accounts | 1,514,757.28 | 12,528,158.88 |

INVESTMENTS IN AFFILIATED COMPANIES:

| | | |
|--|---------------|-----------------|
| In Stocks | \$ 514,955.39 | |
| Payments on Uncompleted Contracts..... | 46,798.10 | |
| Advances Accounts | 30,954.20 | 592,707.69 |
| | | \$56,974,490.43 |

CURRENT ASSETS:

| | | |
|-----------------------------|----------------|--------------|
| Inventories: | | |
| Crude Oil | \$3,364,111.56 | |
| Refined Stocks | 939,791.66 | |
| Drums and Barrels..... | 293,550.08 | |
| Materials and Supplies..... | 334,878.87 | |
| | \$4,932,332.17 | |
| Bills Receivable | 60,790.89 | |
| Accounts Receivable | 2,562,365.52 | |
| Cash | 735,357.23 | 8,290,845.81 |
| | | 8,290,845.81 |

DEFERRED CHARGES:

| | | |
|---|---------------|-----------------|
| Taxes, Insurance and Interest in Advance..... | \$ 131,037.44 | |
| Other Charges | 38,660.14 | 169,697.58 |
| | | 169,697.58 |
| | | \$65,435,033.82 |

We have examined the books of the Union Oil Company of California, and the companies owned and con-
Union Oil Company of California and Owned Companies is, in our opinion, properly drawn up so as to
correctly stated in the attached Profit and Loss Account.

Los Angeles, California, March 20, 1914.

**OF CALIFORNIA
COMPANIES**

DECEMBER 31, 1913

LIABILITIES

CAPITAL STOCK:

| | | |
|---------------------|-----------------|-----------------|
| Authorized | \$50,000,000.00 | |
| Less Unissued | 18,707,200.00 | \$31,292,800.00 |

SUBSCRIPTIONS TO CAPITAL STOCK 21,525.55

CAPITAL STOCK OF MISSION TRANSFER COMPANY OWNED BY OTHERS 300.00

***BONDED DEBT:**

| | | |
|--|----------------|--------------|
| Union Oil Company of California First Lien 5% Bonds..... | \$5,730,000.00 | |
| Union Transportation Company First Mortgage 5% Bonds..... | 2,044,000.00 | |
| Mission Transportation and Refining Company First Mortgage 5% Bonds | 435,000.00 | |
| Union Steamship Company First Mortgage 5% Bonds..... | 200,000.00 | 8,409,000.00 |

COLLATERAL TRUST 6% SERIAL GOLD NOTES 2,306,000.00

PURCHASE MONEY AND OTHER SECURED OBLIGATIONS 1,204,164.46

DUE TO CONTROLLED OR AFFILIATED COMPANIES 758,539.97

\$43,992,329.98

CURRENT LIABILITIES:

| | | |
|------------------------|----------------|--------------|
| Bills Payable | \$2,281,123.52 | |
| Accounts Payable | 1,836,446.53 | |
| Interest Accrued | 104,805.80 | 4,222,375.85 |

RESERVE FOR DEPRECIATION AND EXHAUSTION 5,893,855.45

RESERVES:

| | | |
|--------------------------------|-----------------|---------------|
| General Reserve Account..... | \$10,000,000.00 | |
| Insurance Reserve Account..... | 250,000.00 | 10,250,000.00 |

SURPLUS 1,076,472.54

\$65,435,033.82

***NOTE:**

In addition to the above Bonds the Company has guaranteed Bonds of the Producers Transportation Company in the hands of the public amounting to \$1,924,000.00.

trolled by it, for the year ending December 31, 1913, and we certify that the above Balance Sheet of the show the true financial position at December 31, 1913, and that the profit for the year 1913 is fairly and

PRICE, WATERHOUSE & CO.,
Chartered Accountants.

UNION OIL COMPANY OF CALIFORNIA
AND
OWNED COMPANIES

GENERAL PROFIT AND LOSS ACCOUNT, YEAR ENDING DECEMBER 31, 1913

REVENUE:

| | | |
|---|-----------------|-----------------|
| Profit on Crude and Refined Oils, Steamships, Pipe Lines, etc..... | \$ 3,663,283.34 | |
| Union Oil Company of California's proportion of profits of Controlled Companies | 1,026,271.75 | |
| Miscellaneous Revenue | 113,982.05 | |
| | | \$ 4,803,537.14 |

DEDUCT:

| | | |
|-----------------------|--------------|-----------------|
| General Expense | \$321,651.34 | |
| Taxes | 235,631.72 | 557,283.06 |
| | | \$ 4,246,254.08 |

DEDUCT:

| | | |
|----------------------------------|--------------|-----------------|
| Interest on— | | |
| Bonds | \$423,242.72 | |
| Collateral Trust Notes, etc..... | 130,858.18 | |
| Miscellaneous | 94,641.43 | 648,742.33 |
| | | \$ 3,597,511.75 |

DEDUCT:

| | | |
|---|--|-----------------|
| Provision for depreciation of properties and exhaustion of Oil Lands..... | | 1,071,281.24 |
| Profit for the year carried to Surplus Account below | | \$ 2,526,230.51 |

SUMMARY OF SURPLUS ACCOUNT, DECEMBER 31, 1913

| | | |
|---|----------------|-----------------|
| Balance as per Balance Sheet at December 31, 1912 | | \$10,038,468.95 |
| DEDUCT: | | |
| Oil Wells and other accounts written off as of December 31, 1912..... | | 1,431,619.42 |
| | | \$ 8,606,849.53 |
| ADD: | | |
| Profit for the year 1913, as above..... | | 2,526,230.51 |
| | | \$11,133,080.04 |
| LESS: | | |
| Dividends paid | | 1,311,780.63 |
| | | \$ 9,821,299.41 |
| DEDUCT: | | |
| First Lien Bond Issue and Collateral Trust Note Issue Discount and Expense at December 31, 1913, written off | \$1,045,265.21 | |
| Amount appropriated to Insurance Reserve..... | 250,000.00 | |
| Amount appropriated to bring General Reserve to \$10,000,000.00.. | 7,449,561.66 | 8,744,826.87 |
| | | \$ 1,076,472.54 |
| Balance at December 31, 1913, carried to Balance Sheet..... | | |