Jewell
FYI

Up, Down the Street

Chief Aims Suit at Sunshine

By Robert H. Woody
Tribune Business Editor

Legal storm clouds blotted out the sunshine over the East Tintic Mining District Wednesday.

Chief Consolidated Mining Co. filed suit in federal court in Salt Lake City, charging Sunshine Mining Co., principal operator in the district, and Drexel Burnham Lambert Inc., New York, with racketeering and an assortment of other wrongdoings.

It contends Sunshine, which leases Chief's property and mill near Eureka, in 1984 hypothesized a great trove of silver and base metal reserves in the Burgin part of the dis-

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trict, which it leases from Chief, and disclosed a major mining plan to develop them.

It claimed Sunshine claimed ore production would begin Jan. 1, 1988, with net smelter returns of $60.3 million that year, $63.5 million the next year and $57.8 million for 1990. Total net smelter returns were to top $351 million by the end of 1994.

Chief was to receive royalties of 7.5 percent.

The suit claims, however, that Sunshine didn't "mine a single pound of ore," but instead, with Drexel, sold or participated in sale of more than $100 million of Sunshine securities on the strength of the claim of rich silver and base-metal ores within Chief's properties.

It said Chief had been damaged by the loss of royalty income it would have received had Sunshine performed as the lease required.

It charges that Sunshine and Drexel, using Sunshine's 10-K filings and Sunshine and Drexel prospectuses to describe promising ore reserves at Burgin and intention to go into production, raised millions of dollars that went to benefit of Sunshine and Drexel but not to Chief.

It said the Sunshine-Drexel actions also were a fraud upon the investing public.

It charged the two with racketeering, and asked for finding and award of treble damages, on top of court costs.

The suit also put a cloud over South Standard Mining Co., a major holder in the area, whose fortunes, in part, depend upon whether Sunshine elects to expand its operations in the East Tintic district.

Sunshine, — historically the nation's leading producer of silver at its Sunshine Mine in Idaho — now employs about 30 at the Trixie Mine on South Standard property near Eureka where it mines ore for sale to BP Minerals America as a fluxing agent at the Utah copper smelter.

BP pays for the ore according to the ore's gold and silver values, which are recovered as byproduct.

South Standard had just wrapped up its annual meeting in Salt Lake City on Wednesday when directors were informed of Chief's court action.

"It's a mystery to me what it's all about," Philip M. Lindstrom, a South Standard director, told *The Tribune* after the meeting.

Earlier — during the meeting — he had referred to Sunshine, which

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has spent about $8 million in exploration and development in the district, as "our angel."

He said, too, that he could not say what impact the court action would have on a merger South Standard was contemplating with an unnamed larger mining company.

South Standard President Thomas A. Henry Jr. had told the meeting that because South Standard shares have limited trading opportunities on the unlisted over-the-counter market, a merger with a company on a larger exchange would provide for South Standard to realize value of its assets.

But with announcement of the Chief's adversary action against Sunshine, the only active operator in the district, the prospect for merger was uncertain.

Mr. Henry, who told the meeting that much of value of South Standard depended upon the actions of Sunshine, could not be reached for comment after the meeting.

Mr. Lindstrom, however, later told *The Tribune* that Sunshine directors had taken no action on the merger proposal.

The prospective company was unidentified other than it is an active mining company with shares trading on the national over-the-counter market (NASDAQ).

South Standard stockholders attending the meeting — including John Potter and Ernest Muth, Salt Lake City, principal market makers for South Standard shares — urged caution in a merger lest South Standard not realize optimum values.

Chief Chairman Leonard Weitz, in Salt Lake City Wednesday for the court filing, declined comment on the suit, saying the court document "speaks for itself."

A Chief news release, however, later in the day out of New York quotes Mr. Weitz as announcing the action and describing its purpose, alleged abuses and remedies sought.

It also notes that Chief had named South Standard as a defendant. It said South Standard was a co-lessor with Chief in a second lease involved in the lawsuit.

It said it named South Standard "in order to permit the court to grant the complete relief requested by Chief . . . " It quotes Mr. Weitz as saying, however, that no damages are sought from South Standard.

In Boise, Robert Peterson, Sunshine's vice president of mining, told *The Tribune* he could not comment on the suit or how it might impact Sunshine's Burgin intentions.

The Tribune also sought comment from G. Chris Andersen, managing director of corporate finance of Drexel and a Sunshine director since 1983.

Neither Mr. Andersen nor a Drexel representative returned the query.

In the prepared release, Mr. Weitz is quoted as saying that Sunshine's 1988 Form 10-K filed with the Securities and Exchange Commission in March, Sunshine reported proven and probable ore reserves at the Burgin mine as of Jan. 1, 1989, at 1,081,346 tons of ore containing 25,127,118 ounces of silver, 206,105 tons of lead, and 68,882 tons of zinc.

He said that at today's metals prices, the reserves had an in-place value of about $400 million.

He also said that Sunshine had many times indicated that mining of the Burgin Mine was economically feasible, but that Sunshine has refused to proceed with its own plans to develop and mine the Burgin ore body.

He said Chief had concluded Sunshine's motives were not consistent with its lease obligations and that Sunshine and Drexel Burnham had, for at least the past two years, used the ore reserves in the sale of securities in a manner not contemplated or allowed under the Burgin lease.