Commodity-Price Risk Management

At times, we may use commodity forward sales commitments, commodity swap contracts and commodity put and call option contracts to manage our exposure to fluctuation in the prices of certain metals that we produce. Contract positions are designed to ensure that we will receive a defined minimum price for certain quantities of our production, thereby partially offsetting our exposure to price fluctuations. These instruments do, however, expose us to (i) credit risk in the event of non-performance by counterparties for contracts in which the contract price exceeds the spot price of a commodity and (ii) price risk to the extent that the spot price exceeds the contract price for quantities of our production contained under contract positions.

We use financially-settled forward contracts to sell lead and zinc at fixed prices for settlement at approximately the same time that our unsettled concentrate sales contracts will settle. The settlement of each concentrate lot is based on the average spot price of the metal during the month of settlement, which may differ from the prices used to record the sale when the sale takes place. The objective of the contracts is to manage the exposure to changes in prices of zinc and lead contained in our concentrate shipments between the time of sale and final settlement. These contracts do not qualify for hedge accounting and are marked-to-market through earnings each period. We recognized a $1.3 million net loss on the contracts during 2012, which is included in sales of products. The net losses recognized on the contracts offset price adjustments on our provisional concentrate sales related to changes to lead and zinc prices between the time of sale and final settlement.

We also use financially-settled forward contracts to manage the exposure of changes in prices of zinc and lead contained in our forecasted future concentrate shipments. These contracts also do not qualify for hedge accounting and are marked-to-market through earnings each period. We recognized a $10.5 million net loss on the contracts, which includes $18.4 million in gains realized on settled contracts during 2012. The net losses on these contracts are included as a separate line item under other income (expense), as they relate to forecasted future shipments, as opposed to sales that have already taken place but are subject to final pricing. The losses recognized during 2012 are the result of increasing lead and zinc prices during the end of the year. This program is designed to mitigate the impact of potential future declines in lead and zinc prices from the price levels established in the contracts (see average price information below).

The following table summarizes the quantities of base metals committed under forward sales contracts at December 31, 2012:

	Pounds under contract (in thousands)		Average price per pound	
	Zinc	Lead	Zinc	Lead
Contracts on provisional sales				
2013 settlements	14,991	6,945	$ 0.95	$ 1.00
Contracts on forecasted sales				
2013 settlements	35,935	32,794	$ 0.96	$ 1.11
2014 settlements	30,203	33,069	$ 0.98	$ 1.03
2015 settlements	3,307	23,534	$ 1.01	$ 1.06

As further discussed in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, The Lucky Friday Segment*, production at the Lucky Friday mine was temporarily suspended due to the requirement to remove built-up cementitious material from the Silver Shaft. As a result, during the first quarter of 2012, we liquidated forward contracts related to forecasted Lucky Friday base metal sales for total net proceeds of $3.1 million.

Provisional Sales

Sales of all metals products sold directly to smelters, including by-product metals, are recorded as revenues when title and risk of loss transfers to the smelter (generally at the time of shipment) at forward prices for the estimated month of settlement. Due to the time elapsed between shipment to the smelter and the final settlement with the smelter we must estimate the prices at which sales of our metals will be settled. Previously recorded sales are adjusted to estimated settlement metals prices until final settlement by the smelter. Changes in metals prices between shipment and final settlement will result in changes to revenues previously recorded upon shipment. Metals prices can and often do fluctuate widely and are affected by numerous factors beyond our control (see *Item 1A. Risk Factors – A substantial or extended decline in metals prices would have a material adverse effect on us* for more information). At December 31, 2012, metals contained in concentrates and exposed to future price changes totaled approximately 0.8 million ounces of silver, 3,912 ounces of gold, 12,189 tons of zinc, and 3,887 tons of lead. If the price for each metal were to change by one percent, the change in the total value of the concentrates sold would be approximately $0.6 million. However, as noted in *Commodity-Price Risk Management* above, we utilize a program designed to mitigate the risk of negative price adjustments with limited mark-to-market financially-settled forward contracts for our zinc and lead sales.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Consolidated Financial Statements are included herein beginning on page F-1. Financial statement schedules are omitted as they are not applicable or the information required is included in the Consolidated Financial Statements.

The following table sets forth supplementary financial data (in thousands, except per share amounts) for each quarter of the years ended December 31, 2012 and 2011, derived from our unaudited financial statements. The data set forth below should be read in conjunction with and is qualified in its entirety by reference to our Consolidated Financial Statements.