with known mineralization. We significantly increased our exploration and pre-development activity in 2012 compared to 2011 and 2010, and we anticipate a further increase in the coming year at or near our operating mines at Greens Creek and Lucky Friday, as well as at our exploration projects in the past-producing mining districts in Colorado and Mexico.

As further discussed in the *Lucky Friday Segment* section below, the construction of an internal shaft at the Lucky Friday mine ("#4 Shaft"), which, we believe, will significantly increase production and extend the life of the mine. The #4 Shaft project will involve significant additional capital costs during the periods leading up to its expected completion date in 2016. Although we believe that our current capital resources will allow us to complete the #4 Shaft project, there are a number of factors that could affect its completion.

Volatility in global financial markets poses a significant challenge to our ability to access credit and equity markets, should we need to do so, and to predict sales prices for our products. As discussed in *Note 9* of *Notes to Consolidated Financial Statements*, we have established a common stock dividend policy which includes a component that is linked to our realized silver price. We utilize forward contracts to manage the potential impacts on our revenues of future declines in zinc and lead prices. In addition, we have in place a three-year $150 million revolving credit agreement under which there are no outstanding borrowings as of the filing date of this annual report.

We strive to achieve excellent mine safety and health performance. We seek to implement this goal by: training employees in safe work practices; establishing, following and improving safety standards; investigating accidents, incidents and losses to avoid recurrence; involving employees in the establishment of safety standards; and participating in the National Mining Association's *CORESafety* program. We attempt to implement reasonable best practices with respect to mine safety and emergency preparedness. See *Part I, Item 1A. Risk Factors* and *The Lucky Friday Segment* section below for information on accidents and other events that recently impacted operations at our Lucky Friday unit. We work with MSHA to address issues outlined in the investigations of these incidents and continue to evaluate our safety practices.

Another challenge is the risk associated with environmental litigation and ongoing reclamation activities. As described in *Risk Factors* and *Note 7* of *Notes to Consolidated Financial Statements*, it is possible that our estimate of these liabilities (and our ability to estimate liabilities in general) may change in the future, affecting our strategic plans. We finalized the terms of settlement with the Plaintiffs in the Coeur d'Alene Basin environmental litigation in 2011, which has assisted our planning efforts by decreasing uncertainty regarding our liability and our liquidity needs relating to our most significant environmental matter. However, we are involved in other environmental legal matters, and there can be no assurance that the estimate of our environmental liabilities, liquidity needs, or strategic plans will not be significantly impacted as a result of these matters or new matters that may arise. We strive to ensure that our activities are conducted in compliance with applicable laws and regulations and to attempt to settle environmental litigation.

Reserve estimation is a major risk inherent in mining. Our reserve estimates, which drive our mining and investment plans and many of our costs, may change based on economic factors and actual production experience. Until ore is mined and processed, the volumes and grades of our reserves must be considered as estimates. Our reserves are depleted as we mine. Reserves can also change as a result of changes in economic and operating assumptions.

As a result of industry-wide fatal accidents in recent years, primarily at underground coal mines, there has been an increase in mine regulation. In addition, under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC was directed to issue new rules regarding the disclosure of mine safety data. These changes may have a significant negative effect on our future operating costs. Moreover, because of the incidents in 2011 at the Lucky Friday mine, we expect additional regulatory scrutiny, and our ability to achieve and maintain compliance with MSHA regulations will be a challenge for us; yet, it is very important to our operations and financial performance. See *Part I, Item 1A. Risk Factors – Recent accidents and other events at our Lucky Friday mine could have additional adverse consequences to us* and *We face substantial governmental regulation and environmental risk.*

Results of Operations

For the year ended December 31, 2012, we reported income applicable to common shareholders of $14.4 million compared to $150.6 million in 2011 and $35.4 million in 2010. The following factors had a negative impact on results for the year ended December 31, 2012 compared to 2011 and 2010:

- Decreased gross profit at our Greens Creek and Lucky Friday units to $143.5 million in 2012 compared to $265.0 million in 2011 and $194.8 million in 2010. See *The Greens Creek Segment* and *The Lucky Friday Segment* sections below for further discussion of operating results.
- The temporary halt in production and suspension-related costs of $25.3 million incurred at our Lucky Friday unit in 2012 related to maintenance of surface facilities and mine workings and refurbishing the mill in preparation for the return to production. See *The Lucky Friday Segment* section for more information on the temporary suspension of production during 2012.
- Net mark-to-market losses on base metal forward contracts of $10.5 million in 2012 and $20.8 million in 2010 compared to a net gain of $38.0 million in 2011. These gains and losses are related to financially-settled forward contracts on forecasted zinc and lead production as part of a risk management program. The losses in 2012 and 2010 resulted from increases in zinc and lead prices at the end of those periods, with the gains in 2011 due to decreasing prices for those metals.
- Exploration and pre-development expense increased significantly to $49.7 million in 2012 from $31.4 million in 2011 and $21.6 million in 2010 as we continue extensive exploration work at our Greens Creek unit, on our land package near Durango, Mexico, at our San Juan Silver project in the Creede district of Colorado, and in the North Idaho's Coeur d'Alene Mining District near our Lucky Friday unit. "Pre-development expense" is defined as costs incurred in the exploration stage that may ultimately benefit production, such as underground ramp development, which are expensed due to the lack of proven and probable reserves. Establishing proven and probable reserves would indicate future recovery of these expenses. We have advanced pre-development projects during 2011 and 2012 at the Equity and Bulldog mines in the Creede district and at the Star mine in the Coeur d'Alene district which have given us access to historic workings and underground drill platforms. We have also initiated pre-development work at the San Sebastian mine in Mexico.
- Lower average prices for the silver, zinc, and lead produced at our operations in 2012 compared to 2011. However, gold prices increased in 2012 compared to the prior year. Average prices for all four metals were higher in 2011 compared to their levels in 2010.