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BEFORE THE ARIZONA CORPORATION COMMISSION

2000 APR 21 A. 11: 36

ARIZONA CORP COMMISSION
DOCUMENT CONTROL

NEW

CARL J. KUNASEK
Chairman
JIM IRVIN
Commissioner
WILLIAM A. MUNDELL
Commissioner

In the matter of)
CALUMET SLAG, INC.,)
an Arizona corporation)
13433 N. 16th Avenue)
Phoenix, Arizona 85029)
GARETH N. PATTON)
23769 Blue Lead Mountain Road)
Hill City, South Dakota 57745)
JEFFERY G. CRAWFORD)
1822 N. Barkley)
Mesa, Arizona 85203)
MATTHEW E. HUNZINGER)
13031 N. 59th Drive)
Glendale, Arizona 85304,)
Respondents.)

DOCKET NO. S-03361A-00-0000

**NOTICE OF OPPORTUNITY FOR
HEARING REGARDING PROPOSED
ORDER FOR RELIEF**

NOTICE: EACH RESPONDENT HAS 10 DAYS TO REQUEST A HEARING

For its proposed order for relief, the Securities Division (the "Division") of the Arizona Corporation Commission (the "Commission") alleges that Respondents CALUMET SLAG, INC., GARETH N. PATTON, JEFFERY G. CRAWFORD and MATTHEW E. HUNZINGER, singularly and in concert, have engaged in acts, practices and transactions which constitute violations of A.R.S. § 44-1801 *et seq.*, the Securities Act of Arizona (the "Securities Act").

1 The Division alleges as follows:

2 **I.**

3 **JURISDICTION**

4 1. The Commission has jurisdiction over these matters pursuant to Article XV of the
5 Arizona Constitution and the Securities Act of Arizona.

6 **II.**

7 **RESPONDENTS**

8 2. CALUMET SLAG, INC. ("CALUMET"), whose last known address is 13433 N. 16th
9 Avenue, Phoenix, Arizona, 85029, is an Arizona corporation.

10 3. GARETH N. PATTON ("PATTON"), whose last known address is P.O. Box 312,
11 Keystone, South Dakota, 57751, is the founder, president and director of CALUMET, and at all times
12 relevant to this matter offered and sold shares in CALUMET to investors.

13 4. JEFFERY G. CRAWFORD ("CRAWFORD"), whose last known address is 1822
14 North Barkley, Mesa, Arizona, 85203, is a former officer and current director of CALUMET, and at
15 times relevant to this matter offered and sold shares in CALUMET to investors.

16 5. MATTHEW E. HUNZINGER ("HUNZINGER"), whose last known address is 13031
17 North 59th Drive, Glendale, Arizona, 85304, was an officer and director of CALUMET until at least
18 1997, and at times relevant to this matter offered and sold shares in CALUMET to investors.

19 6. Respondents CALUMET, PATTON, CRAWFORD, and HUNZINGER may collectively
20 be referred to as "RESPONDENTS."

21 **III.**

22 **FACTS**

23 7. Each of the preceding paragraphs is incorporated by reference.

24 8. In 1994, RESPONDENTS began a campaign of offering and/or selling shares of
25 CALUMET stock to a number of investors. To attract these investors, RESPONDENTS claimed that
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1 CALUMET'S principal asset, an abandoned slag pile located in the Black Hills of South Dakota,
2 contained high concentrations of valuable ores. RESPONDENTS bolstered this claim by referring to a
3 series of "highly encouraging" assay results purportedly obtained from the slag pile. By the close of
4 1999, RESPONDENTS had sold over 960,000 shares of CALUMET stock to approximately 180
5 investors, and in doing so had raised at least five hundred and eighty thousand dollars (\$580,000).
6 Despite generating this capital, CALUMET'S slag pile remains unprocessed.

7 9. PATTON originally obtained joint ownership over the slag pile from his aunt, Ardean
8 Rogers ("Rogers"). This conveyance, which occurred on or about June 15, 1992, included the
9 surrounding land areas, three adjacent tailing dumps, and several defunct mining sites.

10 10. In August of 1992, approximately three months following PATTON'S acquisition of the
11 ownership rights in the slag pile, CALUMET was formed and incorporated in Arizona for the sole
12 purpose of extracting and recovering any valuable ore remaining in the material. PATTON and Rogers
13 were named as the initial directors of CALUMET.

14 11. Subsequent to CALUMET'S incorporation, PATTON assigned the reclamation rights in
15 the slag pile to the company in exchange for 750,000 shares of CALUMET stock. Shortly thereafter,
16 PATTON sold or otherwise gifted another 191,000 shares to various CALUMET incorporators, friends,
17 and family members.

18 12. In 1993, PATTON entered into an agreement with two individuals from J & D Asphalt of
19 South Dakota to process CALUMET'S slag pile. A dispute ensued, and the processing agreement broke
20 down. In response, the two individuals sued CALUMET for breach of contract, seeking hundreds of
21 thousands of dollars in damages. In conjunction with the filing of this suit, these individuals placed a
22 mechanic's lien on CALUMET'S slag pile.

23 13. The following year, PATTON and two of his associates, CRAWFORD and
24 HUNZINGER, began promoting, offering and selling stock in CALUMET to a number of Arizona
25 investors. These three Respondents did not disclose to investors that a lawsuit against CALUMET was
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1 pending, that the directors and officers of CALUMET had little or no expertise in the mining/reclamation
2 industry, that CALUMET was being assessed rental fees for having its asset situated on PATTON'S
3 property, or that the officers and directors of CALUMET were drawing deferred salaries from the
4 company.

5 14. RESPONDENTS also failed to inform investors about the risks to their investments,
6 which was exacerbated by RESPONDENTS' failure to provide investors with written information about
7 these investments.

8 15. In promoting CALUMET to investors, PATTON, CRAWFORD and HUNZINGER
9 represented that trial assays had been conducted on samples of the slag pile, and that the assay results had
10 indicated that the slag pile would be worth tens of millions of dollars when finally processed.

11 16. Beginning in 1994, the costs of CALUMET shares to investors fluctuated from a low of
12 25¢ per share to a high of \$5 per share. In conjunction with these sales, PATTON, CRAWFORD and
13 HUNZINGER told investors that their investment funds were being used for, and were essential to, the
14 advancement of the CALUMET operation. In spite of these claims, investment funds were used for the
15 personal expenses of these sellers.

16 17. CRAWFORD'S father-in law informed one prospective investor about the CALUMET
17 "opportunity" in September of 1994. He told this investor that the CALUMET project involved the
18 reclamation of precious metals from a South Dakota slag pile, and that a sample of this slag was soon to
19 be tested at a site near Chandler, Arizona.

20 18. The prospective investor visited this site, where he observed PATTON, CRAWFORD
21 and HUNZINGER conducting an assay on a purported sample of this slag material. A smelting process
22 was conducted, and PATTON subsequently informed the investor that significant levels of gold, silver
23 and platinum had been recovered from the sample. PATTON, CRAWFORD and HUNZINGER
24 concluded that the full scale smelting operation on this slag was going to be highly profitable.

1 19. Based on the presentation in Chandler, the investor purchased ten thousand dollars
2 (\$10,000) worth of CALUMET stock. This investor was told to make the \$10,000 check payable to
3 PATTON, who subsequently deposited the check in his personal bank account. This investor received
4 no written materials before or at the time of the investment.

5 20. In November of 1994, CRAWFORD informed this same investor that CALUMET had
6 received another very encouraging assay result, that the shares of CALUMET would be worth
7 approximately \$10 to \$25 per share once the slag pile had been processed, and that a dividend was also a
8 strong possibility. The investor made another five thousand dollar (\$5,000) investment with CALUMET
9 after hearing these representations.

10 21. During a shareholder meeting later that same month, RESPONDENTS told investors that
11 an Arizona mining company, Cyprus Amax Minerals ("Cyprus"), had expressed an interest in processing
12 CALUMET'S slag pile. RESPONDENTS concluded that the reclamation operation on the slag pile
13 would likely be completed in approximately three months. CRAWFORD further announced that
14 CALUMET shares would now cost \$5 per share, but that they would soon be worth \$25 to \$35 per share.

15 22. Hearing these forecasts, the investor mentioned above invested another seventeen
16 thousand five hundred dollars (\$17,500) with CALUMET, drawing two checks payable to HUNZINGER
17 for seven thousand five hundred dollars (\$7,500) and ten thousand dollars (\$10,000). Both of these
18 checks were brought to the investor's bank and cashed by HUNZINGER the next day.

19 23. A Cyprus field geologist did evaluate the CALUMET slag pile and surrounding areas in
20 November of 1994. Following his examination, the geologist issued a report claiming that the size, value
21 and mineral potential of the slag pile and adjacent tailings dumps did not exist as represented. The
22 geologist specifically noted that the slag pile and dumps did not appear to have any value with respect to
23 their mineral contents. The report added that, according to PATTON and HUNZINGER, Cyprus was
24 only invited to consider processing the three tailing dumps on the property (owned by PATTON,
25 HUNZINGER and Rogers), and was not asked there to explore or test other areas.

1 24. On December 4, 1994, Cyprus' Exploration Manager sent PATTON a letter concerning
2 the results of his company's evaluation of the three tailings dumps as well as CALUMET'S slag pile.
3 The Exploration Manager informed PATTON that there were no significant values in gold or silver in the
4 dumps or the slag pile, and that the tonnage of the pile only contained approximately 500 tons of
5 material. The Exploration Manager continued that Cyprus had no interest in processing either the dumps
6 or the slag pile.

7 25. RESPONDENTS did not disclose to investors the evaluations and conclusions made by
8 Cyprus with respect to the slag pile's precious metal content or size, or to Cyprus' lack of interest in
9 pursuing the project.

10 26. At a CALUMET sales presentation in 1996, officers PATTON, CRAWFORD and
11 HUNZINGER told a prospective investor that recent assay reports on CALUMET'S slag translated into a
12 return of fifteen million dollars (\$15,000,000) for the gold alone, and that significant additional amounts
13 were recoverable for other precious metal extractions. In response to the prospective investor's inquiries
14 about CALUMET'S operations and liabilities, PATTON, CRAWFORD and HUNZINGER continued
15 that, other than one nearly resolved lawsuit, there were no ongoing claims, debts, leases, salaries or other
16 expenses that might affect the value of the CALUMET investment.

17 27. PATTON, CRAWFORD and HUNZINGER also stressed that the proceeds raised from
18 the sale of CALUMET stock would go into operating expenses for the project only, and that the
19 operation would be completed within three to four months. The prospective investor subsequently
20 invested twenty thousand dollars (\$20,000) in the CALUMET project in April of 1996, making the
21 checks payable to PATTON. Bank records show that this individual's funds were deposited into
22 PATTON'S personal bank account.

23 28. This investor received no documentation at the time of his investment, and he was
24 subsequently unable to obtain progress reports or any financial information on the project despite
25 repeated requests for such information.

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1 29. In late 1997, CALUMET transported a sample of the slag pile to a milling company in
2 Virginia City, Montana for a trial processing run. The milling company was only able to recover
3 negligible amounts of gold from the sample of CALUMET'S slag. PATTON later told shareholders that
4 the poor results were due to faulty milling equipment, and PATTON later reported to investors that
5 alternative processing methods would be necessary to extract the precious metals.

6 30. Unrelated to CALUMET'S operations, the South Dakota Department of Environment and
7 Natural Resources conducted an independent trial assay on CALUMET'S slag pile in 1998 as part of its
8 routine inspections for hazardous waste sites. The assay results from this sample showed only trace
9 concentrations of precious metals.

10 31. During July of 1998, a letter was sent to existing shareholders by CALUMET'S newly
11 appointed treasurer informing them for the first time that they owed PATTON substantial sums for his
12 "loans" to CALUMET, for back salaries relating to his on-going services at CALUMET, and for such
13 other expenditures he purportedly made on behalf of CALUMET. PATTON indicated that if these
14 alleged debt obligations were not paid, he would consider selling his property on which the slag pile was
15 situated.

16 32. To date, RESPONDENTS have offered and sold more than 960,000 shares of
17 CALUMET stock to approximately 180 investors. Based on bank records, prior company investor lists,
18 and investor questionnaires, RESPONDENTS have raised at least five hundred and eighty thousand
19 dollars (\$580,000) from such sales. Despite this influx of capital, the only known asset currently in the
20 possession of CALUMET remains the unprocessed slag pile located on PATTON'S property.

21 33. The project remains at a standstill, the exploration permit to move or process the slag has
22 expired, and none of the investors in the CALUMET project have received any return on their
23 investments.
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IV.

VIOLATION OF A.R.S. § 44-1841

(Offer and Sale of Unregistered / Unauthorized Securities)

34. Each of the preceding paragraphs is incorporated by reference.

35. From at least early 1994 forward, RESPONDENTS offered and sold securities, in the form of stock, within and from the State of Arizona.

36. The securities referred to above were not registered under A.R.S. §§ 44-1871 through 44-1875, or 44-1891 through 44-1902; were not securities for which a notice filing has been made under A.R.S. § 44-3321; were not exempt under A.R.S. §§ 44-1843 or 44-1843.01; were not offered or sold in exempt transactions under A.R.S. § 44-1844; and were not exempt under any rule or order promulgated by the Commission.

37. This conduct violates A.R.S. § 44-1841.

V.

VIOLATION OF A.R.S. § 44-1842

(Transactions by Unregistered Dealers and Salesmen)

38. Each of the preceding paragraphs is incorporated by reference.

39. In connection with the offers to sell and the sale of securities, RESPONDENTS acted as dealers and/or salesmen within and from the State of Arizona, even though they were not registered pursuant to the provisions of Article 9 of the Securities Act.

40. This conduct violates A.R.S. § 44-1842.

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VI.

VIOLATION OF A.R.S. § 44-1991

(Fraud in Connection with the Offer and Sale of Securities)

41. Each of the preceding paragraphs is incorporated by reference.

42. In connection with the offers and sales of securities within and/or from Arizona, RESPONDENTS directly or indirectly: (i) made untrue statements of material fact or omitted to state material facts which were necessary in order to make the statements made not misleading in light of the circumstances under which they were made; and/or (ii) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon offerees and investors. The conduct of RESPONDENTS includes, but is not limited to, the following:

a) RESPONDENTS secured investment funds from investors by misrepresenting to investors that the value of CALUMET'S slag pile asset was worth tens of millions of dollars, and that the stock price would be worth many times the share prices being offered at the time.

b) RESPONDENTS misrepresented to offerees and investors that their investments in CALUMET would be used to advance the CALUMET reclamation project, when in fact investment monies were used for the personal enrichment of Respondents PATTON, CRAWFORD and HUNZINGER.

c) RESPONDENTS misrepresented to investors that a deal with Cyprus had been arranged to process CALUMET'S slag pile within three months, when in fact the offer had only been extended for Cyprus to process three tailing dumps located on PATTON'S property adjacent to the slag pile. These dumps were owned by the company GEMM, whose sole owners consisted of PATTON, HUNZINGER and Rogers.

d) RESPONDENTS failed to disclose to offerees and investors that a field evaluation of CALUMET'S slag pile by Cyprus in November of 1994 concluded that CALUMET'S slag pile was well under the five thousand ton size initially represented, that

1 CALUMET'S slag pile contained only trace concentrations of precious metals, and that Cyprus
2 harbored no interest in processing the slag pile.

3 e) RESPONDENTS failed to provide offerees and investors with any written
4 information concerning the CALUMET investment either before or at the time the investments
5 were offered and/or sold. Additionally, financial information was not provided to investors
6 setting forth the income or expenditures of the company.

7 f) RESPONDENTS failed to disclose to offerees and investors the risks involved
8 with this investment.

9 g) RESPONDENTS failed to disclose to offerees and investors that the directors and
10 officers of CALUMET would be drawing salaries for their services at CALUMET, and that
11 Rogers would be charging rent for keeping the slag pile on her jointly owned South Dakota
12 property even though the pile had been situated there since approximately 1885.

13 h) RESPONDENTS failed to disclose to offerees and investors until at least the
14 summer of 1995 that a lawsuit seeking hundreds of thousands of dollars in damages had been
15 filed against CALUMET in July of 1994, and that a lien had been placed on CALUMET'S
16 primary asset, the slag pile.

17 i) RESPONDENTS failed to disclose to offerees and investors that they had 1) not
18 established any bank accounts in the name of the company to track the income and expenditures
19 of investment funds, but were instead commingling investment funds into their own personal
20 accounts; and 2) not created any corporate ledger to track the sale and number of outstanding
21 CALUMET securities.

22 j) PATTON, the founder, president and long time director of CALUMET, failed to
23 disclose to investors that he had declared bankruptcy in U.S. Bankruptcy Court for the District of
24 South Dakota in 1993.

1 k) RESPONDENTS failed to disclose to investors that CALUMET'S securities
2 were not registered with the Arizona Securities Division and that RESPONDENTS were not
3 registered as dealers or registered salesmen in the State of Arizona

4 43. The above conduct violates A.R.S. § 44-1991.
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7 **VII.**

8 **REQUESTED RELIEF**

9 The Division requests that the Commission grant the following relief against each respondent:

10 1. Order RESPONDENTS to permanently cease and desist from violating the Securities
11 Act, pursuant to A.R.S. § 44-2032;

12 2. Order RESPONDENTS to take affirmative action to correct the conditions resulting from
13 their acts, practices or transactions, including without limitation a requirement to make restitution
14 pursuant to, *inter alia*, A.R.S. § 44-2032;

15 3. Order RESPONDENTS to pay the State of Arizona an administrative penalty of up to
16 five thousand dollars (\$5,000) for each violation of the Securities Act, pursuant to A.R.S. § 44-2036;
17 and

18 4. Order any other relief that the Commission deems appropriate and authorized by law.
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VIII.

HEARING OPPORTUNITY

In accordance with A.R.S. § 44-1972 and A.A.C. R14-4-306, RESPONDENTS are notified that each Respondent is afforded an opportunity for a hearing only by filing a written request for a hearing and cover sheet with Docket Control, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007, within 10 days after service of this Notice. RESPONDENTS are further notified that a cover sheet must accompany all filings. Failure to use the cover sheet may result in the delay of processing or the refusal to accept documents. RESPONDENTS may obtain a copy of the cover sheet by calling Docket Control at (602) 542-3477.

The date set for the hearing shall be within 15 to 30 days after the request for the hearing has been docketed, unless otherwise provided by law, stipulated by the parties, or ordered by the Commission. Any Respondent who does not request a hearing within the time prescribed is subject to the Commission issuing an order against that Respondent containing such relief as the Commission deems appropriate, including but not limited to the relief requested above.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Cynthia Mercurio-Sandoval, ADA Coordinator, voice phone number 602/542-0838, e-mail csandoval@cc.state.az.us. Requests should be made as early as possible to allow time to arrange the accommodation.

Dated this 21ST day of April, 2000.



Mark Sendrow
Director of Securities

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RECEIVED

Memorandum

2000 APR 21 A 11:36

DATE: April 21, 2000

TO: Nancy Cole
Docket Control

FROM: Jamie Palfai
Securities Division

RE: Calumet Slag, Inc.
Docket No. S-03361A-00-0000
Internal Routing Distribution

CC: Betty Camargo

NEW Z CORP COMMISSION
DOCUMENT CONTROL

This is to notify you that the following individuals should be copied on all docketed items for the above-mentioned case.

- Mark Sendrow
- LeRoy Johnson
- Matthew Neubert/ Amy Leeson

Jamie Palfai (Staff Attorney)

Meg pollard (Staff Investigator)

Wendy Coy (Supervisor)

Note: The Assistant Attorney General assigned to this matter is: Jennifer Boucek.

Thank you for your cooperation in this matter.