

COEUR D ALENE MINES CORP

Form 10-Q/A

August 19, 2002

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**AMENDMENT NO. 3 TO  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2002

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission File Number: 1-8641*

**COEUR D ALENE MINES CORPORATION**

(Exact name of registrant as specified on its charter)

IDAHO  
(State or other jurisdiction of  
incorporation or organization)

82-0109423  
(I.R.S. Employer Ident. No.)

P. O. Box I, Coeur d Alene, Idaho  
(Address of principal executive offices)

83816-0316  
(Zip Code)

Registrant's telephone number, including area code:(208) 667-3511

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of Issuer's classes of common stock, as of the latest practicable date:

Common stock, par value \$1.00, of which 67,323,762 shares were issued and outstanding as of May 11, 2002.



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We filed our original Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 with the Securities and Exchange Commission ( SEC ) on May 15, 2002, filed our Amendment No. 1 to the Quarterly Report on Form 10-Q/A containing a change to the facing page on May 20, 2002 and filed Amendment No. 2 to the Quarterly Report on Form 10-Q/A on July 26, 2002 to amend and restate Items 1 and 2 in their entirety. We are filing this Amendment No. 3 to the Quarterly Report on Form 10-Q/A to amend and restate Items 1 and 2 in their entirety. For the purpose of this Amendment No. 3 to the Quarterly Report on Form 10-Q/A, we have amended and restated in its entirety our original Quarterly Report on Form 10-Q filed on May 15, 2002, as amended by Amendment No. 1 to the Quarterly Report on Form 10-Q/A filed on May 20, 2002 and Amendment No. 2 to the Quarterly Report on Form 10-Q/A filed on July 26, 2002. In order to preserve the nature and character of the disclosures as of May 15, 2002, no attempt has been made in this Amendment No. 3 to the Quarterly Report on Form 10-Q/A to modify or update such disclosures for events which occurred subsequent to the original filing on May 15, 2002.

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**Table of Contents****Item 1. Financial Statements**

**CONSOLIDATED BALANCE SHEETS**  
**COEUR D ALENE MINES CORPORATION AND SUBSIDIARIES**  
(Unaudited)

	<u>March 31,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
(In Thousands)		
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,707	\$ 14,714
Short-term investments	2,024	3,437
Receivables	7,081	5,902
Inventories	46,289	46,286
	<u>          </u>	<u>          </u>
TOTAL CURRENT ASSETS	64,101	70,339
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Property, plant and equipment	99,429	99,096
Less accumulated depreciation	(67,136)	(63,017)
	<u>          </u>	<u>          </u>
	32,293	36,079
<b>MINING PROPERTIES</b>		
Operational mining properties	120,268	116,852
Less accumulated depletion	(80,980)	(79,697)
	<u>          </u>	<u>          </u>
	39,288	37,155
Properties acquired or in development	46,711	46,685
	<u>          </u>	<u>          </u>
	85,999	83,840
<b>OTHER ASSETS</b>		
Debt issuance costs, net of accumulated amortization	2,582	3,262
Restricted investments	11,469	11,219
Other	3,062	5,641
	<u>          </u>	<u>          </u>
	17,113	20,122
	<u>          </u>	<u>          </u>
	\$ 199,506	\$ 210,380
	<u>          </u>	<u>          </u>

See notes to condensed consolidated financial statements.

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**CONSOLIDATED BALANCE SHEETS**  
**COEUR D ALENE MINES CORPORATION AND SUBSIDIARIES**  
(Unaudited)

	<u>March 31,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
(In Thousands)		
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,850	\$ 3,721
Accrued liabilities	4,043	5,503
Accrued interest payable	3,207	2,720
Accrued salaries and wages	4,005	4,542
Current portion of reclamation costs	1,956	2,058
6% convertible subordinated debentures due June 2002	19,767	23,171
	<u>37,828</u>	<u>41,715</u>
<b>LONG-TERM LIABILITIES</b>		
13 3/8% convertible senior subordinated notes due December 2003	35,670	41,399
6 3/8% convertible subordinated debentures due January 2004	66,270	66,270
7 1/4% convertible subordinated debentures due October 2005	14,650	14,650
Reclamation and mine closure	13,298	14,462
Other long-term liabilities	6,510	5,096
	<u>136,398</u>	<u>141,877</u>
<b>COMMITMENTS AND CONTINGENCIES (See Notes C, D, F, and G)</b>		
<b>SHAREHOLDERS EQUITY</b>		
Common Stock, par value \$1.00 per share authorized 125,000,000 shares, issued 57,846,960 and 49,278,232 shares in 2001 and 2000 (including 1,059,211 shares held in treasury)	57,847	49,278
Capital surplus	389,769	388,050
Accumulated deficit	(409,895)	(397,999)
Shares held in treasury	(13,190)	(13,190)
Accumulated other comprehensive income	749	649
	<u>25,280</u>	<u>26,788</u>
	<u>\$ 199,506</u>	<u>\$ 210,380</u>

See notes to condensed consolidated financial statements.

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**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**COEUR D ALENE MINES CORPORATION AND SUBSIDIARIES**  
(Unaudited)

	Three Months Ended March 31,	
	2002	2001
	(In Thousands, except for per share data)	
<b>REVENUES</b>		
Product sales	\$ 16,469	\$ 18,006
Interest and other revenues	528	16
	16,997	18,022
<b>COSTS and Expenses</b>		
Production	18,014	18,257
Depreciation and depletion	1,878	2,817
Administrative and general	2,105	2,277
Exploration	628	1,392
Pre-feasibility	822	566
Interest	4,401	3,744
Other	1,045	217
	8,893	29,270
<b>NET LOSS FROM CONTINUING OPERATIONS BEFORE TAXES AND EXTRAORDINARY ITEM</b>	(11,896)	(11,248)
Income tax provision		(1)
	(11,896)	(11,249)
<b>NET LOSS BEFORE EXTRAORDINARY ITEM</b>	(11,896)	(11,249)
Extraordinary item - early retirement of debt (net of taxes)		3,181
	(11,896)	(8,068)
<b>NET LOSS</b>	(11,896)	(8,068)
Unrealized holding gain (loss) on securities	101	415
	\$(11,795)	\$ (7,653)
<b>BASIC AND DILUTED EARNINGS PER SHARE:</b>		
Weighted average number of shares of Common Stock	52,389	37,308
	\$ (.23)	\$ (.31)
Extraordinary item - early retirement of debt (net of taxes)		.09
	\$ (.23)	\$ (.22)

See notes to condensed consolidated financial statements.



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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**COEUR D ALENE MINES CORPORATION AND SUBSIDIARIES**  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2002</b>	<b>2001</b>
	(In Thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(11,896)	\$ (8,068)
Add (deduct) noncash items:		
Depreciation and depletion	1,878	2,817
Loss (gain) on early retirement of debt (net of tax)	252	(3,181)
Interest expense on Convertible Senior Subordinated Notes paid in Common Stock	895	
Other	811	2,189
Unrealized loss (gain) on written call options	62	(379)
Changes in Operating Assets and Liabilities:		
Receivables	(1,299)	818
Inventories	2,722	1,041
Accounts payable and accrued liabilities	1,056	(1,208)
	(5,519)	(5,971)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of short-term investments		(1,255)
Proceeds from sales of short-term investments	1,264	5,266
Proceeds from sale of assets		14,733
Expenditures on mining assets	(1,554)	(1,977)
Other	(137)	(259)
	(427)	16,508
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Other	(61)	(296)
	(61)	(296)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of period	14,714	35,227
	\$ 8,707	\$45,468

**SUPPLEMENTAL CASH FLOW DISCLOSURE**

During the 1st quarter of 2002 the Company repurchased \$3. million principal amount of its outstanding 6% Convertible Subordinated Debentures in exchange for approximately 3.4 million shares of common stock. In addition, holders of \$5.7 principal amount of 13 3/8% Convertible Senior Subordinated Notes voluntarily converted their Notes for 5.1 million shares of common stock.

During the 1st quarter of 2001 the Company repurchased \$5.0 million principal amount of its outstanding 7 1/4% Convertible Subordinated Debentures in exchange for 1,787,500 shares of common stock.

See notes to condensed consolidated financial statements.



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**Coeur d Alene Mines Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
(unaudited)

**NOTE A: Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date and it also does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Coeur d Alene Mines Corporation Annual Report on Form 10-K for the year ended December 31, 2001.

**NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation:** The consolidated financial statements include the wholly-owned subsidiaries of the Company, the most significant of which are Coeur Rochester Inc., Coeur Silver Valley Inc., Coeur Alaska, Inc., CDE Cerro Bayo Ltd., Compania Minera CDE Petorca, Coeur Australia and Empresa Minera Manquiri S.R.L. The consolidated financial statements also include all entities in which voting control of more than 50% is held by the Company. The Company has no investments in entities in which it has greater than 50% ownership interest accounted for using the equity method. Intercompany balances and transactions have been eliminated in consolidation. Investments in corporate joint ventures where the Company has ownership of 50% or less and funds its proportionate share of expenses are accounted for under the equity method. The Company has no investments in entities in which it has greater than 20% ownership interest accounted for using the cost method.

**Reclassification of Restricted Investments:** The Company has reclassified restricted investments to long-term in the December 31, 2001 balance sheet to conform to the classification in the March 31, 2002 balance sheet, see Note D.

**Revenue Recognition:** Revenue is recognized when title to silver and gold passes at the shipment or delivery point to the buyer. The effects of forward sales contracts and purchased put contracts are reflected in revenue at the date the related precious metals are delivered or the contracts expire. All byproduct sales and third party smelting and refining costs are recorded in Sales of metal. Byproduct sales are primarily derived from copper which is produced as part of the silver recovery process at Coeur Silver Valley. On an annual basis, byproduct sales represent less than 5% of revenues recognized as Sales of metal.

**Cash and Cash Equivalents:** Cash and cash equivalents include all highly-liquid investments with a maturity of three months or less at the date of purchase. The Company minimizes its credit risk by investing its cash and cash equivalents with major international banks and financial institutions located principally in the United States, Canada and Australia with a minimum credit rating of A1 as defined by Standard & Poor's. The Company's

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management believes that no concentration of credit risk exists with respect to investment of its cash and cash equivalents.

**Short-term Investments:** Short-term investments principally consist of highly-liquid United States and foreign government and corporate securities with original maturities in excess of three months and less than one year. The Company classifies all short-term investments as available-for-sale securities. Unrealized gains and losses on these investments are recorded in accumulated other comprehensive income (loss) as a separate component of shareholders' equity. Any decline in market value judged to be other than temporary is recognized in determining net income. Realized gains and losses from the sale of these investments are included in determining net income (loss).

**Inventories:** Inventories include ore on leach pads, ore in the milling process, concentrates, doré and ore in stock piles. Ore is that part of the mineral deposit which can be economically extracted. The classification of inventory is determined by the stage the ore is at in the production process. The gold and silver content of inventories of ore on leach pads is calculated based on samples taken of the ore prior to placement on the leach pad. The ore on leach pads is then valued based on the lower of actual costs incurred or estimated net realizable value based upon the period ending prices of gold and silver. Material that does not contain a minimum quantity of gold and silver is not placed on the leach pad and is classified as waste with no value. Inventories of ore in stock piles and ore in the milling process are also sampled for gold and silver content and are valued based on the lower of actual costs incurred or estimated net realizable value based upon the period ending prices of gold and silver. Material that does not contain a minimum quantity of gold and silver to cover estimated processing expense to recover the contained gold and silver is not classified as inventory and is assigned no value. Only the material the Company considers to be ore is assigned costs and all costs associated with mining or moving waste is allocated to the ore mined and moved during the period. Inherent in estimating net realizable value is an estimate of the percentage of the minerals on leach pads and in process that will ultimately be recovered. There have been no adjustments to the recovery rates used in estimated net realizable value for the periods presented in these financial statements. Management evaluates this estimate on an ongoing basis. Adjustments to the recovery rate are accounted for prospectively. All inventories are stated at the lower of cost or market, with cost being determined using the first-in, first-out and weighted average cost methods. Concentrate and doré inventory includes product at the mine site and product held by refineries and are also valued at lower of cost or market.

**Property, Plant, and Equipment:** Expenditures for new facilities, new assets or expenditures that extend the useful lives of existing facilities are capitalized and depreciated using straight-line method at rates sufficient to depreciate such costs over the shorter of estimated productive lives of such facilities or the useful lives of the individual assets. Productive lives range from 7 to 31 years for buildings and improvements, 3 to 13 years for machinery and equipment and 3 to 7 years for furniture and fixtures. Certain mining equipment is depreciated using the units-of-production method based upon estimated total proven and probable reserves. Maintenance and repairs are expensed as incurred.

**Operational Mining Properties and Mine Development:** Mineral exploration costs are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, the costs incurred to develop such property including costs to further delineate the ore body and remove overburden to initially expose the ore body, are capitalized. Such costs, are amortized using the unit-of-production method over the estimated life of the ore body based on proven and probable reserves. Significant payments related to the acquisition of the land and mineral rights are capitalized as incurred. Prior to acquiring such land or mineral rights the Company generally makes a preliminary evaluation to determine that the property has significant potential to develop an economic ore body. The time between initial acquisition and full evaluation of a property's potential is variable and is determined by many factors including; location relative to existing infrastructure, the property's stage of development, geological controls and metal prices. If a mineable ore body is discovered such costs are amortized when production begins using the

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units-of-production method based on proven and probable reserves. If no minable ore body is discovered, such costs are expensed in the period in which it is determined the property has no future economic value. Interest expense allocable to the cost of developing mining properties and to construct new facilities is capitalized until assets are ready for their intended use. Gains or losses from sales or retirements of assets are included in other income or expense.

**Deferred Stripping Costs:** Deferred stripping costs are unique to the mining industry, are determined based on the Company's estimates for the life of mine strip ratio for each mine and is a method used to smooth out mining production costs over the life of the mine. These costs are capitalized in periods when the life of mine ratio is below the current mining strip ratio, and amortized during periods where the life of mine strip ratio is above the current strip ratio. The Rochester mine is the only mine that has previously capitalized deferred stripping costs. The life of mine strip ratio that was used to accumulate the deferred stripping asset was 1.8 to 1 (waste to ore) and was based on the estimated average stripping ratio for the life of the mine, compared to the then-current ratio of 2.2 to 1 (waste to ore). The deferred stripping asset has been amortized as waste and ore have been removed from the Rochester mine pit. At present the remaining life of mine plan estimates the future stripping ratio as 1.1 to 1 (waste to ore), and the remaining costs will be amortized over the remaining life of the mine. At December 31, 2001, 2000 and 1999, the book value of the deferred stripping asset was \$1.7 million, \$2.1 million and \$4.7 million, respectively. The amounts that were amortized for the years ended December 31, 2001, 2000 and 1999 were \$0.4 million, 0.5% of production costs; \$2.6 million, 3% of production costs; and \$1.9 million, 2.7% of production costs, respectively.

**Asset Impairment:** Management reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. The Company utilizes the methodology set forth in Statement of Financial Accounting Standard (SFAS) No. 121, Accounting for the Impairment of Long Lived Assets and Long Lived Assets to be Disposed Of to evaluate the recoverability of capitalized mineral property costs. An impairment is considered to exist if total estimated future cash flows or probability-weighted cash flows on an undiscounted basis, is less than the carrying amount of the assets, including property, plant and equipment, operating mineral property, development property, and deferred operating costs such as deferred stripping. An impairment loss is measured and recorded based on discounted estimated future cash flows or the application of an expected present value technique to estimate fair value in the absence of a market price. Future cash flows include estimates of proven and probable recoverable ounces, gold and silver prices (considering current and historical prices, price trends and related factors), production levels, capital and reclamation costs, all based on detailed engineering life-of-mine plans. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of cash flows from other groups. Generally, all assets at a particular mine are used together to generate cash flow. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions and market conditions and/or the Company's performance could have material effect on the Company's financial position and results of operations (see note D).

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, that established a single accounting model, based on the framework of SFAS No. 121 (Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of), for long-lived assets to be disposed of by sale. The statement was adopted on January 1, 2002, and there was no impact upon adoption.

**Reclamation and Remediation Costs:** Estimated future costs are based principally on legal and regulatory requirements. Such costs related to active mines are accrued and charged over the expected operating lives of the mines using the unit-of-production method. Future remediation costs for inactive mines are accrued based on management's best estimate at the end of each period of the undiscounted costs expected to be incurred at the site. Such cost estimates include, where applicable, ongoing care and maintenance and monitoring costs. Changes in estimates are reflected in earnings in the period an estimate is revised.

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which established a uniform methodology for accounting for estimated reclamation and abandonment costs. The statement will be adopted January 1, 2003, when the Company will record the estimated present value of reclamation liabilities and change the carrying amount of the related asset. Subsequently, the reclamation costs will be allocated to expense over the life of the related assets and will be adjusted for changes resulting from the passage of time and

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revisions to either the timing or amount of the original present value estimate. The Company is in the process of quantifying the effect of adoption.

**Foreign Currency:** Substantially all assets and liabilities of foreign subsidiaries are translated at exchange rates in effect at the end of each period. Revenues and expenses are translated at the average exchange rate for the period. Foreign currency transaction gains and losses are included in the determination of net income.

**Derivative Financial Instruments:** The Company uses derivative financial instruments as part of an overall risk-management strategy. These instruments are used as a means of hedging exposure to precious metals prices and foreign currency exchange rates. The Company does not hold or issue derivative financial instruments for trading purposes. Written options do not qualify for hedge accounting and are marked to market each reporting period with corresponding changes in fair value recorded to operations as other income.

The Company uses forward sales contracts and combinations of put and call options to fix a portion of its exposure to precious metals prices. The underlying production for forward sales contracts is designated for physical delivery at the inception of the derivative. If the Company enters into derivatives that qualify for hedge accounting, deferral accounting is applied only if the derivatives continue to reduce the price risk associated with the underlying hedged production. Contracted prices on forward sales contracts are recognized in product sales as the designated production is delivered or sold. In the event of early settlement of hedge contracts, gains and losses are deferred and recognized in income at the originally designated delivery date.

The Company uses foreign currency contracts to hedge its exposure to movements in the foreign currency translation amounts for anticipated transactions. These contracts are marked-to-market to earnings each reporting period.

In June 1998, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 requires that all derivatives be recognized as assets or liabilities and be measured at fair value. Gains or losses resulting from changes in the values of those derivatives will be accounted for depending on the use of the derivatives and whether they qualify for hedge accounting as either a fair value hedge or a cash flow hedge. The adoption of SFAS No. 133 by the Company on January 1, 2001 did not have a material affect to the consolidated financial statements of the Company.

**Income Taxes:** The Company accounts for income taxes using the liability method, recognizing certain temporary differences between the financial reporting basis of the Company s liabilities and assets and the related income tax basis for such liabilities and assets. This method generates a net deferred income tax liability or asset for the Company as of the end of the year, as measured by the statutory tax rates in effect as enacted. The Company derives its deferred income tax charge or benefit by recording the change in the net deferred income tax liability or asset balance for the year.

The Company s deferred income tax assets include certain future tax benefits. The Company records a valuation allowance against any portion of those deferred income tax assets that it believes will more likely than not fail to be realized.

**Comprehensive Income (Loss):** In addition to net loss, comprehensive income (loss) includes all changes in equity during a period, except those resulting from investments by and distributions to owners. Items of comprehensive income include foreign currency exchanges, the effective portions of hedges and unrealized gains and losses on investments classified as available for sale.

**Loss Per Share:** Loss per share is computed by dividing the net loss attributable to common stock by the weighted average number of common shares outstanding during each period. All stock options outstanding at each period end have been excluded from the weighted average share calculation. The effect of potentially dilutive stock options outstanding was antidilutive in 2001, 2000 and 1999.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company s management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Inventories are comprised of the following:

	<u>March 31,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
	(In Thousands)	
In process and on leach pads	\$38,336	\$39,794
Concentrate and dore inventory	2,719	1,567
Supplies	5,234	4,925
	<u>\$46,289</u>	<u>\$46,286</u>
Long-term inventory in-process and on leach pads (included in other assets)	<u>\$</u>	<u>\$ 2,725</u>

Inventories of ore on leach pads and in the milling process are valued based on actual costs incurred, less costs allocated to minerals recovered through the leaching and milling processes. Inherent in this valuation is an estimate of the percentage of the minerals on leach pads and in-process that will ultimately be recovered. All other inventories are stated at the lower-of-cost or market, with cost being determined using the first-in, first-out and weighted-average-cost methods. Dore inventory includes product at the mine site and product held by refineries.

**NOTE D: Restricted Investments**

The Company, under the terms of its lease, self insurance, and mine reclamation and remediation bonding agreements with certain banks, lending institutions and regulatory agencies is required to collateralize certain portions of the Company's future obligations. The Company has collateralized these obligations by assigning certificates of deposit that have maturity dates ranging from three months to a year, to the respective institution or agency. At March 31, 2002 and December 31, 2001, the Company had certificates of deposit under these agreements of \$11.5 million and \$11.2 million, respectively, restricted for this purpose.

The ultimate timing for the release of the collateralized amounts is dependent on the timing and closure of each mine. Mine closure and reclamation activity generally commences immediately after a mine depletes its proven and probable reserves. The time to complete all closure activity is mine dependent, but generally occurs over a period of several years. In order to release the collateral, the Company must seek approval from certain governmental agencies responsible for monitoring mine closure status. Collateral may also be released to the extent that the Company is able to secure alternative financial assurance satisfactory to the regulatory agencies. The Company believes there is a high probability that the collateral will remain in place beyond the twelve month period ending March 31, 2003, and has therefore classified these investments as long-term.

**NOTE E: Income Taxes**

The Company has reviewed its net deferred tax asset for the three-month period ended March 31, 2002, together with net operating loss carryforwards, and has decided to forego recognition of potential tax benefits arising therefrom. In making this determination, the Company has considered the Company's history of tax losses incurred since 1989, the current level of gold and silver prices and the ability of the Company to use accelerated depletion and amortization methods in the determination of taxable income. As a result, the Company's net deferred tax asset has been fully reserved as of March 31, 2002 and December 31, 2001.

**NOTE F: Long-Term Debt**

During 2001, the Company exchanged a significant portion of its debentures with interest rates of 6% to 7-1/4% for new notes with a market interest rate of 13-3/8%.

During the first quarter of 2002, the Company repurchased \$3.5 million principal amount of its outstanding 6% Convertible Subordinated Debentures due June 2002 in exchange for approximately 3.5 million shares of





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Common Stock. As a result of the repurchase, the Company has recorded an expense (included in other expenses) of approximately \$0.3 million. The share price used as consideration was based upon market prices at the time of the transactions. Also during the first quarter of 2002, holders of the 13-3/8% Convertible Senior Subordinated Notes voluntarily exchanged \$5.7 million principal amount of the outstanding Notes for approximately 5.1 million shares of Common Stock under the terms of the Notes.

In several additional privately negotiated transactions completed in April and May 2002, the Company repurchased, in aggregate, \$6.7 million principal amount of its outstanding 6% Convertible Subordinated Debentures due 2002 in exchange for approximately 6.7 shares of Common Stock. As a result of the transactions completed, the Company expects to record an additional expense of approximately \$1.5 million in the quarter ending June 30, 2002.

Also during April 2002, holders of \$3.2 million principal amount of the 13-3/8% Convertible Senior Subordinated Notes voluntarily converted their outstanding Notes into approximately 2.9 million shares of common stock, in accordance with the terms of the 13-3/8% Convertible Senior Subordinated Notes.

## **Building Loan**

The Company has secured a 10-year loan for \$1.3 million at an interest rate of 10% for the Corporate Office Building utilizing the building as collateral for the loan.

## **NOTE G: Segment Reporting**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision making group is comprised of the Chief Executive Officer, Chief Financial Officer and the Chief Operating Officer.

The operating segments are managed separately because each segment represents a distinct use of Company resources and contribution to the Company's cash flows in its respective geographic area. The Company's reportable operating segments include the Rochester, Coeur Silver Valley, Cerro Bayo, Petorca, and Coeur Australia and exploration and development properties. All operating segments are engaged in the discovery and/or mining of gold and silver and generate the majority of their revenues from the sale of precious metal concentrates and/or refined precious metals. Coeur Silver Valley, and the Fachinal and Petorca mines sell precious metal concentrates, typically under long term contracts to smelters located in Canada (Noranda Inc. and Cominco Ltd.), in the United States (Asarco Inc.) and Japan (Sumitomo Ltd. And Dowa Mining Company). Refined gold and silver produced by the Rochester mine is primarily sold on a spot basis to precious metal trading banks such as Goldman Sachs, Morgan Stanley, Mitsui and N.M. Rothschild. Intersegment revenues consist of precious metal sales to the Company's metals marketing division and are transferred at the market value of the respective metal on the date of the transfer. The other segment includes earnings (loss) from unconsolidated subsidiaries accounted for under the equity method, the corporate headquarters, elimination of intersegment transactions and other items necessary to reconcile to consolidated amounts. Revenues in the other segment are generated principally from interest received from the Company's cash and investments that are not allocated to the operating segments. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K. The Company evaluates performance and allocates resources based on each segment's profit or loss before interest, income taxes, depreciation and amortization, unusual and infrequent items and extraordinary items.

**Table of Contents****Segment Reporting  
(In Thousands)****March 31, 2002**

	<u>Rochester</u>	<u>Silver Valley</u>	<u>Cerro Bayo</u>	<u>Petorca</u>	<u>Exploration</u>	<u>Other</u>	<u>Total</u>
Total net sales and revenues	\$ 12,208	\$ 5,592	\$ 24	\$	\$	\$ (826)	\$ 16,997
Depreciation and amortization	1,274	955			5	69	2,303
Interest income						118	118
Interest expense			582			3,818	4,401
Gain on forward sale contracts						62	62
Write-down of mine property		126	280			388	794
(Loss) gain on early retirement of debt							
Profit (loss)	(1,754)	789	(95)		(98)	(2,927)	(4,084)
Segment assets(A)	66,551	29,085	24,733	554	43	50,693	171,662
Capital expenditures for property	201	240	1,053			60	1,554

**March 31, 2001**

Total net sales and revenues	\$ 13,012	\$ 4,456	\$ (54)	\$ 870	\$	\$ (263)	\$ 18,022
Depreciation and amortization	2,675	703		133	5	331	3,847
Interest income			(1)	(2)		(529)	(532)
Interest expense			574			3,169	3,744
Other Expense		131	69			17	217
Income tax (credit) expense		1					1
Gain on early retirement of debt						3,181	3,181
Profit (loss)	1,531	(5)	(77)	(490)	(301)	(4,478)	(3,820)
Segment assets(A)	77,672	27,944	23,895	3,573	67	59,302	192,453
Capital expenditures for property	166	757	672		15	367	1,977

Notes:

(A) Segment assets consist of receivables, prepaids, inventories, property, plant and equipment, and mining properties

**Segment Reporting  
(in thousands)**

	<b>Three months ended March 31</b>	
	<b>2002</b>	<b>2001</b>
Profit (loss)		
Total profit or loss from reportable segments	\$ (4,084)	\$ (3,820)
Depreciation, depletion and amortization	(2,303)	(3,847)
Interest expense	(4,401)	(3,744)
Other	(1,108)	163
Loss before extraordinary item and income taxes	\$ (11,896)	\$ (11,248)



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	<u>March 31, 2002</u>	<u>March 31, 2002</u>
Assets		
Total assets for reportable segments	\$ 171,662	\$ 192,453
Cash and cash equivalents	8,707	45,468
Short-term investments	13,493	14,375
Other assets	5,644	6,781
Total consolidated assets	\$ 199,506	\$ 259,077

**Geographic Information  
(In thousands)****2002**

	<u>Revenues</u>	<u>Long-Lived Assets</u>
United States	\$ 17,064	\$ 76,747
Chile	(67)	22,245
Bolivia		18,862
Other Foreign Countries		438
Consolidated Total	\$ 16,997	\$ 118,292

**2001**

	<u>Revenues</u>	<u>Long-Lived Assets</u>
United States	\$ 18,311	\$ 88,795
Chile	35	21,417
Bolivia		18,881
Other Foreign Countries	(324)	530
Consolidated Total	\$ 18,022	\$ 129,623

Revenues are geographically separated based upon the country in which operations and the underlying assets generating those revenues reside.

**NOTE H: Hedging**

For the first quarter of 2002 the Company recorded a realized loss of approximately \$32,000 in connection with its hedge program and an additional \$0.4 million of mark to market loss on its call options. The Company has 11,000 ounces in forward sales in its gold protection program, whereby over the next five months the Company will receive an average price of \$296.06 per ounce.

The following table summarizes the information at March 31, 2002 associated with the Company's financial and derivative financial instruments that are sensitive to changes in interest rates, commodity prices and foreign exchange rates. For long term debt obligations, the table presents principal cash flows and related average interest rates. For gold call options and amortizing forward sales, the table presents ounces expected to be delivered and the related average price per ounce in U.S. dollars.

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(dollars in thousands)	2002	2003	2004	2005	Thereafter	Total	Fair Value 3/31/02
<b>Liabilities</b>							
Long Term Debt	\$ 19,767	\$ 35,670	\$ 66,270	\$ 14,650	\$	\$ 136,37	\$ 112,305
<b>Fixed Rate</b>							
Average Interest Rate	9.784%	8.629%	7.007%	7.250%			
<b>Instruments</b>							
<b>Gold Forward</b>							
<b>Sales USD</b>							
Ounces	11,000					11,000	\$ (59)
Price Per Ounce	\$ 296.06	\$	\$	\$			
<b>Gold Call Options</b>							
<b>Sold USD</b>							
Ounces(1)(2)				24,640		24,640	\$ (435)
Price Per Ounce				\$ 346.46			

- (1) The call options sold have a knock-out provision whereby the calls for 24,640 ounces will terminate if gold trades below \$300 per ounce after December 27, 2002.
- (2) These call options were subsequently closed in April 2002 and the Company has realized a loss of approximately \$398,000.

**NOTE I: Contingencies****Bunker Hill Action**

On January 7, 2002, a private class action suit captioned *Baugh vs. Asarco, et al.*, was filed in the Idaho District Court for the First District (Lawsuit No. 2002131) in Kootenai County, Idaho against the companies that have been defendants in the prior Bunker Hill and natural resources litigation in the Coeur d'Alene Basin, including the Company, by eight northern Idaho residents seeking medical benefits and property compensation from the mining companies involved in the Bunker Hill Superfund site. At this early stage of the litigation, the Company cannot predict the outcome of this suit.

**Proposed Mining Legislation**

Recent legislative developments may affect the cost of and ability of mining claimants to use the Mining Law of 1872, as amended, (the Mining Act) to acquire or use federal lands for mining operations. Since October 1994, a moratorium has been imposed on processing new patent applications for mining claims. Management believes that this moratorium will not affect the status of patent applications outstanding prior to the moratorium.

Legislation is presently being considered in the U.S. Congress to change the Mining Act under which the Company holds mining claims on public lands. It is possible that the Mining Act will be amended or be replaced by more onerous legislation in the future. The legislation under consideration, as well as regulations under development by the Bureau of Land Management, contain new environmental standards and conditions, additional reclamation requirements and extensive new procedural steps which would be likely to result in delays in permitting.

During the last several Congressional sessions, bills have been introduced which would supplant or materially alter the Mining Act. If enacted, such legislation may materially impair the ability of the Company to develop or continue operations which derive ore from federal lands. No such bills have been passed and the extent of the changes, if any, which may be enacted by Congress is not presently known. A significant portion of Coeur's U.S. mining properties are on public lands. Any reform of the Mining Act or regulations thereunder based on these initiatives could increase the costs of mining activities on unpatented mining claims, and as a result could have an adverse effect on the Company and its results of operations.

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Until such time, if any, as new reform legislation or regulations are enacted, the ultimate effects and costs of compliance on the Company cannot be estimated.

### **NOTE J: Subsequent Events**

On April 2, 2002, the Company completed the acquisition of Compania Minera Polimet S.A. ( Polimet ) from Yamana Resources Inc. (Yamana) for \$2.5 million in cash. The acquisition of Polimet will be accounted for under the purchase method of accounting in accordance with APB No. 16. The carrying values of assets and liabilities other than the mining properties have been estimated to approximate fair market value. Polimet owns 100% of the Martha Mine and an exploration land package consisting of approximately 145,000 acres located in the western portion of Santa Cruz Province, Argentina. The results of operations of Polimet will be included in the Company's financial statements for the time period after the date of acquisition, April 2, 2002. Coeur also acquired warrants to purchase 10 million common shares of Yamana, for an additional \$600,000.

The Company has entered into a purchase agreement to issue \$21.5 million principal amount of new 13-3/8% Convertible Senior Subordinated Notes ( New Notes ) for \$16.0 million in proceeds. The New Notes will be convertible into common stock at a conversion price of \$1.35 per share and will be issued on similar terms, subject to certain contingent provisions, as the Company's currently outstanding 13-3/8% Convertible Senior Subordinated Notes due December 31, 2003. This financing is subject to final documentation and customary closing conditions. The Company plans to use \$9.4 million of the proceeds from the sale of the New Notes to pay the entire \$9.4 million principal amount of 6% Debentures expected to be outstanding when they mature on June 10, 2002.

In the Company's latest Form 10-K filing, the Company stated that without a certainty of financing the Company may not be able to repay its obligations under its 6% Debentures. Upon successful completion of this financing agreement the Company will use a portion of the proceeds received to repay the entire expected outstanding balance of \$9.4 million of the 6% Convertible Subordinated Debentures on June 10, 2002.

### **NOTE K: Reclassification**

Certain reclassifications of prior-year balances have been made to conform to current year classifications.

## **Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

(Management's Discussion and Analysis includes references to total cash costs per ounce of gold and silver produced both on an individual mine basis and on a consolidated basis. Total cash costs per ounce represent a non-U.S. GAAP measurement that management uses to monitor and evaluate the performance of its mining operations. A reconciliation of total cash costs per ounce to U.S. GAAP Production Expenses is provided herein and should be referred to when reading the total cash cost per ounce measurement.)

### **General**

The results of the Company's operations are significantly affected by the market prices of gold and silver which may fluctuate widely and are affected by many factors beyond the Company's control, including, without limitation, interest rates, expectations regarding inflation, currency values, governmental decisions regarding the disposal of precious metals stockpiles, global and regional political and economic conditions, and other factors.

The average price of silver and gold in the first quarter of 2002 was \$4.51 and \$290 per ounce, respectively. The market price of silver (Handy & Harman) and gold (London Final) on May 13, 2002 were \$4.63 per ounce and \$310.75 per ounce, respectively.

The Company's currently operating mines are the Rochester mine in Nevada, the Galena mine in the Coeur d'Alene Mining District of Idaho, and the Cerro Bayo mine in Chile.

This document contains numerous forward-looking statements relating to the Company's gold and silver mining business. The United States Private Securities Litigation Reform Act of 1995 provides a safe harbor for certain forward looking statements. Operating, exploration and financial data, and other statements in this document are based on information the Company believes reasonable, but involve significant uncertainties as to future gold and silver prices, costs, ore grades, estimation of gold and silver reserves, mining and processing conditions, changes that could result from the Company's future acquisition of new mining properties or businesses, the risks and hazards inherent in the mining business (including environmental hazards, industrial accidents, weather or



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geologically related conditions), regulatory and permitting matters, and risks inherent in the ownership and operation of, or investment in, mining properties or businesses in foreign countries. Actual results and timetables could vary significantly from the estimates presented. Readers are cautioned not to put undue reliance on forward-looking statements. The Company disclaims any intent or obligation to update publicly these forward-looking statements, whether as a result of new information, future events or otherwise.

The following table sets forth the amounts of gold and silver produced by the mining properties owned by the Company or in which the Company has an interest, based on the amounts attributable to the Company's ownership interest, and the cash and full costs of such production during the three-month periods ended March 31, 2002 and 2001:

	<b>THREE MONTHS ENDED</b>	
	<b>March 31</b>	
	<b>2002</b>	<b>2001</b>
<b>ROCHESTER MINE</b>		
Gold ozs	16,423	19,457
Silver ozs	1,415,767	1,501,649
Cash Costs per equiv. oz./silver (Note B)	\$ 3.87	\$ 3.35
Full Costs per equiv. oz./silver	\$ 4.74	\$ 5.03
<b>GALENA MINE</b>		
Silver ozs	1,473,542	1,107,941
Cash Costs per equiv. oz./silver (Note B)	\$ 3.97	\$ 4.36
Full Costs per equiv. oz./silver	\$ 4.62	\$ 5.01
<b>PRIMARY SILVER MINES</b>		
Consolidated Cash Costs per equivalent oz. of silver (Note B)	\$ 4.02	\$ 4.02
<b>PETORCA MINE (Note A)</b>		
Gold ozs	N/A	7,159
Silver ozs	N/A	22,127
Cash Costs per oz./gold (Note B)	N/A	\$ 340
Full Costs per oz./gold	N/A	\$ 349
<b>PRIMARY SILVER MINES</b>		
Consolidated Cash Costs per equivalent oz. of gold	N/A	\$ 354
<b>CONSOLIDATED TOTAL METAL PRODUCTION</b>		
Gold ozs	16,423	26,678
Silver ozs	2,889,309	2,631,717

Note A: The Company suspended operations at the Petorca Mine in the third quarter of 2001, and does not expect to re-open this mine in the foreseeable future.

Note B: Total cash costs per ounce of silver or gold represent a non-U.S. GAAP measurement that management uses to monitor and evaluate the performance of its mining operations. See the tables presented immediately below for a reconciliation of this non-GAAP measure to GAAP production costs.

The following tables present a reconciliation between non-GAAP cash costs per ounce to GAAP production costs:

	Three months ended March 31,		
	2002		
	<b>Rochester</b>	<b>Galena</b>	<b>Cerro Bayo</b>
	<b>Total</b>		
Production of Silver (ounces)	1,415,767	1,473,542	2,889,309
Production of Gold (ounces)			
Cash Costs per ounce	\$ 3.87	\$ 3.97	



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Total Cash Costs (thousands)	\$ 5,474	\$ 5,843	\$	\$ 11,318
Add/Subtract:				
Third Party Smelting Costs	(241)	(2,061)		(2,302)
By-Product Credit	4,652	891		5,543
Accrued Reclamation Costs	265	159		424
Inventory Variations	2,902	129		3,031
	<u>        </u>	<u>        </u>		<u>        </u>
Production Costs (GAAP)	\$ 13,052	\$ 4,962	\$	\$ 18,014

Three months ended March 31,  
2001 **Rochester Galena Cerro Bayo Total**

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Production of Silver (ounces)  
1,501,649 1,107,941 2,609,590  
Production of Gold (ounces)  
7,159 7,159  
Cash Costs per ounce  
\$3.35 \$4.36 \$340.13

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Total Cash Costs (thousands)  
\$5,029 \$4,829 \$2,435 \$12,294  
Add/Subtract:

Third Party Smelting Costs  
(218) (599) (668) (1,485)  
By-Product Credit  
4,949 423 350 5,722  
Accrued Reclamation Costs  
429 116 545  
Inventory Variations  
1,837 407 (1,061) 1,182

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Production Costs (GAAP)  
\$12,026 \$5,176 \$1,055 \$18,257

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Cash Costs per Ounce are calculated by dividing the cash costs computed for each of the Company's mining properties for a specified period by the amount of gold ounces or silver ounces produced by that property during that same period. Management uses cash costs per ounce as a key indicator of the profitability of each of its mining properties. Gold and silver are sold and priced in the world financial markets on a US dollar per ounce basis. By calculating the cash costs from each of the Company's mines on the same unit basis, management can easily determine the gross margin that each ounce of gold and silver produced is generating.

Cash Costs are costs directly related to the physical activities of producing silver and gold, and include mining, processing and other plant costs, deferred mining adjustments, third-party refining and smelting costs, marketing expense, on-site general and administrative costs, royalties, in-mine drilling expenditures that are related to production and other direct costs. Sales of by-product metals are deducted from the above in computing cash costs. Cash costs exclude depreciation, depletion and amortization, corporate general and administrative expense, exploration, interest, and pre-feasibility costs and accruals for mine reclamation. Cash costs calculated and presented using the Gold Institute Production Cost Standard applied consistently for all periods presented.

Total cash costs per ounce is a non-GAAP measurement and you are cautioned not to place undue reliance on it and are urged to read all GAAP accounting disclosures presented in the consolidated financial statements and accompanying footnotes. In addition, see the reconciliation of cash costs to production costs above.

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**OPERATING HIGHLIGHTS**

**Cerro Bayo Mine (Chile)**

Coeur's new Cerro Bayo high-grade gold and silver mine officially commenced production on April 17, 2002, approximately one month ahead of schedule. During the start-up phase, the milling facility is processing development ore averaging approximately 0.29 ounces per ton gold equivalent until previously delineated high-grade zones are accessed in late June or early July. At least initially, the bulk of the tonnage mined and processed will be from the Lucero vein. Total production in 2002, including the Martha mine, is forecast at 52,000 ounces of gold and 3.6 million ounces of silver at a cash cost of less than \$150 per gold equivalent ounce.

The Company is actively drilling previously delineated high-grade zones to increase reserves and discover new mineralized vein structures.

**Martha Mine (Argentina)**

Coeur plans to begin transporting high-grade silver ore in late May from the Martha mine to the Cerro Bayo facility for processing. The high-grade Martha mine is expected to contribute 1.6 million ounces of silver to Cerro Bayo in 2002. Preparation of a detailed exploration program for areas in and around the Martha mine is currently under way.

**Rochester Mine (Nevada)**

Coeur's Rochester mine reached a major milestone in the third week of January 2002 when it officially poured over one million ounces of gold and 88 million ounces of silver since commencing production in 1986.

The Rochester mine produced 1.4 million ounces of silver and 16,423 ounces of gold in the first quarter of 2002 compared to 1.5 million ounces of silver and 19,457 ounces of gold in the first three months of 2001. In 2001 operations were largely confined to gold-rich sections of the pit, which accounted for the high gold output last year. In January and February of 2002, the Company decided to mine lower grade stockpiled ore while completing a review of the life-of-mine plan. As a result, cash costs for the three month period rose to \$3.87 per silver equivalent ounce compared to \$3.35 per silver equivalent ounce in the prior year. After completion of this analysis, production has increased and cash costs per silver equivalent ounce decreased sharply to \$3.66 in March with further declines realized in April.

**Coeur Silver Valley (Idaho)**

Silver production at Coeur Silver Valley rose to a record 1.5 million ounces in the latest quarter, up 33 percent from the 1.1 million ounces produced in the first quarter of 2001. Total cash costs during the quarter decreased to \$3.97 per ounce, nine percent lower than the \$4.36 per ounce recorded in the previous year. The increase in silver output and reduction in cash costs is due to the extensive underground development program carried out last year and the successful implementation of mechanized mining in selected areas of the mine. The accelerated underground development program has provided greater mining flexibility and much better access to the wider, higher-grade vein structures, especially the 72 vein which is currently one of the major sources of silver production.

Mine exploration has significantly extended the prominent 117 vein to the 3,100 foot level where subsequent development could significantly lower mining costs. In addition, Coeur is drifting towards the Silver vein on the 2,400 level where reserves of four million ounces of silver have previously been delineated. These recent developments confirm the considerable exploration potential at Coeur Silver Valley both at depth and in areas much closer to the surface.

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### **San Bartolome (Bolivia)**

The final feasibility study at Coeur's San Bartolome silver property in Bolivia is progressing. Recent results indicate that total cash costs can be reduced to \$3.25 per ounce. In addition, exploration and confirmation drilling is under way in conjunction with the implementation of recent process flow sheet improvements. Test results on a portion of the resource base has produced a saleable tin concentrate and a more comprehensive resource-wide review has been commissioned.

## **RESULTS OF OPERATIONS**

Three Months Ended March 31, 2002 Compared to Three Months Ended March 31, 2001.

### **Revenues**

Product sales in the first quarter of 2002 decreased by \$1.5 million, or 9%, from the first quarter of 2001 to \$16.5 million. The decrease in sales is primarily attributable to the shutdown of the Petorca mine in August 2001. In the first quarter of 2002, the Company produced a total of 2,889,309 ounces of silver and 16,423 ounces of gold compared to 2,631,717 ounces of silver and 26,678 ounces of gold in the first quarter of 2001. In the first quarter of 2002, the Company realized average silver and gold prices of \$4.45 and \$291, respectively, compared with realized average prices of \$4.52 and \$270, respectively, in the prior year's first quarter. The decline in gold production was primarily due to lower production from Petorca, which was shutdown in June of last year. This was partially offset by higher gold prices realized and higher silver production at the Rochester and Galena mines.

Interest and other income in the first quarter of 2002 increased by \$0.5 million compared with the first quarter of 2001. The increase is primarily due to a \$0.4 million increase in gains recorded on the sale of short-term investments.

### **Costs and Expenses**

Production costs in the first quarter of 2002 decreased by \$0.2 million, or 1%, from the first quarter of 2001 to \$18.0 million.

Depreciation and amortization decreased in the first quarter of 2002 by \$1.0 million, or 33%, from the prior year's first quarter, primarily due to reduced depletion at the Rochester mine and none taken at the Petorca mine due to suspension of operations.

Administrative and general expenses decreased \$0.2 million in the first quarter of 2002 compared to 2001, due to continued cost reduction measures in 2002.

Exploration expenses decreased by \$0.8 million in the first quarter of 2002 compared to 2001, due to the Company's decision to limit the amount of exploration in 2002.

Pre-feasibility expenses increased by \$0.8 million due to increased spending on the San Bartolome silver project.

Interest expense increased \$0.7 million primarily due to make whole interest paid to holders of the 13-3/8% notes that converted their holdings to common stock.

Other expenses increased \$0.8 million primarily due to additional mine care and maintenance expenditures at both the Petorca and Cerro Bayo mines, and the additional expense recorded in connection with the repurchase of 6% debentures in the first quarter of 2002.

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### **Net Loss**

As a result of the above mentioned factors, as well as debt retirement discussed below, the Company's net loss amounted to \$11.9 million or \$0.23 per share in the first quarter of 2002 compared to a net loss of \$8.1 million or \$0.22 per share in the first quarter of 2001.

### **Debt Reduction Program**

During the first quarter of 2002 the Company repurchased \$3.5 million principal amount of its outstanding 6% Convertible Subordinated Debentures in exchange for approximately 3.5 million shares of common stock. Also during the 1st quarter of 2002 holders of \$5.7 million principal amount of the 13 3/8% Convertible Senior Subordinated Notes voluntarily converted their outstanding Notes into approximately 5.1 million shares of Common Stock.

During April and May 2002, the Company repurchased an additional \$6.7 million principal amount of its outstanding 6% Convertible Subordinated Debentures in exchange for approximately 6.7 million shares of common stock and will record an additional expense of approximately \$1.5 million in the second quarter for these exchanges, further reducing the outstanding 6% Convertible Subordinated Debentures Due June 2002 to \$13.0 million. In connection with its issuance of new 13-3/8% Convertible Senior Subordinated Notes, discussed below under Issuance of New Notes, the Company repurchased an additional \$3.6 million principal amount of 6% Debentures in exchange for approximately 4.0 million shares of Common Stock, thereby reducing the outstanding 6% debentures outstanding to \$9.4 million.

Also during April 2002, holders of \$3.2 million principal amount of the 13-3/8% Convertible Senior Subordinated Notes voluntarily converted their outstanding Notes into approximately 2.9 million shares of Common Stock.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Working Capital; Cash and Cash Equivalents**

The Company's working capital at March 31, 2002 was approximately \$26.3 million compared to \$28.6 million at December 31, 2001. The ratio of current assets to current liabilities was 1.7 to 1.7 at March 31, 2002 compared to 1.7 to 1.0 at December 31, 2001.

Net cash used in operating activities in the three months ended March 31, 2002 was \$5.5 million compared to \$6.0 million in the three months ended March 31, 2001. Net cash used in investing activities in the 2002 period was \$0.4 million compared to net cash provided in investing activities of \$16.5 million in the prior year's comparable period. The cash provided in the 2001 period was attributable to net proceeds of \$14.7 million received from the sale of the Company's interest in Gasgoyne. Net cash used in financing activities was \$0.1 million in the first three months of 2002, compared to \$0.3 million used in the first three months of 2001. As a result of the above, cash and cash equivalents decreased by \$6.0 million in the first three months of 2002 compared to an increase of \$10.2 million for the comparable period in 2001.

## **CONTINGENCIES**

### **Bunker Hill Action**

On January 7, 2002, a private class action suit captioned Baugh vs. Asarco, et al., was filed in the Idaho District Court for the First District (Lawsuit No. 2002131) in Kootenai County, Idaho against the companies that have been defendants in the prior Bunker Hill and natural resources litigation in the Coeur d'Alene Basin, including the Company, by eight northern Idaho residents seeking medical benefits and property compensation from the mining companies involved in the Bunker Hill Superfund site. At this early stage of the litigation, the Company cannot predict the outcome of this suit.

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### **Proposed Mining Legislation**

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Legislation is presently being considered in the U.S. Congress to change the Mining Act under which the Company holds mining claims on public lands. It is possible that the Mining Act will be amended or be replaced by more onerous legislation in the future. The legislation under consideration, as well as regulations under development by the Bureau of Land Management, contain new environmental standards and conditions, additional reclamation requirements and extensive new procedural steps which would be likely to result in delays in permitting.

During the last several Congressional sessions, bills have been introduced which would supplant or materially alter the Mining Act. If enacted, such legislation may materially impair the ability of the Company to develop or continue operations which derive ore from federal lands. No such bills have been passed and the extent of the changes, if any, which may be enacted by Congress is not presently known. A significant portion of Coeur's U.S. mining properties are on public lands. Any reform of the Mining Act or regulations thereunder based on these initiatives could increase the costs of mining activities on unpatented mining claims, and as a result could have an adverse effect on the Company and its results of operations. Until such time, if any, as new reform legislation or regulations are enacted, the ultimate effects and costs of compliance on the Company cannot be estimated.

### **Issuance of New Notes**

The Company has entered into a purchase agreement to issue \$21.5 million principal amount of new 13-3/8% Convertible Senior Subordinated Notes ( New Notes ) for \$16.0 million in proceeds. The New Notes will be convertible into common stock at a conversion price of \$1.35 per share and will be issued on similar terms, subject to certain contingent provisions, as the Company's currently outstanding 13-3/8% Convertible Senior Subordinated Notes due December 31, 2003. This financing is subject to final documentation and customary closing conditions. The Company plans to use \$9.4 million of the proceeds from the sale of the New Notes to pay the entire \$9.4 million principal amount of 6 Debentures expected to be outstanding when they mature on June 10, 2002.

In the Company's latest Form 10-K filing, the Company stated that without a certainty of financing the Company may not be able to repay its obligations under its 6% Debentures. Upon successful completion of this financing agreement the Company will use a portion of the proceeds received to repay the entire expected outstanding balance of \$9.4 million of the 6% Convertible Subordinated Debentures on June 10, 2002.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is exposed to various market risks as a part of its operations. As an effort to mitigate losses associated with these risks, the Company may, at times, enter into derivative financial instruments. These may take the form of forward sales contracts, foreign currency exchange contracts and interest rate swaps. The Company does not actively engage in the practice of trading derivative securities for profit. This discussion of the Company's market risk assessments contains forward looking statements that contain risks and uncertainties. Actual results and actions could differ materially from those discussed below.

The Company's operating results are substantially dependent upon the world market prices of silver and gold. The Company has no control over silver and gold prices, which can fluctuate widely and are affected by numerous factors, such as supply and demand and investor sentiment. In order to mitigate some of the risk associated with these fluctuations, the Company will at times, enter into forward sale contracts. The Company continually evaluates the potential benefits of engaging in these strategies based on the then current market conditions. The Company may be exposed to nonperformance by counterparties as a result of its hedging activities. This exposure would be limited to the amount that the spot price of the metal falls short of the contract price.

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The Company operates in several foreign countries, specifically Bolivia and Chile, which exposes it to risks associated with fluctuations in the exchange rates of the currencies involved. As part of its program to manage foreign currency risk, the Company will enter into foreign currency forward exchange contracts. These contracts enable the Company to purchase a fixed amount of foreign currencies. Gains and losses on foreign exchange contracts that are related to firm commitments are designated and effective as hedges and are deferred and recognized in the same period as the related transaction. All other contracts that do not qualify as hedges are mark-to-market and the resulting gains or losses are recorded in income. The Company continually evaluates the potential benefits of entering into these contracts to mitigate foreign currency risk and proceeds when it believes that the exchange rates are most beneficial.

All of the Company's long term debt at March 31, 2001 is fixed-rate based. The Company's exposure to interest rate risk, therefore, is limited to the amount it could pay at current market rates. The Company currently does not have any derivative financial instruments to offset the fluctuations in the market interest rate. It may choose to use instruments, such as interest rate swaps, in the future to manage the risk associated with interest rate changes.

See Note F Hedging, to the consolidated financial statements for a table which summarizes the Company's gold and foreign exchange hedging activities at March 31, 2002.

**PART II. Other Information**

**Item 6. Exhibits and Reports on Form 8-K**

- a) Exhibits. None.
- b) Reports on Form 8-K. None.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**COEUR D ALENE MINES CORPORATION**  
(Registrant)

Dated August 16, 2002

/s/ Dennis E. Wheeler

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DENNIS E. WHEELER  
President and Chief Executive Officer  
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