

EUCALYPTUS CULTURE COMPANY

(Incorporated)

625 TIMKEN BUILDING

SAN DIEGO, CALIFORNIA

Owners of the
SAN BERNARDO EUCALYPTUS PLANTATION
Escondido, San Diego Co., Cal.

San Diego, Calif., May 1st, 1918.

To the Holders of Acre-Units of the San Bernardo Eucalyptus Plantation:

Not having made a detailed report to our shareholders for some time, and having received inquiries from quite a number of them with reference to the progress we are making, we have made up this report in this form for the benefit of all and are mailing a copy to each one, embodying in it as best we can a reply to each of the various inquiries which we have received.

We are maintaining our office at Room 625, in the Timken Building, but have cut down our expense as far as possible while waiting for the trees to mature, consequently we have no clerical force regularly employed, which is the reason why our shareholders have not heard from us more frequently and why some of their communications have not been answered as promptly as they should have been.

Our trees are growing steadily, are thrifty and in good condition, but the growth has been slower than we were led to believe by the government reports that it would be, when we planted the forest, and our estimates of expected early revenues, as shown in the prospectus which we put out at that time, all of which were based on government reports, have not been realized. That is to say, we have not derived any dividend nor received any revenue of any kind from the grove to date.

The size of the trees varies in different parts of the grove and it would be difficult to state just what the average is, but we presume it would not be far out of the way to say that the average diameter is about five or six inches and the average height about 40 feet. The Landreth Hardwood Co., who have erected a very high-class mill on their eucalyptus tract of about a hundred acres, not far from our tract, are utilizing trees of about the dimensions named above, but most of their trees are larger than ours, having been planted, we believe, some two or three years earlier.

The Landreth Hardwood Co. built their mill near Escondido about a year ago, after satisfying themselves by many months of scientific investigation and elaborate experimentation that the eucalyptus timber would do all that had been claimed for it. To be assured that they were thoroughly satisfied on that point, it is only necessary to go through their mill and note the expensive, high-grade machinery and equipment which they have installed for working up their timber and the extensive preparations they have made for doing business. To give you

some idea of their mill and of the business which they propose to do, we quote from a recent issue of the Escondido Times-Advocate, as follows:

"A large number of machines have been installed for wood-working, including a large bandsaw for sawing logs; bolter saws for smaller timber; small bandsaws for lighter sawing; cut-off saws; many kinds of turning lathes, including several for turning out insulator pins; machines for threading pins; boring machines to bore the holes for the bolts; planers, joiners, and a fully equipped machine shop with large lathes for turning out iron and steel fixtures, shafts, etc., for mill repair work; besides machines of which the writer knows little, used in making toys, the business in which the company expects to engage and for which it is making extensive preparations. The coast cities consume many thousands of dollars worth of toys every year, exceeding \$1,000,000 in value annually for California cities alone, and in this trade the company hopes to share. Germany formerly marketed the larger part of the world's supply of toys, but since the war all trade relations have been broken off and this trade must go unsupplied or fall into other hands. So Escondido may expect to share in such industry. A more opportune time for starting such a business could not have been had, and when once established it is quite likely to hold its own against any foreign competition. After the lapse of a few years to allow for their timber to grow larger and become harder, the company will then engage in the making of furniture. At present, in addition to the making of toys and insulator pins, and as a branch of their business, they have set up a large still and are distilling eucalyptus oil from the leaves of the trees which they are cutting for timber. The power for driving the machinery is obtained from a 140-horsepower boiler and Corliss engine of like capacity, which drives a generator of corresponding capacity, from which power is transmitted over wires to individual motors for nearly every machine. Fuel for making steam is had from the sawdust, shavings, edgings and other waste material, including the leaves and debris from the still, thus reducing the cost of power to a minimum. The company has been clearing up the grove where the great storm of two years ago had blown the timber down, and have sawn from the larger trees, up to the present time, about 300,000 feet, board measure, of lumber, with much in the felled timber yet to saw. They have turned out several orders of insulator pins, which have given excellent satisfaction, as also sample shipments of eucalyptus oil. They have placed an order for a dry kiln and will commence work on it soon. Like other large concerns they have been hampered somewhat, since the war started, in securing enough help. As it is, their pay roll averages about \$2,000 a month. Some idea of the value of eucalyptus for timber may be gained when we remember that it belongs to the Bionta plants, possessed of latent buds capable of reproducing thereby. When cut off it soon starts again from the stump, and in a few years attains to its former growth and may be repeatedly cut, the second growth and subsequent cuttings coming on faster and making better timber than that from the first growth. It is known to be the fastest growing tree in the world, and, strange to say, produces one of the toughest and hardest timbers known. Out of the smaller parts of the tree, such as the branches and taper ends of the trees too small for timber, the company will have stove wood and small heater wood amounting to 125 car loads of good dry wood for shipment to the trade this season, no small item in itself."

We have quoted thus at length from the Times-Advocate, not because of any interest that we have in the Landreth Company, for we have none, but because we want our shareholders to know that we are not the only ones who believe in the eucalyptus, and because the practical demonstration of the faith of the Landreth people in their property, as shown in the article quoted from, is a strong and very tangible corroboration of the sincere belief which we have always held, and still hold, that our plantation will eventually come into its own and prove to be a good investment for each of our shareholders who has the ability and the patience to hold on. That we were misled by the government reports with reference to quick returns, we are very frank to admit, and it has been a grievous disappointment to us that our shareholders have not received some returns on their investment before now, but there is only one thing to do, and that is to hold on and wait.

In common with all other young trees in Southern California, our trees

were hard hit by the big freeze of five years ago and the growth was greatly retarded, but that damage has long since been outgrown, and no ill effects are now to be seen, with the exception, of course, of the retarded growth. The windstorm of two years ago, spoken of by the Times-Advocate as having blown down the trees of the Landreth company, damaged our grove practically not at all, and none of our trees were injured to speak of. Our grove has always been well taken care of, and we have never had any forest fires. The State Forester paid us a visit about a year ago, and after going over the property pronounced ours the finest and best forest of eucalyptus trees in the state. There has been no change since then, with the exception that the trees have increased their size by one more year of growth.

The growth has been slow as compared with the rapid growth we had every reason to expect, but the second growth that comes on from the stump after the first cutting is made will doubtless be faster than the first growth has been, not only because the stumps will be there with their roots deeply established, but the untoward conditions which we had to contend with, following the big freeze of five years ago, will not be likely to occur again, and if they do, the damage can in no way be so great as it was to the young and tender trees of the first planting.

While the annual growth of the trees after they have attained to their present size is not so apparent to the eye as it was when the trees were small, there is, nevertheless, a steady and sturdy increase every year, which is slowly but surely and constantly adding to the value of your investment. We have not had any pictures taken for several years and have none now on hand, but the forest is a beautiful sight and the good care that the trees have had is seen in their present fine appearance.

We have not planted any new acreage since 1910. The acreage planted in 1909 is making the best showing of any, and all the holdings of our shareholders in the other plantings have been transferred to the 1909 planting, the last of the 1910 certificates having been transferred a few months ago.

We are not selling any new shares, have not for several years tried to sell any, and none are now for sale. We do not know what the present market value would be if one should try to sell them, and unless an organized effort were made to market them, it would probably be difficult to find a buyer at this time. We do not know of any one who would be in the market for any of them and we ourselves are not in position to purchase from our shareholders or to loan money to them. The intrinsic value of the shares is greater now than ever before, and this value will continue to increase with each year of added growth.

A few of our shareholders, but only a very few, have transferred their shares to other parties, but what the consideration has been, we do not know. Some of the shareholders are still making their monthly payments on their shares, while others have become delinquent, either in the payment of their monthly installments or in keeping up their tax expense, and have forfeited their shares. We have been very lenient with those who have been unable to meet all their payments promptly, and forfeitures have been made only after due notice in each case has been mailed to the last known address of the delinquent.

There is no mortgage, debt or incumbrance of any kind on the planted area, nor will there be, and all expense of caring for the trees and looking after the grove is borne by us, the parent company, and will continue to be borne by us until the trees are marketed. We have a man living on the ranch adjoining the grove, and our president, Mr. W. E. Burley, lives in Escondido, where he is in close touch with the grove at all times.

The planted area belongs exclusively to the owners of the acre-units, but is not so divided that any certain acreage is allotted to any certain shareholder. The entire planted area belongs to the shareholders as a whole, and any profits derived from the planted area, or any part of it, will in every case be divided, pro rata, among all the shareholders, share and share alike, no matter how large or how small such profit may be. This is the reason why the request of some of our shareholders that the number of acre-units called for by their certificates be deeded to them by a separate deed, can not be acceded to. Indeed, it would not be for the best interest of any shareholder so to do, for the reason that

if he had a separate deed to a separate acre, he would not share in any of the profits of the grove unless the trees were cut from the particular acre which he himself owned, whereas, under the present arrangement, as called for by his contract, he will receive his pro rata share of all the profits of the entire grove.

It is also for the reason named above, that we can not send a map showing the separate location of any acre-unit belonging to any of our shareholders, as some of them have requested. Every shareholder has a community interest in the entire forest, the extent of his interest being determined by the number of acre-units named in his certificate.

It is the intention of this company, as originally agreed upon when the shares were sold, to place the planted area in the hands of a trustee for disposing of the timber, but it would be a useless expense to appoint a trustee before the trees are ready to harvest. The officers and directors are doing everything at present that a trustee could do, and without expense to the shareholders.

We have made no attempt to sell any of our trees to the Landréth Hardwood Co., since they have enough of their own to keep them busy for a while, neither have we tried to sell them any leaves for eucalytus oil, or anything for the manufacture of other by-products, for the reason that none of these things can be taken from standing, growing trees, but only from trees that have been felled for other use.

After the experience we have had in making predictions heretofore, we are not going to make any prophecy now as to when it will pay to make a cutting. To market the trees now, probably one of two things would be necessary: We could sell them as cordwood, which would be equivalent to killing the goose from which we expect to get the golden eggs; or we could probably utilize them for the smaller manufactures, which would be an expensive proposition if we had to erect our own mill. We believe it will pay to wait until the size of the trees is large enough to justify us in seeking buyers for hardwood lumber in a larger market. The trees are now of an age and size which will enable them from now on to take care of themselves in a way which we feel sure will be gratifying to all of us, and until the proper time comes for cutting them there will be no expense to the shareholder except the annual tax expense, which in all probability will not exceed thirty-five cents an acre-unit for any year after this one.

So the answer to the question as to how soon we expect to market the trees, or when and how they can be marketed to the best advantage, will depend almost entirely upon the use to which they are to be put. If any of our shareholders have any suggestions to offer along this line, we shall be glad to hear from them, as we wish to do only what is for the best interest of all concerned, and we want the best information obtainable, wherever it is to be found. All our officers are men of integrity, who can be depended on for a conscientious and faithful administration of the affairs of this company and of every shareholder, and you may rest assured that they will do everything that can be done, according to their best judgment.

Our intention has been to mail a notice of the tax expense to every shareholder, each year, but owing to our curtailment of office expense last year, it is possible that some were overlooked. If you did not receive your notice, that was the only reason. Practically all have now paid their tax expense to date. If you are one of the few delinquents, kindly let us have your payment promptly and save us the expense of sending another notice. The amount for 1917 was 35 cents a share. That for 1918 will not be due until October of the present year.

If you have changed your post office address and failed to notify us, kindly let us know your present address, also any change that you may make hereafter.

Our office in the Timken building will always be open for the reception of visiting shareholders, and we shall be pleased to have you call and see us whenever you happen to be in San Diego. If we are not at the office, some of us will always be within close call by telephone.

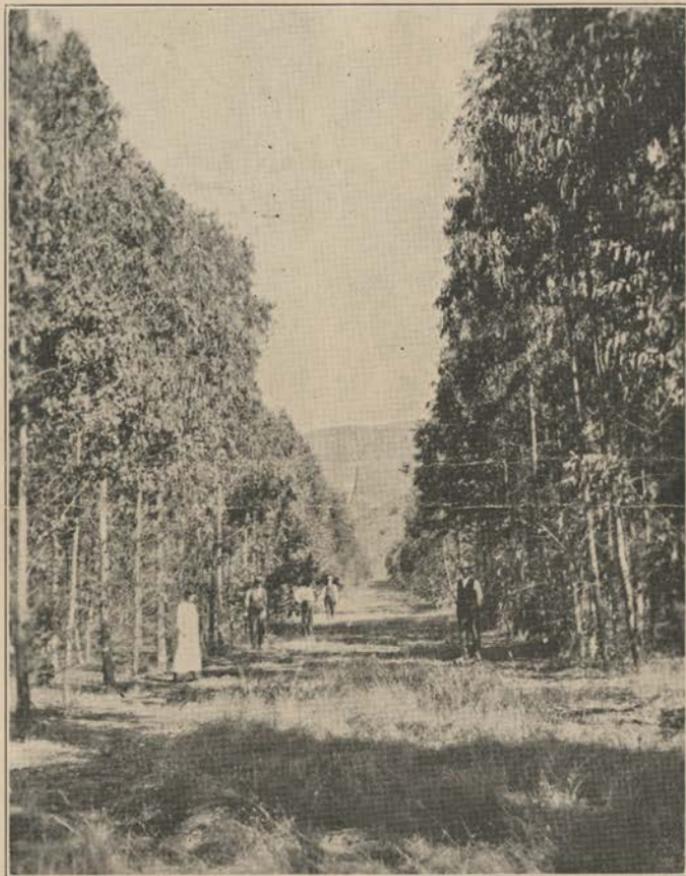
Very truly yours,

EUCALYPTUS CULTURE COMPANY.

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Part of Eucalyptus Culture Company's Plantation. Planted 1909. Photographed Oct. 1914



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Planted 1909. Photographed Oct. 1914