COEUR D ALENE MINES CORP
Form 10-K/A
August 19, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM 10-K/A No. 2

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Amendment No. 2 to Annual Report on Form 10-K for the fiscal year ended December 31, 2003

COEUR D ALENE MINES CORPORATION
(Exact name of Registrant as specified in its charter)

Idaho	1-8641	82-0109423
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

505 Front Avenue, P.O. Box I Coeur d Alene, Idaho, 83814
(Address of principal executive offices) (zip code)

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

The undersigned registrant hereby includes the following items, financial statements, exhibits or other portions of its Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as set forth in the pages attached hereto:

Part II.	Item 6.	Selected Financial Data
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	Item 8.	Financial Statements and Supplementary Data
	Item 9A.	Controls and Procedures
Part IV.	Item 15.	Exhibits - Independent Auditors' Consent - Certifications of CEO and CFO

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

COEUR D'ALENE MINES CORPORATION

Date: August 18, 2004

By: /s/ James A. Sabala
James A. Sabala
Executive Vice President and Chief Financial Officer

COEUR D ALENE MINES CORPORATION

AMENDMENT No. 2 TO ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

Explanatory Note

This Amendment No. 2 on Form 10-K/A (this Amendment) amends the annual report on Form 10-K originally filed by Coeur d Alene Mines Corporation (the Company) on March 9, 2004 for the fiscal year ended December 31, 2003 (the Original Annual Report). The Company is filing this Amendment to restate its financial statements as of December 31, 2003 and 2002 and for the years then ended, as listed under Part II, Item 8 herein, and to restate the information set forth in the Selected Financial Data included under Part II, Item 6, in the Management's Discussion and Analysis of Financial Condition and Results of Operation under Part II, Item 7, and under Controls and Procedures under Part II, Item 9A.

The information contained in the Original Annual Report, as amended by this Amendment, has not been updated to reflect events and circumstances occurring since its original filing. Such matters have been or will be addressed in reports filed with the Securities and Exchange Commission (other than this Amendment) subsequent to the date of the Original Annual Report. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the Company has restated in its entirety each item of its Original Annual Report affected by this Amendment.

PART II

Item 6. Selected Financial Data

The following table summarizes certain selected consolidated financial data with respect to the Company and its subsidiaries and should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing elsewhere in this report.

	2003	2002	2001	2000	1999
Income Statement Data:					
	(In thousands except per share data)				
	(Restated) (1)	(Restated) (1)			
Revenues:					
Sales of metal	$ 108,522	$ 86,333	$ 69,200	$ 93,174	$ 86,318
Other income(2)	2,019	8,544	2,712	8,032	22,628
Total revenues	110,541	94,877	71,912	101,206	108,946
Costs and expenses:					
Production costs	77,861	82,855	69,149	86,661	68,896
Depreciation and depletion	16,627	13,511	11,347	20,785	19,620
Administrative and general	12,264	8,806	8,122	9,714	9,281
Mining exploration	6,914	6,455	10,046	9,412	8,518
Interest expense	12,851	21,948	14,592	16,999	16,408
Write-down of mining properties and other(3)	6,393	23,060	9,946	21,236	20,204
Loss (gain) on early retirement of debt (4)	41,564	19,061	(48,217)	(16,136)	(3,990)
Total expenses	174,474	175,696	74,985	148,671	136,937
Net loss from operations before income taxes	(63,933)	(80,819)	(3,073)	(47,465)	27,991
(Provision) benefit for income taxes	7	--	6	(348)	(332)
Net loss before cumulative effect of change in accounting principle	(63,926)	(80,819)	(3,067)	(47,813)	(28,323)
Cumulative effect of change in accounting principle	(2,306)	--	--	--	--
Net loss	$ (66,232)	$ (80,819)	$ (3,067)	$ (47,813)	$ (28,323)
Net loss attributable to common shareholders	$ (66,232)	$ (80,819)	$ (3,067)	$ (49,993)	$ (38,855)

	2003	2002	2001	2000	1999
Income Statement Data:					
Basic and Diluted Earnings Per Share Data:					
Net loss per share	$ (0. 39)	$ (1.03)	$ (0.07)	$ (1.41)	$ (1.61)
Cash dividends paid per Common share	$ --	$ --	$ --	$ --	$ --
Weighted average shares of Common stock	168,186	78,193	41,946	35,439	24,185

	December 31,				
	2003	2002	2001	2000	1999
Balance Sheet Data:	Restated (1)	Restated (1)			
			(In thousands)		
Total assets	$ 259,467	$ 173,491	$ 210,380	$ 271,377	$ 354,047
Working capital - **(restated)** (4) (5)	$ 100,315	$ 7,034	$ 16,270	$ 52,263	$ 169,054
Long-term liabilities	$ 39,529	$ 89,711	$ 141,877	$ 228,659	$ 264,709
Shareholders' equity	$ 197,478	$ 47,687	$ 26,788	$ 17,440	$ 68,165

(1) Historically, the Company has recorded revenue from concentrate sales agreements based on the gold and silver prices prevailing at the time risk of loss and title to the concentrate passes to third-party smelters (at the lower of month-end spot price or the average monthly price for that month). The final settlement price is not fixed until a later date (typically one to three months after shipment) based upon quoted metal prices by an established metal exchange as set forth in each contract, at such date. The Company s provisionally priced sales contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receiveable from the sale of concentrates measured at the forward price at the time of sale. The embedded does not qualify for hedge accounting. The embedded derivative is recorded as a derivative asset in Prepaid expenses and other, or, a derivative liability on the balance sheet and is adjusted to fair value through revenue each period unit the date of final gold and silver settlement. The Company has corrected the error in valuing these embedded derivatives on the financial statements for each of the three, six and nine month periods ending March 31, June 30, and September 30 for 2003 and 2002, and the years ending December 31, 2003 and 2002.

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(2) Included in other income for the year 2003 are: (i) $0.4 million of insurance settlement (ii) $0.5 million of gains on foreign currency and (iii) $0.5 million of interest income. Included in other income for the year 2002 are: (i) the gain on the sale of Petorca of $1.4 million, and (ii) a gain on the sale of other assets of $3.2 million. Included in other income in 2001 was interest income of $2.7 million. Included in other income for the year 2000 are: (i) a gain recorded on mark to market of the Company s gold call positions sold of $4.1 million, and (ii) loss on investment in Pan American Silver Corp. stock of $2.3 million. Included in other income for the year 1999 are: (i) a gain of $21.1 million in settlement of a lawsuit, and (ii) a loss recorded on mark to market of the Company s gold call positions sold of $4.3 million.

(3) The year 2002 includes an impairment to the Coeur Silver Valley properties of $19.0 million. The year 2001 includes an impairment to the Kensington property of $6.1 million. During 2001, the Company also recorded an expense of approximately $4.2 million for settlement of an environmental lawsuit, including $3.9 million in payments and estimated legal fees and other costs. As a consequence of the sale of the Company s shareholding in Gasgoyne Gold Mines NL, the Company recorded a write-down of $12.2 million in 2000 to reflect the excess book value of its shareholding in Gasgoyne above the $15.6 million sales price. In 1999, the Company evaluated the recoverability of its investment in Yilgarn Star Mine and determined that its investment in property, plant and equipment at the Yilgarn Star Mine in Australia was impaired. The total amount of the impairment recorded in 1999 was $16.2 million.

(4) During 2003, holders of $12.7 million of our 13 3/8% Convertible Senior Subordinated Notes due December 31, 2003 voluntarily converted such notes, in accordance with original terms, into approximately 9.6 million shares of common stock including payment for make whole provision for interest expense.

During 2003, we also exchanged $27.9 million and $2.1 million principal amount of our outstanding 6 3/8% Convertible Subordinated Debentures due 2004 and our 7 1/4% Convertible Subordinated Debentures due 2005, respectively, in exchange for 18.5 million shares of common stock and recorded a loss on exchange and early retirement of debt of approximately $29.7 million. The shares included 0.5 million shares of common stock issued as payment for interest expense as part of the transaction. In conjunction with the issuance of the 9% Convertible Senior Subordinated Notes due 2007, we also issued 0.6 million shares of common stock for partial payment of offering costs of $1.0 million.

In July 2003, we and each of the holders of our 9% Convertible Senior Subordinated Notes due 2007 entered into an Early Conversion Agreement, whereby such holders exchanged an aggregate of $32.6 million principal amount of our 9% Convertible Senior Subordinated Notes due 2007 for 27.5 million shares of common stock, including shares issued for accrued interest. We recorded a loss on early retirement of debt of $4.2 million in the third quarter of 2003 in conjunction with this transaction. On November 25, 2003, the Company issued 3.2 million shares of common stock in a registered offering, the proceeds of which were used to redeem $4.6 million principal amount of the 9% Convertible Senior Subordinated Notes and recorded a loss on the early retirement of debt of $7.6 million.

In September 2002, the EITF issued 02-15, Determining Whether Certain Conversions of Convertible Debt to Equity Securities Are within the Scope of FASB Statement No. 84". The EITF concluded that the conversion of debt to equity pursuant to inducement should be accounted for in accordance with SFAS No. 84. SFAS No. 84 requires a non-cash charge to earnings for the implied value of an inducement to convert from convertible debt to common equity securities of the issuer. SFAS No. 84 does not apply, however, if the conversion of convertible debt is under the original terms of the debenture.

We applied the provisions of SFAS No. 84 to all convertible debt for equity exchange transactions completed after September 11, 2002. In the fourth quarter of 2002, we purchased $10.3 million and $2.7 million aggregate principal amount of our 6 3/8% Convertible Subordinated Debentures due 2004 and our 7 1/4% Convertible Subordinated Debentures due 2005, respectively. We issued approximately 8.7 million shares of our common stock with a market value of approximately $17.2 million. The value of securities issuable pursuant to original conversion privileges was approximately $1.1 million. Therefore, pursuant to the provisions of SFAS No. 84, an induced debt conversion expense of $16.1 million was recorded and is included in gain (loss) on early retirement of debt in the consolidated statement of operations for the year December 31, 2002.

We exchanged $13.7 million, $11.1 million and $3.0 million aggregate principal amount of our 6% Senior Convertible Debentures due 2002, our 6 3/8% Convertible Subordinated Debentures due 2004, and our 7 1/4% Convertible Subordinated Debentures due 2005, respectively, during the year ended December 31, 2002. We issued approximately 25.3 million shares of our common stock, including interest expense, and recorded a loss on early retirement of debt of approximately $19.1 million. In addition, holders of $28.8 million of Series I 13 3/8% Convertible Senior Subordinated Notes due December 2003 and $21.5 million of the Series II 13 3/8% Convertible Senior Subordinated Notes due December 2003 voluntarily converted such Notes, under the original terms of the applicable indentures, into approximately 37.1 million shares of common stock. We also issued 8.0 million shares of common stock as payment of interest expense on the 13 3/8% Notes. Transactions completed prior to September 11, 2002 were accounted for as extinguishments of debt, in accordance with APB No. 26, Early Extinguishment of Debt .

During 2001, we issued 6.1 million shares of common stock in exchange for approximately $16 million in principal amount of our 7 1/4% Convertible Subordinated Debentures due 2005, and recorded a gain of approximately $9.0 million. Also during 2001, we completed an exchange offer whereby existing convertible subordinated debenture holders could exchange their existing debt for the newly registered 13 3/8% Convertible Senior Subordinated Notes due 2003. As a result of the exchange offer, we recorded a gain of $39.2 million, net of taxes and offering costs in the third quarter of 2001.

During 2000, we repurchased approximately $9.1 million principal amount of our 6% Convertible Subordinated Debentures due 2002, approximately $0.6 million principal amount of our 6 3/8% Convertible Subordinated Debentures due 2004, and approximately $22.0 million principal amount of our outstanding 7 1/4% Convertible Subordinated Debentures due 2005. We paid a price for those repurchased debentures of approximately $14.1 million. As a result of these repurchases, we recorded a gain of approximately $16.1 million.

During 1999, we repurchased approximately $10.2 million principal amount of our 6% Convertible Subordinated Debentures due 2002 for a purchase price of approximately $6.2 million, and as a result we recorded a gain of approximately $4.0 million in the early retirement of debt.

(5) The Company has made corrections to amounts presented in prior year financial statements to present separately the portion of the amount attributable to ore on leach pad that represents a long-term asset and to correct the classification of restricted investments from current assets to long-term. The amount previously reported as current inventory has been reduced by $22.8 million in 1999, $19.9 million in 2000 and $12.4 million in 2001. In addition, the entire restricted investments balance of $11.2 million as of December 31, 2001 has been reclassified to long-term assets. The effect of these corrections reduced previously reported current assets by $22.8 million in 1999, $19.9 million in 2000, and $23.6 million in 2001 and increased long-term assets by the same amount. This correction has reduced the amount of reported current inventory by $12.3. All of these corrections have had no impact on our previously reported results of operations, earnings per share, total assets and liabilities, or shareholders equity.

Item 7. Management s Discussion and Analysis of Financial Condition andResults of Operations

General

The results of the Company s operations are significantly affected by the market prices of gold and silver which fluctuate widely and are affected by many factors beyond the Company s control, including 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 Company s business strategy is to capitalize on the ore reserve/mineralized material bases located at its operating mines and the expertise of its management team to become the leading primary silver production company through long-term, cash flow generating growth. The principal elements of the Company s business strategy are to: (i) increase the Company s silver production and reserves in order to remain the nation s largest primary silver producer and one of the world s larger primary silver producers; (ii) decrease cash costs and increase production at the Company s existing silver mining operations; (iii) to transform development-stage properties into producing mines; (iv) acquire operating mines, exploration and/or development properties with a view to reducing the Company s cash and total costs, provide short-term positive cash flow return and expand its silver production base and reserves; and (v) continue to explore for new silver and gold discoveries primarily near its existing mine sites and evaluate new opportunities to expand its production through acquisitions and exploration.

The Rochester Mine, Cerro Bayo/Martha Mine and Silver Valley s Galena Mine, each operated by the Company, constituted the Company s principal sources of mining revenues in 2003.

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Critical Accounting Policies and Estimates

Management considers the following policies to be most critical in understanding the judgments that are involved in preparing the Company s consolidated financial statements and the uncertainties that could impact its results of operations, financial condition and cash flows. Our consolidated financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. We have identified the policies below as critical to our business operations and the understanding of our results of operations. Management s discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States (GAAP). The preparation of these statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. We base these estimates on historical experience and on assumptions that we consider reasonable under the circumstances; however, reported results could differ from those based on the current estimates under different assumptions or conditions. The impact and any associated risks related to these policies on our business operations are discussed throughout Management s Discussion and Analysis of Financial Condition and Results of Operations. The areas requiring the use of management s estimates and assumptions relate to recoverable ounces from proven and probable reserves that are the basis of future cash flow estimates and units-of-production depreciation and amortization calculations; estimates of recoverable gold and silver ounces in ore on leach pad; reclamation and remediation costs; and post-employment and other employee benefit liabilities. For a detailed discussion on the application of these and other accounting policies, see Note B in the Notes to the Consolidated Financial Statements of this Annual Report on Form 10-K.

Revenue Recognition: Revenue is recognized when title to silver and gold passes to the buyer and when collectibility is reasonably assured. The passing of title to the customer is based on the terms of the sales contract. Product pricing is determined at the point revenue is recognized by reference to active and freely traded commodity markets for example, the London Bullion Market, an active and freely traded commodity market, for both gold and silver, in an identical form to the product sold.

Under our concentrate sales contracts with third-party smelters, final gold and silver prices are set on a specified future quotational period, typically one to three months, after the shipment date based on market metal prices. Revenues are recorded under these contracts at the time title passes to the buyer based on the forward price for the expected settlement period. The contracts, in general, provide for a provisional payment based upon provisional assays and quoted metal prices. Final settlement is based on the average applicable price for a specified future period, and generally occurs from three to six months after shipment. Final sales are settled using smelter weights, settlement assays (average of assays exchanged and/or umpire assay results) and are priced as specified in the smelter contract. The Company s provisionally priced sales contain an embedded derivative that is required to be seperated from the host contract for accounting purposes. The host contract is the receivable from the sale of concentrates measured at the forward price at the time of sale. The embedded derivative, which is the final settlement price based on a future price, does not qualify for hedge accounting. The embedded derivative is recorded as a derivative asset in Prepaid expenses and other or, a derivative liability on the balance sheet and is adjusted to fair value through revenue each period until the date of final gold and silver settlement. The form of the material being sold, after deduction for smelting and refining is in an identical form to that sold on the London Bullion Market. The form of the product is metal in flotation concentrate, which is the final process for which the company is responsible.

The effects of forward sales contracts are reflected in revenue at the date the related precious metals are delivered or the contracts expire. Third party smelting and refining costs are recorded as a reduction of revenue.

At December 31, 2003, the Company had outstanding provisionally priced sales of $32.8 million, consisting of 3.7 million ounces of silver, 37,487 ounces of gold and 681,196 pounds of copper. For each one cent per ounce change in realized silver price, revenue would vary (plus or minus) approximately $37,000; for each one dollar per ounce change in realized gold price, revenue would vary (plus or minus) approximately $37,487; and for each one cent per pound change in realized copper price, revenue would vary (plus or minus) approximately $6,812. At December 31, 2002, the Company had outstanding provisionally priced sales of $23.7 million consisting of 3.2 million ounces of silver, 26,250 ounces of gold and 1,180,447 pounds of copper. For each one cent per ounce change in realized silver price, revenue would vary (plus or minus) approximately $32,000; for each one dollar per ounce change in realized gold price, revenue would vary (plus or minus) approximately $26,000; and for each one cent per pound change in realized copper price, revenue would vary (plus or minus) approximately $12,000.

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Reserve Estimates. The preparation of this Annual Report on Form 10-K requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates. The most critical accounting principles upon which the Company s financial status depends are those requiring estimates of recoverable ounces from proven and probable reserves and/or assumptions of future commodity prices. There are a number of uncertainties inherent in estimating quantities of reserves, including many factors beyond our control. Ore reserves estimates are based upon engineering evaluations of samplings of drill holes and other openings. These estimates involve assumptions regarding future silver and gold prices, the geology of our mines, the mining methods we use and the related costs we incur to develop and mine our reserves. Changes in these assumptions could result in material adjustments to our reserve estimates. We use reserve estimates in determining the units-of-production depreciation and amortization expense, as well as in evaluating mine asset impairments.

We review and evaluate our long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. We utilize the methodology set forth in Statement of Financial Accounting Standard (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Asset, 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, mineral property, development property, and any deferred costs such as deferred stripping. The accounting estimates related to impairment are critical accounting estimates because the future cash flows used to determine whether an impairment exists is dependent on reserve estimates and other assumptions including, silver and gold prices, production levels, and capital and reclamation costs, all of which are based on detailed engineering life-of-mine plans. An impairment loss exists when estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any impairment loss recognized represents the excess of the asset s carrying value as compared to its estimated fair value. The Company reviews the carrying value of its assets whenever events or changes in circumstances indicate that the carrying amount of its assets may not be fully recoverable. The Company has previously recorded $0.0 million, $19.0 million and $6.1 million in write-downs for the years ended December 31, 2003, 2002 and 2001, respectively.

The following table summarizes write-downs and other recorded for all years presented:

	2003	2002	2001
Mineral property write-downs[1][2]	$ --	$ 19,045	$ 6,087
Mine closure and holding costs [3]	5,455	2,902	1,453
Investment in new business venture [4]	938	1,113	1,052
Write down of inventory at Handy & Harman [5]	--	--	1,354
Write-down of mineral properties and other	$ 6,393	$ 23,060	$ 9,946

(1) 2002 - Coeur Silver Valley
(2) 2001 - Kensington mine
(3) Holding costs at Coeur Silver Valley, Kensington and Cerro Bayo
(4) Earthworks Technology costs; 2003, 2002 Mine depot costs; 2001
(5) Amount of doré carried at Handy & Harman during its bankruptcy

We depreciate our property, plant and equipment, mining properties and mine development using the units-of-production method over the estimated life of the ore body based on our proven and probable recoverable reserves or on a straight-line basis over the useful life, whichever is shorter. The accounting estimates related to depreciation and amortization are critical accounting estimates because the 1) determination of reserves involves uncertainties with respect to the ultimate geology of our reserves and the assumptions used in determining the economic feasibility of mining those reserves and 2) changes in estimated proven and probable reserves and useful asset lives can have a material impact on net income.

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Ore on leach pad. The Rochester Mine utilizes the heap leach process to extract silver and gold from ore. The heap leach process is a process of extracting silver and gold by placing ore on an impermeable pad and applying a diluted cyanide solution that dissolves a portion of the contained silver and gold, which are then recovered in metallurgical processes.

The key stages in the conversion of ore into silver and gold are (i) the blasting process in which the ore is broken into large pieces; (ii) the processing of the ore through a crushing facility that breaks it into smaller pieces; (iii) the transportation of the crushed ore to the leach pad where the leaching solution is applied; (iv) the collection of the leach solution; (v) subjecting the leach solution to the precipitation process, in which gold and silver is converted back to a fine solid; (vi) the conversion of the precipitate into dorè; and (vii) the conversion by a third party refinery of the dorè into refined silver and gold bullion.

We use several integrated steps to scientifically measure the metal content of ore placed on the leach pads during the key stages. As the ore body is drilled in preparation for the blasting process, samples of the drill residue are assayed to determine estimated quantities of contained metal. We estimate the quantity of ore by utilizing global positioning satellite survey techniques. We then process the ore through a crushing facility where the output is again weighed and sampled for assaying. A metallurgical reconciliation with the data collected from the mining operation is completed with appropriate adjustments made to previous estimates. We then transport the crushed ore to the leach pad for application of the leaching solution. As the leach solution is collected from the leach pads, we continuously sample for assaying. We measure the quantity of leach solution by flow meters throughout the leaching and precipitation process. After precipitation, the product is converted to dorè, which is the final product produced by the mine. We again sample and assay the dorè,. Finally, a third party smelter converts the dorè into refined silver and gold bullion. At this point are we able to determine final ounces of silver and gold available for sale. We then review this end result and reconcile it to the estimates we had used and developed throughout the production process. Based on this review, we adjust our estimation procedures when appropriate.

Our reported inventories include metals estimated to be contained in the ore on the leach pads of $32.1 million as of December 31, 2003. Of this amount, $17.4 million is reported as a current asset and $14.7 million is reported as a noncurrent asset. The distinction between current and noncurrent is based upon the expected length of time necessary for the leaching process to remove the metals from the broken ore. The historical cost of the metal that is expected to be extracted within twelve months is classified as current and the historical cost of metals contained within the broken ore that will be extracted beyond twelve months is classified as noncurrent.

The estimate of both the ultimate recovery expected over time, and the quantity of metal that may be extracted relative to such twelve month period, requires the use of estimates which are inherently inaccurate since they rely upon laboratory testwork. Testwork consists of 60 day leach columns from which we project metal recoveries up to five years in the future. The quantities of metal contained in the ore are based upon actual weights and assay analysis. The rate at which the leach process extracts gold and silver from the crushed ore is based upon laboratory column tests and actual experience occurring over approximately fifteen years of leach pad operation at the Rochester Mine. The assumptions we use to measure metal content during each stage of the inventory conversion process includes estimated recovery rates based on laboratory testing and assaying. We periodically review our estimates compared to actual experience and revise our estimates when appropriate. The length of time necessary to achieve our currently estimated ultimate recoveries of 61.5% for silver and 93% for gold is estimated to be between 5 and 10 years. However, the ultimate recovery will not be known until leaching operations cease, which is currently estimated for 2011.

When we began operations in 1986, based solely on laboratory testing, we estimated the ultimate recovery of silver and gold at 50% and 80%, respectively. Since 1986, we have adjusted the expected ultimate recovery 3 times (once in each of 1989, 1997 and 2003) based upon actual experience gained from leach operations. In 1989, we increased our estimated recoveries for silver and gold to 55% and 85%, respectively. The change was accounted for prospectively as a change in estimate, which had the effect of increasing the estimated recoverable ounces of silver and gold contained in the heap by 1.6 million ounces and 10,000 ounces, respectively. In 1997, we revised our estimated recoveries for silver and gold to 59% and 89%, respectively, which increased the estimated recoverable ounces of silver and gold contained in the heap by 4.7 million ounces and 39,000 ounces, respectively. Finally, in 2003, we revised our estimated recoveries for silver and gold to 61.5% and 93%, respectively, which increased the estimated recoverable ounces of silver and gold contained in the heap by 1.8 million ounces and 41,000 ounces, respectively.

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If our estimate of ultimate recovery requires adjustment, the impact upon our inventory valuation and upon our income statement would be as follows:

	Positive/Negative Change in Silver Recovery			**Positive/Negative Change in Gold Recovery**		
	1%	**2%**	**3%**	**1%**	**2%**	**3%**
Quantity of recoverable ounces	1.4 million	2.7 million	4.0 million	9,100	18,200	27,300
Positive impact on future cost of production per silver equivalent ounce for increases in recovery						

	Positive/Negative Change in Silver Recovery			Positive/Negative Change in Gold Recovery		
rates	$0.46	$0.81	$1.09	$0.24	$0.44	$0.63
Negative impact on future cost of production per silver equivalent ounce for decreases in recovery rates	$0.62	$1.50	$2.85	$0.27	$0.59	$0.97

Inventories of ore on leach pads are valued based upon actual costs incurred to place such ore on the leach pad, less costs allocated to minerals recovered through the leach process. The costs consist of those production activities occurring at the mine site and include the costs, including depreciation, associated with mining, crushing and precipitation circuits. In addition, refining is provided by a third party refiner to place the metal extracted from the leach pad in a saleable form. These additional costs are considered in the valuation of inventory.

Reclamation and remediation costs. Reclamation and remediation costs are based principally on legal and regulatory requirements. Management estimates costs associated with reclamation of mining properties as well as remediation cost for inactive properties. Such costs related to active mines are accrued and charged over the expected operating lives of the mines using the units-of-production method.

The estimated undiscounted cash flows generated by our assets and the estimated liabilities for reclamation and remediation are determined using the Company s assumptions about future costs, mineral prices, mineral processing recovery rates, production levels and capital and reclamation costs. Such assumptions are based on the Company s current mining plan and the best available information for making such estimates. On an ongoing basis, management evaluates its estimates and assumptions; however, actual amounts could differ from those based on such estimates and assumptions.

Pension and other Benefit Plans. Pension and other benefit plan costs can be impacted by actual results over future periods. If the difference between expected returns and actual results falls outside certain limits, the difference will be amortized into future earnings on a straight-line basis over the average remaining working life of the participants. The long-term expected rate of return on plan assets for purposes of the actuarial valuation was assumed to be 6% and 7% as of December 31, 2003 and 2002, respectively.

The following table provides details of the pension plans asset mix at December 31, 2003:

Asset Class	Actual Mix	Target Mix	Expected Rate of Return	Standard Deviation or Volatility
U.S. equity investments	42%	30%	8.75%	16.00%
Guaranteed investment contracts	9%	10%	4.00%	1.00%
Fixed income investments	28%	30%	5.50%	7.25%
S&P 500 index fund	21%	30%	8.75%	16.00%
			7.40%	16.00%

The Plan s Trustees evaluate the level of volatility within the total Trust and each of its component investments making appropriate inquiries to the plan s investment advisors when prudent. See Note N to the Company s consolidated financial statements for more detail.

Operating Statistics and Reserve Estimates

The Company s total production in 2003 was 14.2 million ounces of silver and 119,500 ounces of gold, compared to 14.8 million ounces of silver and 117,000 ounces of gold in 2002. Total estimated proven and probable reserves at December 31, 2003 were approximately 174.6 million ounces of silver and 1.4 million ounces of gold, compared to silver and gold reserves at December 31, 2002 of approximately 75.0 million ounces and 2.3 million ounces, respectively.

The following table shows the estimated amounts of proven and probable reserves and mineralized material at the Company s following locations (1):

	Proven and Probable					Mineralized Material		
	Tons (000's)	Grade AG	Grade AU	(000's) Ounces AG	(000's) Ounces AU	Tons (000's)	Grade AG	Grade AU
Rochester	32,563	0.91	0.01	29,596	283	40,328	0.77	0.01
Silver Valley	717	21.54	--	15,432	--	2,252	10.94	--
Cerro Bayo	645	8.34	0.15	5,377	94	3,475	4.83	