# SEVENTH ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1926

IndAlene GASOLINE SUPREME
IndAlube PERFECT LUBRICATION

INDEPENDENT OIL AND GAS COMPANY
PRODUCERS AND REFINERS
KENNEDY BUILDING
TULSA OKLA

# INDEPENDENT OIL AND GAS COMPANY

(INCORPORATED UNDER THE LAWS OF DELAWARE, OCTOBER, 1919)

CAPITAL STOCK WITHOUT NOMINAL OR PAR VALUE
AUTHORIZED, 1,000,000 SHARES
ISSUED, 500,000 SHARES

LISTED ON THE NEW YORK STOCK EXCHANGE

## OFFICERS

| | |
|---|---|
| E. H. MOORE | President |
| E. F. CONNORS | Vice President |
| J. DONALD DUNCAN | Vice President |
| C. F. KELSEY | Vice President |
| R. M. RIGGINS | Secretary and Treasurer |
| L. F. CRAIG | Ass't. Secretary and Treasurer |
| W. A. McKNIGHT | Ass't. Secretary and Treasurer |

## DIRECTORS

| | |
|---|---|
| E. H. MOORE | Tulsa, Oklahoma |
| W. C. DURANT | New York, N. Y. |
| E. F. CONNORS | Tulsa, Oklahoma |
| R. M. RIGGINS | Tulsa, Oklahoma |
| C. F. KELSEY | Fort Worth, Texas |
| J. DONALD DUNCAN | New York, N. Y. |
| DON M. KELLEY | New York, N. Y. |
| W. J. ZUCKER | Chicago, Illinois |
| VILLARD MARTIN | Tulsa, Oklahoma |
| R. R. BARLOW | Tulsa, Oklahoma |
| A. W. DUSTON | Tulsa, Oklahoma |

**Executive and General Offices,**
Tulsa, Oklahoma

**Transfer Agent,**
National Bank of Commerce in New York,
New York, N. Y.

**Registrar,**
Liberty National Bank in New York
New York, N. Y.

Tulsa, Oklahoma,
February 21, 1927.

TO THE STOCKHOLDERS OF THE
INDEPENDENT OIL AND GAS COMPANY:

In behalf of your Board of Directors, I am pleased to submit a report of the earnings and operations of your company covering its seventh year, ended December 31, 1926, and a statement of its financial condition at that date.

## OIL AND GAS PROPERTIES

Our oil and gas properties continued to increase during the past year and it is interesting to note the following table, showing the properties owned at the close of each year beginning with the inception of your company:

| | Total No. of Properties | Total Acreage | Number of Producing Properties | Producing Acreage | Number of Producing Wells |
|---|---|---|---|---|---|
| December 31, 1919 | 86 | 7,212 | 10 | 765 | 51 |
| December 31, 1920 | 114 | 10,647 | 14 | 1,062 | 64 |
| December 31, 1921 | 131 | 11,760 | 15 | 957 | 61 |
| December 31, 1922 | 194 | 15,893 | 34 | 2,403 | 112 |
| December 31, 1923 | 306 | 25,654 | 45 | 3,512 | 131 |
| December 31, 1924 | 328 | 27,127 | 65 | 5,778 | 168 |
| December 31, 1925 | 866 | 104,588 | 92 | 8,520 | 308 |
| December 31, 1926 | 1,402 | 144,138 | 117 | 12,162 | 411 |

The acquisition of these properties is still confined to the states of Oklahoma, Kansas and Texas and the following statement summarizes the properties as to the three states:

| | 1924 | | 1925 | | 1926 | |
|---|---|---|---|---|---|---|
| | Number of Properties | Total Acres | Number of Properties | Total Acres | Number of Properties | Total Acres |
| Oklahoma | 291 | 22,315 | 659 | 57,982 | 843 | 76,116 |
| Texas | 5 | 1,440 | 157 | 41,723 | 458 | 57,957 |
| Kansas | 32 | 3,372 | 50 | 4,883 | 101 | 10,065 |
| Total | 328 | 27,127 | 866 | 104,588 | 1,402 | 144,138 |

During the past year we completed 161 wells, of which 107 produced either oil or gas while 54 were dry, representing 66.46% and 33.54%, respectively.

Of the wells completed, 116 were in Oklahoma, 69 of which were productive and 47 dry. In Texas, 32 wells were completed, of which 29 were productive and 3 were dry and in Kansas, 13 were completed, of which 9 were productive and 4 were dry. The total wells completed covered the development of 79 properties, of which 61 were in Oklahoma, 8 in Texas and 10 in Kansas.

At the close of 1925, we had approximately $7,650,000.00 invested in oil and gas leaseholds, excluding equipment, while at the close of 1926, we had approximately $12,000,000.00 invested in such properties, on the same basis.

During the past year, a branch office has been established at Wichita, Kansas, for the purpose of carrying on operations in that state, as was the branch office at Fort Worth, Texas established during 1925 for the purpose of carrying on operations in Texas.

Our total oil production has also gradually increased and throughout the past year your company averaged 7,290 barrels per day, as compared to 6,646 barrels in 1925, 3,456 barrels in 1924 and 1,851 barrels per day during 1923. At the present, however, our net daily average production is in excess of 13,000 barrels. The average price received for our entire production during the past year was $2.33 per barrel, as compared to $2.11 in 1925 and $1.63 per barrel during 1924. The

majority of our present production is of high gravity oil and our total production from the three states will average approximately 39 degrees Baume. Of our total present daily production, in excess of 13,000 barrels, 1,400 barrels is from Kansas and 3,100 barrels is from Texas.

We now have 44 wells drilling, of which 25 are in Oklahoma, 11 in Texas and 8 in Kansas. All these wells now drilling are on proven acreage except 6 and of this number, 3 are in Oklahoma, 2 in Texas and 1 in Kansas.

## REFINING AND TRANSPORTATION OF OIL

The refinery construction in progress at the beginning of 1926, consisting of a Jenkins cracking plant and a most modern lubricating oil unit—the latter comprising a refrigeration plant, centrifugal dewaxing plant, clay treating plant, contact filtering plant and lubricating oil storage—was all completed. This equipment was placed in operation the latter part of June and has been highly successful, in addition to being the latest and most modern refinery equipment for these purposes now in use.

Our first year, 1925, was the first in the refining branch of the industry and we averaged approximately 1,000 barrels of crude oil throughput per day, while during the past year we averaged 2,000 barrels per day in addition to an average of 500 barrels per day through our cracking plant. During the current year we expect to average approximately 3,500 barrels of crude oil throughput per day in addition to 1,200 barrels per day of cracking stocks through our cracking plant.

During 1925, we shipped 1,170 cars of refined oil products, while during 1926, we shipped 2,900 cars and expect to ship 6,000 cars during 1927. Our present refinery is producing approximately 24,000,000 gallons of gasoline and 4,000,000 gallons of lubricating oils per year. Practically all of the latter products have been sold for the current year.

The past year was the first year of operation of the Independent Pipe Line Company, owned entirely by your company, whose business is restricted to the transportation of crude oil only, this system having a total capacity of approximately 10,000 barrels per day. Daily oil runs througout the past year averaged in excess of 4,000 barrels, which oil was transported almost entirely for our own refinery, although some oil was handled for two or three other refineries at odd times during the year. At present, this pipe line system is handling approximately its full capacity of 10,000 barrels per day.

These lines were recently extended to the Seminole, Oklahoma pool and have been the means of transporting a great deal of our crude oil production from this congested district, which otherwise might not have been taken care of, placing us in the position of being able to handle a great amount of our own production from this pool to both our refinery and our crude oil tank farm at Okmulgee, Oklahoma. All three of these units were acquired during the latter part of 1925 and are being operated to their full capacity at this time. This pipe line system now covers a greater part of the Oklahoma territory in which we operate.

## TRANSPORTATION OF NATURAL GAS

At the close of 1925, your company owned approximately 75 miles of gas gathering and transporting lines which were operated by the Tri-County Gas Company, the stock of which is owned entirely by your company. This business has increased so materially that the lines have been extended to new territories from time to time so that at the present, the total length of these lines is appromixately 200 miles, varying in size from three inch to eight inch.

This system is now handling in excess of 20,000,000 cubic feet of gas per day, a great amount of which is being supplied to drilling wells, especially in the Seminole, Oklahoma district, although this company is also supplying gas to the cities of

Holdenville, Wetumka, Wewoka, Okemah, Seminole, Yeager and Earlsboro, Oklahoma, and will soon furnish the city of Tecumseh, Oklahoma. These lines cover a majority of the Oklahoma territory in which we operate and afford a market for all of our own gas production. In addition, we buy a considerable amount of gas from wells owned and operated by other companies.

## NATURAL GASOLINE PLANT

Our only gasoline plant is in operation in the Seminole, Oklahoma pool, being of the portable type, and was placed in operation during September 1926, at this time receiving all of its casinghead gas from our own producing properties in that district.

While this plant is now producing 16,000 gallons per day, or approximately two cars, equipment is now being placed to double the capacity of the plant inasmuch as casinghead gas purchase contracts have been secured from properties other than our own and it is expected that this plant will shortly be producing in excess of 30,000 gallons per day, or approximately four cars. About one-half the production of this plant will be shipped to our refinery at Okmulgee, Oklahoma for use in blending with other gasoline, while the other half will be sold under contracts, or on the open market.

## SEMINOLE OIL COMPANY
(Royalty Division)

This company is the only subsidiary in which your company does not own the entire stock. Although the Seminole Oil Company was not organized by us, we purchased seventy-five percent of its stock during September 1926, which gives your company the controlling interest.

The Seminole Oil Company was organized and is now being operated as a royalty company only and while its properties have grown very rapidly during the five months of its existence, its most valuable holdings are in the Seminole, Oklahoma pool. This controlled company now has approximately 500 barrels per day of net crude oil production from its royalties in Seminole, which production is net with no production expense.

## EARNINGS

Our attached earnings statement bearing the certificate of Messrs. Arthur Young & Company, accountants and members of the American Institute of Accountants, reflects our increase in development during the past year and you will note that while our net earnings were approximately $1,000,000.00 in excess of those of 1925, before depreciation and depletion, they were approximately $500,000.00 in excess of our 1925 earnings after making proper reserves for depreciation, depletion and Federal Taxes.

From a cash standpoint, without considering these reserves, our earnings during the past year added approximately $5,000,000.00 to the treasury of your company, which was used in expansion and the acquisition of properties, in addition to paying dividends throughout the year and paying the sinking fund and interest obligations on our Five Year 6½% Gold Note issue.

Our earnings, before making reserves for depreciation, depletion and Federal Taxes, amounted to $10.00 per share as compared to $7.82 per share for 1925, while after making all proper reserves for every contingency our earnings amounted to $5.96 per share as compared to $5.12 for 1925. We have every reason to believe that the increased activities of your company in other branches of the industry, in addition to our increased production, should enable us to at least maintain the earnings of the past year, although we of course hope to materially increase these earnings.

## FINANCIAL STATEMENT

Included in the attached certificate of Messrs, Arthur Young & Company is a comparative statement of financial condition at the close of 1926 as compared to the

close of 1925, and your attention is particularly called to the fact that there is an increase in assets of approximately $14,000,000.00, of which $7,000,000.00 is reflected in the increase in the net worth of your company, after paying $500,000.00 in dividends during the year.

The liabilities as shown on the attached balance sheet, including the Five Year Gold Notes, are expected to be entirely liquidated by a new note issue, outlined in the following paragraph, which will place your company in a most excellent financial position.

## SECURITIES

Although no additional stock was issued during last year, which would have reduced the equity of present stockholders in the company, your company did issue in lieu of new stock $3,000,000.00 of Five Year 6½% Gold Notes, dated January 15, 1926 and due January 15, 1931, redeemable by a sinking fund at the rate of $600,000.00 per year. Rights to subscribe to these notes were given stockholders at that time and it was pleasing to note that over one-half of the total issue was subscribed by stockholders. At this time $600,000.00 of these debentures have been retired by your company and, due to the rapid expansion of your company it becomes necessary to secure additional capital either by the sale of additional stock, which would reduce your present equity in the company, or by the sale of additional debentures, which would maintain your present equity in the company, and your Board of Directors at the regular meeting held January 24, 1927 concluded to issue the latter. In the past few days you have been notified to this effect, calling your attention to the fact that you have the right to subscribe to this new note issue, based on your stock holdings at the close of business March 1, 1927.

The amount of this issue will be $6,500,000.00 of Twelve Year 6% Convertible Debenture Notes and rights to subscribe will be issued on the basis of $13.00 of notes for each share of stock held at the close of business March 1st. The total issue has been underwritten and that part not subscribed for by you will be purchased by the underwriters.

These notes will have conversion stock privileges, allowing the holders thereof to convert their notes into stock at $35.00 per share during the first year, the price of the stock increasing $1.50 per share each year thereafter until the eleventh year and the price will be $50.00 per share during the last two years. The notes will be dated March 15, 1927 and you will be allowed to subscribe at the price of $99.00 and accrued interest, which subscriptions will expire at the close of business March 21, 1927.

The notes provide for payment of interest semi-annually, with a sinking fund annually until the notes are retired over the twelve year period, are callable for sinking fund purposes at $102.50 during the first two years decreasing one-quarter of one percent each year thereafter and are callable in whole or in part for any other purpose at $104.00 for the first four years, decreasing one-half of one percent each year thereafter.

The proceeds of this issue will be used to call and redeem the notes issued in January last year, of which there now remain $2,400,000.00, to liquidate the present liabilities and for other corporate purposes.

## CONCLUSION

We continue to build an efficient and loyal organization, whose personnel is almost entirely one hundred percent stockholders and we owe much of our success to them, who by their interest will and should profit by our success.

Respectfully submitted,

E. H. MOORE, President.

INDEPENDENT OIL AND GAS COMPANY
AND SUBSIDIARY COMPANIES

# CONSOLIDATED COMPARATIVE BALANCE SHEET

**At December 31, 1926 and December 31, 1925**

## ASSETS

| | Dec. 31, 1926 | Dec. 31, 1925 | Increase / *Decrease* |
|---|---|---|---|
| CURRENT ASSETS: | | | |
| Cash in Banks | $ 520,719.21 | $ 258,891.61 | $ 261,827.60 |
| Notes Receivable | 11,634.72 | 1,075.34 | 10,559.38 |
| Accounts Receivable, less Reserve | 806,013.09 | 393,171.70 | 412,841.39 |
| Inventories: | | | |
| Crude Oil (cost) | 416,024.59 | 76,720.55 | 339,304.04 |
| Refined Products (cost) | 314,606.60 | 51,675.25 | 262,931.35 |
| Warehouse Materials and Supplies (Depreciated) | 580,023.51 | 589,158.29 | *9,134.78* |
| TOTAL CURRENT ASSETS | $ 2,649,021.72 | $ 1,370,692.74 | $ 1,278,328.98 |
| DUE FROM EMPLOYEES ON CAPITAL STOCK SUBSCRIPTIONS | 75,022.79 | $ *2,486.80* | $ 77,509.59 |
| INVESTMENTS (at cost) | $ 10,000.00 | $ —— | $ 10,000.00 |
| CAPITAL ASSETS: | | | |
| Cost: | | | |
| Real Estate, Oil and Gas Leases, Transportation Lines, Refinery, Tank Cars, Buildings and Equipment | $18,416,954.63 | $10,892,782.85 | $ 7,524,171.78 |
| APPRECIATION: | | | |
| Resulting from Appraisal of Producing Leases by Company's Engineers | $ 8,269,307.99 | $ 4,403,622.16 | $ 3,865,685.83 |
| Other Properties by American Appraisal Company | 775,326.61 | —— | 775,326.61 |
| Total Appreciation | $ 9,044,634.60 | $ 4,403,622.16 | $ 4,641,012.44 |
| TOTAL CAPITAL ASSETS | $27,461,589.23 | $15,296,405.01 | $12,165,184.22 |
| DEPOSIT ON CONTRACTS | $ —— | $ 2,765.00 | $ *2,765.00* |
| DEFERRED CHARGES TO OPERATIONS | $ 310,586.71 | $ 50,695.87 | $ 259,890.84 |
| | $30,506,220.45 | $16,718,071.82 | $13,788,148.63 |

## LIABILITIES AND CAPITAL

| | Dec. 31, 1926 | Dec. 31, 1925 | Increase / *Decrease* |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Notes Payable—Banks | $ 1,490,000.00 | $ 1,000,000.00 | $ 490,000.00 |
| Notes Payable—Leases Purchased | 68,615.00 | —— | 68,615.00 |
| Accounts Payable—Trade | 1,484,699.61 | 847,884.66 | 636,814.95 |
| Accrued Payroll, Taxes, Interest, etc. | 265,919.76 | 108,401.50 | 157,518.26 |
| Purchase Money Obligations | —— | 50,000.00 | *50,000.00* |
| Dividends Payable (Jan. 18, 1927) | 125,000.00 | 125,000.00 | —— |
| Estimated Reserve for Federal Income Taxes | 100,447.45 | 75,000.00 | 25,447.45 |
| TOTAL CURRENT LIABILITIES | $ 3,534,681.82 | $ 2,206,286.16 | $ 1,328,395.66 |
| DEFERRED LIABILITIES: | | | |
| Accounts Payable—For Leases in Litigation | $ 361,000.00 | $ —— | $ 361,000.00 |
| Accounts Payable—Oil Money in Litigation | 70,550.84 | —— | 70,550.84 |
| Tank Car Trust Notes | 76,950.00 | —— | 76,950.00 |
| Mortgages Payable—Assumed in connection with purchase of Refinery, etc. ($20,000.00 due monthly) | 235,000.00 | —— | 235,000.00 |
| TOTAL DEFERRED LIABILITIES | $ 743,500.84 | $ —— | $ 743,500.84 |
| FIVE YEAR, 6½% GOLD NOTES: ($300,000.00 to be retired January 15, 1927 and semi-annually thereafter) | $ 2,700,000.00 | $ —— | $ 2,700,000.00 |
| RESERVES: | | | |
| For Depreciation—Cost | $ 1,288,429.95 | $ 757,905.76 | $ 530,524.19 |
| For Depletion—Leasehold and Development Cost | 4,061,860.50 | 2,900,021.10 | 1,161,839.40 |
| TOTAL RESERVES | $ 5,350,290.45 | $ 3,657,926.86 | $ 1,692,363.59 |
| MINORITY INTERESTS—Seminole Oil Company | $ 33,854.04 | $ —— | $ 33,854.04 |
| NET WORTH: | | | |
| Capital Stock: | | | |
| Authorized—1,000,000 shares of no nominal or par value (Reserved for Warrant Holders—45,000 shares) | | | |
| Issued—500,000 shares no par value | $ 5,784,861.46 | $ 5,784,861.46 | $ —— |
| Less: In Treasury—100 shares | 2,715.00 | —— | *2,715.00* |
| | $ 5,782,146.46 | $ 5,784,861.46 | $ *2,715.00* |
| Surplus (Per Surplus Account) | 12,361,746.84 | 5,068,997.34 | 7,292,749.50 |
| TOTAL NET WORTH | $18,143,893.30 | $10,853,858.80 | $ 7,290,034.50 |
| | $30,506,220.45 | $16,718,071.82 | $13,788,148.63 |

CONTINGENT LIABILITIES, December 31, 1926, $629,489.84
(To be offset by Assets when and if acquired).

# INDEPENDENT OIL AND GAS COMPANY
# AND SUBSIDIARY COMPANIES

## CONSOLIDATED SURPLUS ACCOUNT

### December 31, 1926

| | | |
|---|---|---|
| EARNED SURPLUS: | | |
| Balance, December 31, 1925, per our report dated February 16, 1926 | | $ 2,709,199.47 |
| ADD: | | |
| Excess of provision for 1925 Federal Income Taxes over amount paid | $ 16,902.83 | |
| Adjustment of Depletion on Leasehold costs applicable to prior periods | 177,776.06 | |
| | $ 194,678.89 | |
| DEDUCT: | | |
| Adjustments affecting prior periods | $ 16,017.24 | |
| NET ADDITIONS TO SURPLUS | | $ 178,661.65 |
| EARNED SURPLUS, DECEMBER 31, 1925, AS ADJUSTED | | $ 2,887,861.12 |
| ADD: Net Income for the year ended December 31, 1926, per Income Statement | | 2,975,044.25 |
| | | 5,862,905.37 |
| DEDUCT: Cash Dividends Paid | | 500,000.00 |
| EARNED SURPLUS, DECEMBER 31, 1926 | | $ 5,362,905.37 |
| CAPITAL SURPLUS: | | |
| Created through Appreciation, LESS: Minority Interests, $1,968.84 | $ 9,042,665.76 | |
| DEDUCT: Stock Dividends Paid | 2,043,824.29 | |
| CAPITAL SURPLUS, DECEMBER 31, 1926 | | 6,998,841.47 |
| SURPLUS ACCOUNT, DECEMBER 31, 1926, (Per Balance Sheet) | | $12,361,746.84 |

INDEPENDENT OIL AND GAS COMPANY
AND SUBSIDIARY COMPANIES

## CONSOLIDATED COMPARATIVE STATEMENT OF INCOME
### For the Two Years Ended December 31, 1926

| | For the Year ended Dec. 31, 1926 | Dec. 31, 1925 |
|---|---|---|
| GROSS EARNINGS: | | |
| Oil and Gas Sales and Other Miscellaneous Earnings | $9,792,992.26 | $6,213,120.29 |
| Sale of Leases and Equipment | 148,670.45 | 39,951.57 |
| | $9,941,662.71 | $6,253,071.86 |
| CHARGES TO OPERATIONS: | | |
| Cost of Refined Oil Sales | $1,623,783.20 | $ 489,620.15 |
| Operating, General and Administrative Expenses | 2,122,649.78 | 1,080,408.94 |
| Taxes, Dry Ho'es, Abandoned Wells, and Expired Leases | 886,411.86 | 752,732.30 |
| | $4,632,844.84 | $2,322,761.39 |
| NET INCOME FROM OPERATIONS | $5,308,817.87 | $3,930,310.47 |
| INTEREST AND DISCOUNTS: | | |
| Interest on Gold Notes | $ 171,958.78 | —— |
| Amortization of Gold Note Discount | 58,776.11 | —— |
| Other Interest and Discounts | 79,496.70 | 21,807.30 |
| | $ 310,231.59 | $ 21,807.30 |
| INCOME AVAILABLE FOR SURPLUS AND RESERVES | $4,998,586.28 | $3,908,503.17 |
| RESERVES: | | |
| Depreciation and Depletion on Cost | $1,916,209.38 | $1,271,839.44 |
| Estimated Reserve for Federal Income Taxes | 100,447.45 | 75,000.00 |
| | $2,016,656.83 | $1,346,839.44 |
| NET INCOME | $2,981,929.45 | $2,561,663.73 |
| LESS: Minority Interests—Seminole Oil Co. | $ 6,885.20 | —— |
| NET INCOME TO SURPLUS | $2,975,044.25 | $2,561,663.73 |

CABLE ADDRESS "ARTHYOUNG"
NEW YORK
CHICAGO
PITTSBURGH
KANSAS CITY
MILWAUKEE
LOS ANGELES
DALLAS
LONDON, ENGLAND
PARIS, FRANCE

ARTHUR YOUNG & COMPANY
MEMBERS AMERICAN INSTITUTE OF ACCOUNTANTS
1101 LAND BANK BUILDING
KANSAS CITY, MO.

February 7, 1927.

## CERTIFICATE OF AUDITORS

We have examined the books and accounts of the INDEPENDENT OIL AND GAS COMPANY, and its subsidiary companies, Tri-County Gas Company, Independent Pipe Line Company, and Seminole Oil Company, as at December 31, 1926. We have previously examined the books and accounts of the Independent Oil and Gas Company, Tri-County Gas Company and Independent Pipe Line Company as at December 31, 1925, the Seminole Oil Company being non-existent at that date. From these examinations we have prepared the attached comparative balance sheet at December 31, 1926 and December 31, 1925 and the accompanying comparative statement of income for the two years ended December 31, 1926.

We hereby certify that, in our opinion, the aforesaid balance sheet and statement of income correctly set forth the financial position of the companies and the result of their operations for the periods stated.

Arthur Young & Co.

MEMBERS, AMERICAN INSTITUTE OF ACCOUNTANTS.