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11/24/48
S. K. CUNNINGHAM & CO., INC.

INVESTMENT SECURITIES
COMMONWEALTH BUILDING

PITTSBURGH 22, PA.

A. T. & T. TELETYPE PG 484

TELEPHONE COURT 3525

(309)
Item 13

Because these securities are believed to be exempt from registration, they have not been registered with the Securities and Exchange Commission; but such exemption, if available, does not indicate that the securities have been either approved or disapproved by the Commission or that the Commission has considered the accuracy or completeness of the statements in this communication.

NEW ISSUE

\$100,000
DAYTON CONSOLIDATED MINES COMPANY
First Lien Sinking Fund 5% Bonds

15000
22500

Dated April 1, 1948

Due June 1, 1953

100,000 shares COMMON STOCK
(\$1.00 per share par value)

FIRST NATIONAL BANK OF NEVADA, RENO, NEVADA, TRUSTEE

Coupon bonds in denomination of \$1,000. Interest payable June 1 and December 1. First Coupon December 1, 1948 for eight months' interest. Callable on the first of any month on 30 day's notice at 105 and accrued interest.

In addition to the 1,000 shares of Common Stock of the company which will be delivered to the purchasers with each \$1,000 bond, the bonds will be convertible into Common Stock of the company at the option of the holder on the basis of 3,000 shares of Common Stock for each \$1,000 bond. This privilege is effective so long as the bonds are outstanding. 33 1/3%

The bonds are secured, in the opinion of counsel, by a First Lien on all the fixed property and equipment of the company, which include a complete mill, other buildings, machinery, motors, compressors, hoists, pumps, tools, assay office, shaft equipment, and the various mining claims owned outright.

The Trust Indenture securing the bonds provides that the company shall set aside a Sinking Fund for the payment of bonds in an amount equal to 50% of the net earnings of the company, after interest, depletion, depreciation and income tax, to be effective starting on April 1, 1949.

The Trust Indenture securing the bonds also provides that the company shall not pay any dividends on its outstanding stock except out of net earnings that accrue after December 31, 1948, and even after that date, the company shall not pay any dividends that will reduce the net current assets, after payment of said dividends, below an amount equal to the face value of all bonds then outstanding and unpaid.

The total proceeds to be received by the company from the bonds and stock to be sold in the sum of \$100,000 will be used as follows: approximately \$33,000 to retire current obligations of the company, approximately \$3,000 for expenses of the offering, approximately \$10,000 to put the mine and mill in operation, and the balance of \$54,000 will be added to the working capital and used for general corporate purposes.

The above bonds, with common stock, are being offered and sold privately to a limited number of purchasers. No cash discounts and commissions are to be paid by the issuer in connection with the sale of bonds and stock. (See caption "Compensation to Underwriter & Attorneys" on Page 2.)

Price per unit of

\$1,000 par value Bond and) \$1,000 plus accrued interest
\$1,000 shares of stock) on bonds from April 1, 1948.

May 26, 1948

Supplementary Memorandum Re:

DAYTON CONSOLIDATED MINES COMPANY

Dayton Consolidated Mines Company was organized in September, 1933, as a corporation under the laws of the State of Nevada. Work was immediately started on re-conditioning the Dayton shaft and erection of the milling plant. The mill was completed and milling operations on ore from the Dayton shaft were started in March, 1934. Operations were continued without interruption until October, 1942, when they were discontinued by Order L-208 of the War Production Board. (This order applied to all precious metal mines in the United States and its possessions.)

During the early years, the operations of the company consisted of mining and milling ores extracted from its own properties adjacent to its mill, which is located in the Townsite of Silver City, Nevada. In 1937 the company began the milling of ore delivered to the mill by other producers on a custom basis. The volume of this business gradually increased until it became an important part of the company's business.

Under date of November 30, 1935, the company leased certain mining properties known as the Woodville-Justice Group, located between Silver City and Virginia City, a little more than a mile from the original Dayton Group. About a year later the lease was changed to an option to purchase these properties for the sum of \$66,000. Payments were made in accordance with the agreement, and deed was delivered under date of December 18, 1941.

Following acquisition of the Woodville-Justice Group, the Woodville shaft, located thereon, was re-conditioned to the 540 foot level and considerable lateral work was done on several levels.

This work indicated the advisability of acquiring additional ground to the north which was known to carry the extension in that direction of the ore-bearing lode. Accordingly, under date of September 18, 1936, the company purchased the Keystone Group of claims, which adjoined the Woodville-Justice Group on the north, from the Comstock-Keystone Mining Company. Following this purchase, the Keystone shaft was re-conditioned to the bottom at 274 feet. Development work both north and south of this shaft was done with highly satisfactory results.

Results of the work done north of the Keystone shaft again pointed to the desirability of acquiring additional ground in that direction. After rather lengthy negotiations, the company entered into an agreement to purchase from the Consolidated Chollar, Gould and Savage Mining Company, certain additional ground known as the New York property, for the sum of \$75,000, of which \$20,021.73 was paid during 1940. The balance was paid in later years.

After the purchase of the New York property in 1940, the three-compartment vertical shaft located thereon was re-conditioned to the 800 foot level, and connections with the Keystone shaft were established on the 300, 400, 600 and later the 700 foot levels. Profitable operations were continued through this shaft until operations were discontinued in October, 1942, by order of the War Production Board.

These three groups of properties - Woodville-Justice, Keystone, and New York - are traversed by the Silver City branch of the Comstock Lode for a distance of approximately 4,000 feet. The area is by no means fully developed, but recent diamond drilling indicates the existence of a large tonnage of commercial ore. A sufficient amount is indicated between the 600 and 700 foot levels of the New York shaft for capacity operation of the mill for about one year.

All machinery and equipment necessary to operate the mine is in place with air and water lines down the shaft to the 800 foot level and to the end of the 600 and 700 foot levels. Mine track is also in place on the above levels from the shaft stations to the faces of the drifts.

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Compensation 1 mil shares -

COMPENSATION TO UNDERWRITERS AND ATTORNEYS

The above bonds, with common stock, are being offered and sold privately to a limited number of purchasers. No cash discounts or commissions are to be paid by the Company in connection with the sale of the bonds and stock. Certain of the principal stockholders of the Company have granted options to S. K. Cunningham & Co., Inc. to purchase 663,000 shares of stock of the company, owned by them, on the following terms:

The options extend for a period of two years from the date of the sale and delivery of the bonds referred to herein. If this option is exercised within one year after the effective date, the price shall be 15¢ per share; stock taken up under the option after one year but before eighteen months at 20¢ per share, and during the final six months of the option period, the price shall be 25¢ per share. ✓

Such options are granted only upon the condition that said \$100,000 of bonds and stock are first issued and sold and the company receives the proceeds thereof. No cash fees are to be paid to the attorneys for the underwriters for their legal work in connection therewith; however, the company has agreed to issue to the attorneys for the underwriters, 31,980 shares of the Treasury stock of the Company for their services, and have agreed to reimburse them for their out-of-pocket expenses, not to exceed \$1,500, if and when such bonds and stock are issued and sold. The expenses of the Company, including legal, accounting, printing and trustees' fees in connection with the offering are estimated not to exceed \$3,000.

S. K. Cunningham & Co., Inc. has not made firm commitment to purchase the securities described herein, but has agreed to use its best efforts to find purchasers.

More complete historical and financial information in regard to the company is given in the Supplementary Memorandum attached hereto.

The workings from the New York shaft, with which the workings of the Keystone and Woodville-Justice Groups are connected, are drained by the Sutro Tunnel. This eliminates the labor and cost of pumping, which was an important factor of cost in early day operations.

In 1943 the company purchased the Oest Mines, including buildings, equipment, etc., for \$5,250. Expenses in connection therewith brought the total to \$6,132.89, of which \$2,400 was allocated to the eight patented claims and \$3,732.89 to buildings and equipment. This mine is located a short distance from the Dayton Group, but is not connected therewith. This mine is stated to have produced \$1,000,000 in gold at the old \$20.67 per ounce price, in early day operations. No lateral work has been done below the 200 foot level.

MINING PROPERTIES

A summary of the original cost of the various properties purchased from 1933 to 1943, inclusive, is as follows:

Original Dayton Mines & Miscellaneous Property. . .	\$122,688.97	
Ehrhorn & Straugh Property.	11,950.00	
Flood Property.	10,000.00	
→ Kossuth Property.	10,000.00	
→ Justice-Woodville Property.	58,886.80	
→ Keystone Property	50,000.00	
→ New York Properties	81,400.00	
→ Oest Property.	2,400.00	\$347,325.77

The amount spent for development work on the various mining properties up to the end of 1947 was	\$ 99,820.61	\$ 99,820.61
Total cost and development expenses of mine properties		\$447,146.38
Depletion accrued and charged to 12/31/47		\$268,335.83
Book Value at 12/31/47.		\$178,810.55

BUILDINGS, MACHINERY & EQUIPMENT

The cost of all buildings, machinery and equipment, as shown on accountants' report as at December 31, 1938, was \$169,500.57
 Additional costs, covering new mill construction and also construction and equipment for the New York shaft and elsewhere during the years 1939 to 1947, inclusive, less certain credits and equipment sold, brought the cost figure as at December 31, 1947 up to \$244,971.32
 Depreciation reserve set up from year to year totals 208,364.80
 Net book value of buildings, machinery and equipment as at 12/31/47 . \$ 36,606.52

In September 1943 the General Appraisal Company (San Francisco office) made a complete appraisal of all the buildings, machinery and equipment of the company. This appraisal gives very complete details with respect to each and every building, and also with respect to each item of machinery and equipment. A summary of this report shows the total reproduction value of all buildings, machinery and equipment to be \$368,323.23 and a value less depreciation to September 15, 1943, (insurable value or sound value of) \$241,221.20
 There has not been any substantial change in the number or amount of buildings, machinery and equipment since September 15, 1943 up to the present time, and all property has been maintained and preserved in good condition.

The company makes no representation in regard to the present value of the buildings, machinery and equipment at this time except to point out that the appraisal figures of 1943, even after considering depreciation, are probably lower than present appraisals would be due to the increase in replacement costs of machinery and equipment.

EXHIBIT A

Condensed Income Statement from Reports of Certified Public Accountants

	<u>1939</u>	<u>1940</u>	<u>1941</u>	<u>1942*</u>
Net Bullion Sales	\$332,696.44	\$600,379.55	\$566,549.94	\$436,910.87
Income from Lessor Operations	20,017.13	15,316.47	13,106.46	2,815.18
Income from Custom Ore Milling	<u>53,939.36</u>	<u>68,424.25</u>	<u>54,949.47</u>	<u>17,776.49</u>
	\$406,652.93	\$684,120.27	\$634,605.87	\$457,502.54
GROSS INCOME				
EXTRACTION & MILLING COSTS				
Mining Costs	\$205,733.37	\$347,732.33	\$367,383.52	\$252,599.48
Milling Costs	65,212.71	108,294.65	126,794.44	101,006.70
Bullion Taxes	<u>2,557.15</u>	<u>3,490.27</u>	-----	-----
	\$273,503.23	\$459,517.25	\$494,177.96	\$353,606.18
Gross Operating Profit	\$133,149.70	\$224,603.02	\$140,427.91	\$103,896.36
General & Administrative Expenses	<u>40,520.66</u>	<u>51,545.14</u>	<u>39,875.47</u>	<u>37,722.50</u>
NET OPERATING PROFITS	\$ 92,629.04	\$173,057.88	\$100,652.44	\$ 66,173.86
Other Income	<u>2,278.32</u>	<u>2,411.21</u>	<u>1,783.90</u>	<u>5,319.33</u>
	\$ 94,907.36	\$175,469.09	\$102,436.34	\$ 71,493.19
Other Deductions	<u>11,687.60</u>	<u>344.78</u>	<u>767.11</u>	<u>983.41</u>
PROFIT BEFORE DEPRECIATION & DEPLETION	\$ 83,219.76	\$175,124.31	\$101,669.23	\$ 70,509.78
Depreciation & Depletion	<u>24,563.83</u>	<u>70,146.99</u>	<u>30,026.26</u>	<u>37,183.26</u>
PROFIT AFTER DEPRECIATION & DEPLETION & BEFORE FEDERAL INCOME TAXES	\$ 58,655.93	\$104,977.32	\$ 71,542.37	\$ 33,326.52
Federal Income Taxes & Excess Profits Taxes	<u>11,696.87</u>	<u>39,967.88</u>	<u>14,924.82</u>	<u>8,890.68</u>
NET PROFIT FOR YEAR	\$ 46,959.06	\$ 65,009.44	\$ 56,617.55	\$ 24,435.84*

*Operations were suspended early in October 1942 by order of the War Production Board

OPERATING PROFITS

The actual mining and milling of ore was profitable from the beginning in 1934. Until closed down by order of the War Production Board in 1942 (which order applied to all gold mines in the United States), the company earned total operating profits, before depreciation and taxes, of over \$1,000,000. In 1940 and 1941 a total of \$128,208 was paid out in dividends. However, a large portion of the profits have been used in exploration work, and in acquiring additional property, as indicated above, making Dayton Consolidated Mines Co. now one of the largest property owners in the Comstock area.

During the period of operation from 1934 to 1942, 446,312 tons of ore from the Company's own properties were treated, from which bullion valued at \$4,117,643.78 was recovered and shipped to the United States Mint at San Francisco. In addition to the above tonnage, 85,817 tons of ore were treated for other property owners on a custom basis. This tonnage produced bullion valued at \$2,187,214.17, all of which was shipped to the San Francisco Mint. Thus, the total value of bullion shipments was \$6,304,858.52. The custom tonnage was represented by more than 5,000 separate lots of ore delivered by more than 800 separate shippers.

Labor costs and certain materials are higher now than in 1941 and 1942 which were the last years shown in Exhibit "A". A large amount of exploration and development work has already been done in these earlier years. Diamond drills are now being used instead of the former method of driving entries and cross-cuts, and the Company believes that, with this more modern method of mining, the net cost of producing ore from its own mines will not be any more per ton than it was in former years.

Exhibit A gives a summary of the operating results for the years 1939 to 1942, inclusive, as taken from the reports of Certified Public Accountants.

(See Exhibit A)

RECOVERY VALUES PER TON

The company records show the net value of gold and silver in the bullion delivered to the U. S. mint at San Francisco were as follows:

Ore From Company-owned Properties:

1934 - 1942, inclusive	\$ 9.23 per ton
1940	11.17 per ton
1941	10.05 per ton

The break-down figures for other years are not now available.

Ore Milled for Other Producers:

1937 - 1942 inclusive \$25.48 per ton (Note A)

Note A: The high value per ton recovered from custom ore milled for other producers is due to the fact that these producers up-grade the ore. This means that they reject all low-grade ore because transportation costs, etc. make it unprofitable to bring to the mill. Much of the custom ore was transported a distance of about 30 miles.

MANAGEMENT

Homer L. Gibson was instrumental in organizing the company in 1933 and has acted as President of the company from the beginning. While the company was in active operation, Mr. Gibson lived in Carson City, Nevada. He now lives in the Los Angeles, California area.

Mr. George L. Sanford, an attorney of Carson City, Nevada, is Vice President of the company.

Mr. William J. Henley of Virginia City, Nevada, is Secretary & Treasurer. Mr. Henley has been with the company for 10 years or more. He has active supervision of the milling operation and of all machinery, equipment, and office records.

The Board of Directors in recent years has consisted of the three officers named above. In connection with the proposed financing, the Board of Directors will be enlarged and the management supplemented as follows:

F. J. DeLongchamps, a competent and experienced mining engineer of Reno, Nevada, will become a Director and Vice Pres.

C. V. Isbell, President of Isbell Construction Co., Reno, Nevada, is to be elected a Director.

George D. Wick, A Pittsburgh attorney, is to be elected a Director.

S. K. Cunningham, an investment banker of Pittsburgh, Pa. is to be elected a Director.

Mr. Gibson and Mr. Henley will retain their present offices. Mr. Gibson is one of the largest stockholders of the company and expects to retain all of his stock.

Mr. Henley is also a stockholder, and it is expected that he will continue to supervise the operations in the mill and mine.

Mr. DeLongchamps will be responsible for determining all major matters of policy and procedure which depend upon the opinion of an experienced and capable mining engineer. Mr. DeLongchamps is a native of Nevada, a graduate of the University of Nevada School of Mines and has had extensive experience for many years in examining and reporting on mining properties in Western Nevada and in actual mining operations as an executive. He is recognized as an authority in his field, and is Chairman of the Northwest Nevada Section of the American Institute of Mining and Metallurgical Engineers.

DAYTON CONSOLIDATED MINES CO.

CONDENSED BALANCE SHEET

ASSETS

	<u>12/31/47</u>	<u>3/31/48</u>
<u>Current</u>		
Cash	\$ 6,001.95	\$ 2,096.00
Accounts Receivable	11.43	645.99
Inventory	<u>15,020.13</u>	<u>14,869.77</u>
	21,033.51	17,611.76
<u>Fixed</u>		
Mine Properties	347,325.77	347,325.77
Mine Development	<u>99,820.61</u>	<u>99,820.61</u>
	447,146.38	447,146.38
Less Depreciation	<u>268,335.83</u>	<u>268,335.83</u>
	178,810.55	178,810.55
Buildings, Machinery & Equipment	244,971.32	244,971.32
Less Depreciation	<u>208,364.80</u>	<u>208,364.80</u>
	36,606.52	36,606.52
<u>Deferred & Prepaid</u>	8,077.33	7,532.74
<u>Service Deposits, etc.</u>	<u>710.00</u>	<u>217.58</u>
	\$245,237.91	\$240,779.15

LIABILITIES

<u>Current</u>		
Notes Payable	23,500.00	23,500.00
Accounts Payable	2,103.64	951.44
Accrued Interest	1,436.25	1,788.75
Accrued Payroll	4,500.00	5,400.00
Accrued Taxes	<u>1,444.15</u>	<u>1,331.36</u>
	\$32,984.04	\$32,971.55
<u>Capital Stock</u>		
Authorized 2,500,000 shares par value \$1.00 per share		
Outstanding 1,668,020 shares		
Net Book Value	<u>212,253.87</u>	<u>207,807.60</u>
	\$245,237.91	\$240,779.15

The above figures as at December 31, 1947 are taken from the report of Certified Public Accountants. The figures as at March 31, 1948 are from statement prepared by W. J. Hanley, Secy. & Treas. of the Company.