

COEUR D ALENE MINES CORP
Form S-2/A
July 02, 2001
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As filed with the Securities and Exchange Commission on July 2, 2001

(S-4) Registration No. 333-63472/(S-2) Registration No. 63478

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO.2

FORM S-2

REGISTRATION STATEMENT
UNDER

THE SECURITIES ACT OF 1933

(WITH RESPECT TO THE 13 3/8% CONVERTIBLE SENIOR SUBORDINATED NOTES
DUE DECEMBER 31, 2003 BEING OFFERED IN THE EXCHANGE OFFER)

AMENDMENT NO.2

FORM S-4

REGISTRATION STATEMENT
UNDER

THE SECURITIES ACT OF 1933

(WITH RESPECT TO THE 13 3/8% CONVERTIBLE SENIOR SUBORDINATED NOTES
DUE DECEMBER 31, 2003 BEING OFFERED FOR CASH)

COEUR D ALENE MINES CORPORATION

(Exact name of Registrant as specified in its charter)

Idaho

1044 82-0109423 (State or other
jurisdiction of
incorporation or organization) (Primary
Standard Industrial Classification
Code Number) (I.R.S. Employer
Identification Number)

400 Coeur d Alene Mines Building

505 Front Avenue
Coeur d Alene, Idaho 83814
208-667-3511

(Address, including zip code, and telephone number,
including area code, of Registrant's principal executive offices)

Dennis E. Wheeler
Chairman of the Board, President and Chief Executive Officer
Coeur d Alene Mines Corporation

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400 Coeur d Alene Mines Building
505 Front Avenue
Coeur d Alene, Idaho 83814
208-667-3511

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies to:

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3000 K Street, N.W.
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(202) 672-5300 Abigail Arms, Esq.
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus may change. We may not complete the exchange offer and issue these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities and it is not soliciting an offer to buy these securities in any state where the offer is not permitted.

SUBJECT TO COMPLETION, DATED JULY 2, 2001

PROSPECTUS

Coeur d Alene Mines Corporation

Exchange Offer

13 3/8% Convertible Senior Subordinated Notes due December 31, 2003

for its:

7 1/4% Convertible Subordinated Debentures due October 31, 2005;

**6 3/8% Convertible Subordinated Debentures due January 31, 2004; and
6% Convertible Subordinated Debentures due June 10, 2002**

and the Sale of

up to \$25,000,000 of

13 3/8% Convertible Senior Subordinated Notes due December 31, 2003

We are offering to acquire up to an aggregate of \$129,632,000 principal amount of our outstanding 7 1/4% Convertible Subordinated Debentures due October 31, 2005 and our outstanding 6 3/8% Convertible Subordinated Debentures due January 31, 2004. Participating holders of the 7 1/4% Debentures and the 6 3/8% Debentures will receive from us \$1,000 principal amount of our 13 3/8% Convertible Senior Subordinated Notes due December 31, 2003 for each \$2,000 principal amount of 7 1/4% Debentures or 6 3/8% Debentures.

We are also offering to acquire up to \$6,524,000 principal amount of our outstanding 6% Convertible Subordinated Debentures due June 10, 2002. Participating holders of the 6% Debentures will receive from us \$1,000 principal amount of our 13 3/8% Convertible Senior Subordinated Notes due December 31, 2003 for each \$1,000 principal amount of 6% Debentures.

If you participate in the exchange offer, you will have the right to participate in the cash offer, under which we are offering to sell for cash up to \$25,000,000 of additional 13 3/8% Convertible Senior Subordinated Notes due December 31, 2003. Debenture holders accepting and receiving exchange notes in the exchange offer also will receive accrued and unpaid interest on their debentures from the last interest payment date through the expiration date of the exchange offer.

The exchange offer will expire at 5:00 p.m., New York City time (10:00 p.m., London time), on July 27, 2001, unless we extend the offer.

The 13 3/8% Convertible Senior Subordinated Notes due December 31, 2003 are expected to be listed on the New York Stock Exchange. Our common stock is listed on the New York Stock Exchange under the symbol CDE. On June 28, 2001, the last reported sale price for our common stock on the New York Stock Exchange was \$1.35 per share. Please see pages 27 and 28 for market price information relating to the 7 1/4%, 6 3/8% and 6% Debentures.

We are mailing this prospectus and the letters of transmittal on July 2, 2001.

Please see Risk Factors beginning on page 14 for a discussion of factors that you should consider before you decide to participate in this exchange offer or purchase additional 13 3/8% Convertible Senior Subordinated Notes due December 31, 2003.

We have retained D.F. King & Co., Inc. as our information agent to assist you in connection with the exchange offer. You may call the information agent toll free at (800) 755-7250 to request additional documents and to ask questions.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The Dealer Manager for the Exchange Offer:

Robertson Stephens

This prospectus is dated _____, 2001

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information provided by this prospectus is accurate as of any date other than the date of this prospectus.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

This prospectus incorporates by reference certain reports we file with the Securities and Exchange Commission, which means that we can disclose important information by referring you to these documents. The information incorporated by reference is considered to be a part of this prospectus.

FORWARD LOOKING STATEMENTS

The safe harbor for forward looking statements of the Private Securities Litigation Reform Act of 1995 does not apply to forward looking statements made in connection with a tender offer.

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PROSPECTUS SUMMARY

This summary does not contain all the information you should consider before exchanging your debentures for the exchange notes or investing in additional exchange notes. For a more complete understanding of us and this exchange offer, we encourage you to read this entire prospectus and the documents that we refer you to. The term exchange notes refers to the 13 3/8% Convertible Senior Subordinated Notes due December 31, 2003 offered by this prospectus. The term debentures refers collectively to the 7 1/4%, 6 3/8% and 6% debentures to be exchanged for the exchange notes in the exchange offer.

Our Company

Coeur d Alene Mines Corporation is engaged in the exploration, development and mining of silver deposits located primarily in the western United States and in South America. We also produce gold as part of our mining operations. In 2000, we produced approximately 11.7 million ounces of silver and approximately 145,000 ounces of gold. According to the World Silver Survey published by Goldfields Mineral Services, Ltd., an independent precious metals research organization, in 2000 we produced more silver than any other primary silver producer located in the United States.

Our principal silver mines are located in Nevada (the Rochester Mine) and in the Silver Valley region of northern Idaho (the Galena Mine). In addition, we own or lease, either directly or through our subsidiaries, silver and gold mines in Bolivia (the San Bartolomé silver project), in southern and central Chile (the Fachinal Mine and the Petorca Mine) and in Alaska (the Kensington property). Currently, we are actively working to develop the San Bartolomé silver project and are endeavoring to sell the Chilean mines, which are primarily gold mines. We also control promising properties with significant silver exploration potential close to our existing mining operations. Our customers are primarily bullion trading banks that purchase silver and gold from us and then sell these metals to end users for use in industry applications such as electronic circuitry, in jewelry and silverware production and in the manufacture and development of photographic film.

We were incorporated in Idaho in 1928. Our principal executive office is located at 505 Front Avenue, P.O. Box I, Coeur d Alene, Idaho 83814 and our telephone number is (208) 667-3511.

Our Strategy

Our operational strategy is to focus on exploitation of our core silver ore reserves located primarily at our mines in Nevada and in Idaho and on the development of additional low cash cost silver production from the San Bartolomé project in Bolivia. In addition, we continue to invest in discovering and developing new silver deposits at existing properties or at new properties to which we acquire exploration and mining rights. Key elements of this operational strategy include increasing our silver reserves through further exploration and acquisition and reducing our overall cost structure.

Closely related to this operational strategy is our goal of returning the company to profitability. As part of our strategy to achieve this goal, management has adopted a plan to reduce our outstanding indebtedness. We have approximately \$188.1 million aggregate principal amount of convertible subordinated indebtedness outstanding. The indebtedness represented by the debentures constitutes substantially all of our indebtedness and matures beginning in June 2002 through October 2005.

If we complete the restructuring of our subordinated indebtedness through the exchange offer described in this prospectus, we will significantly reduce our outstanding debt, increase our shareholders' equity due to an extraordinary gain on the early extinguishment of debt, improve our cash flow and improve our overall capital structure. Further, the additional capital that we may raise in the exchange offer will enable us to increase our low cost silver production and strengthen our balance sheet.

In addition, you should carefully review the matters described under **Risk Factors**, at page 14, to understand the risks affecting our business and our ability to complete the exchange offer successfully and raise additional cash in the cash offer.

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Terms of the Exchange Offer

We have summarized the terms of the exchange offer in this section. Before you decide whether to tender your debentures in this offer, you should read the detailed description of the offer under **The Exchange Offer** and of the exchange notes under **Description of Exchange Notes** for further information.

Terms of the exchange offer

We are offering:

up to \$64,816,000 principal amount of exchange notes for up to an aggregate principal amount of \$129,632,000 of our 6 3/8% debentures and 7 1/4% debentures. We are offering to exchange \$1,000 principal amount of exchange notes for each \$2,000 principal amount of each of our 6 3/8% and 7 1/4% debentures; and

up to \$6,524,000 principal amount of exchange notes for up to \$6,524,000 principal amount of our 6% debentures. We are offering to exchange \$1,000 principal amount of exchange notes for each \$1,000 principal amount of our 6% debentures.

You may tender all, some or none of your debentures. We may pay interest on the exchange notes in cash, shares of our common stock, or a combination of cash and shares of common stock, solely at our option.

Conversion price

The exchange notes will be convertible into our common stock at any time prior to maturity at a conversion price that is equivalent to a 15% premium over the daily volume-weighted average of the closing prices of our common stock for the five trading days immediately preceding the second trading day prior to the expiration date, subject to a minimum conversion price of \$1.35.

**Expiration date;
extension; termination**

The exchange offer and withdrawal rights will expire at 5:00 p.m., New York City time (10:00 p.m., London time), on July 27, 2001, or any subsequent date to which we extend it. We may extend the expiration date for any reason. In the case of an extension, we will issue a press release or other public announcement no later than 9:00 a.m. New York City time (2:00 p.m., London time), on the next business day after the previously scheduled expiration date. If we extend the expiration date, you must tender your debentures prior to the date identified in the press release or public announcement if you wish to participate in the exchange offer. We have the right to:

extend the expiration date of the exchange offer and retain all tendered debentures, subject to your right to withdraw your tendered debentures; and

waive any condition or otherwise amend the terms of the exchange offer in any respect, other than the condition that the registration statement be declared effective.

**Conditions to the
exchange offer**

The exchange offer is subject to the registration statement and any post-effective amendment to the registration statement covering the exchange notes being effective under the Securities Act of 1933. The exchange offer also is subject to customary conditions, which we may waive.

In addition, the exchange offer is conditioned upon the tender of a majority of the aggregate outstanding principal amount of the debentures

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which we are offering to acquire. Please read The Exchange Offer Conditions for completion of the exchange offer for more information.

Withdrawal rights

You may withdraw a tender of your debentures at any time before the exchange offer expires by delivering a written notice of withdrawal to The Bank of New York, the exchange agent, before the expiration date. If you change your mind, you may retender your debentures by again following the exchange offer procedures before the exchange offer expires.

**Procedures for tendering
outstanding debentures**

If you hold debentures through a broker, dealer, commercial bank, trust company or other nominee, you should contact that person promptly if you wish to tender your debentures. Tenders of your debentures will be effected by book-entry transfers through the Depository Trust Company.

If you hold your debentures through a broker, dealer, commercial bank, trust company or other nominee, you also may comply with the procedures for guaranteed delivery.

Please do not send letters of transmittal to us. You should send those letters to The Bank of New York, the exchange agent, at one of its offices as indicated under "The Exchange Offer," at the end of this prospectus or in the letters of transmittal. The exchange agent can answer your questions regarding how to tender your debentures.

Special procedures for tendering 6% debentures held in bearer form

If you hold 6% debentures in bearer form ("bearer 6% debentures") and wish to tender them in the exchange offer, you should:

send your letter of transmittal together with your bearer 6% debentures to the exchange agent at its London, England address; or

in the case of bearer 6% debentures held through Euroclear or Clearstream, transmit an electronic instruction to Euroclear or Clearstream in accordance with their normal procedures instructing either Euroclear or Clearstream, as the case may be, to tender the bearer 6% debentures on your behalf; or

if you are the direct accountholder in Euroclear or Clearstream, deliver a letter of transmittal to the exchange agent and transmit instructions to Euroclear or Clearstream, as the case may be, to block the tendered bearer 6% debentures, debit the account holder's account in respect of debentures accepted for exchange as notified by the exchange agent, and credit the account holder's account in respect of the exchange notes issued in the exchange.

Accrued interest on debentures

Debenture holders will receive accrued and unpaid interest on any debentures accepted in the exchange offer. The amounts of accrued interest will be calculated from the last interest payment date through the expiration date of the exchange offer.

Interest on exchange notes

Interest on the exchange notes will be payable in cash, shares of our common stock, or a combination of cash and shares of common stock, solely at our option, at a rate of 13 3/8% per year, payable on June 30 and December 31 of each year. If we elect to pay interest in common stock,

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the shares of common stock will be valued at 90% of the average of the closing price for the five trading days immediately preceding the second trading day prior to the interest payment date. Interest on exchange notes will begin to accrue as of the day immediately following the expiration date of the exchange offer.

Proration of exchange notes

If a greater principal amount of debentures is tendered than the maximum principal amount of debentures that we are offering to acquire in this exchange offer (i.e., more than 25% of the 6% debentures and more than 80% in aggregate of the 6 3/8% and 7 1/4% debentures), we will accept the debentures for exchange on a pro rata basis according to the amount of debentures tendered by each holder of debentures.

Exchange agent	The Bank of New York
Information agent	D. F. King & Co., Inc. For information regarding the exchange offer, please call toll-free (800) 755-7250.
Dealer manager	Robertson Stephens
International dealer manager	Robertson Stephens International
Risk factors	You should carefully consider the matters described under Risk Factors, as well as other information set forth in or incorporated by reference in this prospectus and in the letter of transmittal, including the information about us as referred to under Where You Can Find More Information.
Deciding whether to participate in the exchange offer	Neither we nor our officers or directors make any recommendation as to whether you should tender or refrain from tendering all or any portion of your debentures in the exchange offer. Further, we have not authorized anyone to make any such recommendation. You must make your own decision whether to tender your debentures in the exchange offer and, if so, the aggregate amount of debentures to tender after reading this prospectus and the letter of transmittal and consulting with your advisers, if any, based on your own financial position and requirements.
Consequences of not exchanging debentures	If you do not exchange your debentures in the exchange offer, your debentures will be subordinated to the exchange notes. Further, the liquidity and trading market for debentures not tendered in the exchange offer could be adversely affected to the extent debentures are tendered and accepted in the exchange offer.
Cash offer	You will only have the right to purchase additional exchange notes for cash if you tender some or all of your debentures.
Tax consequences	Please see United States Federal Income Tax Considerations.
Insufficiency of earnings to cover fixed charges	Earnings were insufficient to cover fixed charges in the following amounts: \$65.3 million in 1996; \$18.1 million in 1997; \$239.1 million in 1998; \$33.3 million in 1999; \$63.6 million in 2000; \$10.2 million in the three months ended March 31, 2000; and \$11.2 million in the three months ended March 31, 2001.

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Cash Offer

We are offering up to \$25.0 million aggregate principal amount of additional exchange notes for cash only to holders of debentures that participate in the exchange offer.

Cash offer for additional exchange notes The discussion under the heading Cash Offer of Additional Exchange Notes provides further information regarding the cash offer.

Use of proceeds We intend to use the proceeds, if any, of the sale for cash of the additional exchange notes for general corporate purposes, including the development of the San Bartolomé silver project in Bolivia and our production expansion plans at the Galena Mine in Idaho.

Placement agent Robertson Stephens

International placement agent Robertson Stephens International

Comparison of Exchange Notes and Debentures

The following is a brief summary of the terms of the exchange notes and the debentures. For a more complete description of the exchange notes, see Description of Exchange Notes. For a more complete description of the debentures, see Description of Debentures.

	<u>Exchange Notes</u>	<u>Debentures</u>
Securities	Up to \$96,340,000 aggregate principal amount of 13 3/8% Convertible Senior Subordinated Notes due December 31, 2003, of which \$71,340,000 are being offered in the exchange offer and \$25,000,000 are being offered in the cash offer. The exchange notes will be issued in principal amounts of \$1,000 and integral multiples of \$1,000.	\$69,180,000 aggregate principal amount of outstanding 7 1/4% Convertible Subordinated Debentures due October 31, 2005; \$92,860,000 aggregate principal amount of outstanding 6 3/8% Convertible Subordinated Debentures due January 31, 2004; and \$26,096,000 aggregate principal amount of outstanding 6% Convertible Subordinated Debentures due June 10, 2002.

Issuer

Coeur d Alene Mines Corporation
Coeur d Alene Mines Corporation

Maturity

December 31, 2003 7 1/4% debentures on October 31, 2005;
6 3/8% debentures on January 31, 2004;
and
6% debentures on June 10, 2002.

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	<u>Exchange Notes</u>	<u>Debentures</u>
Interest	Interest on the exchange notes will be payable in cash, common stock, or a combination of cash and stock, at our option, at a rate of 13 3/8% per year, payable on June 30 and December 31 of each year. If we elect to pay interest in common stock, the shares of common	Interest on the 7 1/4% debentures is payable in cash at a rate of 7 1/4% per year, payable on April 30 and October 31 of each year. Interest on the 6 3/8% debentures is payable in cash at a rate of 6 3/8% per

stock will be valued at 90% of the average of the closing price of our common stock for the five trading days immediately preceding the second trading day prior to the interest payment date.

year, payable on January 31 and July 31 of each year.

Interest on the 6% debentures is payable in cash at a rate of 6% per year, payable on June 10 of each year.

Conversion:

General The exchange notes will be

convertible at any time prior to the maturity at a conversion price that is equal to a 15% premium over the daily volume-weighted average of the closing price of our common stock for the five trading days immediately preceding the second trading day prior to the expiration date, subject to adjustment and to a minimum conversion price of \$1.35. The 7 1/4%

debentures are convertible at any time prior to the maturity at a conversion price of \$17.45 per share or at a conversion rate of 57 shares for each \$1,000 principal amount of 7 1/4% debentures, subject to adjustment.

The 6 3/8% debentures are convertible at any time prior to the maturity at a conversion price of \$25.77 per share or at a conversion rate of 38.168 shares for each \$1,000 principal amount

of 6 3/8% debentures, subject to adjustment.

The 6% debentures are convertible at any time prior to the maturity at a conversion price of \$25.57 per share or at a conversion rate of 37.664 shares for each \$1,000 principal amount of 6% debentures, subject to adjustment.

Auto-conversion

We may elect to automatically convert the exchange notes during the first two years after issuance if the closing price of our common stock exceeds 200% of the conversion price for at least 20 trading days during a 30-day trading day period ending within five trading days prior to the notice of automatic conversion.

None.

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	<u>Exchange Notes</u>	<u>Debentures</u>
Interest make-whole provision	If an automatic conversion occurs within the first two years after issuance, we will make a payment to holders in cash or, at our option, in common stock,	None.

equal to two years worth of interest on the converted exchange notes, less any interest actually paid prior to automatic conversion. If paid in common stock, the shares of common stock will be valued at 90% of the average of the closing price of our common stock for the five trading days immediately preceding the second trading day prior to the automatic conversion date.

Voluntary conversion during first two years

If holders elect to convert their exchange notes within the first two years after issuance and prior to notice of automatic conversion, they will have the right to receive a payment upon conversion equal to two full years of interest, less interest actually paid, payable in cash or in common stock at our option. If paid in stock, the shares will be valued at 90% of the average of the closing price of our common stock for the

five trading days immediately preceding the second trading day prior to the voluntary conversion date, subject to a minimum valuation equal to the conversion price.
None.

Ranking

The exchange notes will be subordinated to all of our existing or any future senior debt and will be senior in right of payment to our debentures.

The exchange notes will also be effectively subordinated to all indebtedness and other liabilities of our subsidiaries, including trade payables but excluding intercompany liabilities.

The debentures are subordinated to all of our senior debt and will be

subordinated to the exchange notes. The debentures also are effectively subordinated to all indebtedness and other liabilities of our subsidiaries.

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	<u>Exchange Notes</u>	<u>Debentures</u>
Optional redemption	We may redeem the exchange notes on or after _____, 2003, in whole or in part, on not less than 20 but no more than 30 days notice, at the redemption prices set forth in this prospectus, plus accrued and unpaid interest, if any, to the redemption date.	We may redeem the debentures at any time, in whole or in part, on at least 30 but no more than 60 days notice, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the redemption date.

Repurchase at option of holders

You may require us to repurchase all or part of your exchange notes upon a change in control (as defined) at a repurchase price equal to 100% of the outstanding principal amount of the exchange notes being redeemed, plus any accrued and unpaid interest.

You may require us to repurchase all or part of your 7 1/4% or 6 3/8% debentures upon a change in control at a repurchase price equal to 100% of the outstanding principal amount of the debentures being redeemed, plus any accrued and unpaid interest. If a change of control occurs during the first two years after issuance, holders will also receive an amount payable in cash equal to two years of interest on the exchange notes, less any interest actually paid prior to the change of control. The 6% debentures have no such provision.

Listing

The exchange notes are expected to be listed on the NYSE. The 7 1/4% and 6 3/8% debentures are listed and traded on

the NYSE. No active market currently exists for the 6% debentures.

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Questions and Answers Regarding the Exchange Offer

Why should debenture holders consider participating in the exchange offer?

You should consider exchanging your debentures for exchange notes in the exchange offer because:

The exchange offer will significantly strengthen our company by substantially reducing our debt, increasing our shareholders' equity, improving our cash flow, and improving our overall capital structure.

You will receive a principal amount of exchange notes that is higher than the current market price of your debentures.

The exchange notes will have a significantly lower conversion price than the debentures (which are convertible at prices between \$17.45 and \$25.77) and will be convertible into significantly more shares than the debentures.

The holders of the exchange notes will receive, in the aggregate, approximately the same amount of interest that holders of the debentures currently receive.

The exchange notes will be senior in right of payment to the 7 1/4%, 6 3/8% and 6% debentures, thus affording them a priority position over the debentures if we were to make any future payment or distribution of our assets in the event of a bankruptcy, insolvency, reorganization, liquidation or similar proceeding.

We expect the trading market for the exchange notes will be larger and more liquid than the current trading markets for the three series of debentures.

If you participate in the exchange offer, you will have the right to acquire additional exchange notes for cash.

Why are we making the exchange offer?

The exchange offer will:

Reduce our indebtedness. If the holders of 80% of our 7 1/4% and 6 3/8% debentures and 25% of our 6% debentures accept the exchange offer, our total long term indebtedness, which is currently approximately \$188.1 million, would be reduced to approximately \$123.3 million.

Increase our shareholders' equity. If the holders of 80% of our 7 1/4% and 6 3/8% debentures and 25% of our 6% debentures accept the exchange offer, our shareholders' equity will increase by approximately \$61.5 million.

Improve our cash flow if we elect to issue common stock in payment of interest on the exchange notes in lieu of cash.

Provide our debt holders with a security that is more likely to convert into our common stock given the lower conversion price of the exchange notes.

Allow us to make approximately the same aggregate interest payments to our debt holders even though the interest rate on exchange notes will be substantially higher than the interest rate on the debentures. Also, the ability to pay interest in common stock may significantly improve our cash flow.

Enable us to raise up to \$25.0 million in the offering of additional exchange notes.

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How are the exchange notes designed to facilitate conversion into common stock?

We are encouraging holders of the exchange notes to convert them into our common stock prior to maturity by providing that:

The per share conversion price of the exchange notes will be significantly less than the per share conversion prices of our debentures;

If exchange notes are voluntarily converted by holders into common stock during the first two years after issuance, we will make a payment in cash or common stock at our option to the holder equal to two full years of interest, less interest actually paid prior to voluntary conversion; and

We may elect to automatically convert exchange notes into common stock during the first two years following issuance if the closing price of our common stock exceeds 200% of the conversion price for at least 20 trading days in a 30-day trading day period, in which event we will make a payment to holders in cash or common stock at our option, equal to two full years of interest, less any interest actually paid prior to automatic conversion.

How do I purchase additional exchange notes for cash?

If you tender debentures in the exchange offer, you will have the opportunity to purchase additional exchange notes in the cash offer.

If you decide to purchase additional exchange notes for cash, you should indicate the dollar amount of exchange notes, in increments of \$1,000, that you would like to purchase on your letter of transmittal. If you are a beneficial owner and hold the debentures through a custodian (a broker, dealer, commercial bank, trust company or other nominee), your custodian will provide you with their instruction letter for you to indicate the amount of exchange notes, if any, that you want to purchase.

If I participate in the exchange offer, how many exchange notes am I eligible to purchase for cash?

If you tender debentures in the exchange offer, there is no limitation on the number of exchange notes you may indicate your interest in purchasing for cash. If indications of interest exceed the total amount of exchange notes that are being offered for cash, allocations will be made at the discretion of the placement agent.

Will the exchange notes be tradeable?

We expect the exchange notes to be listed for trading on the NYSE.

How soon must I act if I decide to participate?

Unless we extend the expiration date, the exchange offer and cash offer will expire on July 27, 2001 at 5:00 p.m., New York City time, (10:00 p.m., London time). The exchange agent must receive all required documents and

instructions before that time or you will not be able to participate in either the exchange offer or the cash offer.

What happens if I do not participate in the exchange offer?

If you do not participate in the exchange offer, you will not be eligible to purchase additional exchange notes in the cash offer. If a significant number of debenture holders participate in the exchange offer and you do not participate, the liquidity of your debentures will likely be impaired. In the case of the 7 1/4% and 6 3/8% debentures, if a significantly greater number of one class of debenture holders than we expect seek to participate in the exchange offer, it is possible, although not likely, that such class of debentures could no longer be listed for trading on the NYSE. Finally, the exchange notes will be senior in right of payment and preference to your debentures upon bankruptcy, liquidation, or dissolution. Also, the exchange notes will have a maturity date prior to the 7 1/4% and 6 3/8% debentures.

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How did we determine the exchange ratios in the exchange offer?

The exchange ratios for the 7 1/4%, 6 3/8% and 6% debentures were determined based on a number of factors, including the current market value, maturity date and outstanding face value of the debentures.

As a result of the upcoming maturity, we are offering to exchange \$1,000 principal amount of exchange notes for each \$1,000 principal amount of 6% debentures tendered, up to a maximum of 25% of the 6% debentures. The 6% debentures mature in June 2002 and will be classified as a current liability as of June 30, 2001.

What if I own a face amount of the 7 1/4% or 6 3/8% debentures that is not a multiple of \$2,000?

If you own 7 1/4% or 6 3/8% debentures and you elect to participate in the exchange offer, you must tender your debentures in increments of \$2,000. If the face amount of your 7 1/4% or 6 3/8% debentures is not a multiple of \$2,000, then you could be left with a single debenture for the remaining principal amount.

The 7 1/4% and 6 3/8% debentures are listed on the NYSE. So, if you do not wish to hold one debenture, you have the ability to:

sell the single debenture; or

buy an additional debenture so that you can tender a multiple of \$2,000.

What should I do if I have additional questions about the exchange offer or the cash offer?

If you have any questions, need additional copies of the offering materials, or otherwise need assistance, please contact the information agent for this offering.

United States
D.F. King & Co., Inc.
77 Water Street, 20th Floor
New York, New York 10005

Banks and Brokers Call Collect:
(212) 269-5550

Europe
D.F. King (Europe) Limited
2nd Floor, 2 London Wall Buildings
London EC2M 5PP
England
Tel: 44-207-920-9700 (Collect)

All Others Call Toll Free:
(800) 755-7250

To receive copies of our recent SEC filings, you can contact us by mail or refer to the other sources described under [Where You Can Find More Information](#).

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RISK FACTORS

You should carefully review the risk factors set forth below as well as the other information included or incorporated by reference in this prospectus in evaluating the exchange offer and an investment in the exchange notes. The risks and uncertainties described below include all of the risks and uncertainties which we believe to be material at this time, but are not the only ones facing our company. Additional risks and uncertainties that we do not presently know or that we currently deem immaterial may also impair our business operations.

If any of the following risks actually occur, they could materially adversely affect our business, financial condition or operating results. In that case, the trading price of our common stock, the exchange notes and the debentures could decline.

Risks Relating to Our Financial Condition, the Exchange Offer, the Exchange Notes and our Common Stock

Because we have a large amount of debt, our future operating performance must generate cash flows sufficient to meet our debt payment obligations and, even if we complete the exchange offer, our large amount of debt could negatively impact holders of exchange notes.

If we are unable to restructure and reduce the level of our existing debt, we may not be able to make payments on our debentures when they become due. We may not be able to generate enough cash flow to meet our obligations and commitments even after the exchange offer, including obligations to make payments on any debentures not tendered during the exchange offer.

We incurred an \$8.1 million net loss in the first quarter of fiscal year 2001 and net losses of \$47.8 million in fiscal 2000 and \$28.3 million in fiscal 1999. These losses could continue. If we are unable to restructure and reduce the level of our existing debt, we may not be able to make payments on our debentures when they become due. As of March 31, 2001, we had outstanding indebtedness in the principal amount of approximately \$189.5 million, of which approximately \$1.4 million was senior to the debentures.

We may not be able to make payments on our debt even after the reduction of our debt levels following the exchange offer. Assuming the completion of the exchange offer, our ability to make scheduled debt payments will depend on our future operating performance and cash flow. Our operating performance and cash flow, in part, are subject to economic factors beyond our control, primarily the market prices of silver and gold. We may not be able to generate enough cash flow to meet our obligations and commitments even after the exchange offer, including obligations to make payments on any debentures not tendered during the exchange offer. If we cannot generate sufficient cash flow from operations to service our debt, we may need to further refinance our debt, dispose of assets, or issue equity to obtain the necessary funds. We do not know whether we will be able to refinance our debt, issue equity, or dispose of assets to raise funds on a timely basis or on terms satisfactory to us. If silver and gold prices do not improve and we are unable to improve our operating performance, we are unable to reduce our losses or obtain

additional financing or we are unable to further refinance our debt, raise funds through asset sales, sales of equity or otherwise, then our ability to pay principal and interest in cash on the exchange notes would also be impaired.

Our large amount of debt could negatively impact holders of the exchange notes in many ways, including:

reducing funds available to support our business operations and for other corporate purposes because portions of our cash flow from operations must be dedicated to the payment of principal and interest on our debt;

impairing our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes;

hindering our ability to adjust rapidly to changing market conditions; and

making us more vulnerable to a downturn in general economic conditions or in our business.

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We might not have sufficient cash to pay the principal amount of our remaining 6 3/8% and 7 1/4% debentures upon their maturity in 2004 and 2005, respectively.

Even if we are able to issue the maximum amount of exchange notes in the exchange offer and thereafter are successful in having a sufficient amount of those exchange notes convert or be converted into common stock so that we are able to avoid the need to seek Chapter 11 relief upon the maturity of those then-outstanding exchange notes, we still might not have sufficient cash to pay the principal amount of the remaining 6 3/8% and 7 1/4% debentures that were not tendered in the exchange offer and remain outstanding when they mature in 2004 and 2005, respectively.

If we are unable to pay our debts upon their maturity, it may be necessary for us to seek relief under Chapter 11 of the Bankruptcy Code. Further, our ability to seek relief under Chapter 11 may be limited by an agreement with one of our major shareholders.

Absent an increase in precious metals prices and/or an increase in our cash flow, our large amount of indebtedness may require us to seek relief under Chapter 11 of the Bankruptcy Code. Chapter 11 permits a company to remain in control of its business, protected by a stay of all creditor action while the company seeks to negotiate and confirm a plan of reorganization with its creditors. We might not be successful in any attempt to confirm a plan of reorganization with our creditors. If we were to commence a Chapter 11 proceeding, we would expect our relationships with customers and our employee morale to be adversely affected. Many Chapter 11 cases are unsuccessful and virtually all involve substantial expense and damage to the business. When a company is unsuccessful in obtaining confirmation of a plan of reorganization, the assets of the company usually are liquidated. Further, under a Shareholder Agreement dated as of May 13, 1999 between us and Asarco Incorporated, for so long as Asarco or any of its affiliates holds at least 10% of our outstanding common stock, we would need Asarco's written consent to seek relief under Chapter 11. The need for us to obtain that consent could make our pursuit of Chapter 11 relief more difficult.

In a bankruptcy case, holders of our senior indebtedness, which amounted to approximately \$1.4 million at March 31, 2001, would be entitled to receive full payment on their claims before the holders of any other indebtedness. While holders of our exchange notes would be senior to holders of our 6%, 6 3/8% and 7 1/4% debentures, the holders of the exchange notes still might not receive full payment of the principal amount of their claims. The remaining holders of our 6%, 6 3/8% and 7 1/4% debentures would receive less than the holders of the exchange notes or might not receive anything.

Our common stock may be delisted by the New York Stock Exchange if we do not comply with its listing maintenance requirements.

Our common stock is listed on the NYSE. On November 16, 2000, the NYSE advised us that we were not in compliance with the continued listing standard requiring a total market capitalization of publicly tradeable shares of not less than \$50 million and shareholders' equity of not less than \$50 million. We have submitted to the NYSE a plan to achieve compliance with the listing standards that contemplates implementation of this exchange offer and cash offer. Our total market capitalization of publicly tradeable shares was approximately \$48.5 million on June 28, 2001. If that amount does not increase above \$50 million or the amount of debentures tendered in the exchange offer is not sufficient to raise our shareholders' equity above \$50 million, or if we are not otherwise able to demonstrate to the NYSE our ability to comply with its listing standards, our shares of common stock might be delisted from the NYSE.

Delisting of our common stock could cause a reduction in the liquidity of an investment in our common stock, our new exchange notes or any remaining debentures. Delisting also could reduce the ability of holders of our common stock to purchase or sell shares as quickly and as inexpensively as they have done historically. This lack of liquidity also could make it more difficult for us to raise capital in the future.

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We may not have enough authorized shares of our common stock available to pay interest on the exchange notes in stock rather than cash.

We have a total of 125 million authorized shares of our common stock. At May 31, 2001, we had approximately 43.1 million shares outstanding and an additional 9.3 million shares reserved for issuance upon conversion of our debentures and for issuance under our executive compensation program. If the maximum amount of our debentures are tendered and accepted in the exchange offer for exchange notes issued in exchange therefor and issued in the cash offer, the total number of shares of our common stock reserved for future issuance would be increased by approximately 65.1 million shares (which is computed by subtracting the number of shares underlying the tendered debentures from the total number of shares underlying the issued amount of exchange notes, assuming that the conversion price will be the minimum \$1.35 per share). There might not be an adequate number of authorized shares of common stock for us to pay interest on the exchange notes in stock rather than cash. We presently cannot determine whether or the extent to which we will pay interest in stock rather than cash, nor do we know what amount of stock would be issued if the interest payments were to be fully made in stock, as the value of such stock would not be determinable until just prior to the time we make such payments. The total amount of stock may exceed the number of remaining authorized shares that would be available for issuance. If we were not able to obtain shareholder approval of an increase in the number of our authorized shares prior to the issuance of stock in payment of such interest, we would not be able to elect to pay such interest in stock rather than cash. The use of cash to pay interest could have a material adverse effect on our financial condition.

The market price of our common stock could decrease as a result of the impact of the significant increase in the number of our outstanding shares that may result from implementation of the exchange offer and issuance of the exchange notes.

At May 31, 2001, we had approximately 43.1 million outstanding shares of common stock. We cannot now determine the number of shares of common stock into which our exchange notes will be convertible because we do not now know the amount of exchange notes that will be issued in the exchange offer nor the conversion price per share (which will be based on the average of the closing sale prices of the shares during the five-trading-day period immediately preceding the second trading day prior to the expiration date of the exchange offer, subject to a minimum

of \$1.35). However, assuming the maximum amount of debentures are tendered and accepted for exchange and assuming the maximum number of exchange notes are issued in the cash offer and further assuming that the conversion price of the exchange notes is the minimum \$1.35 per share, then the exchange notes issued would be convertible into a total of approximately 71.4 million shares of common stock. Furthermore, we will issue additional common stock if we elect to pay interest on the exchange notes in stock in lieu of cash. The impact of the issuance of a significant amount of common stock upon conversion of the exchange notes and/or in payment of interest may place substantial downward pressure on the market price of our common stock.

If we incur additional debt in the future that is senior to the exchange notes and are unable to make payments or default on this senior debt, then the holders of exchange notes will not be paid until this senior debt is paid in full.

While the exchange notes are senior to the debentures, the exchange notes will be unsecured and subordinated in right of payment to senior debt under the indenture for the exchange notes. Although we only had approximately \$1.4 million of senior debt at March 31, 2001, we are not prohibited under the indenture from incurring additional senior debt in the future. In the event of (1) our liquidation or insolvency, (2) a payment default with respect to senior debt, (3) a covenant default with respect to designated senior debt or (4) acceleration of the exchange notes due to an event of default, our assets would be available to pay obligations on the exchange notes only after all senior debt has been paid in full. Although the exchange notes will be senior to the debentures, there may not be sufficient assets remaining to pay amounts due on any or all of the exchange notes or debentures then outstanding after payment of senior debt obligations.

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Our subsidiaries will not be prohibited from incurring debts in the future that would be senior to the exchange notes.

The exchange notes are effectively subordinated to all indebtedness and other liabilities of our subsidiaries, including trade payables but excluding inter-company liabilities. In addition, although the exchange notes will be senior to the debentures, both the exchange notes and any debentures not tendered in the exchange offer will be subordinated to our senior debt.

The exchange notes are exclusively our obligations. Substantially all of our operations are conducted through our subsidiaries. As a result, our cash flow and our ability to service debt, including the exchange notes, is dependent upon the earnings of our subsidiaries. In addition, we depend on the distribution of our subsidiaries' earnings, loans and other payments by our subsidiaries to us.

Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on the exchange notes or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. In addition, any payment of dividends, distributions, loans or advances by our subsidiaries to us could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries also will be contingent upon our subsidiaries' earnings and business considerations.

The market price of our common stock has been volatile and may decline, and the market for the exchange notes also may be volatile.

The market price of our common stock has declined in recent years and may decline in the future. The high and low closing sale prices of our common stock were \$6.00 and \$3.125 per share in 1999, \$4.125 and \$0.8125 in 2000

and \$1.23 and \$0.87 in the quarter ended March 31, 2001. The closing sale price at June 28, 2001 was \$1.35 per share.

The market price of our common stock historically has fluctuated widely and been affected by many factors beyond our control. We also expect the market for the exchange notes to be volatile and subject to similar factors beyond our control. These factors include:

the market prices of silver and gold;

our operating results;

general stock market conditions;

interest rates;

expectations regarding inflation;

currency values; and

global and regional political and economic conditions and other factors.

If an active market for the exchange notes fails to develop, the trading price and liquidity of the exchange notes could be adversely affected.

The exchange notes are expected to be listed on the NYSE. However, an active market for them may not develop. Robertson Stephens has advised us that it currently intends to make a market in the exchange notes. Robertson Stephens is not obligated to make a market and may discontinue its market-making activity at any time without notice. The liquidity of the trading market for the exchange notes will depend in part on the level of participation of the holders of debentures in the exchange offer. The greater the participation in the exchange offer, the greater the liquidity of the trading market for the exchange notes and the lesser the liquidity of the trading market for the debentures not tendered during the exchange offer. We do not know how many holders of our debentures will accept this exchange offer and therefore do not know what principal amount of exchange notes will be issued. In addition, market making activity by Robertson Stephens will be subject to the limits imposed by the Securities Act and the Securities Exchange Act of 1934. As a result, we cannot assure you that any market for the exchange notes will develop, or, if one does develop, that it will be

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maintained. If an active market for the exchange notes fails to develop, or be maintained, the trading price and liquidity of the exchange notes could be adversely affected.

The holder of approximately 7.125 million of our outstanding shares of common stock, which constitute restricted securities under the federal securities laws, has the right to require that we register such shares for public resale under those laws. The offer and resale of such shares could impose downward pressure on the market price of our common stock.

In 1999, we issued approximately 7.125 million shares of our common stock to Asarco in connection with our acquisition of certain of its silver mining interests. Asarco has a right to request the registration of those shares under the Securities Act for public resale. Absent registration, such shares may be publicly resold only in very limited amounts. The public offering and resale of such shares would increase the number of shares of our common stock

being sold in the public market and, absent an offsetting increase in demand for our common stock, could exert downward pressure on the market price of our shares.

In the event of a change in control after the expiration date of the exchange offer, holders of the exchange notes will receive substantially less than holders of debentures to the extent that a holder elects to exercise his or her repurchase right.

In the event that there is a change in control prior to the expiration date of the exchange offer, holders of 6 3/8% and 7 1/4% debentures would have the right to receive, to the extent they elected to exercise their repurchase right, \$129.6 million in aggregate principal amount plus accrued interest to the repurchase date as a result of the change in control. In the event that there is a change in control after the expiration date of the exchange offer and the maximum principal amount of debentures are tendered in the exchange offer, holders of the exchange notes would have the right to receive, to the extent they elected to exercise their repurchase right, \$64.8 million in aggregate principal amount plus accrued and unpaid interest thereon as a result of the change in control.

If we automatically convert the exchange notes, there is a substantial risk that the price of our common stock could fluctuate from the date we elect to automatically convert to the conversion date.

We may elect to automatically convert the exchange notes on or prior to maturity if the closing price of our common stock exceeds 200% of the conversion price for at least 20 trading days during a consecutive 30-day trading period ending within five trading days prior to the notice of automatic conversion. You should be aware that there is a risk that the price of our common stock could fluctuate between the time when we may first elect to automatically convert the exchange notes and the automatic conversion date. This time period may extend from 15 to 30 calendar days from the time we elect to automatically convert the exchange notes until the automatic conversion date.

We may not have the financial resources to repurchase the exchange notes in the event of a change of control.

We may be unable to repurchase the exchange notes in the event of a change in control. Upon a change in control, you may require us to repurchase all or a portion of your exchange notes. If a change in control were to occur, we may not have enough funds to pay the repurchase price for all tendered exchange notes. Any future credit agreements or other debt agreements may prohibit the repurchase of exchange notes for cash, or expressly prohibit the repurchase of the exchange notes upon a change in control or may provide that a change in control constitutes an event of default under that agreement. If a change in control occurs at a time when we are prohibited from repurchasing the exchange notes, we could seek the consent of our lenders to repurchase the exchange notes or could attempt to refinance the debt agreements. If we do not obtain such consent, we could not repurchase the exchange notes. Our failure to repurchase the exchange notes would constitute an event of default under the exchange note indenture, which might constitute an event of default under the terms of our other debt. Our obligation to offer to repurchase the exchange notes upon a change of control would not necessarily afford you protection in the event of a highly leveraged transaction, reorganization, merger or similar transaction.

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Risks Relating to our Company and Business

We have incurred losses in the last five years and most recent quarter and presently expect to continue to do so.

We have incurred net losses in the last five years and the three-month period ended March 31, 2001, and have had losses from continuing operations in each of those periods. Significantly contributing to the losses were:

historically low gold market prices;

our deliberate pursuit of a growth policy calling for the acquisition of mining properties and companies and financing such growth principally by incurring indebtedness; and

significant write-offs of impaired assets in 1996 (\$54.4 million), 1998 (\$223.6 million), 1999 (\$20.2 million) and 2000 (\$21.2 million).

Market prices for silver and gold are currently below our full production costs for these metals. If silver and gold prices remain depressed or decline further and we are unable to reduce our production costs below prevailing price levels, our losses will continue. Because low silver and gold prices may make mining at our properties uneconomical, if these prices remain depressed or decline further, we may be required to recognize additional impairment write-downs. This would increase our operating losses.

We have not had sufficient earnings to cover fixed charges in recent years and presently expect that situation to continue.

As a result of our net losses, our earnings have not been adequate to satisfy fixed charges (i.e., interest, preferred stock dividends and that portion of rent deemed representative of interest) in each of the last five years and the three-month period ended March 31, 2001. The amounts by which earnings were inadequate to cover fixed charges were approximately \$65.3 million in 1996, \$18.1 million in 1997, \$239.1 million in 1998, \$33.3 million in 1999, \$63.6 million in 2000 and \$11.2 million and \$10.2 million in the three months ended March 31, 2001 and 2000, respectively. We currently must make fixed payments on the following securities:

\$26.1 million principal amount of our 6% debentures, requiring annual interest payments of approximately \$1.6 million until their maturity on June 10, 2002;

\$92.8 principal amount of our 6 3/8% debentures, requiring annual interest payments of approximately \$5.9 million until their maturity on January 31, 2004; and

\$69.2 principal amount of our 7 1/4% debentures, requiring annual interest payments of approximately \$5.0 million until their maturity on October 31, 2005.

We do not expect that any of these debentures will be converted into common stock in the foreseeable future because the conversion price of each issue substantially exceeds the current market price of our common stock. We therefore expect that we will be required to continue to pay interest on these debentures.

We expect to satisfy our fixed charges and other expense obligations in the future from cash flow from operations and, if cash flow from operations is insufficient, from working capital, which amounted to approximately \$98.4 million at March 31, 2001, and, if necessary, the sale of assets. We have recently been experiencing negative cash flow from operating activities. The amount of net cash used in, as opposed to provided by, our operating activities amounted to approximately \$23.8 million in 2000 and \$6.0 million in the three months ended March 31, 2001. The availability of future cash flow from operations or working capital to fund the payment of interest on the exchange notes, the debentures and other fixed charges will be dependent upon numerous factors, including our results of operations, silver and gold prices, levels and costs of production at our mining properties, the amount of our capital expenditures and expenditures for acquisitions, developmental and exploratory activities, and the extent to which the exchange offer we are making through this prospectus is accepted by holders of our debentures.

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The market prices of silver and gold, over which we have no control, are volatile and are at historically low levels that adversely affect us.

Because we derive our revenues primarily from sales of silver and gold, our earnings are directly related to the prices of these metals. Silver and gold prices fluctuate widely and are affected by many factors beyond our control, including interest rates, expectations regarding inflation, speculation, currency values, governmental decisions regarding the disposal of precious metals stockpiles, global and regional demand and production, political and economic conditions and other factors.

Market prices for silver are at their lowest levels since 1995 and are currently below our full production costs. The market price of gold has declined to levels approaching the lowest level recorded in the last twenty years and is also currently below our full production costs. The market price of silver (as reported by Handy & Harman) and gold (London final) on June 28, 2001 were \$4.34 per ounce and \$269.50 per ounce, respectively. The prices of silver and gold may remain depressed and may decline even further in the future. Factors that are generally understood to have contributed to the recent decline in the price of silver include sales by private and government holders, the emergence of China as a large net seller and a general global economic slowdown. Overall world stability and declining inflation generally are recognized as having had an adverse impact on the market price of gold. Furthermore, in recent years the central banks of several countries and such multilateral organizations as the European Monetary Institute and the International Monetary Fund have sold portions of gold held by them as reserves and may sell additional amounts of gold in the future, which could result in further declines in the market price of gold.

If prices remain at these levels for a sustained period, our net losses will continue, we may suspend mining at one or more of our properties until prices increase, and we may be required to record additional asset impairment write-downs pursuant to SFAS 121 (as defined below).

The estimation of ore reserves is imprecise and subjective, requiring the use of uncertain metals market prices and other assumptions. Estimated ore reserves may not be realized in future actual production and operating results.

The ore reserve figures presented in this prospectus are estimates made by our technical personnel. Reserve estimates are a function of geological and engineering analysis and also require us to make assumptions about production costs and silver and gold market prices. Reserve estimation is necessarily an imprecise and subjective process and the accuracy of such estimates is a function of the quality of available data and of engineering and geological interpretation, judgment and experience. Assumptions about silver and gold market prices are subject to great uncertainty as those prices have fluctuated widely in the past. Declines in the market prices of silver or gold may render reserves containing relatively lower grades of ore uneconomic to exploit, and we may be required to further reduce reserve estimates, discontinue development or mining at one or more of our properties, or write down assets as impaired. Should we encounter mineralization or geologic formations at any of our mines or projects different from those predicted by drilling, sampling and similar examinations, then our reserve estimates may be adjusted and mining plans may be altered, which may adversely affect our actual production and operating results. Ore reserves at most of our mining properties operated by us are the subject of verification by independent consulting geologists or mining engineers. Ore reserves at mining properties in which we have an ownership interest but which are operated by other companies are prepared by such companies, reviewed by us and may not be subject to independent verification.

Silver and gold reserves at mining properties owned by us and in which we have an ownership interest were calculated at or about December 31, 2000. Our ore reserve determinations generally are based upon a long-term silver price of \$5.50 per ounce and a gold price of \$300 per ounce.

We have recorded significant write-downs of mining properties in recent years and may have to recognize additional write-downs in the future.

Statement of Financial Accounting Standards No. 121 (SFAS 121), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, established accounting standards for impairment of the value of long-lived assets such as mining properties. SFAS 121 requires a company to

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review the recoverability of its assets by estimating the future undiscounted cash flows expected to result from the use and eventual disposition of the asset. Impairment must be recognized when the carrying value of the asset exceeds these cash flows.

Recognizing impairment write-downs has hurt our results of operations in recent years. We have recorded significant write-downs of our mining properties, including write-downs effected pursuant to SFAS 121 in recent years, amounting to \$54.2 million in 1996, \$218.9 million in 1998 and \$16.2 million in 1999 and \$12.2 million in 2000. The 1996 write-downs included \$53.0 million at the Golden Cross Mine and nearby Waihi East Property in New Zealand and \$1.2 million at the Faride Property in Chile. The 1998 write-downs included \$54.5 million at the Petorca Mine in Chile, \$42.9 million at the Fachinal Mine in Chile and \$121.5 million at the Kensington property in Alaska. The Kensington property is not yet a producing property and may never become one. The 1999 write-downs consisted of \$16.2 million at the Yilgarn Star Mine in Australia. The 2000 write-down included an impairment of \$12.2 million for our investment in Gasgoyne Gold Mines NL.

While we do not believe that any of our other properties presently requires a write-down pursuant to SFAS 121, if silver and gold market prices remain depressed for a sustained period of time and/or we fail to reduce production costs or expand mineable ore reserves at our mining properties, we may recognize further asset write-downs.

We also might have to record other types of additional mining property write-downs in the future to the extent a property is sold by us for a price less than the carrying value of the property or reserves have to be created in connection with the closure and reclamation of a property.

Significant risks and costs are associated with our exploration, development and mining activities.

Our ability to sustain or increase our present production levels depends in part on successful exploration and development of new ore bodies and/or expansion of existing mining operations. Mineral exploration, particularly for silver and gold, involves many risks and frequently is not productive. If and when mineralization is discovered, it may take a number of years until production is possible, during which time the economic viability of the project may change. Substantial expenditures are required to establish ore reserves, extract the metals from the ores and, in the case of new properties, to construct mining and processing facilities. The economic feasibility of any individual development project and all such projects collectively is based upon, among other things, estimates of the size and grade of ore reserves, proximity to infrastructures and other resources (such as water and power), metallurgical recoveries, production rates and capital and operating costs of such development projects, and future metals prices. Development projects are also subject to the completion of favorable feasibility studies, issuance of necessary permits and receipt of adequate financing.

Development projects may have no operating history upon which to base estimates of future operating costs and capital requirements. Particularly for development projects, estimates of reserves, metal recoveries and cash operating costs are to a large extent based upon the interpretation of geologic data obtained from a limited number of drill holes

and other sampling techniques and feasibility studies. Estimates of cash operating costs are then derived based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the orebody, expected recovery rates of metals from the ore, comparable facility and equipment costs, anticipated climate conditions and other factors. As a result, actual cash operating costs and economic returns of any and all development projects may materially differ from the costs and returns estimated.

We expended approximately \$9.2 million, \$8.5 million and \$9.4 million (excluding capitalized interest) in the years ended December 31, 1998, 1999 and 2000, respectively, in connection with the exploration and development of our mining properties. Furthermore, we expended approximately \$2.0 million (excluding capitalized interest) in the three months ended March 31, 2001.

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Our silver and gold production may decline in the future.

Our future silver and gold production may decline as a result of the exhaustion of reserves and possible closure of mines. It has been and will continue to be our business strategy to conduct silver and gold exploratory activities at our existing mining and exploratory properties as well as at new exploratory projects, and to acquire silver and gold mining properties and/or businesses that possess mineable ore reserves and are expected to become operational in the near future. Although that is our business strategy, we can provide no assurance that our silver and gold production in the future will not decline.

There are significant risks associated with our mining activities, not all of which are fully covered by insurance.

The mining business is generally subject to risks and hazards, including quantity of production, quality of the ore, environmental hazards, industrial accidents, the encountering of unusual or unexpected geological formations, cave-ins, flooding, earthquakes and periodic interruptions due to inclement or hazardous weather conditions. These occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, reduced production and delays in mining, asset write-downs, monetary losses and possible legal liability. Although we maintain insurance in an amount that we consider to be adequate, liabilities might exceed policy limits, in which event we could incur significant costs that could adversely affect our results of operation. Insurance fully covering many environmental risks (including potential liability for pollution or other hazards as a result of disposal of waste products occurring from exploration and production) is not generally available to us or to other companies in the industry.

We are subject to significant environmental and other governmental regulations that can require substantial expenses and capital expenditures.

Our mining activities are subject to extensive federal, state, local and foreign laws and regulations governing environmental protection, natural resources, prospecting, development, production, post-closure reclamation, taxes, labor standards, occupational health and safety including, mine safety, toxic substances and other matters. Although these laws and regulations have never required us to close any mine, the costs associated with compliance with such laws and regulations are substantial and possible future laws and regulations, or more stringent enforcement thereof by governmental authorities could cause additional expense, capital expenditures, restrictions on or suspensions of our operations and delays in the development of our properties. Moreover, these laws and regulations allow governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from the environmental, health and safety impacts of our past and current operations, and can lead to the imposition of

substantial fines, penalties and other civil and criminal sanctions. Risks of substantial costs and liabilities, including for the restoration of the environment after the closure of our mines, are inherent in our operations. Although we believe we are in substantial compliance with applicable laws and regulations, we cannot assure you that any such law, regulation, enforcement or private claim will not have a material adverse effect on our business, financial condition or results of operations.

Certain of our mining wastes are currently exempt to a limited extent from the extensive set of federal Environmental Protection Agency (EPA) regulations governing hazardous waste under the Resource Conservation and Recovery Act (RCRA). If the EPA designates these wastes as hazardous under RCRA in the future, we would be required to expend additional amounts on the handling of such wastes and to make significant expenditures on the construction of hazardous waste disposal facilities. In addition, regardless of whether these wastes are designated as hazardous under RCRA, if they cause contamination in or damage to the environment at a mining facility, such facility may be designated as a Superfund site under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). Under CERCLA, any owner or operator of a Superfund site since the time of its contamination may be held liable and may be forced to undertake extensive remedial cleanup action or to pay for the government's cleanup efforts. Additional regulations or requirements are also imposed upon our tailings and waste disposal areas in Idaho and Alaska under the federal Clean Water Act (CWA) and in Nevada under the Nevada Water Pollution Control Law which implements the CWA. Airborne emissions are subject to controls under the air pollution statutes implementing the Clean Air Act in Nevada, Idaho and Alaska. In the context of environmental

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permitting, including the approval of reclamation plans, we must comply with standards and regulations which entail significant costs and can entail significant delays.

Significant risks are associated with our foreign operations and activities.

Proven and probable silver reserves plus mineralized material outside of the United States currently account for approximately 49.5% of our total silver resource and foreign operations contributed approximately 8.5% and 1.0% of total silver production in the year ended December 31, 2000 and the three months ended March 31, 2001, respectively. Chile and Bolivia are the most significant foreign countries in which we directly or indirectly own or operate mining properties or developmental projects. We also conduct exploratory projects in Chile and Bolivia. Although the governments and economies of these countries have been relatively stable in recent years, property ownership in a foreign country generally is subject to the risk of expropriation or nationalization with inadequate compensation. Any foreign operations or investment may also be adversely affected by exchange controls, currency fluctuations, taxation and laws or policies of particular countries as well as laws and policies of the United States affecting foreign trade investment and taxation.

There are significant risks associated with any future acquisitions by us.

An important element of our business strategy has been the opportunistic acquisition of silver and gold mines, properties and businesses. Although we presently have no pending acquisitions, we may consider acquisitions in the future. While it is our practice to engage independent mining consultants to assist in evaluating and making acquisitions, mining properties acquired by us in the future might not be developed profitably or, if profitable when acquired, that profitability might not be sustained. In connection with any future acquisitions, we may incur indebtedness or issue equity securities, resulting in dilution of the percentage ownership of existing shareholders. We intend to seek shareholder approval for any such acquisitions only to the extent required by applicable law, regulations or stock exchange rules.

Finding and acquiring new mineral properties is very difficult and competitive.

Because mines have limited lives based on proven and probable ore reserves, we, like other mining companies are continually seeking to replace and expand our ore reserves. Identifying promising mining properties is difficult. Furthermore, we encounter strong competition from other mining companies in connection with the acquisition of properties producing or capable of producing silver and gold. Many of these companies have greater financial resources than we do. Consequently, we may be unable to replace and expand current ore reserves through the acquisition of new mining properties on terms we consider acceptable.

Significant risks are associated with our gold hedging activities and we do not currently hedge our exposure to declines in silver prices.

We historically have sold silver and gold produced by our mines pursuant to forward contracts and at spot prices prevailing at the time of sale. Entering into forward sale c