

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.

**COEUR D ALENE MINES CORPORATION**

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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)

	<b>March 31, 2002</b>	<b>December 31, 2001</b>
		(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
	<hr/>	<hr/>
<b>TOTAL CURRENT LIABILITIES</b>	<b>37,828</b>	<b>41,715</b>
<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
	<hr/>	<hr/>
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>136,398</b>	<b>141,877</b>
<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
	<hr/>	<hr/>
	25,280	26,788
	<hr/>	<hr/>
	<b>\$ 199,506</b>	<b>\$ 210,380</b>
	<hr/>	<hr/>

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