COEUR D ALENE MINES CORP
Form 424B3
July 17, 2003

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PROSPECTUS SUPPLEMENT DATED JULY 17, 2003 TO PROSPECTUS DATED MAY 2, 2003

This filing is made pursuant to Rule 424(b)(3) under the Securities Act of 1933 in connection with Registration No. 333-101434

COEUR D ALENE MINES CORPORATION

36,606,904 SHARES OF COMMON STOCK AND $4,605,000 9% CONVERTIBLE SENIOR SUBORDINATED NOTES DUE FEBRUARY 26, 2007

The shares of common stock and the 9% Convertible Senior Subordinated Notes due February 26, 2007, which we refer to as our 9% notes described in this prospectus supplement are being offered for sale from time to time by several of our current securityholders who acquired the 9% notes in a private transaction with us in February 2003. The selling securityholders will receive all of the proceeds from any sales. We will not receive any of the proceeds.

The selling securityholders may sell the shares of common stock and 9% notes at various times and in various types of transactions, including sales in the open market, sales in negotiated transactions and sales by a combination of these methods. Shares may be sold at the market price of the common stock at the time of a sale, at prices relating to the market price over a period of time, or at prices negotiated with the buyers of shares.

The selling securityholders will pay all brokerage fees and commissions and similar sales-related expenses. We paid all other costs, fees and expenses relating to the registration of the shares and 9% notes with the Securities and Exchange Commission.

Our common stock is listed on the New York Stock Exchange under the symbol CDE. On July 16, 2003, the last reported sale price for our common stock on the New York Stock Exchange was $1.43 per share.

Investing in our securities involves a high degree of risk. See Risk Factors beginning on page 6 of the accompanying prospectus and contained in the Business section of our filings with the SEC.

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

This prospectus supplement is dated July 17, 2003

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement contains the terms of this offering and is a supplement to the accompanying prospectus. A description of our capital stock and the 9% notes is contained in the accompanying prospectus, as modified by the discussion contained below under the section entitled Description of 9% Notes .

Please read and consider all information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in the accompanying prospectus together with the additional information described under the section entitled Where You Can Find More Information in the accompanying prospectus, and the section entitled Risk Factors in the accompanying prospectus before you make an investment decision.

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DESCRIPTION OF 9% NOTES

A description of the 9% notes, as originally issued, is contained in the accompanying prospectus. Subsequent to the date of the accompanying prospectus, pursuant to early conversion agreements, each of the holders of the 9% notes agreed to convert a portion of their 9% notes into common stock. In connection with this early conversion, we, the holders of the 9% notes and the trustee under the indenture with respect to the 9% notes amended a number of the terms of the 9% notes in a supplemental indenture.

Each of the description of the 9% notes contained in the accompanying prospectus, the following information setting forth the terms of the early conversion agreements and the amendment of the 9% notes is qualified in its entirety by the indenture for the 9% notes, a copy of which has been filed as an exhibit to the registration statement of which the accompanying prospectus forms a part, by the supplemental indenture, a copy of which has been filed as an exhibit to our Current Report on Form 8-K dated July 16, 2003, and by the form of early conversion agreement, a copy of which has been filed as an exhibit to our Current Report on Form 8-K dated July 16, 2003.

Early Conversion of 9% Notes in July 2003

Effective as of July 10, 2003, we and each of the holders of the 9% notes entered into separate early conversion agreements. Under each such early conversion agreement, the holder converted, in accordance with the terms of the indenture with respect to the 9% notes, an amount of principal of the 9% notes into shares of common stock and we, in consideration for such early conversion, issued a number of shares of common stock as additional interest under the 9% notes. The aggregate principal amount converted under the early conversion agreements was $32.58 million, the aggregate amount of shares we issued under the terms of the indenture was approximately 24.9 million and the aggregate amount of shares we issued as additional interest in respect of the 9% notes was approximately 2.7 million. The total number of shares of common stock we issued with respect to the $32.58 million principal amount of 9% notes was approximately 27.5 million.

Amendment of Terms of 9% Notes

After giving effect to the exchanges contemplated by the early conversion agreements, an aggregate of $4.6 million of 9% notes remained outstanding.

In connection with the early conversion agreements, we, the holders of the 9% notes and the trustee under the indenture with respect to the 9% notes also amended such indenture pursuant to a supplemental indenture dated as of July 15, 2003. The supplemental indenture, together with the related documentation, provides that:

- we will hold a meeting of stockholders on or prior to June 30, 2004 to solicit the approval of our stockholders to issue shares in excess of the NYSE 20% limitation and will use our commercially reasonable best efforts to obtain such approval;

- the holders of the remaining 9% notes will not be able to convert such 9% notes until the earlier of our next annual shareholders meeting, at which time the approval of our stockholders to issue shares in excess of the NYSE 20% limitation will be sought, or June 30, 2004 (such earlier date being the amended conversion date);

- until the amended conversion date, any optional redemption by us of the remaining 9% notes will be at a price equal to the greater of the current redemption price and the then market value of the number of shares into which the remaining 9% notes would be convertible, but for the operation of the NYSE 20% limit;

- we may not exercise our option to automatically convert the 9% notes (which is subject to certain conditions under the indenture) until the amended conversion date;

- if the stockholder approval is not obtained, holders of the 9% notes, upon their election to convert, will receive, instead of shares of common stock, cash at a price equal to the then market value of the number of shares into which the remaining 9% notes would be convertible, but for the operation of the NYSE 20% limit; and

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consent from a majority of the holders was previously required before we were able to exchange any of our existing debt for common stock for 180 days after the original issuance of the 9% notes. This requirement has been removed from the indenture.

SELLING SECURITYHOLDERS

The following table sets forth information regarding the ownership by each person listed below, who may from time to time be selling securityholders of the securities set forth opposite their names, of:

the shares of common stock issued by us to the persons listed below in connection with early conversion agreements in July 2003;

the principal amount of 9% notes that remain, as of July 15, 2003, outstanding,

the aggregate of (i) the number of shares of common stock into which such remaining 9% notes are convertible and (ii) an estimated number of shares of common stock that may be issued by us as interest on the remaining 9% notes.

Selling Securityholder	Shares of Common Stock Received Under Early Conversion Agreements That May be Sold	Principal Amount of 9% Notes Outstanding, As Of July 15, 2003, That May be Sold	Estimated Shares of Common Stock Issuable Upon Conversion of Notes That May be Sold
Lonestar Partners L.P.(1)	2,976,090	$ 880,000	1,357,475
Vertical Ventures Investments, LLC(2)	744,445	$ 220,000	339,438
JMG Capital Partners L.P.(3)	929,500	$ 275,000	424,123
JMG Triton Offshore Fund Ltd.(4)	930,345	$ 275,000	424,263
JMB Capital Partners, L.P.(5)	10,532,080	$ 1,293,000	3,011,048
Bear Stearns Securities Corp. fbo Jonathan Brooks IRA(6)	1,506,635	$ 185,000	430,770
Cohanzick High Yield Partners, L.P.(7)	446,160	$ 132,000	203,579
Cohanzick Credit Opportunities Fund, Ltd.(8)	297,440	$ 88,000	135,719
Gabriel Capital, L.P.(9)	371,800	$ 110,000	169,649
Ariel Fund Limited(10)	371,800	$ 110,000	169,649
Langley Partners, L.P.(11)	5,766,280	$ 0	951,631
Jeffrey Thorp IRA Rollover, Bear Stearns Securities Corp. as custodian(12)	2,657,525	$ 1,037,000	1,459,460
Total	27,530,100	$ 4,605,000	9,076,804

(1) Southampton Capital Partners, L.P. is the general partner of Lonestar Partners L.P.; Southampton Capital LLC is the general partner of Southampton Capital Partners, L.P.; and Jerome L. Simon is the sole managing member of Southampton Capital LLC. Each of Southampton Capital Partners, L.P., Southampton Capital LLC and Jerome L. Simon may be deemed to beneficially own the 9% notes and the shares of common stock issuable upon conversion thereof, and when issued, the shares of common stock issued as interest on the 9% notes.

(2) Joshua Silverman may be deemed to beneficially own the 9% notes held by Vertical Ventures Investments, LLC and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(3) JMG Capital Management, LLC is the general partner of JMG Capital Partners, L.P.; and Jonathan Glaser is the managing member of JMG Capital Management, LLC. Each of JMG Capital Management, LLC and Jonathan Glaser may be deemed to beneficially own the 9% notes held by JMG Capital

Partners, L.P. and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(4) Pacific Assets Management, LLC is the investment manager of JMG Triton Offshore Fund Ltd. Pacific Assets Management, LLC may be deemed to be the beneficial owner of the 9% notes and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(5) Smithwood Partners, LLC is the general partner of JMB Capital Partners, L.P. and Jonathan Brooks is the sole managing member of Smithwood Partners, LLC. Each of Smithwood Partners, LLC and Jonathan Brooks may be deemed to beneficially own the 9% notes and shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(6) Jonathan Brooks may be deemed to beneficially own the 9% notes held by Bear Stearns Securities Corp. fbo Jonathan Brooks IRA and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(7) Cohanzick High Yield Capital, L.P. is the general partner of Cohanzick High Yield Partners, L.P.; Sunnyside, L.L.C. is the general partner of Cohanzick High Yield Capital, L.P.; and David K. Sherman is the managing member of Sunnyside, L.L.C. Each of Cohanzick High Yield Capital, L.P., Sunnyside L.L.C. and David K. Sherman may be deemed to beneficially own the 9% notes held by Cohanzick High Yield Partners, L.P. and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(8) Cohanzick Offshore Advisors, L.P. serves as the investment manager to Cohanzick Credit Opportunities Fund, Ltd. and David K. Sherman controls Cohanzick Offshore Advisors L.P. Cohanzick Offshore Advisors, LP and David K. Sherman may be deemed to beneficially own the 9% notes held by Cohanzick Credit Opportunities Fund, Ltd. and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(9) J. Ezra Merkin is the sole general partner of Gabriel Capital L.P. J. Ezra Merkin may be deemed to beneficially own the 9% notes held by Gabriel Capital L.P. and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(10) Gabriel Capital Corporation is the investment advisor of Ariel Fund Limited and J. Ezra Merkin is the president and sole shareholder of Gabriel Capital Corporation. J. Ezra Merkin and Gabriel Capital Corporation may be deemed to beneficially own the 9% notes held by Ariel Fund Limited and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(11) Langley Capital, LLC is the general partner of Langley Partners, L.P. and Jeffrey Thorp is the sole managing member of Langley Capital, LLC. Each of Langley Capital, LLC and Jeffrey Thorp may be deemed to beneficially own the 9% notes and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(12) Jeffrey Thorp may be deemed to beneficially own the 9% notes held by Jeffrey Thorp IRA Rollover, Bear Stearns Securities Corp. as Custodian and the shares of common stock reasonable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

All expenses incurred in connection with the registration of the 9% notes and the shares of common stock owned by the selling securityholders will be borne by us; provided that we will not be obligated to pay any underwriting fees, discounts or commissions in connection with such registration.

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PLAN OF DISTRIBUTION

The securities being offered by this prospectus supplement may be sold by the selling securityholders:

- through agents,
- to or through underwriters,
- through broker-dealers (acting as agent or principal),
- directly by the selling securityholders to purchasers, through a specific bidding or auction process or otherwise, or
- through a combination of any such methods of sale.

The distribution of securities may be effected from time to time in one or more transactions, including block transactions and transactions on the New York Stock Exchange or any other organized market where the securities may be traded. The securities may be sold at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices relating to the prevailing market prices or at negotiated prices. The consideration may be cash or another form negotiated by the parties. Agents, underwriters or broker-dealers may be paid compensation for offering and selling the securities. That compensation may be in the form of discounts, concessions or commissions to be received from the selling securityholders or from the purchasers of the securities. The selling securityholders and dealers and agents participating in the distribution of the securities may be deemed to be underwriters, and compensation received by them on resale of the securities may be deemed to be underwriting discounts. If the selling securityholders or such dealers or agents were deemed to be underwriters, they may be subject to statutory liabilities under the Securities Act of 1933, as amended.

Agents may from time to time solicit offers to purchase the securities. Any agent will be acting on a best efforts basis for the period of its appointment. Any agent selling the securities covered by this prospectus supplement may be deemed to be an underwriter, as that term is defined in the Securities Act of 1933, as amended, of the securities.

If underwriters are used in a sale, securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale, or under delayed delivery contracts or other contractual commitments. Securities may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. If an underwriter or underwriters are used in the sale of securities, an underwriting agreement will be executed with the underwriter or underwriters at the time an agreement for the sale is reached. The accompanying prospectus and a further prospectus supplement will be used by the underwriters to resell the securities.

If a dealer is used in the sale of the securities, the selling securityholders or an underwriter will sell the securities to the dealer, as principal. The dealer may then resell the securities to the public at varying prices to be determined by the dealer at the time of resale.

The selling securityholders may directly solicit offers to purchase the securities and the selling securityholders may make sales of securities directly to institutional investors or others. These persons may be deemed to be underwriters within the meaning of the Securities Act of 1933, as amended, with respect to any resale of the securities.

Agents, underwriters and dealers may be entitled under agreements which may be entered into with us to indemnification by us against specified liabilities, including liabilities incurred under the Securities Act of 1933, as amended, or to contribution by us and/or the selling securityholders to payments they may be required to make in respect of such liabilities. Some of the agents, underwriters or dealers, or their affiliates may be customers of, engage in transactions with or perform services for us or our subsidiaries in the ordinary course of business.

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Under the registration rights agreements with the selling securityholders listed in this prospectus supplement under the heading Selling Securityholders, we have each agreed that we will each indemnify the other against certain liabilities, including certain liabilities under the Securities Act of 1933, as amended, or will be entitled to contribution in connection with these liabilities. We have also agreed to indemnify any underwriters, brokers or dealers participating in the distribution of the 9% notes, and their officers and directors in connection therewith.

Under the securities laws of some states, the securities offered by this prospectus supplement may be sold in those states only through registered or licensed brokers or dealers.

Any person participating in the distribution of common stock registered under the registration statement that includes this prospectus supplement will be subject to applicable provisions of the Exchange Act, and the applicable SEC rules and regulations, including, among others, Regulation M, which may limit the timing of purchases and sales of any of our common stock by any such person. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of our common stock to engage in market-making activities with respect to our common stock. These restrictions may affect the marketability of our common stock and the ability of any person or entity to engage in market-making activities with respect to our common stock.

Certain persons participating in an offering may engage in over-allotment, stabilizing transactions, short-covering transactions and penalty bids in accordance with Regulation M under the Exchange Act that stabilize, maintain or otherwise affect the price of the offered securities.

In connection with the sales of the 9% notes or common stock, the selling securityholders may enter into hedging transactions with broker-dealers. These broker-dealers may in turn engage in short sales of the 9% notes and the common stock in the course of hedging their positions. The selling securityholders may also sell short the 9% notes and common stock and deliver 9% notes and common stock to close out short positions, or loan or pledge the 9% notes or common stock to broker-dealers that, in turn, may sell such securities.

To our knowledge, there are currently no plans, arrangements or understandings between any selling securityholders and any underwriter, broker-dealer or agent regarding the sale of the 9% notes or common stock by the selling securityholders. Selling securityholders may decide not to sell all or a portion of the 9% notes or common stock offered by them pursuant to this prospectus supplement or may decide not to sell 9% notes or common stock under this prospectus supplement. In addition, any selling securityholder may transfer, devise or give the 9% notes or common stock by other means not described in the accompanying prospectus or this prospectus supplement. Any 9% notes or common stock that qualify for sale pursuant to Rule 144 or Rule 144A of the Securities Act of 1933, as amended, or Regulation S under the Securities Act of 1933, as amended, may be sold under Rule 144 or Rule 144A or Regulation S rather than pursuant to this prospectus supplement.

We have agreed to pay substantially all of the expenses incidental to the registration, offering and sale of the 9% notes and common stock to the public by the selling securityholders other than commissions, fees and discounts of underwriters, brokers, dealers and agents.

To the extent required by the rules and regulations of the SEC, we will file a prospectus supplement to further supplement the information contained herein concerning the Plan of Distribution of the securities offered hereunder.

LEGAL MATTERS

The legality of the 9% notes offered hereby has been passed upon for us by Gibson, Dunn & Crutcher, LLP, Los Angeles, California. The legality of the common stock offered hereby has been passed upon for us by William F. Boyd.

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EXPERTS

The financial statements incorporated by reference in the accompanying prospectus, to the extent and for the periods indicated in their reports, have been audited by KPMG LLP, independent public accountants, and are included therein in reliance upon the authority of said firms as experts in giving said reports.

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PROSPECTUS

$125,000,000

COEUR D ALENE MINES CORPORATION

COMMON STOCK, PREFERRED STOCK, DEBT SECURITIES

AND
WARRANTS TO PURCHASE THE ABOVE SECURITIES

44,379,870 SHARES OF COMMON STOCK AND $37,185,000
9% CONVERTIBLE SENIOR SUBORDINATED NOTES DUE
FEBRUARY 26, 2007 OFFERED BY SELLING SECURITYHOLDERS

This prospectus provides a general description of the debt securities, preferred stock, common stock and warrants we may offer from time to time with an aggregate public offering price of up to $125,000,000. In addition, up to 44,379,870 shares of our common stock and $37,185,000 aggregate principal amount of our 9% Convertible Senior Subordinated Notes due February 26, 2007 may be sold from time to time in one or more offerings pursuant to the registration statement of which this prospectus forms a part by the persons named in the Selling Securityholders section of this prospectus. We will not receive any proceeds from sales of shares of common stock or 9% notes by the selling securityholders. Each time we or the selling securityholders sell securities, we will provide, if required, a supplement to this prospectus that contains specific information about the offering and the specific terms of the securities offered. You should read this prospectus and the applicable prospectus supplement carefully before you invest in our securities. This prospectus may not be used to consummate a sale of securities unless accompanied by the applicable prospectus supplement, if any

Our common stock is listed on the New York Stock Exchange under the symbol CDE.

Investing in our securities involves a high degree of risk. See Risk Factors beginning on page 6 and contained in the Business section of our filings with the SEC and the applicable prospectus supplement.

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.

This prospectus is dated May 2, 2003

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We have not authorized anyone to give any information or make any representation about us that is different from or in addition to, that contained in this prospectus or in any of the materials that we have incorporated by reference into this document. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document, unless the information specifically indicates that another date applied.

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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.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement we filed with the SEC using a shelf registration process. The aggregate offering prices of all securities that may be sold by us under this prospectus will not exceed $125,000,000. Of that amount, we may sell any combination of the securities described in this prospectus from time to time.

The types of securities that we may offer and sell from time to time by this prospectus are:

- debt securities, which may include guarantees of the debt securities by some or all of our subsidiaries;
- preferred stock;
- common stock; and
- warrants entitling the holders to purchase common stock, preferred stock or debt securities.

We may sell these securities either separately or in units. We may issue debt securities convertible into shares of our common stock or preferred stock. The preferred stock issued may also be convertible into shares of our common stock or another series of preferred stock. This prospectus provides a general description of the securities that may be offered.

In addition, up to 44,379,870 shares of our common stock and $37,185,000 aggregate principal amount of our 9% Convertible Senior Subordinated Notes due February 26, 2007, which we refer to as our 9% notes , may be sold from time to time in one or more offerings by the selling securityholders. See Selling Securityholders. We will not receive any proceeds from sales of shares of common stock or 9% notes by the selling securityholders.

In connection with the initial purchase and sale of the 9% notes and common stock to the persons listed under the heading Selling Securityholders, we entered into agreements with such persons in which we agreed, at our sole expense, to file a registration statement with the SEC relating to resales of such securities. Copies of the form of registration rights agreement entered into by the initial purchasers of the 9% notes, the registration rights agreement entered into by Houlihan, Lokey, Howard and Zukin and the shareholders agreement entered into by Asarco Incorporated have been filed as exhibits to the registration statement of which this prospectus forms a part.

Each time we or the selling securityholders sell securities pursuant to this prospectus, to the extent required by applicable law, we will describe in a prospectus supplement, which we or the selling securityholders will deliver with this prospectus, specific information about the offering and the terms of the particular securities offered. In each prospectus supplement we will include the following information, to the extent applicable:

- the type and amount of securities proposed to be sold;
- the initial public offering price of the securities;
- the names of any underwriters or agents through or to which we or they will sell the securities;
- any compensation of those underwriters or agents; and
- information about any securities exchanges or automated quotation systems on which the securities will be listed or traded.

In addition, the prospectus supplement may also add, update or change the information contained in this prospectus.

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THE COMPANY

General

Coeur d Alene Mines Corporation is the world s largest primary silver producer and is engaged through its subsidiaries in the operation and/or ownership, development and exploration of silver and gold mining properties and companies located primarily within the United States (Nevada, Idaho and Alaska) and South America (Bolivia, Chile and Argentina). In 2001, we produced approximately 10.9 million ounces of silver and approximately 96,000 ounces of gold. In 2002, we produced approximately 14.8 million ounces of silver and 117,000 ounces of gold.

Our principal silver mines are located in Nevada (the Rochester Mine), in the Silver Valley region of northern Idaho (the Galena Mine), in southern Chile (the Cerro Bayo Mine) and in Argentina (the Martha Mine). In addition, we own or lease, either directly or through our subsidiaries, silver and gold development projects in Bolivia (the San Bartolomé silver project) and in Alaska (the Kensington Property). We also control promising properties with significant silver exploration potential close to our existing mining operations. Our customers are 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. In addition, we sell high grade gold and silver concentrates to smelters in Japan, Canada and the United States.

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.

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The 9% Notes

The following is not intended to be complete. For a more detailed description of the 9% notes, see Description of 9% notes.

Securities	$37,185,000 aggregate principal amount of 9% Convertible Senior Subordinated Notes due February 26, 2007.
Issuer	Coeur d Alene Mines Corporation
Maturity	February 26, 2007
Interest	Interest on the 9% notes is payable in cash, common stock, or a combination of cash and stock, at our option, at a rate of 9% per year, payable on August 15 and February 15 each year. If we elect to pay interest in common stock, the shares of common stock will be valued at 90% of the volume weighted average price per share of our common stock for the five trading days immediately preceding the second trading day prior to the interest payment date.
Conversion:	The 9% notes are convertible at any time prior to the maturity date at an initial conversion price of $1.6014 per share subject to adjustment.
Automatic conversion	We may elect to automatically convert the 9% notes at any time prior to maturity if the closing price of our common stock exceeds 150% of the conversion price for at least 20 trading days during a 30-day trading period ending within three business days of our giving notice of such automatic conversion.
Interest make-whole provision	If an automatic conversion occurs prior to maturity of the 9% notes, we will make a payment to holders in common stock, equal to the greater of $180 and the interest that would have accrued through the remaining time to maturity for each $1,000 principal amount of 9% notes. The shares of common stock will be valued at the volume weighted average price per share of our common stock for the five trading days immediately preceding the day of our giving notice of such automatic conversion. We may be limited by the rules and regulations of the New York Stock Exchange from issuing shares of our common stock for such purposes. If we are so limited, we will make such payment in whole or in part in cash.
Voluntary Conversion	If holders elect to convert their 9% notes prior to maturity of the notes and prior to notice of automatic conversion, we will make a payment to holders in common stock, equal to the greater of $180 and the interest that would have accrued through the remaining time to maturity for each $1,000 principal amount of 9% notes. The shares of common stock will be valued at the volume weighted average price per share of our common stock for the five trading days immediately preceding the day that notice of voluntary conversion is given by the holders. We may be limited by the rules and regulations of the New York Stock Exchange from issuing shares of our common stock for such purposes. If we are so limited, we will make such payment in whole or in part in cash.
Ranking	The 9% notes rank equally with the Company s existing 13 3/8% Convertible Senior Subordinated Notes due 2003, are senior in right of payment to the Company s 6 3/8% Convertible Subordinated

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	Debentures due January 31, 2004 and 7 1/4% Convertible Subordinated Debentures due October 31, 2005 and are junior in right of payment to our senior debt.
Optional redemption	We may redeem the 9% notes on or after August 26, 2003, in whole or in part, on not less than 30, but no more than 40 days notice, at the redemption prices set forth in this prospectus, plus accrued and unpaid interest, if any, to the redemption date.
Repurchase at option of holders	Holders may require us to repurchase all or part of their 9% notes upon a change in control (as defined) at a repurchase price equal to 100% of the outstanding principal amount of the 9% notes being redeemed, plus any accrued and unpaid interest. If a change in control occurs prior to maturity of the 9% notes, holders will also receive an amount payable in cash equal to the greater of $180 and the interest that would have accrued through the remaining time to maturity for each $1,000 in principal amount of 9% notes.

The Common Stock

The following summary is not intended to be complete, For a more detailed description of the common stock, see Description of Common Stock.

Securities	44,379,870 shares of common stock.
Issuer	Coeur d Alene Mines Corporation
Shares to be Outstanding after Offer	As of February 28, 2003 there were approximately 139.5 million shares of common stock outstanding. If all of the 9% notes were converted into shares of common stock and we elect to pay all of the interest due on the 9% notes in shares of our common stock in lieu of cash, there would be approximately 183.9 million shares of common stock outstanding after this offering.

USE OF PROCEEDS

We intend to use the net proceeds we receive from the sale of the securities offered by us pursuant to this prospectus for general corporate purposes, which may include repayment of indebtedness. Until such time as we use the proceeds for general corporate purposes, we intend to invest the net proceeds in high quality, interest-bearing instruments. We will not receive any proceeds from sales of shares of common stock or 9% notes by the selling securityholders.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for the periods indicated:

	Years Ended December 31,				
	1998	1999	2000	2001	2002
Ratio of earnings to fixed charges	$N/A	$N/A	$N/A	$N/A	$N/A

Our earnings were inadequate to cover fixed charges for each of the last five years. Earnings were insufficient to cover fixed charges in the following amounts: $227.0 million in 1998; $29.3 million in 1999; $47.5 million in 2000; $3.1 million in 2001, and $81.2 million in 2002.

For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income from continuing operations before income taxes and gains/(losses) on the early retirement of debt and fixed charges, and fixed charges consist of interest and that portion of rent deemed representative of interest. Fixed charges consist of interest, preferred stock dividends and that portion of rent deemed representative of interest.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This prospectus contains forward looking information. This forward looking information is subject to risks and uncertainties. In some cases, you can identify forward looking statements by terminology such as may, will, should, expect, intend, plan, anticipate, believe, es potential or continue, or the negative of these terms or other comparable terminology. These statements are only predictions and may be inaccurate. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under Risk Factors in our filings with the SEC and in the applicable prospectus supplement attached hereto. These factors may cause our actual results to differ materially from any forward looking statement. Although we believe that the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

RISK FACTORS

You should carefully consider the following risk factors in addition to the other information contained or incorporated by reference in this prospectus in evaluating whether to invest in our securities.

Risks Relating to Our 9% Notes

The market price of our common stock could decrease as a result of the impact of the increase in the number of our outstanding shares that may result from conversion of the 9% notes into shares of common stock.

At February 28, 2003, we had approximately 139.5 million outstanding shares of common stock. The $37.2 million aggregate principal amount of notes are convertible into a total of 22.7 million shares of common stock, assuming there are no adjustments to the conversion price. Furthermore, we will issue additional common stock if we elect to pay interest on the notes in shares of common stock in lieu of cash or if there is interest recapture that will be paid in shares of common stock. The impact of the issuance of the common stock upon conversion of the 9% notes and/or in payment of interest may place downward pressure on the market price of our common stock.

If we incur additional debt in the future that is senior to the notes and are unable to make payments or default on this senior debt, then the holders of 9% notes will not be paid until this senior debt is paid in full.

While the 9% notes will be senior to the debentures and rank equally with our 13 3/8% Convertible Senior Subordinated Notes due 2003 (the existing notes), the 9% notes will be unsecured and subordinated in right of payment to senior debt under the indenture for the 9% notes. Although we only had approximately $1.2 million of senior debt at February 28, 2003, we may incur 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 9% notes due to an event of default, our assets would be available to pay obligations on the 9% notes only after all senior debt has been paid in full. Although the 9% notes are senior to our 6 3/8% Convertible Subordinated Debentures due 2004 and our 7 1/4% Convertible Subordinated Debentures due 2005 (collectively, the debentures and together with the existing notes, our convertible debt), there may not be sufficient assets remaining to pay amounts due on any or all of the 9% notes and existing notes then outstanding after payment of senior debt obligations.

Our subsidiaries will not be prohibited from incurring debts in the future that would be senior to the 9% notes.

The 9% notes will be effectively subordinated to all indebtedness and other liabilities of our subsidiaries, including trade payables but excluding inter-company liabilities. In addition, although the 9% notes will be senior to the debentures and rank equally with the existing notes, all of the 9% notes, the existing notes and the debentures are subordinated to our senior debt.

The 9% notes will be 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 9% 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 9% 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.

If we automatically convert the 9% 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 9% notes on or prior to maturity if the closing price of our common stock exceeds 150% of the conversion price for at least 20 trading days during a consecutive 30-day trading period ending within three 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 9% 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 9% notes until the automatic conversion date.

We may not have the financial resources to repurchase the 9% notes in the event of a change of control.

We may be unable to repurchase the 9% 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 9% notes. If a change in control were to occur, we may not have enough funds to pay the repurchase price for all tendered notes. Any future credit agreements or other debt agreements may prohibit the repurchase of 9% notes for cash, or expressly prohibit the repurchase of the 9% 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 9% notes, we could seek the consent of our lenders to repurchase the 9% notes or could attempt to refinance the debt agreements. If we do not obtain such consent, we could not repurchase the 9% notes. Our failure to repurchase the 9% notes would constitute an event of default under the 9% notes indenture, which might constitute an event of default under the terms of our other debt. Our obligation to offer to repurchase the 9% 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.

No public market exists for the 9% notes; you may not be able to sell the 9% notes easily.

There is no established trading market for the 9% notes and we cannot assure you that an active or liquid trading market will develop for the 9% notes. We do not intend to apply for a listing of the 9% notes on any securities exchange or automated inter-dealer quotation system. The liquidity of any market for the 9% notes will depend upon the number of holders, our own financial performance, the market for similar securities, the interest of securities dealers in making a market and other factors. If a market for the 9% notes were to develop, the 9% notes could trade at prices that may be higher or lower than reflected by their initial offering price. Historically, the market for securities such as the 9% notes has been subject to disruptions that have caused substantial volatility in the prices of similar securities. We cannot assure you that, if a market for the 9% notes were to develop, such a market would not be subject to similar disruptions.

We may be limited by the rules and regulations of the New York Stock Exchange from issuing shares of our common stock to pay additional interest on the 9% notes.

Our shares of common stock are currently listed on the New York Stock Exchange. The rules and regulations of the NYSE and the indenture for the 9% notes currently prohibit us from issuing more than 4,311,735 shares of common stock as additional interest upon an automatic conversion by us, a voluntary conversion by the holders and a redemption by us, in respect of the 9% notes. The limitation set forth above is subject to adjustments for stock splits, stock dividends combinations, capital reorganizations and similar events relating to the common stock, and shall not apply if the issuances of common stock with respect to the 9% notes would otherwise be permitted (or not prohibited) by the applicable rules and regulations of the

NYSE or the principal securities market on which our common stock is listed or traded or if shareholder approval for such issuances has been obtained.

In the event that we are prohibited from issuing shares of common stock as additional interest upon an automatic conversion by us, a voluntary conversion by the holders or a redemption by us, any further payments by us of such additional interest in respect of the 9% notes shall be in cash. We presently cannot determine whether or the extent to which we will pay additional interest in shares of common stock rather than cash, nor do we know the number of shares of common stock that would be required to be issued as additional interest, as the value of such stock would not be determinable until just prior to the time we make such payments. If we were not able to obtain shareholder approval of issuances of common stock in respect of the 9% notes in excess of the limitations set forth above prior to the issuance of shares of common stock in payment of such additional interest, we would not be able to pay such additional interest in shares of common stock. The use of cash to pay interest could have a material adverse effect on our financial condition.

Risks Relating to Our Common Stock

The market price of our common stock could decrease as a result of the impact of an increase in the number of our outstanding shares that may result from conversion of our outstanding convertible debt into shares of common stock.

At February 28, 2003, we had approximately 139.5 million outstanding shares of common stock. Pursuant to their respective indentures, the approximately $85.2 million aggregate outstanding principal amount of convertible debt at February 28, 2003 is convertible into a total of 32.2 million shares of common stock, assuming there are not adjustments to the conversion price. In addition, we may, from time to time, enter into exchange transactions with holders of our outstanding convertible debt involving the issuance of additional shares of common stock. The impact of the issuance of a significant amount of common stock may place downward pressure on the market price of the common stock.

The market price of our common stock has been volatile and may decline.

The market price of our common stock has been volatile and may decline in the future. The high and low closing sale prices of our common stock were $4.125 and $0.8125 per share in 2000, $1.23 and $0.87 in 2001 and $2.50 and $0.78 in 2002. The closing sale price at March 20, 2003 was $1.30 per share.

The market price of our common stock historically has fluctuated widely and been affected by many factors beyond our control. These factors include:

- the market prices of silver and gold;
- general stock market conditions;
- interest rates;
- expectations regarding inflation;
- currency values; and
- global and regional political and economic conditions and other factors.

Because we have $85.2 million in convertible debt as of February 28, 2003, our future operating performance must generate cash flows sufficient to meet our debt payment obligations and our large amount of indebtedness could negatively impact holders of our common stock.

Our ability to make scheduled debt payments on our outstanding indebtedness 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, including the market prices of silver and gold. We may not be able to generate enough cash flow to meet our obligations and commitments. 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 satisfactory terms.

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We incurred net losses of $81.2 million in fiscal 2002, $3.1 million in fiscal 2001 and $47.8 million in fiscal 2000. These losses could continue. As of February 28, 2002, we had outstanding convertible debt in the principal amount of approximately $85.2 million, of which approximately $28.2 million matures on January 31, 2004. On March 7, 2003, we issued a redemption notice for $22,392,000 aggregate principal amount of our 6 3/8% Convertible Subordinated Debentures due January 31, 2004.

Our indebtedness could negatively impact holders of the common stock 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; and

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

If presently unexpected circumstances cause us to be unable to pay our debts upon their maturity, it may be necessary for us to seek relief under Chapter 11 of the Bankruptcy Code.

At February 28, 2003, we had a total of approximately $85.2 million outstanding indebtedness, which included approximately $9.9 million of 13 3/8% Senior Subordinated Notes due December 31, 2003, $28.2 million principal amount of 6 3/8% Convertible Subordinated Debentures due January 31, 2004, approximately $9.9 million principal amount of 7 1/4% Convertible Subordinated Debentures due October 31, 2005 and approximately $37.2 million principal amount of the 9% notes. On March 7, 2003 we issued a redemption notice for approximately $22.4 million principal amount of our 6 3/8% Convertible Subordinated Debentures. As a result, we expect our net indebtedness to be reduced by April 30, 2003 to approximately $62.8 million, which includes approximately $5.8 million principal amount of 6 3/8% Convertible Subordinated Debentures, $9.9 million principal amount of 7 1/4% Convertible Subordinated Debentures, $37.2 million principal amount of 9% Senior Convertible Notes and $9.9 million principal amount of 13 3/8% Senior Subordinated Notes. We expect to be able to generate adequate cash flow and, if necessary, to raise additional debt or equity capital, in order to service our outstanding indebtedness upon maturity. However, if presently unexpected circumstances cause us to be unable to service our indebtedness upon maturity, we may be required 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 case, we would expect our relationships with customers and our employee morale to be adversely affected. In addition, it is possible that various development projects and exploratory activities would be curtailed. Many Chapter 11 cases are unsuccessful and virtually all involve substantial time and expense. When a company is unsuccessful in obtaining confirmation of a plan of reorganization, the assets of the company usually are liquidated.

In a bankruptcy case, holders of our convertible debt would be entitled to receive full payment on their claims before the distribution of any amounts to holders of common stock.

We do not anticipate paying dividends on the common stock.

We do not anticipate paying any cash dividends on the common stock at this time. Therefore, holders of the common stock will likely not receive a dividend return on their investment and there is a significant likelihood that holders of the common stock will not realize any value through the receipt of cash dividends.

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We are subject to anti-takeover provisions in our charter and in our contracts that could delay or prevent an acquisition of Coeur d Alene even if such an acquisition would be beneficial to our stockholders.

Certain provisions of our articles of incorporation and our contracts could delay or prevent a third party from acquiring us, even if doing so might be beneficial to our stockholders. Some of these provisions:

- authorize the issuance of preferred stock which can be created and issued by the board of directors without prior stockholder approval, commonly referred to as blank check preferred stock, with rights senior to those of common stock; and
- require that a fair price be paid in certain business transactions.

We have also implemented a shareholder rights plan which could delay or prevent a third party from acquiring us.

Risks Relating to Coeur d Alene and its Business

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

We have incurred net losses in the last five years, and have had losses from continuing operations in each of those periods. Significantly contributing to the losses were:

- historically low gold and silver 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 convertible indebtedness; and
- significant write-offs for impaired assets in 1998 ($223.6 million), 1999 ($20.2 million), 2000 ($21.2 million), 2001 ($6.1 million) and 2002 ($19.0 million).

Until very recently, the market prices for silver and gold have been below our full production costs for these metals. Low silver and gold prices have made mining at certain of our properties uneconomical. If these prices decline, we may be required to recognize additional impairment write-downs, which would increase our operating losses.

We have not had sufficient earnings to cover fixed charges in recent years.

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. The amounts by which earnings were inadequate to cover fixed charges were approximately $227.0 million in 1998, $29.3 million in 1999, $47.5 million in 2000, $3.1 million in 2001 and $81.2 million in 2002, respectively.

As of February 28, 2003, we were required to make fixed payments on the following securities:

- $28.2 principal amount of our 6 3/8% Convertible Subordinated Debentures due 2004, requiring annual interest payments of approximately $1.8 million until their maturity on January 31, 2004;
- $9.9 million principal amount of our 7 1/4% Convertible Subordinated Debentures due 2005, requiring annual interest payments of approximately $1.1 million until their maturity on October 31, 2005; and
- $9.9 million of our Series I 13 3/8% senior convertible notes due 2003, requiring interest payments (in cash or in common stock) of approximately $1.3 million in December 2003.
- $37.2 million of our 9% notes, requiring annual interest payments (in cash or in common stock) of approximately $3.3 million until their maturity on February 26, 2007.

On March 7, 2003, we issued a redemption notice for $22,392,000 aggregate principal amount of our 6 3/8% Convertible Subordinated Debentures due January 31, 2004. We do not expect that a significant amount of our remaining 6 3/8% Convertible Subordinated Debentures due January 31, 2004 and our 7 1/4% Convertible Subordinated Debentures due October 31, 2005 will be converted into common stock in the foreseeable future because the contractual conversion price of each issue, as set forth in the applicable indenture, substantially

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exceeds the current market price of our common stock. However, we may from time enter into exchange transactions that reflect a conversion price that is different from the price set forth in the applicable indenture and that is more closely related to the then market price of our common stock. The 9% notes are convertible into common stock at an initial price of $1.60 per share.

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 $6.6 million at December 31, 2002, and, if necessary, the sale of assets or equity or debt securities. 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 $8.5 million in 2002, $29.9 million in 2001 and $23.8 million in 2000. The availability of future cash flow from operations or working capital to fund the payment of interest on our outstanding debt 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 we are able to reduce the amount of our indebtedness through additional exchanges or conversions.

The market price of silver, over which we have no control, is volatile and until recently had traded at a historically low level which adversely affected us.

Because we derive approximately 70% of our revenues from sales of silver, our earnings are directly related to the price of this metal. Silver 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.

For much of 2001 and into 2002, the market price for silver was at its lowest levels since 1995 and was below our full production costs. The market price of silver has recently increased and (as reported by Handy & Harman) on March 14, 2003 was $4.56 per ounce. The price of silver may decline in the future. Factors that are generally understood to have contributed to the low prices for silver in 2001 and into 2002 included sales by private and government holders, the emergence of China as a large net seller and a general global economic slowdown.

If the silver price returns to the levels seen in 2001, our net losses will continue, we could temporarily suspend mining at one or more of our properties, and we could be required to record additional asset impairment write-downs pursuant to SFAS 144 (as discussed below).

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. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets, established accounting standards for impairment of the value of long-lived assets such as mining properties. SFAS 144 requires a company to 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 negatively impacted our results of operations in recent years. We have recorded significant write-downs of our mining properties in recent years, amounting to $16.2 million in 1999, $12.2 million in 2000, $6.1 million in 2001 and $19.0 million in 2002. 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. The 2001 write-down consisted of an additional impairment of $6.1 million at the Kensington property. The 2002 write-down consisted of a $19.0 million impairment at Coeur Silver Valley.

While we do not believe that any of our other properties presently requires a write-down pursuant to SFAS 144, if silver prices decline 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.

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 our filings with the SEC 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 last calculated as of December 31, 2002. Our ore reserve determinations were based on a long-term silver price average of $5.00 per ounce and a long-term gold price average of $350 per ounce.

The estimation of the ultimate recovery of metals contained within the heap leach pad inventory is inherently inaccurate and subjective and requires the use of estimation techniques. Actual recoveries can be expected to vary from estimated recoveries.

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

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

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

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able to determine final ounces of silver and gold available for sale. We then review this end result and reconcile it to the estimates we had used and developed throughout the production process. Based on this review, we adjust our estimation procedures when appropriate.

Our reported inventories include metals estimated to be contained in the ore on the leach pads of $26.6 million as of December 31, 2002. Of this amount, $11.1 million is reported as a current asset and $15.5 million is reported as a noncurrent asset. The distinction between current and noncurrent is based upon the expected length of time necessary for the leaching process to remove the metals from the broken ore. The historical cost of the metal that is expected to be extracted within twelve months is classified as current and the historical cost of metals contained within the broken ore that will be extracted beyond twelve months is classified as noncurrent.

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

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

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

	Positive/Negative Change in Silver Recovery			**Positive/Negative Change in Gold Recovery**		
	1%	**2%**	**3%**	**1%**	**2%**	**3%**
Quantity of recoverable ounces	1.3 million	2.6 million	5.2 million	8,700	17,400	34,800
Positive impact on future cost of production per equivalent silver ounce for increases in recovery rates	$ 0.23	$ 0.41	$ 0.57	$ 0.11	$ 0.21	$ 0.30
Negative impact on future cost of production per equivalent silver ounce for decreases in recovery rates	$ 0.28	$ 0.64	$ 1.13	$ 0.12	$ 0.26	$ 0.41

Inventories of ore on leach pads are valued based upon actual costs incurred to place such ore on the leach pad, less costs allocated to minerals recovered through the leach process. The costs consist of those

production activities occurring at the mine site and include the costs, including depreciation, associated with mining, crushing and precipitation circuits. In addition, refining is provided by a third party refiner to place the metal extracted from the leach pad in a saleable form. These additional costs are considered in the valuation of inventory.

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.

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.

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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 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.

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. In addition, during 2002, we acquired an operating mining asset and associated exploration properties in Argentina, which has recently experienced political instability, currency value fluctuations and changes in banking regulations. Although the governments and economies of Chile and Bolivia 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. 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 purchases of currencies of foreign countries in which we do business.

We may enter into agreements which require us to purchase currencies of foreign countries in which we do business in order to ensure fixed exchange rates. In the event that actual exchange rates vary from those set forth in the hedge contracts, we will experience U.S. dollar-denominated currency gains or losses.

We will have to use some of our cash to provide financial assurance relating to our Rochester Mine s future reclamation liability.

The insurance company that issued the surety bond required under Nevada law to cover our estimated $21.8 million of future mine closure reclamation costs relating to the Rochester Mine filed for liquidation in the first quarter of 2001. We have reached an agreement with this insurance company and the State of Nevada regarding financial assurance for future reclamation costs at the Rochester Mine. This settlement will require us to fund a reclamation escrow account in amounts calculated based on a formula which takes into account the amount of silver and gold produced and sold at the Rochester Mine commencing July 1, 2002. Based on recent production levels, we estimate that the annual funding required by the settlement into this escrow account will be approximately $3.2 million.

Third parties may dispute our unpatented mining claims.

The validity of unpatented mining claims, which constitute a significant portion of our property holdings in the United States, is often uncertain and may be contested. Although we have attempted to acquire satisfactory title to undeveloped properties, we, in accordance with mining industry practice, do not generally obtain title opinions until a decision is made to develop a property, with the attendant risk that some titles, particularly titles to undeveloped properties, may be defective.

We are required to obtain government permits to expand operations or begin new operations, which is often a costly and time-consuming process.

Mining companies are required to seek governmental permits for expansion of existing operations or for the commencement of new operations. Obtaining the necessary governmental permits is a complex and time-consuming process involving numerous jurisdictions and often involving public hearings and costly undertakings on our part. The duration and success of permitting efforts are contingent on many factors that are out of our control. Government permitting may increase costs and cause delays depending on the nature of the activity to be permitted, and in an extreme case, could cause us to not proceed with the development of a mine.

Since we are unable to obtain required consents from Arthur Andersen, our prior independent public accountants, and if they cease conducting business or seek protection from creditors, you may not be able to recover damages from them.

On July 24, 2002, we changed our independent auditors from Arthur Andersen LLP to KPMG LLP. We are generally required to obtain a written consent from our prior independent public accountants, Arthur Andersen, in order to include their audit report covering the audited financial statements for our 2001 and 2000 fiscal years incorporated by reference in this prospectus.

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The SEC has provided relief for companies that are unable to obtain consents from Arthur Andersen due to their ceasing operations. We have filed this registration statement in reliance on the relief provided by the SEC. However, because Andersen has not provided a consent in connection with our registration statement, you may not be able to recover against Andersen under Section 11 of the Securities Act.

In addition, should Arthur Andersen declare bankruptcy or avail itself of other forms of protection from creditors, it is unlikely you would be able to recover damages from Andersen for a claim under Section 11 of the Securities Act or any other claim.

Our silver mining operations will be adversely affected if we are not able to renew our labor union contract at Silver Valley.

On December 13, 2002, our labor contract with the United Steelworkers of America for the Galena Mine expired. The union negotiating committee recommended to its membership, consisting of 175 members, that our offer be accepted. However, the membership voted to reject the offer. Although no strike has been called and negotiations continue, our silver mining operations would be adversely affected if we are unable to negotiate a new labor contract with the union.

DESCRIPTION OF 9% NOTES

The following summary of the 9% notes is qualified in its entirety by reference to the indenture for the 9% notes, a copy of which has been filed as an exhibit to the registration statement of which this prospectus forms a part. Capitalized terms used and not otherwise defined in the following discussion have the meanings given to them in the indenture.

General

The 9% notes are unsecured senior subordinated obligations of Coeur d Alene Mines Corporation. The 9% notes are subordinated to all our senior debt, but senior in right of payment to Coeur d Alene Mines Corporation s 6 3/8% Convertible Subordinated Debentures due January 31, 2004 and 7 1/4% Convertible Subordinated Debentures due October 31, 2005 (together, the debentures). The 9% notes rank equally in right of payment with our currently outstanding 13 3/8% Convertible Senior Subordinated Notes due 2003 issued under that certain indenture dated as of August 1, 2001 between us and The Bank of New York (the existing notes). There are no financial covenants in the indenture for the 9% notes. The 9% notes are effectively subordinated in right of payment to all indebtedness and liabilities of our subsidiaries.

Principal, Maturity and Interest

The 9% notes bear interest at 9% per year and mature on February 26, 2007.

We have issued $37,185,000 aggregate principal amount of 9% notes.

We will pay interest on the 9% notes semi-annually on February 15, and August 15 to record holders at the close of business on February 1 and August 1, respectively. Interest is payable in cash, common stock or a combination of cash and common stock, at our option. If we elect to pay interest in common stock, the shares of common stock will be valued at 90% of the volume weighted average price per share for the five trading days immediately preceding the second trading day prior to the interest payment date. We will provide holders notice of our election to pay interest in common stock instead of cash no later than the record date prior to such interest payment date. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months. Our ability to pay interest in common stock is subject to certain conditions set forth in the indenture. See Limitations on Issuance of Common Stock as Interest for discussion regarding one of these conditions.

We will pay principal and interest on the 9% notes at the office or agency we maintain for such purpose in the Borough of Manhattan, The City of New York, which shall initially be the office of the trustee. At our option, however, we may pay interest by check mailed to your address as it appears in the 9% notes register.

If we elect to make a payment in common stock instead of cash with respect to any payment under the terms of the indenture that permits such election, we may either pay cash for any fractional shares or round the fractional share up to the nearest whole share.

The 9% notes will be issued:

- in fully-registered form;
- without interest coupons; and
- in denominations of $1000 and multiples of $1000.

Original Issue Discount

The 9% notes will bear a legend stating that, for the purposes of Sections 1272, 1273 and 1275 of the Internal Revenue Code of 1986, as amended, the 9% notes will be issued with original issue discount; that for each $1,000 principal amount of the security, the issue price is $908.60, the amount of original issue discount is $91.40, the issue date is February 26, 2003 and the yield to maturity is 12.2811% per annum.

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Conversion Rights

You may convert your 9% note at any time prior to maturity, in whole or in part, into shares of common stock at a price of $1.6014, subject to adjustment as described below. If a 9% note is called for redemption, the conversion right will terminate at the close of business on the last business day prior to the redemption date. Except as described below, we will make no adjustment for interest accrued on 9% notes or for dividends on any common stock issued prior to the conversion date.

We May Elect to Automatically Convert the Notes if our Stock Price Hits a Specific Target

We may elect to automatically convert the 9% notes at any time prior to maturity if the closing price of our common stock has exceeded 150% of the conversion price for at least 20 trading days during a consecutive 30-day trading period. Notice of automatic conversion must be given within three trading days of such 30-day period. We refer to this as an automatic conversion. The notice of automatic conversion must be given not more than 30 and not less than 15 days prior to the date of automatic conversion.

If an automatic conversion occurs prior to the maturity of the 9% notes we will pay additional interest in shares of our common stock to holders of 9% notes. For each $1,000 principal amount of 9% notes, this additional interest shall be equal to the lesser of (i) $180.00 (which is equal to 24 months of interest) and (ii) the interest that would have accrued and been payable in respect of the 9% notes had they remained outstanding for the period commencing on the automatic conversion date through February 26, 2007. This means that we are obligated to pay an aggregate of 24 months of interest on the 9% notes over the life of the 9% notes, regardless of whether we elect to automatically convert the 9% notes into common stock. The shares of common stock you receive as additional interest will be valued at the volume weighted average price per share for the five trading days immediately preceding the date we give notice of the conversion date. Our ability to pay additional interest in common stock is subject to certain conditions set forth in the indenture. See Limitations on Issuance of Common Stock as Interest for discussion regarding one of these conditions.

On the date fixed for conversion, we will pay to each holder an amount equal to all accrued but unpaid interest on the principal portion of the 9% notes subject to the notice of automatic conversion for the period through the day prior to the date fixed for conversion. If your 9% notes are converted, you will not be entitled to receive any dividends payable to holders of common stock as of any record time or date before the close of business on the conversion date. We will not issue fractional shares upon conversion but will instead make a cash adjustment for any fractional share interest.

You will not be required to pay any stamp, transfer, documentary or similar taxes or duties upon conversion but will be required to pay any stamp or transfer tax or duty if the common stock issued upon conversion of the 9% note is in a name other than your name. Certificates representing shares of common stock will not be issued or delivered unless all stamp or transfer taxes and duties, if any, payable by the holder have been paid.

Limitations on Issuance of Common Stock as Interest

The total number of shares of common stock that we may issue as additional interest upon an automatic conversion by us, a voluntary conversion by the holders and a redemption by us, in respect of the 9% notes shall not exceed the maximum number of shares of common stock which we may issue with respect to the 9% notes pursuant to the rules and regulations of the New York Stock Exchange (or any other principal United States securities market on which the common stock trades), which as of the date hereof shall be 4,311,735, subject to adjustments for stock splits, stock dividends combinations, capital reorganizations and similar events relating to the common stock. The limitation set forth above shall not apply if the issuances of common stock with respect to the 9% notes would otherwise be permitted (or not prohibited) by the applicable rules and regulations of the principal securities market on which the common stock is listed or traded or if stockholder approval for such issuances has been obtained.

In the event that we are prohibited from issuing shares of common stock as additional interest upon an automatic conversion by us, a voluntary conversion by the holders or a redemption by us, any further payments by us of such additional interest in respect of the 9% notes shall be in cash.

Adjustments to Conversion Price and Rate

We will adjust the conversion price if:

(1) we issue shares of our common stock as a dividend or distribution on our common stock;

(2) we issue to substantially all holders of our common stock rights or warrants to subscribe for or purchase our common stock or securities convertible into our common stock at less than the current market price of our common stock, provided the conversion rate will be readjusted if these rights or warrants are not exercised prior to expiration;

(3) we subdivide or combine our outstanding common stock;

(4) we distribute to all holders of our common stock, shares of our capital stock other than common stock, evidences of indebtedness of Coeur d Alene Mines Corporation, or assets, including securities, but excluding:

those dividends and distributions listed in (1) above;

those rights and warrants listed in (2) above or (7) below; and

all-cash distributions listed in (5) below;

(5) we distribute, by dividend or otherwise, cash to all holders of our common stock in an aggregate amount that, together with the aggregate of any other cash distributions made within the preceding 12 months that did not trigger a conversion price adjustment and all excess payments in respect of each tender offer or other negotiated transaction by us or any of our subsidiaries for common stock concluded within the preceding 12 months that did not trigger a conversion price adjustment, exceeds 15% of our market capitalization;

(6) we pay an excess payment in respect of a tender offer or other negotiated transaction by us or any of our subsidiaries for our common stock, if the aggregate of such excess payment, together with (A) any cash and other consideration payable in a tender offer by us or any of our subsidiaries for common stock expiring within the 12 months preceding the expiration of such tender offer that did not trigger a conversion price adjustment and (B) the aggregate amount of any such all-cash distributions referred to in (5) above to all holders of common stock within the 12 months preceding the expiration of such tender offer that did not trigger a conversion price adjustment, exceeds 15% of our market capitalization upon the expiration of such tender offer; and

(7) we distribute to substantially all holders of our common stock rights or warrants to subscribe for securities, other than those securities referred to in clause (2) above; and

(8) we effect a reverse stock split of our common stock prior to 90 days after the SEC has declared the registration statement of which this prospectus forms a part effective.

We reserve the right to make reductions in the conversion price in addition to those specified above as we consider advisable in order that any event treated for United States federal income tax purposes as a dividend of stock or stock rights will not be taxable to the recipients. We will not make any conversion rate adjustment until the cumulative adjustments amount to 1.0% or more of the conversion price. We will compute any adjustments to the conversion rate pursuant to this paragraph and will give you notice by mail of any adjustments.

Under the provisions of our rights agreement, holders will receive, in addition to the common stock issuable upon such conversion, the rights, whether or not the rights have separated from the common stock at the time of the conversion. See Description of Common Stock Shareholder Rights Plan. In addition, if we implement a new shareholder rights plan, this new rights plan must provide that upon conversion of your

9% notes you will receive, in addition to the common stock issuable upon such conversion, the rights whether or not such rights have separated from the common stock at the time of such conversion.

If we reclassify or change our outstanding common stock, consolidate or merge with or into another person, or we sell or convey all or substantially all of our assets, or are a party to a merger that reclassifies or changes our outstanding common stock, each 9% note then outstanding will, without the consent of the holder of any 9% note, become convertible only into the kind and amount of securities, cash and other property holders of 9% notes would have owned immediately after the transaction if the holders had converted the 9% notes immediately before the effective date of the transaction. If rights or warrants expire unexercised, the conversion price shall be readjusted to take into account the actual number of rights or warrants that were exercised.

Current market price per share of common stock on any date shall be deemed to be the average of the daily market prices for the shorter of:

- the 30 consecutive business days ending on the last full trading day on the exchange or market referred to in determining such daily market prices prior to the time of determination; or
- the period commencing on the date next succeeding the first public announcement of the issuance of such rights or warrants or such other distribution or negotiated transaction through such last full trading day on the exchange or market referred to in determining such daily market prices prior to the time of determination.

Excess payment means the excess of:

- the aggregate of the cash and fair market value of other consideration paid by us or any of our subsidiaries with respect to the shares acquired in a tender offer or other negotiated transaction, over
- the daily market price of such acquired shares on the trading day immediately after giving effect to the completion of such tender offer or other negotiated transaction.

Market capitalization means the product of the current market price per share on the date fixed for the determination of stockholders entitled to receive such distribution or expiration of such tender offer, as the case may be, times the number of shares of our common stock outstanding on such date.

We may from time to time reduce the conversion price by any amount for any period of at least 20 days if our board of directors has made a determination that such reduction would be in our best interests, which determination shall be conclusive. We will give at least 15 days notice of any proposed reduction.

If we make a distribution of property to our stockholders that would be taxable to such stockholders as a dividend for United States federal income tax purposes and the number of shares into which 9% notes are convertible is increased as a result of above antidilution provisions, this increase may be deemed to be a payment of a taxable dividend to holders.

Payment of Additional Interest upon Voluntary Conversion Prior to Maturity of the Notes

If you elect to convert your 9% notes at any time on or prior to maturity of the 9% notes, you will receive a payment of additional interest upon conversion so long as we have not previously mailed an automatic conversion notice to holders. We will pay additional interest in common stock, upon conversion for each $1,000 principal amount of 9% notes converted equal to the lesser of (i) $180.00 (which is equal to 24 months of interest) and (ii) the interest that would have accrued and been payable in respect of the 9% notes had they remained outstanding for the period commencing on the conversion date through February 26, 2007. This means that we are obligated to pay an aggregate of 24 months of interest on the 9% notes over the life of the 9% notes, regardless of whether the 9% notes are voluntarily converted prior to their maturity. The shares of common stock you receive as additional interest will be valued at the volume weighted average price per share of our common stock for the five trading days immediately prior to the date that you give notice to us of your election to voluntarily convert your 9% notes. Our ability to pay additional interest in common stock is subject

to certain conditions set forth in the indenture. See Limitations on Issuance of Common Stock as Interest for discussion regarding one of these conditions.

We will also pay to each holder an amount equal to all accrued but unpaid interest on the principal portion of the 9% notes that are voluntarily converted for the period through the day prior to the date fixed for conversion.

Subordination

The 9% notes are subordinate in right of payment to all of our senior debt. The 9% notes are equal in right of payment with the existing notes and are senior in right of payment to the debentures. As of February 28, 2003, we had approximately $38.2 million aggregate principal amount of debentures outstanding and approximately $9.9 million aggregate principal amount of existing notes outstanding. Except as provided below under the caption Additional Covenants, neither we nor our subsidiaries are limited from incurring senior debt or other indebtedness under the indenture. In addition, the 9% notes are structurally subordinated to all indebtedness and other liabilities of our subsidiaries.

We shall not make any payment on the 9% notes nor shall we redeem, purchase or acquire the 9% notes unless:

- we have paid all amounts due on senior debt; and

- at the time of any payment, redemption, purchase or acquisition, there shall not be any default under the senior debt that shall not have been cured or waived that shall have resulted in the full amount of the senior debt being declared due and payable.

If holders of designated senior debt notify us and the trustee pursuant to a payment blockage notice that a default has occurred that permits them to accelerate the maturity of the designated senior debt, we may not make any payment on the 9% notes or purchase, redeem or acquire the 9% notes for the period (the payment blockage period) commencing on the date notice is received and ending on the earlier of:

- the date on which the event of default under the designated senior debt shall have been cured or waived; or

- 180 days from the date notice is received.

We may resume payments on the 9% notes after the end of such payment blockage period, unless the holders of the designated senior debt shall have accelerated the maturity of the designated senior debt. Not more than one payment blockage notice may be given in any consecutive 360-day period.

Upon any distribution of its assets in connection with any dissolution, winding-up, liquidation or reorganization of Coeur d Alene Mines Corporation or acceleration of the 9% notes because of an event of default, we must pay all senior debt in full before the holders of the 9% notes are entitled to any payments.

If payment of the 9% note is accelerated because of an event of default, either we or the trustee shall promptly notify the holders of senior debt of the acceleration. We may not make any payments on the 9% notes until five days after the holders of senior debt receive notice of such acceleration. Thereafter, we may pay the 9% notes only if the subordination provisions of the indenture otherwise permit payment at that time.

As a result of these subordination provisions, in the event of our insolvency, holders of 9% notes may recover ratably less than our general creditors.

Definitions

Designated senior debt means our obligations under any of our senior debt of at least $10.0 million that is specifically designated by us as designated senior debt in the instrument governing or evidencing such senior debt for purposes of the indenture governing the 9% notes.

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Indebtedness means all of our obligations:

(1) for borrowed money, including, but not limited to, any indebtedness secured by a security interest, mortgage or other lien on our assets which is:

given to secure all or part of the purchase price of property, whether given to the vendor of such property or to another; or

existing on property at the time of the acquisition of the property;

(2) evidenced by a note, debenture, bond or other written instrument;

(3) under a lease required to be capitalized on the balance sheet of the lessee under GAAP or under any lease or related document, including a purchase agreement, which provides that such person is contractually obligated to purchase or to cause a third party to purchase such leased property;

(4) in respect of letters of credit, bank guarantees or bankers acceptances;

(5) with respect to indebtedness secured by a mortgage, pledge, lien, encumbrance, charge or adverse claim affecting title or resulting in an encumbrance to which our property or assets are subject, whether or not the obligation secured thereby shall have been assumed or guaranteed by us or shall otherwise be our legal liability;

(6) in respect of the balance of deferred and unpaid purchase price of any property or assets;

(7) under any interest rate or currency swap agreement, cap, floor and collar agreement, spot and forward contract and similar agreements or arrangements;

(8) with respect to any obligation of others of the type described in the preceding clauses (1) through (7) above or under clause (9) below assumed by or guaranteed in any manner by us or in effect guaranteed by us through an agreement to purchase, including, without limitation, take or pay and similar arrangements, and our obligations under any such assumptions, guarantees or other such arrangements; and

(9) any and all deferrals, renewals, extensions, refinancings and refundings of, or amendments, modifications or supplements to, any of the above.

Senior debt means the principal of, interest on, fees, costs and expenses or other amounts due on indebtedness, whether outstanding on the date of the indenture or thereafter created, incurred, assumed or guaranteed by us, unless, in the instrument creating or evidencing or pursuant to which indebtedness is outstanding, it is expressly provided that the indebtedness is not senior in right of payment to the 9% notes. Senior debt includes interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to Coeur d Alene Mines Corporation, whether or not post-filing interest is allowed in such proceeding, at the rate specified in the instrument governing the relevant obligation. However, senior debt shall not include:

indebtedness of or amounts owed by us for compensation to employees, or for goods, services or materials purchased in the ordinary course of business;

indebtedness of Coeur d Alene Mines Corporation to a subsidiary of Coeur d Alene Mines Corporation;

the debentures;

our existing notes; or

the 9% notes.

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Optional Redemption

At any time on or after August 26, 2003, we may redeem the 9% notes, in whole or in part, upon not less than 30 nor more than 40 days prior notice by mail, at the following redemption prices, expressed as a percentage of principal amount:

Date	Redemption Price
Beginning on August 26, 2003 and ending on February 25, 2004.	102%
Beginning on February 26, 2004 and ending on February 25, 2007	101%
February 26, 2007.	100%

In each case, we will pay accrued and unpaid interest to, but excluding, the redemption date. If the redemption date is an interest payment date, interest shall be paid to the record holder on the relevant record date. On or after the redemption date, interest will cease to accrue on the 9% notes called for redemption.

If we elect to redeem the 9% notes we will pay additional interest in common stock, upon redemption for each $1,000 principal amount of 9% notes redeemed equal to the lesser of (i) $180.00 (which is equal to 24 months of interest) and (ii) the interest that would have accrued and been payable in respect of the 9% notes had they remained outstanding for the period commencing on the redemption date through February 26, 2007. This means that we are obligated to pay an aggregate of 24 months of interest on the 9% notes over the life of the 9% notes, regardless of whether the 9% notes are redeemed prior to their maturity. The shares of common stock you receive as additional interest will be valued at the volume weighted average price per share of our common stock for the five trading days immediately prior to the date that we give notice of the redemption of the 9% notes. Our ability to pay additional interest in common stock is subject to certain conditions set forth in the indenture. See Limitations on Issuance of Common Stock as Interest for discussion regarding one of these conditions.

If we redeem less than all the 9% notes, the trustee will select the 9% notes to be redeemed in compliance with the requirements of the principal national securities exchange, if any, on which the 9% notes are listed or, if the 9% notes are not so listed, on a pro rata basis. If any 9% note is to be redeemed in part, a new 9% note or notes in principal amount equal to the unredeemed principal portion thereof will be issued. If a portion of a holder s 9% note is selected for partial redemption and the holder converts a portion of such 9% note, the converted portion shall be deemed to be taken from the portion selected for redemption.

We will not be required to make mandatory redemption or sinking fund payments on the 9% notes.

Repurchase at the Option of Holders

If a designated event occurs prior to the maturity of the 9% notes, you shall have the right to require us to repurchase your 9% notes at a purchase price equal to 100% of the principal amount to be repurchased, together with accrued and unpaid interest to the designated event payment date. Holders also will receive an amount for each $1,000 principal amount of 9% notes repurchased, payable in cash, equal to the lesser of (i) $180.00 (which is equal to 24 months of interest) and (ii) the interest that would have accrued and been payable in respect of the 9% notes had they remained outstanding for the period commencing on the designated event payment date through February 26, 2007. This means that we are obligated to pay an aggregate of 24 months of interest on the 9% notes over the life of the 9% notes, regardless of whether the holders elect to have their 9% notes repurchased upon the occurrence of a designated event. We refer to this as the designated event payment.

Within 30 days following any designated event, we will mail a notice to each holder stating:

(1) that the designated event offer is being made pursuant to the designated event provisions of the indenture;

(2) that all 9% notes tendered will be accepted for payment;

(3) the purchase price and the designated event payment date, such date to be no earlier than 30 days nor later than 40 days from the date the designated event notice is mailed;

(4) that any 9% notes not tendered will continue to accrue interest;

(5) that all 9% notes accepted for payment shall cease to accrue interest after the designated event payment date, unless we fail to pay the designated event payment;

(6) that holders electing to have their 9% notes purchased by us will be required to surrender the 9% notes to the paying agent at the address specified in the notice prior to the close of business on the third business day preceding the designated event payment date;

(7) that holders will be entitled to withdraw their election if the paying agent receives, not later than the close of business on the second business day preceding the designated event payment date, a telegram, telex, facsimile transmission or letter setting forth the following:

the name of the holder;

the principal amount of 9% notes delivered for purchase; and

a statement that the holder is withdrawing their election to have the 9% notes purchased;

(8) that holders whose 9% notes are being purchased only in part will be issued new 9% notes equal in principal amount to the unpurchased portion of the 9% notes surrendered, such unpurchased portion to be equal to $1,000 or a multiple of $1,000.

We will comply with any applicable requirements of Rules 13e-4 and 14e-1 under the Exchange Act in connection with any repurchase of the 9% notes upon a designated event.

On the designated event payment date, we will:

accept for payment 9% notes tendered pursuant to the designated event offer;

deposit with the paying agent the designated event payment for all tendered 9% notes; and

deliver to the trustee the 9% notes together with an officers certificate stating that the 9% notes or portions thereof have been accepted for payment by us in accordance with the designated event provisions of the indenture.

If we accept the 9% notes that you have tendered upon a designated event, the paying agent shall promptly mail to you the purchase price. In addition, the trustee shall promptly authenticate and mail to you a new note for any unpurchased portion of the 9% notes surrendered, provided that the new note is in a principal amount of $1,000 or a multiple of $1,000. We will publicly announce the results of the designated event offer after the designated event payment date. However, we may not have sufficient financial resources to repurchase the 9% notes upon a designated event.

The indenture does not contain any other provisions that permit you to require us to repurchase or redeem the 9% notes in the event of a takeover, recapitalization or similar restructuring except as set forth in this section.

The designated event purchase feature may discourage or make it more difficult to complete a takeover of Coeur d Alene Mines Corporation or remove our management. However, the designated event purchase feature is not as a result of management s knowledge of any specific effort to accumulate Coeur d Alene Mines Corporation common stock or to obtain control of Coeur d Alene Mines Corporation by means of a merger, tender offer, solicitation or otherwise, or part of a plan by management to adopt a series of antitakeover provisions. We could, in the future, enter into particular types of transactions that would not constitute a designated event under the indenture but could increase the amount of our indebtedness or affect our capital structure or credit ratings. Any payment upon a designated event by us is subordinated to the prior payment in full of senior debt under the indenture.

If a designated event were to occur, we may not have sufficient financial resources to pay the purchase price. Any future debt agreements may restrict or prohibit our repurchase of 9% notes for cash. If a designated event occurs at a time we are prohibited from repurchasing the 9% notes, we would seek to obtain the consent of our lenders. If we are unable to obtain a consent or refinance the 9% notes, we would be prohibited from

repurchasing the 9% notes. If we fail to repurchase the 9% notes upon a designated event, we would have an event of default under our indenture. Any default under the indenture may result in a default under our senior debt. In addition, the occurrence of a designated event may cause an event of default under our senior debt. As a result, any repurchase of the 9% notes may, absent a waiver, be prohibited under the subordination provisions of the indenture until the senior debt is paid in full.

A designated event is deemed to have occurred upon a change of control or a termination of trading.

A change of control occurs:

- when any person or group is or becomes the beneficial owner of shares representing more than 50% of the combined voting power of the then outstanding securities entitled to vote generally in elections of our directors (voting stock);

- when we consolidate with or merge into any other corporation, or any other corporation merges into us, and, in the case of any such transaction, our outstanding common stock is reclassified into or exchanged for any other property or security, unless our stockholders immediately before such transaction own, directly or indirectly immediately following such transaction, at least a majority of the combined voting power of the outstanding voting securities of the corporation resulting from such transaction in substantially the same proportion as their ownership of the voting stock immediately before such transaction;

- when we convey, transfer or lease all or substantially all of our assets or any subsidiary conveys, transfers, or leases assets representing all or substantially all of the assets of Coeur d Alene Mines Corporation and its subsidiaries taken as a whole; or

- any time the continuing directors do not constitute a majority of our board of directors, or, if applicable, a successor corporation to us.

However, a change of control shall not be deemed to have occurred under any of the preceding scenarios if at least 90% of the consideration, excluding cash payments for fractional shares, in the transaction or transactions constituting the change of control consists of shares of common stock that are, or upon issuance will be, traded on a United States national securities exchange or approved for trading on an established automated over-the-counter trading market in the United States.

The definition of change of control includes a phrase relating to the lease, transfer or conveyance of all or substantially all of our assets. There is no precise established definition of all or substantially all under applicable law. As a result, your ability to require us to repurchase the 9% notes as a result of a lease, transfer or conveyance of less than all of our assets may be uncertain.

Continuing directors means any member of our board of directors who:

- was a member of the board of directors on the date of the indenture; or

- was nominated for election or elected to the board of directors with the approval of a majority of the continuing directors who were members of such board at the time of such nomination or election.

Termination of trading is deemed to have occurred if our common stock, or other common stock into which the 9% notes are then convertible, is neither listed for trading on a United States national securities exchange nor approved for trading on an established automated over-the-counter trading market in the United States.

Merger, Consolidation or Sale of Assets

We may not consolidate or merge with or into, whether or not we are the surviving corporation, any person, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our properties or assets unless:

- we are the surviving corporation, or the person formed by or surviving any such consolidation or merger (if other than us) or the person which acquires by sale, assignment, transfer, lease, conveyance or other

disposition our properties and assets is a corporation organized or existing under the laws of the United States, any state thereof or the District of Columbia;

the entity or person formed by or surviving any such consolidation or merger (if other than us) assumes all our obligations under the 9% notes and the indenture pursuant to a supplemental indenture in a form reasonably satisfactory to the trustee;

the sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of our properties or assets shall be as an entirety or virtually as an entirety to one person and such person shall have assumed all our obligations under the 9% notes and the indenture pursuant to a supplemental indenture in a form reasonably satisfactory to the trustee;

immediately after such transaction no default or event of default exists; and

we or such person shall have delivered to the trustee an officers certificate and an opinion of counsel, each stating that such transaction and the supplemental indenture comply with the indenture and that all conditions precedent in the indenture relating to such transaction have been satisfied.

Modification and Waiver

Except as otherwise described below, the consent of the holders of a majority of the principal amount of the outstanding 9% notes is required to amend or modify the indenture. However, a modification or amendment requires the consent of the holder of each outstanding 9% note if it would:

reduce the percentage in principal amount of 9% notes required for modification or amendment;

reduce the percentage in principal amount of 9% notes necessary for waiver of compliance with certain provisions of the indenture or for waiver of certain defaults;

reduce the principal amount of, or any premium or interest on, any 9% note;

change the stated maturity of the principal of, or any installment of principal of or interest on, any 9% note;

change the time, place or currency of payment of principal of, or any premium or interest on, any 9% note;

make any change relating to waiver of past defaults;

impair the right to institute suit for the enforcement of any payment on any 9% note;

waive a default in the payment of the designated event payment or the principal or interest on a 9% note, except a rescission of acceleration of the 9% notes by the holders of at least a majority in aggregate principal amount of the 9% notes and a waiver of the payment default that resulted from such acceleration;

waive a redemption payment with respect to any 9% note;

impair the right to convert the 9% notes into common stock;

modify the conversion provisions in a manner adverse to the holders of the 9% notes;

modify the subordination provisions in a manner adverse to the holders of the 9% notes; or

make any change in the foregoing modification and waiver provisions.

Holders of a majority in principal amount of the 9% notes may waive any past default under the indenture, except a default in the payment of principal, premium or interest and certain covenants and provisions of the indenture which cannot be amended without the consent of the holder of each outstanding 9% note.

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However, we and the trustee may amend or supplement the indenture or the 9% notes without the consent of any holder of 9% notes:

to cure any ambiguity, defect or inconsistency;

to provide for uncertificated 9% notes;

to provide for a merger or consolidation;

to provide for any additional rights or benefits to the holders of the 9% notes;

to make any change that does not adversely affect the legal rights of any such holder under the indenture; or

to comply with requirements of the SEC in order to qualify, or maintain the qualification of, the indenture under the Trust Indenture Act.

Events of Default

The following are events of default under the indenture:

we fail to pay principal or premium on the 9% notes when due; whether or not prohibited by the subordination provisions of the indenture;

we fail to pay interest on the 9% notes for 30 days after the due date, whether or not prohibited by the subordination provisions of the indenture;

we fail to provide timely notice of a designated event;

we fail to pay the designated event payment when due, whether or not prohibited by the subordination provisions of the indenture;

we fail to comply with any of our other covenants and agreements in the indenture for 60 days after written notice has been given by the trustee or the holders of at least 25% in aggregate principal amount of the 9% notes as provided in the indenture;

certain bankruptcy, insolvency or reorganization events that affect us or any of our material subsidiaries;

we or one of our subsidiaries defaults under any mortgage, indenture or instrument for money borrowed, or the payment of which is guaranteed by us or one of our subsidiaries, which default (A) is caused by a failure to pay when due principal or interest on such indebtedness within the grace period provided in such indebtedness, which failure continues beyond the longer of any applicable grace period or 30 days (a payment default) or (B) results in the acceleration of the indebtedness prior to maturity and, in each case, the principal amount of such indebtedness, together with any other indebtedness under which there has been a payment default or the maturity of which has been accelerated, aggregates $10.0 million or more; and

either we or one of our subsidiaries fails to pay final judgments aggregating in excess of $10.0 million, which judgments are not stayed within 60 days after their entry, subject to limited exceptions.

If an event of default occurs and is continuing, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding 9% notes may declare all of the 9% notes to be immediately due and payable. In case of certain events of bankruptcy, insolvency or reorganization involving us or any material subsidiary, all outstanding 9% notes will automatically become immediately due and payable without further action or notice. Any payment by us on the 9% notes following any such acceleration will be subject to the subordination provisions of the indenture. After any acceleration, but before a judgment or decree based on acceleration, holders of a majority in aggregate principal amount of the outstanding 9% notes may, under certain circumstances, rescind and annul such acceleration if all events of default, other than the non-payment of accelerated principal, or other specified amount, have been cured or waived as provided in the indenture. Furthermore, an event of default relating to the 9% notes also would constitute an event of default under the

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indentures relating to the existing notes and the debentures, which could cause the existing notes and debentures, the total outstanding principal amount of which amounted to $48.1 million at February 28, 2003, to be immediately due and payable.

Holders may not enforce the indenture except as provided in the indenture. Subject to the provisions of the indenture relating to the duties of the trustee in case of an event of default, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless such holders have offered to the trustee reasonable indemnity. Subject to these indemnification provisions, holders of a majority in aggregate principal amount of the outstanding 9% notes have the right to:

- direct the time, method and place of conducting any proceeding for any remedy available to the trustee; or
- exercise any trust or power conferred on the trustee with respect to the 9% notes.

The trustee may withhold from holders of the 9% notes notice of any continuing default or event of default, if the trustee determines that withholding notice is in the holder s best interest except in the case of a default or event of default relating to payment on the 9% notes.

No holder of a 9% note has any right to institute any proceeding with respect to the indenture unless:

- the holder has previously given to the trustee written notice of a continuing event of default;
- such noteholder or noteholders offer to the trustee indemnity satisfactory to the trustee against any loss, liability or expense;
- the holders of at least 25% in aggregate principal amount of the outstanding 9% notes have made a written request and offered reasonable indemnity to the trustee to institute this proceeding; and
- the trustee has failed to institute such proceeding, within 60 days after this notice, request and offer.

However, these limitations do not apply to a suit instituted by a holder of a 9% note for the enforcement of payment of the principal, premium, if any, or interest on the 9% note on or after the due date specified in the 9% note.

The holders of a majority in aggregate principal amount of the outstanding 9% notes may by notice to the trustee waive any existing default or event of default and its consequences under the indenture except a continuing default or event of default in the payment of the designated event payment or interest on, or the principal of, the 9% notes.

We are required to deliver to the trustee annually a statement regarding compliance with the indenture. We are also required, upon becoming aware of any default or event of default, to deliver to the trustee a statement specifying such default or event of default.

Transfer and Exchange

Holders may transfer or exchange 9% notes in accordance with the indenture. The registrar and the trustee may require the holder to furnish appropriate endorsements and transfer documents. We may require the holder to pay any taxes and fees required by law or permitted by the indenture. We are not required to exchange or register the transfer of:

- any 9% note for a period of 20 days next preceding any selection of 9% notes to be redeemed;
- any 9% note selected for redemption; or
- any 9% note surrendered for repurchase and not withdrawn in connection with a designated event.

Reports

Whether or not required by the rules and regulations of the SEC, so long as any 9% notes are outstanding, we will file the SEC and furnish to the holders upon request all quarterly and annual financial information

required to be contained in a filing with the SEC on Forms 10-Q and 10-K, including a Management s Discussion and Analysis of Financial Condition and Results of Operations and, with respect to the annual consolidated financial statements only, a report thereon by our independent auditors.

Purchase and Cancellation

Either we or one of our subsidiaries may, to the extent permitted by applicable law, purchase 9% notes at any price in the open market or otherwise.

All 9% notes surrendered for payment, redemption, repurchase, registration of transfer or exchange or conversion shall be delivered to the trustee. All 9% notes delivered to the trustee shall be canceled promptly by the trustee. No 9% notes shall be authenticated in exchange for any canceled 9% notes.

Replacement of Notes

We will replace 9% notes that become mutilated, destroyed, stolen or lost at your expense upon delivery to the trustee of the mutilated 9% notes or evidence of the loss, theft or destruction of the 9% notes satisfactory to us and the trustee. In the case of a lost, stolen or destroyed 9% note, indemnity satisfactory to the trustee and us may be required at the expense of the holder of the 9% note before a replacement note will be issued.

Governing Law

The indenture and the 9% notes are governed by and construed in accordance with the laws of the State of New York.

Concerning the Trustee

The rights of the trustee, should it become a creditor of Coeur d Alene Mines Corporation, to obtain payment of claims is limited under the indenture. The trustee is permitted to engage in other transactions. However, if the trustee acquires any conflicting interest it must either eliminate the conflict within 90 days, apply to the SEC for permission to continue, or resign. An affiliate of the trustee is also the transfer agent for our common stock.

The holders of a majority in principal amount of the then outstanding 9% notes have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee. In case an event of default has occurred and is continuing, the trustee will be required to use the degree of care of a prudent person in the conduct of his or her own affairs. Subject to these provisions, the trustee is under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of 9% notes unless such holder shall have offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

Global Notes and Book-Entry System

The 9% notes were initially issued in certificated form. Any holder may elect to surrender a certificated note in exchange for a global note, provided that any and all of the Depository Trust Company s (DTC s) requirements with respect thereto are satisfied.

The 9% notes may be issued in the form of one or more global notes. The global notes will be deposited with, or on behalf of, DTC and registered in the name of DTC or its nominee, who will be the global notes holder. Except as set forth below, the global notes may be transferred, in whole and not in part, only to DTC or another nominee of DTC. Investors may hold their beneficial interests in the global notes directly through DTC if they are participating organizations or participants in such system or indirectly through organizations that are participants in such system.

Exchanges of Global Notes for Certificated Notes

We will issue 9% notes in certificated form to DTC for owners of beneficial interests in a global note if:

DTC notifies us that it is unwilling or unable to continue as depositary and we are unable to locate a qualified successor within 90 days or if at any time DTC, or any successor depositary, ceases to be a clearing agency under the Exchange Act;

an event of default relating to the 9% notes occurs; or

we decide in our sole discretion to terminate the use of the book-entry system for the 9% notes through DTC.

Depositary Procedures

DTC has advised us as follows:

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (direct participants) deposit with DTC. DTC also facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in direct participants accounts, thereby eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to DTC system is also available to others like securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly (indirect participants). The rules applicable to DTC and its direct and indirect participants are on file with the SEC.

Purchases of global notes under the DTC system must be made by or through direct participants, which will receive a credit for the global notes on DTC s records. The beneficial interest of each actual purchaser of each global note (a beneficial owner) is in turn to be recorded on the records of the direct participant and indirect participant. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct participant or indirect participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the global notes are to be accomplished by entries made on the books of direct participants and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in global notes, except in the event that use of the book-entry system for the global notes is discontinued.

To facilitate subsequent transfers, all global notes deposited by direct participants with DTC are registered in the name of DTC s partnership nominee, Cede & Co. or any other name as may be requested by an authorized representative of DTC. The deposit of global notes with DTC and their registration in the name of Cede & Co. or any other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the global notes; DTC s records reflect only the identity of the direct participants to whose accounts those global notes are credited, which may or may not be the beneficial owners. The direct participants and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices with respect to the global notes shall be sent to Cede & Co. If less than all of the principal amount of the 9% notes is to be redeemed, we believe that DTC s current practice is to determine by lot the interests of the direct participants to be redeemed.

Neither DTC nor Cede & Co. (or any other nominee of DTC) will consent or vote with respect to the global notes. Under its usual procedures, DTC mails an Omnibus Proxy to us as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co. s consenting or voting rights to those direct participants to whose accounts the global notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments in respect of the global notes will be made to Cede & Co. or any other nominee as may be requested by an authorized representative of DTC. DTC s practice is to credit direct participants accounts, upon DTC s receipt of funds and corresponding detail information from us or the trustee on the payment date in accordance with their respective holdings shown on DTC s records. Payments by direct participants and indirect participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of each such participant and not that of DTC, the trustee or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium, if any, and interest payments in respect of the global notes to Cede & Co. (or other nominee requested by an authorized representative of DTC) is our responsibility; disbursement of such payments to direct participants shall be the responsibility of DTC and disbursement of such payments to the beneficial owners shall be the responsibility of direct participants and indirect participants.

DTC may discontinue providing its services as securities depository with respect to the global notes at any time by giving reasonable notice to us or the trustee. Under these circumstances, in the event that a successor securities depository is not obtained, certificated notes are required to be printed and delivered to DTC.

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificated notes will be printed and delivered to DTC.

The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global note to those persons may be limited. In addition, because DTC can act only on behalf of direct participants, which, in turn, act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a global note to pledge that interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of that interest, may be affected by the lack of a physical certificate evidencing that interest.

The information in this section concerning DTC and its book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information. Although DTC has agreed to these procedures in order to facilitate transfers of interests in the global notes among participants of DTC, it is under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. Neither we nor the trustee nor any agents of ours or the trustee will have any responsibility for the performance by DTC or its respective participants or indirect participants of its obligations under the rules and procedures governing its operations.

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DESCRIPTION OF DEBT SECURITIES

The following sets forth certain general terms and provisions of the indentures under which the debt securities are to be issued. The particular terms of the debt securities to be sold by us will be set forth in a prospectus supplement relating to such debt securities.

The debt securities will represent unsecured general obligations of the Company, unless otherwise provided in the prospectus supplement. As indicated in the applicable prospectus supplement, the debt securities will either be senior debt, senior to all future subordinated indebtedness of the Company and pari passu with other current and future unsecured, unsubordinated indebtedness of the Company or, in the alternative, subordinated debt subordinate in right of payment to current and future senior debt and pari passu with other future subordinated indebtedness of the Company. The debt securities will be issued under an indenture in the form that has been filed as an exhibit to the registration statement of which this prospectus is a part, subject to such amendments or supplemental indentures as are adopted from time to time. The indentures will be executed by the Company and one or more trustees. The following summary of certain provisions of the indentures does not purport to be complete and is subject to, and qualified in its entirety by, reference to all the provisions of the indentures, including the definitions therein of certain terms. Wherever particular sections or defined terms of the indentures are referred to, it is intended that such sections or defined terms shall be incorporated herein by reference.

General

The indentures will not limit the amount of debt securities that may be issued thereunder. Reference is made to the prospectus supplement of the following terms of the debt securities offered pursuant thereto: (i) designation (including whether they are senior debt or subordinated debt and whether such debt is convertible), aggregate principal amount, purchase price and denomination; (ii) the date of maturity; (iii) interest rate or rates (or method by which such rate will be determined), if any; (iv) the dates on which any such interest will be payable and the method of payment (cash or common stock); (v) the place or places where the principal of and interest, if any, on the debt securities will be payable; (vi) any redemption or sinking fund provisions; (vii) any rights of the holders of debt securities to convert the debt securities into other securities or property of the Company; (viii) the terms, if any, on which such debt securities will be subordinate to other debt of the Company; (ix) if other than the principal amount hereof, the portion of the principal amount of the debt securities that will be payable upon declaration of acceleration of the maturity thereof or provable in bankruptcy; (x) any events of default in addition to or in lieu of those described herein and remedies therefor; (xi) any trustees, authenticating or paying agents, transfer agents or registrars or any other agents with respect to the debt securities; (xii) listing (if any) on a securities exchange; (xiii) whether such debt securities will be certificated or in book-entry form; and (xiv) any other specific terms of the debt securities, including any additional events of default or covenants provided for with respect to debt securities, and any terms that may be required by or advisable under United States laws or regulations.

Debt securities may be presented for exchange, conversion or transfer in the manner, at the places and subject to the restrictions set forth in the debt securities and the prospectus supplement. Such services will be provided without charge, other than any tax or other governmental charge payable in connection therewith, but subject to the limitations provided in the indentures.

Debt securities will bear interest at a fixed rate or a floating rate. Debt securities bearing no interest or interest at a rate that, at the time of issuance, is below the prevailing market rate, will be sold at a discount below its stated principal amount. Special United States federal income tax considerations applicable to any such discounted debt securities or to any debt securities issued at par that is treated as having been issued at a discount for United States income tax purposes will be described in the relevant prospectus supplement.

The indentures will not contain any covenant or other specific provision affording protection to holders of the debt securities in the event of a highly leveraged transaction or a change in control of the Company, except to the limited extent described below under Consolidation, Merger and Sale of Assets. The Company s Articles of Incorporation also contains other provisions which may prevent or limit a change of control. See Description of Capital Stock.

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Modification and Waiver

Each indenture will provide that modifications and amendments of such indenture may be made by the Company and the applicable trustee, with the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities issued under such indenture that are affected by the modification or amendment voting as one class; provided that no such modification or amendment may, without the consent of the holder of each such debt security affected thereby, among other things: (a) extend the final maturity of such debt securities, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any amount payable on redemption thereof, or reduce the amount of the principal of debt securities issued with original issue discount that would be due and payable upon an acceleration of the maturity thereof or the amount thereof provable in bankruptcy, or extend the time or reduce the amount of any payment to any sinking fund or analogous obligation relating to such debt securities, or materially and adversely affect any right to convert such debt securities in accordance with such indenture or impair or affect the right of any holder of debt securities to institute suit for the payment thereof or, if such debt securities provide therefor, any right of repayment at the option of the holder, (b) reduce the aforesaid percentage of such debt securities of any series, the consent of the holders of which is required for any such supplemental indenture, (c) reduce the percentage of such debt securities of any series necessary to consent to waive any past default under such indenture to less than a majority, or (d) modify any of the provisions of the sections of such indenture relating to supplemental indentures with the consent of the holders, except to increase any such percentage or to provide that certain other provisions of such indenture cannot be modified or waived without the consent of each holder affected thereby, provided, however, that this clause shall not be deemed to require the consent of any holder with respect to changes in the references to the trustee and concomitant changes in such section or the deletion of this proviso.

Each indenture will provide that a supplemental indenture that changes or eliminates any covenant or other provision of such indenture that has expressly been included solely for the benefit of one or more particular series of debt securities, or that modifies the rights of the holders of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under such indenture of the holders of debt securities of any other series.

The indenture in the form that has been filed as an exhibit to the registration statement of which this prospectus is a part and each supplemental indenture entered into thereunder will provide that the Company and the applicable trustee may, without the consent of the holders of any series of debt securities issued thereunder, enter into additional supplemental indentures for one of the following purposes: (1) to secure any debt securities issued thereunder; (2) to evidence the succession of another corporation to the Company and the assumption by any such successor of the covenants, agreements and obligations of the Company in such indenture and in the debt securities issued thereunder; (3) to add to the covenants of the Company or to add any additional events of default; (4) to cure any ambiguity, to correct or supplement any provision in such indenture that may be inconsistent with any other provision of such indenture or to make any other provisions with respect to matters or questions arising under such indenture, provided that such action shall not adversely affect the interests of the holders of any series of debt securities issued thereunder in any material respect; (5) to establish the form and terms of debt securities issued thereunder; (6) to evidence and provide for a successor trustee under such indenture with respect to one or more series of debt securities issued thereunder or to provide for or facilitate the administration of the trusts under such indenture by more than one trustee; (7) to permit or facilitate the issuance of debt securities in global form or bearer form or to provide for uncertificated debt securities to be issued thereunder; (8) to change or eliminate any provision of such indenture, provided that any such change or elimination shall become effective only when there are no debt securities outstanding of any series created prior to the execution of such supplemental indenture that are entitled to the benefit of such provision; or (9) to amend or supplement any provision contained in such indenture, which was required to be contained in the indenture in order for the indenture to be qualified under the Trust indenture Act of 1939, if the Trust indenture Act of 1939 or regulations thereunder change what is so required to be included in qualified indentures, in any manner not inconsistent with what then may be required for such qualification.

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Events of Default

Unless otherwise provided in any prospectus supplement, the following will be events of default under each indenture with respect to each series of debt securities issued thereunder: (a) failure to pay principal (or premium, if any) on any series of the debt securities outstanding under such indenture when due; (b) failure to pay any interest on any series of the debt securities outstanding under such indenture when due, continued for 30 days; (c) default in the payment, if any, of any sinking fund installment when due, payable by the terms of such series of debt securities; (d) failure to perform any other covenant or warranty of the Company contained in such indenture or such debt securities continued for 90 days after written notice; (e) certain events of bankruptcy, insolvency or reorganization of the Company; and (f) any other event of default provided in a supplemental indenture with respect to a particular series of debt securities. In case an event of default described in (a), (b) or (c) above shall occur and be continuing with respect to any series of such debt securities, the applicable trustee or the holders of not less than 25% in aggregate principal amount of the debt securities of such series then outstanding (each such series acting as a separate class) may declare the principal (or, in the case of discounted debt securities, the amount specified in the terms thereof) of such series to be due and payable. In case an event of default described in (d) above shall occur and be continuing, the applicable trustee or the holders of not less than 25% in aggregate principal amount of all debt securities of each affected series then outstanding under such indenture (treated as one class) may declare the principal (or, in the case of discounted debt securities, the amount specified in the terms thereof) of all debt securities of all such series to be due and payable. If an event of default described in (e) above shall occur and be continuing then the principal amount (or, in the case of discounted debt securities, the amount specified in the terms thereof) of all the debt securities outstanding shall be and become due and payable immediately, without notice or other action by any holder or the applicable trustee, to the full extent permitted by law. Any event of default with respect to particular series of debt securities under such indenture may be waived by the holders of a majority in aggregate principal amount of the outstanding debt securities of such series (voting as a class), except in each case a failure to pay principal of or premium, if any, or interest on such debt securities or a default in respect of a covenant or provision which cannot be modified or amended without the consent of each holder affected thereby.

Each indenture will provide that the applicable trustee may withhold notice to the holders of any default with respect to any series of debt securities (except in payment of principal of or interest or premium on, or sinking fund payment in respect of, the debt securities) if the applicable trustee considers it in the interest of holders to do so.

The Company will be required to furnish to each trustee annually a statement as to its compliance with all conditions and covenants in the applicable indenture.

Each indenture will contain a provision entitling the applicable trustee to be indemnified by the holders before proceeding to exercise any trust or power under such indenture at the request of such holders. Each indenture will provide that the holders of a majority in aggregate principal amount of the then outstanding debt securities of any series may direct the time, method and place of conducting any proceedings for any remedy available to the applicable trustee or of exercising any trust or power conferred upon the applicable trustee with respect to the debt securities of such series; *provided, however,* that the applicable trustee may decline to follow any such direction if, among other reasons, the applicable trustee determines in good faith that the actions or proceedings as directed may not lawfully be taken, would involve the applicable trustee in personal liability or would be unduly prejudicial to the holders of the debt securities of such series not joining in such direction. The right of a holder to institute a proceeding with respect to the applicable indenture will be subject to certain conditions precedent including, without limitation, that the holders of not less than 25% in aggregate principal amount of the debt securities of such series then outstanding under such indenture make a written request upon the applicable trustee to exercise its powers under such indenture, indemnify the applicable trustee and afford the applicable trustee reasonable opportunity to act, but the holder has an absolute right to receipt of the principal of, premium, if any, and interest when due on the debt securities, to require conversion of debt securities if such indenture provides for convertibility at the option of the holder and to institute suit for the enforcement thereof.

Consolidation, Merger and Sale of Assets

Each indenture will provide that the Company may not consolidate with, merge into or sell, convey or lease all or substantially all of its assets to any person unless the Company is the surviving corporation or the successor person is a corporation organized under the laws of any domestic jurisdiction and assumes the Company s obligations on the debt securities issued thereunder, and under such indenture, and after giving effect thereto no event of default, and no event that, after notice or lapse of time or both, would become an event of default shall have occurred and be continuing, and that certain other conditions are met.

Certain Covenants

Existence. Except as permitted under Consolidation, Merger or Sale of Assets, the indentures will require the Company to do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (by Articles of Incorporation, Bylaws and statute) and franchises; *provided, however,* that the Company will not be required to preserve any right or franchise if its board of directors determines that the preservation thereof is no longer desirable in the conduct of its business.

Maintenance of Properties. The indentures will require the Company to cause all of its material properties used or useful in the conduct of its business or the business of any subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; *provided, however,* that the Company and its subsidiaries will not be prevented from selling or otherwise disposing of their properties for value in the ordinary course of business.

Insurance. The indentures will require the Company to cause each of its and its subsidiaries insurable properties to be insured against loss or damage with insurers of recognized responsibility and, if described in the applicable prospectus supplement, in specified amounts and with insurers having a specified rating from a recognized insurance rating service.

Payment of Taxes and Other Claims. The indentures will require the Company to pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all taxes, assessments and governmental charges levied or imposed upon it or any subsidiary or upon the income, profits or property of the Company or any subsidiary and (ii) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any subsidiary; *provided, however,* that the Company shall not be required to pay or discharge or cause to be paid or discharged any tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith.

Provision of Financial Information. Whether or not the Company is subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), the indentures will require the Company, within 15 days of each of the respective dates by which the Company would have been required to file annual reports, quarterly reports and other documents with the SEC if the Company were so subject, (i) to transmit by mail to all holders of debt securities, as their names and addresses appear in the applicable register for such debt securities, without cost to the holders, copies of the annual reports, quarterly reports and other documents that the Company would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if the Company were subject to such sections, (ii) to file with the applicable trustee copies of the annual reports, quarterly reports and other documents that the Company would have been required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act if the Company were subject to such sections and (iii) to supply, promptly upon written request and payment of the reasonable cost of duplication and delivery, copies of the documents to any prospective holder.

Additional Covenants. Any additional covenants of the Company with respect to any series of debt securities will be set forth in the prospectus supplement relating thereto.

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Conversion Rights

The terms and conditions, if any, upon which the debt securities are convertible into Common Stock will be set forth in the applicable prospectus supplement relating thereto. Such terms will include the conversion price (or manner of calculation thereof), the conversion period, provisions as to whether conversion will be at the option of the holders or the Company, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of redemption of such debt securities and any restrictions on conversion.

Discharge, Defeasance and Covenant Defeasance

Each indenture will provide with respect to each series of debt securities issued thereunder that the Company may terminate its obligations under such debt securities of a series and such indenture with respect to debt securities of such series if: (i) all debt securities of such series previously authenticated and delivered, with certain exceptions, have been delivered to the applicable trustee for cancellation and the Company has paid all sums payable by it under the indenture; or (ii) (A) the debt securities of such series mature within one year or all of them are to be called for redemption within one year under arrangements satisfactory to the applicable trustee for giving the notice of redemption, (B) the Company irrevocably deposits in trust with the applicable trustee, as trust funds solely for the benefit of the holders of such debt securities, for that purpose, money or U.S. government obligations or a combination thereof sufficient (unless such funds consist solely of money, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the applicable trustee), without consideration of any reinvestment, to pay principal of and interest on the debt securities of such series to maturity or redemption, as the case may be, and to pay all other sums payable by it under such indenture, and (C) the Company delivers to the applicable trustee an officers certificate and an opinion of counsel, in each case stating that all conditions precedent provided for in such indenture relating to the satisfaction and discharge of such indenture with respect to the debt securities of such series have been complied with. With respect to the foregoing clause (i), only the Company s obligations to compensate and indemnify the applicable trustee under the indenture shall survive. With respect to the foregoing clause (ii) only the Company s obligations to execute and deliver debt securities of such series for authentication, to maintain an office or agency in respect of the debt securities of such series, to have moneys held for payment in trust, to register the transfer or exchange of debt securities of such series, to deliver debt securities of such series for replacement or to be canceled, to compensate and indemnify the applicable trustee and to appoint a successor trustee, and its right to recover excess money held by the applicable trustee shall survive until such debt securities are no longer outstanding. Thereafter, only the Company s obligations to compensate and indemnify the applicable trustee and its right to recover excess money held by the applicable trustee shall survive.

Each indenture will provide that the Company (i) will be deemed to have paid and will be discharged from any and all obligations in respect of the debt securities issued thereunder of any series, and the provisions of such indenture will, except as noted below, no longer be in effect with respect to the debt securities of such series and (ii) may omit to comply with any term, provision, covenant or condition of such indenture, and such omission shall be deemed not to be an event of default under clause (d) of the first paragraph of Events of Default with respect to the outstanding debt securities of such series; provided that the following conditions shall have been satisfied: (A) the Company has irrevocably deposited in trust with the applicable trustee as trust funds solely for the benefit of the holders of the debt securities of such series, for payment of the principal of and interest of the debt securities of such series, money or U.S. Government Obligations or a combination thereof sufficient (unless such funds consist solely of money, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the applicable trustee) without consideration of any reinvestment and after payment of all federal, state and local taxes or other charges and assessments in respect thereof payable by the applicable trustee, to pay and discharge the principal of and accrued interest on the outstanding debt securities of such series to maturity or earlier redemption (irrevocably provided for under arrangements satisfactory to the applicable trustee), as the case may be; (B) such deposit will not result in a breach or violation of, or constitute a default under, such indenture or any other material agreement or instrument to which the Company is a party or by which it is

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bound; (C) no default with respect to such debt securities of such series shall have occurred and be continuing on the date of such deposit; (D) the Company shall have delivered to such trustee an opinion of counsel that (1) the holders of the debt securities of such series will not recognize income, gain or loss for Federal income tax purposes as a result of the Company s exercise of its option under this provision of such indenture and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred, and (2) the holders of the debt securities of such series have a valid security interest in the trust funds subject to no prior liens under the Uniform Commercial Code; and (E) the Company has delivered to the applicable trustee an officers certificate and an opinion of counsel, in each case stating that all conditions precedent provided for in such indenture relating to the defeasance contemplated have been complied with. In the case of legal defeasance under clause (i) above, the opinion of counsel referred to in clause (D)(l) above may be replaced by a ruling directed to the applicable trustee received from the Internal Revenue Service to the same effect. Subsequent to a legal defeasance under clause (i) above, the Company s obligations to execute and deliver debt securities of such series for authentication, to maintain an office or agency in respect of the debt securities of such series, to have moneys held for payment in trust, to register the transfer or exchange of debt securities of such series, to deliver debt securities of such series for replacement or to be canceled, to compensate and indemnify the applicable trustee and to appoint a successor trustee, and its right to recover excess money held by the applicable trustee shall survive until such debt securities are no longer outstanding. After such debt securities are no longer outstanding, in the case of legal defeasance under clause (i) above, only the Company s obligations to compensate and indemnify the applicable trustee and its right to recover excess money held by the applicable trustee shall survive.

Applicable Law

The indentures will provide that the debt securities and the indentures will be governed by and construed in accordance with the laws of the State of New York.

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DESCRIPTION OF WARRANTS

We may issue warrants for the purchase of our debt securities, preferred stock, or common stock or units of two or more of these types of securities. Warrants may be issued independently or together with debt securities, preferred stock or common stock and may be attached to or separate from these securities. Each series of warrants will be issued under a separate warrant agreement. We will distribute a prospectus supplement with regard to each issue or series of warrants.

Warrants to Purchase Debt Securities

Each prospectus supplement for warrants to purchase debt securities will describe:

- the title of the debt warrants;
- the aggregate number of the debt warrants;
- the price or prices at which the debt warrants will be issued;
- the designation, aggregate principal amount and terms of the debt securities purchasable upon exercise of the debt warrants, and the procedures and conditions relating to the exercise of the debt warrants;
- if applicable, the number of the warrants issued with a specified principal amount of our debt securities or each share of our preferred stock or common stock;
- if applicable, the date on and after which the debt warrants and the related securities will be separately transferable;
- the principal amount of and exercise price for debt securities that may be purchased upon exercise of each debt warrant;
- the maximum or minimum number of the debt warrants which may be exercised at any time;
- if applicable, a discussion of any material federal income tax considerations; and
- any other material terms of the debt warrants and terms, procedures and limitations relating to the exercise of the debt warrants.

Certificates for warrants to purchase debt securities will be exchangeable for new debt warrant certificates of different denominations. Warrants may be exercised at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement.

Warrants to Purchase Preferred Stock and Common Stock

Each prospectus supplement for warrants to purchase preferred stock or common stock, will describe:

- the title of the warrants;
- the securities for which the warrants are exercisable;
- the price or prices at which the warrants will be issued;
- if applicable, the number of the warrants issued with a specified principal amount of our debt securities or each share of our preferred stock or common stock;
- if applicable, the date on and after which such warrants and the related securities will be separately transferable;

any provisions for adjustment of the number or amount of shares of our preferred stock or common stock receivable upon exercise of the warrants or the exercise price of the warrants;

if applicable, a discussion of material federal income tax considerations; and

any other material terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

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Exercise of Warrants

Each warrant will entitle the holder of the warrant to purchase the principal amount of debt securities or shares of preferred stock or common stock at the exercise price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the warrants offered in the applicable prospectus supplement. Warrants may be exercised at any time up to the close of business on the expiration date set forth in the applicable prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void.

Upon receipt of payment and the warrant certificate properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement, we will, as soon as practicable, forward the debt securities or shares of preferred stock or common stock to be purchased upon such exercise. If less than all of the warrants represented by a warrant certificate are exercised, a new warrant certificate will be issued for the remaining warrants.

Prior to the exercise of any warrants to purchase debt securities, preferred stock or common stock, holders of the warrants will not have any of the rights of holders of the debt securities, preferred stock or common stock purchasable upon exercise, including:

- in the case of warrants for the purchase of debt securities, the right to receive payments of principal of, or any premium or interest on, the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture; or

- in the case of warrants for the purchase of preferred stock or common stock, the right to vote or to receive any payments of dividends on the preferred stock or common stock purchasable upon exercise.

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DESCRIPTION OF CAPITAL STOCK

Common Stock

We are authorized to issue up to 250,000,000 shares of common stock, par value $1.00 per share, of which, at February 28, 2003,

- 139,473,538 shares were outstanding and 1,059,211 shares were held as treasury stock;
- 1,096,934 shares were reserved for issuance upon the conversion of our $28.2 million principal amount of outstanding 6 3/8% debentures;
- 569,570 shares were reserved for issuance upon conversion of our $9.9 million principal amount of outstanding 7 1/4% debentures;
- 7,341,481 shares were reserved for issuance upon the conversion of our $9.9 million principal amount of outstanding 13 3/8% debentures issued 2001;
- 23,220,304 shares were reserved for issuance upon the conversion of our $37.2 million principal amount of outstanding 9% notes;
- 2,857,000 shares were reserved for issuance under our Executive Compensation Program;
- and 1,200,000 shares were reserved for issuance under our Non-Employee Directors Stock Option Plan.

The holders of common stock are entitled to one vote for each share held of record on each matter submitted to a vote of shareholders. Holders may not cumulate their votes in elections of directors. Subject to preferences that may be applicable to any shares of preferred stock outstanding at the time, holders of common stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor and, in the event of our liquidation, dissolution or winding up, are entitled to share ratably in all assets remaining after payment of liabilities. Holders of common stock have no preemptive rights and have no rights to convert their common stock into any other security. The outstanding common stock is fully-paid and non-assessable.

Our Articles of Incorporation include what is, in effect, a fair price provision applicable to certain business combination transactions in which we may be involved. The provision requires that an interested shareholder (which is defined to mean a beneficial holder of 10% or more of our outstanding shares of common stock) not engage in certain specified transactions (e.g., mergers, sales of assets, dissolution and liquidation) unless one of three conditions is met:

- a majority of the directors who are unaffiliated with the interested shareholder and were directors before the interested shareholder became an interested shareholder approve the transaction;
- holders of 80% or more of the outstanding shares of common stock approve the transaction; or
- the shareholders are all paid a fair price, i.e., generally the higher of the fair market value of the shares or the same price as the price paid to shareholders in the transaction in which the interested shareholder acquired its block.

By discouraging certain types of hostile takeover bids, the fair price provision may tend to insulate our current management against the possibility of removal. We are not aware of any person or entity proposing or contemplating such a transaction.

The transfer agent and registrar for our common stock, which is listed on the NYSE, is ChaseMellon Shareholder Services, L.L.C., Ridgefield Park, N.J.

Preferred Stock

We are authorized to issue up to 10,000,000 shares of preferred stock, par value $1.00 per share, no shares of which are outstanding. The Board of Directors has the authority to determine the dividend rights, dividend

rates, conversion rights, voting rights, rights and terms of redemption and liquidation preferences, redemption prices, sinking fund terms on any series of preferred stock, the number of shares constituting any such series and the designation thereof. Holders of preferred stock have no preemptive rights. The Company reserves for issuance a sufficient number of Series B Preferred Stock for operation of its rights plan, as described below.

On May 11, 1999, the Board of Directors of the Company declared a dividend distribution of one right for each outstanding share of our common stock. Each right entitles the registered holder to purchase from us one one-hundredth of a share of Series B Preferred Stock at a purchase price of $100 in cash, subject to adjustment. The description and terms of the rights are set forth in a Rights Agreement, dated as of May 11, 1999, between us and ChaseMellon Shareholder Services, L.L.C., as rights agent. The rights are not exercisable or detachable from the common stock until ten days after any person or group acquires 20% or more (or commences a tender offer for 30% or more) of our common stock. If any person or group acquires 30% or more of our common stock or acquires us in a merger or other business combination, each right (other than those held by the acquiring person) will entitle the holder to purchase preferred stock of Coeur d Alene Mines or common stock of the acquiring company having a market value of approximately two times the $100 exercise price. The rights expire on May 24, 2009, and can be redeemed by us at any time prior to their becoming exercisable. Shares of common stock issued prior to the expiration date of the rights upon conversion of our debentures will be accompanied by rights.

SELLING SECURITYHOLDERS

The following table sets forth information relating to the selling securityholders beneficial ownership of our common stock:

Selling Securityholder	Shares/Percentage of Common Stock Beneficially Owned Prior to Offering	Shares of Common Stock Being Offered	Shares/Percentage of Common Stock Beneficially Owned After Offering(1)
Asarco Incorporated(2)	7,125,000/5.2%	7,125,000	0/0%
Houlihan, Lokey, Howard & Zukin	647,966/0.4%	647,966	0/0%

(1) The shares in the Shares/ Percentage of Common Stock Beneficially Owned After Offering column assumes that the maximum number of shares that may be sold listed in the previous column are actually sold in the offering.

(2) Asarco may sell these shares only when and if it has full and unencumbered title to and possession of such shares. If and when Asarco seeks to sell any such shares, whether under the registration statement of which this prospectus constitutes a part or otherwise, Asarco, and not Coeur d Alene Mines, will be responsible for properly delivering such shares to the prospective buyer. These shares may be sold by Asarco, following the filing of a supplement to this prospectus, only at such time or times as Asarco is entitled to, and determines to, exercise its contractual right to have such shares sold pursuant to this prospectus.

The following table sets forth information regarding the ownership of the 9% notes and the aggregate of (i) the number of shares of common stock into which such notes are convertible and (ii) an estimated number of shares of common stock that may be issued by us as interest on the 9% notes, which are held by the persons who may from time to time be selling securityholders of the securities set forth opposite their names.

Selling Securityholder	Principal Amount of 9% Notes That May be Sold	Shares of Common Stock That May be Sold
Lonestar Partners L.P.(1)	$ 4,402,000	4,333,565
Vertical Ventures Investments, LLC(2)	1,101,000	1,083,883
JMG Capital Partners LP(3)	1,375,000	1,353,623
JMG Triton Offshores Fund(4)	1,376,000	1,354,608
JMB Capital Partners, L.P.(5)	13,757,000	13,543,128
Bear Stearns Securities Corp. fbo Jonathan Brooks IRA(6)	1,968,000	1,937,405
Cohanzick High Yield Partners, L.P.(7)	660,000	649,739
Cohanzick Credit Opportunities Fund, Ltd.(8)	440,000	433,159
Gabriel Capital, L.P.(9)	550,000	541,449
Ariel Fund Limited(10)	550,000	541,449
Langley Partners, L.P.(11)	6,824,000	6,717,911
Jeffrey Thorp IRA Rollover(12)	4,182,000	4,116,985
Total	$37,185,000	36,606,904

(1) Southampton Capital Partners, L.P. is the general partner of Lonestar Partners L.P.; Southampton Capital LLC is the general partner of Southampton Capital Partners, L.P.; and Jerome L. Simon is the sole managing member of Southampton Capital LLC. Each of Southampton Capital Partners, L.P., Southampton Capital LLC and Jerome L. Simon may be deemed to beneficially own the 9% notes and the shares of common stock issuable upon conversion thereof, and when issued, the shares of common stock issued as interest on the 9% notes.

(2) Joshua Silverman may be deemed to beneficially own the 9% notes held by Vertical Ventures Investments, LLC and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(3) JMG Capital Management, LLC is the general partner of JMG Capital Partners, L.P.; and Jonathan Glaser is the managing member of JMG Capital Management, LLC. Each of JMG Capital Partners, L.P., JMG Capital Management, LLC and Jonathan Glaser may be deemed to beneficially own the 9% notes held by JMG Capital Partners, L.P. and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(4) Pacific Assets Management, LLC is the investment manager of JMG Triton Offshore Fund, Ltd. Pacific Assets Management, LLC and may be deemed to be the beneficial owner of the 9% notes and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(5) Smithwood Partners, LLC is the general partner of JMB Capital Partners, L.P. and Jonathan Brooks is the sole managing member of Smithwood Partners, LLC. Each of Smithwood Partners, LLC and Jonathan Brooks may be deemed to beneficially own the 9% notes and shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(6) Jonathan Brooks may be deemed to beneficially own the 9% notes held by Bear Stearns Securities Corp. fbo Jonathan Brooks IRA and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(7) Cohanzick High Yield Capital, L.P. is the general partner of Cohanzick High Yield Partners, L.P.; Sunnyside, L.L.C. is the general partner of Cohanzick High Yield Capital, L.P.; and David K. Sherman is the managing member of Sunnyside, L.L.C. Each of Cohanzick High Yield Capital, L.P., Sunnyside L.L.C. and David K. Sherman may be deemed to beneficially own the 9% notes held by Cohanzick High Yield Partners, L.P. and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(8) Cohanzick Offshore Advisors, LP, serves as the Investment Manager to Cohanzick Credit Opportunities Fund, Ltd. and David K. Sherman controls Cohanzick Offshore Advisors L.P.. Cohanzick Offshore Advisors, LP and David K. Sherman may be deemed to beneficially own the 9% notes held by Cohanzick Credit Opportunities Fund, Ltd. and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(9) J. Ezra Merkin is the sole general partner of Gabriel Capital L.P. J. Ezra Merkin may be deemed to beneficially own the 9% notes held by Gabriel Capital L.P. and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(10) Gabriel Capital Corporation is the Investment Advisor of Ariel Fund Ltd. and J. Ezra Merkin is the President and sole shareholder of Gabriel Capital Corporation. J. Ezra Merkin may be deemed to beneficially own the 9% notes held by Ariel Fund Limited and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(11) Langley Capital, LLC is the general partner of Langley Partners, L.P. and Jeffrey Thorp is the sole managing member of Langley Capital, LLC. Each of Langley Capital, LLC and Jeffrey Thorp may be deemed to beneficially own the 9% notes and the shares of common stock issuable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

(12) Jeffrey Thorp may be deemed to beneficially own the 9% notes held by Jeffrey Thorp IRA Rollover and the shares of common stock reasonable upon conversion thereof and when issued, the shares of common stock issuable as interest on the 9% notes.

All expenses incurred with the registration of the 9% notes and the shares of common stock owned by the selling securityholders will be borne by us; provided that we will not be obligated to pay any underwriting fees, discounts or commissions in connection with such registration.

Material Relationships with Asarco

The shares of common stock covered by this prospectus were received by Asarco in exchange for our acquisition of silver assets and properties from Asarco on September 9, 1999. At the time of that initial acquisition, we entered into various agreements with Asarco governing our relationship. Under these agreements, Asarco has the right to request that we register its shares of our common stock under the Securities Act of 1933. We are registering the shares of common stock offered hereby by Asarco pursuant to Asarco s exercise of such rights.

In connection with Asarco s exercise of its registration rights, we also entered into a side agreement with Asarco, dated January 6, 2003, to amend the various agreements previously entered into at the time of the initial acquisition of the shares. Under this side agreement, we agreed with Asarco as follows:

Termination of Director Rights. Asarco agreed to cause the directors that had been nominated by Asarco under the shareholders agreement between Asarco and the Company, namely Xavier Garcia de Quevedo Topete and Daniel Tellechea Salido, to resign from our board of directors. These resignations took place on January 7, 2003. Asarco also waived any right to nominate directors in the future.

Nature of Widely Distributed Public Offering. In connection with its initial acquisition of shares of our common stock, Asarco had previously agreed, pursuant to the transaction agreement between Asarco and the Company, that during the five years following such transaction it would not, without our prior consent, sell shares other than to an affiliate of Asarco or in a widely distributed public offering. Pursuant to the January 2003 side agreement, Asarco agreed that it will limit its sales of such shares so that no individual purchaser will purchase in excess of 500,000 shares.

Termination of Corporate Governance Rights. Under the shareholders agreement, we had agreed that, until Asarco holds less than 10% of our outstanding common stock, a number of specified actions by us would require the prior written consent of Asarco. These specified actions included, among others, (i) the approval of capital expenditure budgets and specified proposed borrowings or liens, (ii) any proposed liquidation, dissolution or bankruptcy proceeding, (iii) any material change in the nature of our business, (iv) specified issuances of equity, and (v) material amendment of our By-Laws or Articles of Incorporation or any increase in the number of directors above eleven. Pursuant to the January 2003 side agreement, Asarco agreed to waive its approval authority for any of these specified actions and we are no longer obligated to seek the prior approval of Asarco with respect to any such actions.

We agreed under the January 2003 side agreement that we will use our best efforts to have the registration statement of which this prospectus constitutes a part declared effective.

Under the shareholders agreement entered into in connection with Asarco s initial acquisition of shares, Asarco agreed that without the consent of our board of directors, Asarco will not acquire common stock or other voting securities of Coeur, or any rights or options to buy any of such securities, if after any such acquisition, Asarco would own more than 20% of the total voting power of all outstanding voting equities securities of Coeur. This provision was not amended pursuant to the January 2003 side agreement and it remains in effect.

Asarco was acquired by Grupo Mexico S.A. on November 17, 1999, subsequent to our entering into the shareholder agreement.

Asarco, the prior lessee of Coeur s Rochester mine, also has a net smelter royalty interest which is payable only when the market price of silver equals or exceeds $17.57 per ounce up to maximum rate of 5%. No royalties were required to be paid by Coeur during the three years ended December 31, 2001.

Material Relationships with Houlihan Lokey

Houlihan, Lokey, Howard & Zukin (Houlihan Lokey) has performed certain investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The shares of common stock registered hereunder for resale by Houlihan Lokey were received by Houlihan Lokey in partial payment for financial advisory services provided to us in connection with the issuance of the 9% notes.

PLAN OF DISTRIBUTION

The securities being offered by this prospectus may be sold by us or the selling securityholders:

- through agents,
- to or through underwriters,
- through broker-dealers (acting as agent or principal),
- directly by us or the selling securityholders to purchasers, through a specific bidding or auction process or otherwise, or
- through a combination of any such methods of sale.

The distribution of securities may be effected from time to time in one or more transactions, including block transactions and transactions on the New York Stock Exchange or any other organized market where the securities may be traded. The securities may be sold at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices relating to the prevailing market prices or at negotiated prices. The consideration may be cash or another form negotiated by the parties. Agents, underwriters or broker-dealers may be paid compensation for offering and selling the securities. That compensation may be in the form of discounts, concessions or commissions to be received from us or the selling securityholders or from the purchasers of the securities. The selling securityholders and dealers and agents participating in the distribution of the securities may be deemed to be underwriters, and compensation received by them on resale of the securities may be deemed to be underwriting discounts. If the selling securityholders or such dealers or agents were deemed to be underwriters, they may be subject to statutory liabilities under the Securities Act.

Agents may from time to time solicit offers to purchase the securities. If required, we will name in the applicable prospectus supplement any agent involved in the offer or sale of the securities and set forth any compensation payable to the agent. Unless otherwise indicated in the prospectus supplement, any agent will be acting on a best efforts basis for the period of its appointment. Any agent selling the securities covered by this prospectus may be deemed to be an underwriter, as that term is defined in the Securities Act, of the securities.

If underwriters are used in a sale, securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale, or under delayed delivery contracts or other contractual commitments. Securities may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. If an underwriter or underwriters are used in the sale of securities, an underwriting agreement will be executed with the underwriter or underwriters at the time an agreement for the sale is reached. The applicable prospectus supplement will set forth the managing underwriter or underwriters, as well as any other underwriter or underwriters, with respect to a particular underwritten offering of securities, and will set forth the terms of the transactions, including compensation of the underwriters and dealers and the public offering price, if applicable. The prospectus and prospectus supplement will be used by the underwriters to resell the securities.

If a dealer is used in the sale of the securities, we, the selling securityholders or an underwriter will sell the securities to the dealer, as principal. The dealer may then resell the securities to the public at varying prices to be determined by the dealer at the time of resale. To the extent required, we will set forth in the prospectus supplement the name of the dealer and the terms of the transactions.

We and the selling securityholders may directly solicit offers to purchase the securities and we or the selling stockholder may make sales of securities directly to institutional investors or others. These persons may be deemed to be underwriters within the meaning of the Securities Act with respect to any resale of the securities. To the extent required, the prospectus supplement will describe the terms of any such sales, including the terms of any bidding or auction process, if used.

Agents, underwriters and dealers may be entitled under agreements which may be entered into with us to indemnification by us against specified liabilities, including liabilities incurred under the Securities Act, or to

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contribution by us and/or the selling securityholders to payments they may be required to make in respect of such liabilities. If required, the prospectus supplement will describe the terms and conditions of such indemnification or contribution. Some of the agents, underwriters or dealers, or their affiliates may be customers of, engage in transactions with or perform services for us or our subsidiaries in the ordinary course of business.

Under the applicable registration rights agreement or shareholder agreement, we and the selling securityholders listed in this prospectus under the heading Selling Securityholders will each indemnify the other against certain liabilities, including certain liabilities under the Securities Act, or will be entitled to contribution in connection with these liabilities. We have also agreed to identify any underwriters, brokers or dealers participating in the distribution of the 9% notes, and their officers and directors in connection therewith.

Under the securities laws of some states, the securities offered by this prospectus may be sold in those states only through registered or licensed brokers or dealers.

Any person participating in the distribution of common stock registered under the registration statement that includes this prospectus will be subject to applicable provisions of the Exchange Act, and the applicable SEC rules and regulations, including, among others, Regulation M, which may limit the timing of purchases and sales of any of our common stock by any such person. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of our common stock to engage in market-making activities with respect to our common stock. These restrictions may affect the marketability of our common stock and the ability of any person or entity to engage in market-making activities with respect to our common stock.

Certain persons participating in an offering may engage in over-allotment, stabilizing transactions, short-covering transactions and penalty bids in accordance with Regulation M under the Exchange Act that stabilize, maintain or otherwise affect the price of the offered securities. For a description of these activities, see the information under the heading Underwriting in the applicable prospectus supplement.

Asarco has agreed with the Company that it will limit its sales of shares hereunder so that no individual purchaser will purchase in excess of 500,000 shares.

In connection with the sales of the 9% notes or common stock, the selling securityholders may enter into hedging transactions with broker-dealers. These broker-dealers may in turn engage in short sales of the 9% notes and the common stock in the course of hedging their positions. The selling securityholders may also sell short the 9% notes and common stock and deliver 9% notes and common stock to close out short positions, or loan or pledge the 9% notes or common stock to broker-dealers that, in turn, may sell such securities.

To our knowledge, there are currently no plans, arrangements or understandings between any selling securityholders and any underwriter, broker-dealer or agent regarding the sale of the 9% notes or common stock by the selling securityholders. Selling securityholders may decide not to sell all or a portion of the 9% notes or common stock offered by them pursuant to this prospectus or may decide not to sell 9% notes or common stock under this prospectus. In addition, any selling securityholder may transfer, devise or give the 9% notes or common stock by other means not described in this prospectus. Any 9% notes or common stock that qualify for sale pursuant to Rule 144 or Rule 144A of the Securities Act, or Regulation S under the Securities Act, may be sold under Rule 144 or Rule 144A or Regulation S rather than pursuant to this prospectus.

We have agreed to pay substantially all of the expenses incidental to the registration, offering and sale of the 9% notes and common stock to the public by the selling securityholders other than commissions, fees and discounts of underwriters, brokers, dealers and agents.

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CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS

The following is a summary of material United States federal income and estate tax considerations relating to the acquisition, ownership and disposition of the 9% notes and shares of our common stock by holders of the 9% notes acquiring the 9% notes pursuant to this offering, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), regulations, rulings and judicial decisions as of the date hereof. These authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those set forth below. We have not sought any ruling from the Internal Revenue Service (IRS) or an opinion of counsel with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the Internal Revenue Service will agree with such statements and conclusions.

This summary assumes that the 9% notes and any shares of our common stock are held as capital assets for United States federal income tax purposes. This summary does not address the tax considerations arising under the laws of any foreign, state or local jurisdiction. In addition, this discussion does not address tax considerations that may be relevant to holders in light of their particular circumstances, or to holders that may be subject to special tax rules, including, without limitation:

- holders subject to the alternative minimum tax;
- banks;
- tax-exempt organizations;
- insurance companies;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- financial institutions;
- holders whose functional currency is not the U.S. dollar;
- persons that will hold the 9% notes or our common stock as a position in a hedging transaction, straddle, conversion transaction or other risk reduction transaction; or
- persons deemed to sell the 9% notes or our common stock under the constructive sale provisions of the Code.

If a partnership holds 9% notes or our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. This summary does not address the particular tax consequences of holding 9% notes through a partnership. If you are a partner of a partnership holding our 9% notes, you should consult your tax advisor.

THIS SUMMARY OF CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR WITH RESPECT TO THE APPLICATION OF UNITED STATES FEDERAL INCOME TAX LAWS TO YOUR PARTICULAR SITUATION AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER THE UNITED STATES FEDERAL ESTATE OR GIFT TAX RULES OR UNDER THE LAWS OF ANY STATE, LOCAL, FOREIGN OR OTHER TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Consequences to U.S. Holders

The following is a summary of the material United States federal income tax consequences that will apply to you if you are a U.S. holder of the 9% notes. Certain consequences to non-U.S. holders of the 9% notes

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are described under Consequences to Non-U.S. Holders below. U.S. holder means a beneficial owner of a 9% note that is:

- a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision of the United States;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust (1) if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (2) that has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

Stated Interest

We intend to take the position that the stated interest on the 9% notes constitutes qualified stated interest and generally will be taxable to you as ordinary income at the time it is paid or accrues in accordance with your regular method of accounting for tax purposes. Qualified stated interest is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single rate that appropriately takes into account the length of intervals between payments.

Original Issue Discount

The 9% notes were originally issued at a discount from their stated principal amount. As such, the 9% notes are treated as having original issue discount for United States federal income tax purposes. In general, you must include original issue discount in income (as ordinary interest income) before receipt of the cash or other payment attributable to such income, regardless of your regular method of tax accounting.

The aggregate amount of original issue discount on a note is equal to the excess of a note s stated redemption price at maturity over its issue price. The stated redemption price at maturity of a note will include all payments on the note other than payments of qualified stated interest. The issue price of a note is the first price at which a substantial amount of the notes were sold for money (excluding sales to bond houses, brokers or similar persons or organizations acting as underwriters, placement agents or wholesalers).

If the amount or timing of any payments on a note is contingent, the note could be subject to special rules that apply to contingent payment debt instruments. These rules may require a holder to accrue interest income at a rate higher than the rates described in this section and require the holder to treat as ordinary income, rather than capital gain, any gain recognized on the disposition of a note before the resolution of the contingencies. See Conversion of the 9% Notes. In certain circumstances, holders of the 9% notes may receive payments in excess of stated principal and interest, and/or the timing of certain payments may vary. For example, if we elect to convert the 9% notes automatically, if a holder voluntarily converts a 9% note, or if we elect to redeem the 9% notes, each holder would be entitled to receive upon conversion or redemption a payment which may be in excess of stated principal and interest. Similarly, if we elect to make an interest payment in stock rather than cash, each holder would be entitled to receive stock whose fair market value may be in excess of stated interest. We do not believe that the 9% notes should be treated as contingent payment debt instruments because of these potential payments since the contingent amount thereof likely would be incidental. Therefore, for purposes of filing tax or information returns with the IRS, we will not treat the 9% notes as contingent payment debt instruments, and the discussion in this summary reflects this position. Because of the relative lack of authority on the application of the above special rules to contingent payment debt instruments, the federal income tax consequences of the additional payments are uncertain. The 9% notes could be treated as contingent payment debt instruments, with the consequences described above. If the 9% notes are not treated as contingent payment debt instruments, so that the potential receipt of the additional payments does not affect the accrual of interest, the holders may be required to recognize income or gain upon

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receipt of a contingent payment. Holders should consult their own tax advisors with respect to these additional payments.

The amount of original issue discount includible in income by you is the sum of the daily portions of original issue discount with respect to the 9% notes for each day during the taxable year or portion of the taxable year in which you hold the notes. The daily portion is determined by allocating to each day in any accrual period a pro rata portion of the original issue discount allocable to that accrual period. The amount of original issue discount allocable to any accrual period is equal to:

- the product of the note s adjusted issue price at the beginning of the accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period, and properly adjusted for the length of the accrual period), less

- the qualified stated interest allocable to such period.

The adjusted issue price of a note at the beginning of any accrual period is equal to its issue price increased by the aggregate amount of original issue discount previously accrued on the note for all prior accrual periods and decreased by any payments, other than payments of qualified stated interest, made on the 9% notes on or before the first day of the accrual period. Original issue discount allocable to the final accrual period is the difference between the amount payable at maturity of the 9% notes and the notes adjusted issue price at the beginning of the final accrual period.

Under the foregoing rules, you will be required to include in gross income increasingly greater amounts of original issue discount in each successive accrual period. Your tax basis in the 9% notes will be increased by the amount of original issue discount you include in gross income and will be decreased by the amount of any payments you receive with respect to the 9% notes, other than payments of qualified stated interest.

We will provide certain information to the IRS and will furnish annually to record U.S. holders of the 9% notes (other than certain exempt holders, including, in particular, corporations) information with respect to the original issue discount accruing on the 9% notes during the taxable year.

Market Discount

If you acquire the note for an amount that is less than its adjusted issue price (as defined above in Original Issue Discount), the amount of such difference is treated as market discount for U.S. federal income tax purposes, unless such difference is less than 1/4 of one percent of the stated principal amount multiplied by the remaining number of complete years to maturity from the date of the acquisition.

If you purchase a 9% note with market discount, you generally will be required to treat any principal payment, any payment that is not qualified stated interest, or any gain upon the sale, exchange or retirement (including redemption or repurchase) of a 9% note, as ordinary income to the extent of the accrued market discount on the note that you have not previously included in gross income. If you dispose of the note in certain otherwise non-taxable transactions, you will be required to include accrued market discount in gross income as if you had sold the note at its then fair market value. If a 9% note with accrued market discount that has not previously been included in gross income is converted into common stock pursuant to the conversion feature, the amount of such accrued market discount not previously included in gross income generally will be taxable as ordinary income upon disposition of the common stock received upon conversion. You may be required to defer, until the maturity of the note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry a 9% note with market discount.

In general, any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the note, unless you elect to accrue under a constant yield method. You may elect to include market discount in gross income currently as it accrues (on either a ratable or constant yield method), rather than on disposition of the note, in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in gross income on an accrual basis, once made, applies to all market discount obligations you acquire on or after the first day of the first

taxable year to which the election applies, and is irrevocable without the consent of the IRS. Your tax basis in the 9% notes will be increased by the amount of any market discount included in your gross income under such an election.

Amortizable Bond Premium

If you purchase a 9% note for an amount that, when reduced by the value of the conversion feature, is in excess of the sum of all amounts payable on the note other than payments of qualified stated interest, you will be considered to have purchased the note at a premium. The value of the conversion feature is the excess, if any, of the note s purchase price over what the note s fair market value would be if there were no conversion feature (determined under any reasonable method). If you purchase a 9% note at a premium, you will not be required to include any original issue discount in gross income. If the amount of premium exceeds the amount of original issue discount on the note, the excess will be treated as amortizable bond premium and you may elect to amortize the bond premium as an offset to qualified stated interest, using a constant yield method similar to that described above under Original Issue Discount over the remaining term of the note, subject to special rules that apply to debt instruments with early call dates. If you elect to amortize bond premium, your tax basis in the note will be reduced by the amount of allowable amortization. The election to amortize bond premium applies to all taxable debt obligations you hold during or after the taxable year for which you make the election, and is irrevocable without the consent of the IRS.

Acquisition Premium

If you have an adjusted basis in a 9% note immediately after its purchase that is (i) less than or equal to the sum of all amounts payable on the note after the purchase date other than payments of qualified stated interest and (ii) greater than the note s adjusted issue price (as described above under Original Issue Discount), the amount of the difference described in clause (ii) is treated as acquisition premium for United States federal income tax purposes. If you have purchased a 9% note with original issue discount at an acquisition premium, you may reduce the amount of original issue discount otherwise includible in your gross income during any day in an accrual period by a fraction. The numerator of this fraction is the excess of the adjusted tax basis of the note immediately after its acquisition over the adjusted issue price of the note. The denominator of the fraction is the excess of the sum of all amounts payable on the note after the purchase date, other than payments of qualified stated interest, over the note s adjusted issue price. As an alternative to reducing the amount of original issue discount otherwise includible in income by this fraction, you may elect to compute original issue discount accruals by treating the purchase as a purchase at original issuance and using the constant yield method described above.

Election to Treat All Interest as Original Issue Discount

You may elect to include in gross income all interest that accrues on a 9% note, including stated interest, market discount and original issue discount (as adjusted by any premium), by using the constant yield method described above under Original Issue Discount. Such an election for a 9% note with amortizable bond premium results in a deemed election to amortize bond premium for all taxable debt instruments you own and later acquire with premium, and may be revoked only with the permission of the IRS. Similarly, such an election for a 9% note with market discount results in a deemed election to accrue market discount in income currently for such note and for all other debt instruments you acquire with market discount on or after the first day of the taxable year to which such election first applies, and may be revoked only with the permission of the IRS. Your tax basis in a 9% note is increased by each accrual of the amounts treated as original issue discount under the constant yield election described in this paragraph.

The rules regarding market discount, and amortizable bond premium and acquisition premium are complex, and you should consult your own tax advisors regarding these rules.

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Sale, Exchange or Disposition of 9% Notes

Except as provided below under Conversion of the 9% Notes, you will generally recognize gain or loss upon the sale, exchange or other taxable disposition (including redemption or repurchase) of a 9% note equal to the difference between the amount realized upon the sale, exchange or other disposition (less an amount attributable to any stated interest not previously included in income, which will be taxable as ordinary interest income, and amounts attributable to accrued interest that was previously included in income, which amount may be received without generating further income) and your adjusted tax basis in the note. Your adjusted tax basis in a 9% note generally will equal the amount you paid for the note increased by original issue discount and market discount previously included in income in respect of the note, and reduced by payments received in respect of the note other than payments of qualified stated interest. Subject to the discussion above under Market Discount, any gain or loss you recognize on a taxable disposition of the note generally will be capital gain or loss. If you are an individual and have held the note for more than one year, such capital gain will generally be subject to tax at a maximum rate of 20%. Your ability to deduct capital losses may be limited.

Conversion of the 9% Notes

Your conversion of a 9% note into common stock generally will not be a taxable event, except to the extent of payments of interest that you have not yet included in gross income, and except that the receipt of cash in lieu of a fractional share of common stock will result in the recognition of gain or loss (measured by the difference between the cash received in lieu of the fractional share and your adjusted tax basis in the fractional share).

Your initial tax basis in common stock received upon a conversion of a 9% note will be the same as your adjusted tax basis in the note at the time of conversion, reduced by any tax basis allocated to a fractional share. Your holding period for the common stock received upon conversion of a 9% note will include your holding period for the converted note.

As noted above, if we elect to convert the 9% notes automatically, or if a holder elects to convert the holder s 9% notes, the tax consequences of the additional payment that the holder would receive are unclear. The holder could be required to recognize income or gain on the receipt of the additional payment. Finally, the application to the 9% notes of the special rules for contingent payment debt instruments could affect the United States federal income tax consequences of a conversion of the 9% notes. If those special rules apply to the 9% notes, their effect on a conversion of the 9% notes is uncertain. Under one reading of the rules, conversion of the 9% notes would be a taxable event requiring the holders to recognize gain or loss. We do not believe, however, that the 9% notes should be treated as contingent payment debt instruments, and we will not treat them as such for purposes of filing tax or information returns with the IRS. See Interest Original Issue Discount above.

Adjustments of the Conversion Ratio

The terms of the 9% notes allow for changes in the conversion rate of the 9% notes in certain circumstances. See Description of 9% Notes Adjustments to Conversion Price and Rate. Changes in conversion rate could be treated as a constructive stock distribution if the changes have the effect of increasing your proportionate interest in our earnings and profits. You would be taxable on such a constructive stock distribution even though you would not actually receive any cash or other property. A constructive stock distribution could occur, for example, if the conversion rate is adjusted to compensate holders of 9% notes for distributions of cash or property to our stockholders. By contrast, changes in the conversion rate will not be treated as a constructive stock distribution if the changes have the effect of preventing the dilution of your interest pursuant to the application of a bona fide, reasonable adjustment formula. Any constructive stock distribution resulting from a change to, or a failure to change, the conversion rate would be treated like a distribution paid in cash or other property and would be includible in your income in the manner described under Dividends on Common Stock below.

Dividends on Common Stock

If we make a distribution of cash or other property (other than certain pro rata distributions of our common stock) in respect of shares of our common stock that you hold, the distribution will be treated as a dividend, taxable to you as ordinary income, to the extent it is paid from our current or accumulated earnings and profits. If the distribution exceeds our current and accumulated earnings and profits, the excess will be treated first as a tax-free return of your investment up to your basis in such common stock, and any remaining excess will be treated as capital gain. If you are a U.S. corporation, you may be able to claim, in certain circumstances, a deduction for a portion of any distribution received from us that is considered a dividend.

Sale or Other Disposition of Common Stock

You will generally recognize capital gain or loss on a sale or other disposition of common stock. Your gain or loss will equal the difference between the proceeds you received and your adjusted tax basis in the stock. The proceeds received will include the amount of any cash and the fair market value of any other property received for the stock. In general, if you are an individual and your holding period for the stock is more than one year at the time of the disposition, such capital gain will be subject to tax at a maximum rate of 20%. Your ability to deduct capital losses may be limited.

Information Reporting and Backup Withholding

In general, information reporting requirements will apply to certain payments on the 9% notes and on our common stock and the proceeds of sale of a 9% note or our common stock unless you are an exempt recipient (such as a corporation). A backup withholding tax at the applicable rate will apply to such payments if you fail to provide your taxpayer identification number or certification of exempt status or have been notified by the Internal Revenue Service that you are subject to backup withholding.

Any amounts withheld under the backup withholding rules will generally be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service.

Consequences to Non-U.S. Holders

The following is a summary of the material United States federal income and estate tax consequences that will apply to you if you are a non-U.S holder of 9% notes. The term non-U.S. holder means a beneficial owner of a 9% note that is not a U.S. holder.

Special rules may apply to certain non-U.S. holders such as controlled foreign corporations, passive foreign investment companies and foreign personal holding companies. Such entities should consult their own tax advisors to determine the United States federal, state, local and other tax consequences that may be relevant to them.

Payment of Interest

Subject to the discussion below concerning backup withholding, the 30% United States federal withholding tax will not apply to any payment to you of principal or interest on a 9% note, including original issue discount, by us or any paying agent, provided that all of the following conditions are met:

- you do not actually or constructively own 10% or more of the total combined voting power of all classes of our stock that are entitled to vote within the meaning of section 871(h)(3) of the Code;

- you are not a controlled foreign corporation that is related, directly or indirectly, to us through stock ownership;

- you are not a bank whose receipt of interest on a 9% note is described in section 881(c)(3)(A) of the Code;

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either (a) you provide your name and address, and certify to us or our paying agent, under penalties of perjury, that you are not a United States person or (b) a custodian, broker, nominee or other intermediary acting as your agent (such as a securities clearing organization, bank, or other financial institution that holds customers securities in the ordinary course of its business) holds the note on your behalf and certifies to us or our paying agent, under penalties of perjury, that it has received such a statement from the beneficial owner of the 9% notes, or from another qualifying financial institution intermediary, and provides a copy of the statement to us or our paying agent. The foregoing certification may be provided on a properly completed IRS Form W-8BEN or W-8IMY, as applicable, or any successor forms. If you hold your 9% notes through certain foreign intermediaries or certain foreign partnerships, such foreign intermediaries or partnerships must also satisfy the certification requirements of applicable Treasury Regulations; and

neither we nor our paying agent has actual knowledge or reason to know that the conditions of the exemption are, in fact, not satisfied.

Special certification rules apply to non-U.S. holders that are pass-through entities rather than corporations or individuals.

If you cannot satisfy the requirements described above, payments of interest will be subject to the 30% United States federal withholding tax, unless you provide us with a properly executed (1) IRS Form W-8BEN, claiming an exemption from or reduction in withholding under the benefit of an applicable tax treaty and neither we nor our paying agent has actual knowledge or reason to know that the conditions of the exemption or reduction are, in fact, not satisfied or (2) IRS Form W-8ECI stating that interest paid on the note is not subject to withholding tax because it is effectively connected with your conduct of a trade or business in the United States.

If you are engaged in a trade or business in the United States and interest and original issue discount on a 9% note is effectively connected with the conduct of that trade or business, you will be required to pay United States federal income tax on that interest and original issue discount on a net income basis (although exempt from the 30% withholding tax, provided the certification requirement described above is met) in the same manner as if you were a United States person as defined under the Code. In addition, if you are a foreign corporation, you may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of your earnings and profits for the taxable year, subject to adjustments, that are effectively connected with your conduct of a trade or business in the United States. For this purpose, interest and original issue discount will be included in your earnings and profits.

Sale, Exchange or Disposition of 9% Notes or Common Stock

You generally will not be subject to United States federal income tax (i) upon conversion of a 9% note into shares of common stock (except with respect to a cash payment in respect of a 9% note that does not qualify for the portfolio interest exemption described under Payment of Interest above and that has not previously been included in income), or (ii) on gain realized upon the sale, exchange or other taxable disposition of a 9% note (except with respect to amounts attributable to interest, which would be taxable as described above) or common stock unless:

that gain is effectively connected with your conduct of a trade or business in the United States;

you are an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met;

you are subject to Code provisions applicable to certain United States expatriates; or

we are, or have, at any time during a prescribed time period, been a United States real property holding corporation (USRPHC) and the rules of the Foreign Investment in Real Property Tax Act, referred to as FIRPTA (described below), apply to your disposition of the 9% notes or common stock.

A holder described in the first bullet point above will be required to pay United States federal income tax on the net gain derived from the sale, and if such holder is a foreign corporation, it may also be required to pay

a branch profits tax at a 30% rate or a lower rate if so specified by an applicable income tax treaty. A holder described in the second bullet point above will be subject to a flat 30% United States federal income tax on the gain derived from the sale, which may be offset by United States source capital losses, even though the holder is not considered a resident of the United States. Any non-U.S. holder described in these bullet points should consult their own tax advisors as to the U.S. federal income tax consequences of the sale, exchange or other disposition of a 9% note or shares of our common stock.

We believe that we are currently, and expect to continue to be, a USRPHC. Accordingly, the FIRPTA rules would apply to a disposition by a non-U.S. holder of the 9% notes or the common stock into which the 9% notes are convertible, if the 9% notes or common stock constitute a U.S. real property interest in the hands of the non-U.S. holder. Assuming our common stock is regularly traded on an established securities market, our common stock will constitute a U.S. real property interest in the hands of a non-U.S. holder only if that non-U.S. holder owned, directly or indirectly, more than five percent of our common stock within five years before the holder s disposition of the common stock (or, if shorter, such holder s holding period), and our 9% notes will constitute a U.S. real property interest only if either (a) the 9% notes are regularly traded on an established securities market and the holder owned more than five percent of the 9% notes within five years before the holder s disposition of the 9% notes, or (b) the 9% notes are not regularly traded and on the date the holder acquired the 9% notes they had a fair market value greater than five percent of the aggregate value of our outstanding common stock. If all of these conditions were met, and if the FIRPTA rules applied to a disposition of 9% notes or common stock, then any gain recognized by the holder would be treated as effectively connected with a U.S. trade or business, and, thus, would be subject to U.S. federal income tax. In addition, FIRPTA withholding at a 10% rate may be applicable to a non-U.S. holder s disposition of 9% notes or the common stock into which the 9% notes are convertible. Assuming our common stock is regularly traded on an established securities market, a non-U.S. holder generally will not be subject to FIRPTA withholding on a sale or other disposition of common stock. In the case of a sale or other disposition of 9% notes, if the 9% notes are regularly traded on an established securities market, a holder generally will not be subject to FIRPTA withholding. If the 9% notes are not so regularly traded, a non-U.S. holder will be subject to FIRPTA withholding if on the date the holder acquired such notes they had a fair market value greater than 5% of the aggregate value of our outstanding common stock. We believe that the common stock will be treated as regularly traded on an established securities market. We cannot anticipate whether the 9% notes will be so traded.

Dividends; Adjustments of the Conversion Ratio

Any dividends paid to you with respect to our common stock received on conversion of a 9% note (and any deemed dividends resulting from certain adjustments, or failure to make adjustments, to the number of shares of common stock to be issued on conversion of the 9% notes, see Consequences to U.S. Holders Adjustments of the Conversion Ratio above) will be subject, in general, to U.S. federal withholding tax at a 30% rate (subject to reduction under an applicable income tax treaty) unless the dividend is effectively connected with a trade or business conducted within the United States, in which case the dividend would be taxable on a net income basis at the graduated rates applicable to U.S. persons. Any such effectively connected dividends received by a non-U.S. holder that is a corporation may also, under certain circumstances, be subject to the branch profits tax at a 30% rate or such lower rate as may be prescribed under an applicable United States income tax treaty.

United States Federal Estate Tax

A 9% note held by an individual who at the time of death is not a citizen or resident of the United States (as specially defined for United States federal estate tax purposes) will not be subject to United States federal estate tax if the individual did not actually or constructively own 10% or more of the total combined voting power of all classes of our stock and, at the time of the individual s death, payments with respect to such note would not have been effectively connected with the conduct by such individual of a trade or business in the United States. Shares of our common stock held by an individual who at the time of death is not a citizen or resident of the United States (as specially defined for United States federal estate tax purposes) will be

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included in such individual s estate for United States federal estate tax purposes, unless an applicable United States estate tax treaty provides otherwise.

Prospective non-U.S. holders who are individuals should be aware that there have been recent amendments to the United States federal estate tax rules, and such persons should consult with their tax advisors before considering an investment in the 9% notes.

Backup Withholding and Information Reporting

If you are a non-U.S. holder, you may have to comply with specific certification procedures to establish that you are not a United States person in order to avoid information reporting and backup withholding tax requirements with respect to payments of principal and interest on the 9% notes. In addition, we must report annually to the IRS and to you the amount of, and the tax withheld with respect to, any dividends paid to you, regardless of whether any tax was actually withheld. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which you reside.

Backup withholding will generally not apply to payments of dividends made by us to a non-U.S. holder of common stock if the holder has provided its TIN or the required certification that it is not a United States person as described above under Payment of Interest. Information reporting may still apply with respect to such dividends even if such certification is provided. Notwithstanding the foregoing, backup withholding may apply if we have actual knowledge, or reason to know, that the holder is a United States person.

Information reporting requirements and backup withholding generally will not apply to any payments of the proceeds of the disposition of 9% notes or shares of common stock effected outside the United States by a foreign office of a foreign broker (as defined in applicable Treasury Regulations). However, unless such broker has documentary evidence in its records that the beneficial owner is a non-U.S. Holder and certain other conditions are met, or the beneficial owner otherwise establishes an exemption, information reporting (but not backup withholding) will apply to any such payments effected outside the United States by such a broker if it:

- derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States;
- is a controlled foreign corporation for United States federal income tax purposes; or
- is a foreign partnership that, at any time during its taxable year, has 50% or more of its income or capital interests owned by United States persons or is engaged in the conduct of a United States trade or business.

Payments of the proceeds of a disposition of 9% notes or shares of common stock effected by the United States office of a broker will be subject to information reporting requirements and backup withholding tax unless the non-U.S. holder properly certifies under penalties of perjury as to its foreign status and certain other conditions are met or it otherwise establishes an exemption.

Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder will be allowed as a refund or credit against the non-U.S. holder s United States federal income tax liability provided that the required information is furnished to the IRS in a timely manner.

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LEGAL MATTERS

The legality of the 9% notes and debt securities offered hereby will be passed upon for us by Gibson, Dunn & Crutcher, LLP, Los Angeles, California. The legality of the common stock, preferred stock and warrants offered hereby will be passed upon for us by William F. Boyd.

EXPERTS

The financial statements incorporated by reference in this prospectus and elsewhere in the registration statement, to the extent and for the periods indicated in their reports, have been audited by KPMG LLP, independent public accountants, and are included herein in reliance upon the authority of said firms as experts in giving said reports.

CHANGE OF INDEPENDENT PUBLIC ACCOUNTANTS

On July 22, 2002, we dismissed our independent public accountants, Arthur Andersen LLP, and retained KPMG LLP to act as our independent auditors. Arthur Andersen had been our independent public accountants since 1999. In connection with Arthur Andersen s audit of the consolidated financial statements for the fiscal years 1999, 2000, and 2001, and in connection with the subsequent period up to their dismissal, there were no disagreements with Arthur Andersen on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedures, nor any reportable events. Arthur Andersen s report on our consolidated financial statements for the fiscal years ended December 31, 1999, 2000, and 2001 contained no adverse opinion or disclaimer of opinion and was not modified or qualified as to uncertainty, audit scope or accounting principles, except that Arthur Andersen s report dated February 15, 2002 stated that the financial statements included in our annual report on Form 10-K for the year ended December 31, 2001 had been prepared assuming that we will continue as a going concern. The decision to change auditors was unanimously approved by our board of directors, including all of the members of our audit committee. Prior to the dismissal of Arthur Andersen, we had not consulted with KPMG on any accounting matters. KPMG has reviewed the disclosure contained in this section of the prospectus.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC s web site at http://www.sec.gov. You may also read and copy any document we file at the SEC s public reference facilities at 450 Fifth Street, N.W., Washington, D.C. 20549; The Woolworth Building, 233 Broadway, New York, New York 10279; and 175 W. Jackson Boulevard, Suite 900, Chicago, IL 60604. Please call the SEC at 1-800-SEC-0330 for further information on the public reference facilities.

We filed a registration statement on Form S-3 with the SEC to register the securities being offered in this prospectus. This is a part of that registration statement. As allowed by SEC rules, this prospectus does not contain all the information you can find in the registration statement or the exhibits to the registration statement.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference information into this prospectus. This means that we can disclose important information about us and our financial condition to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus, except for any information that is superseded by information that is included directly in this

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document. This prospectus incorporates by reference the documents listed below that we have previously filed with the SEC:

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2002;

Our Current Report on Form 8-K filed on February 27, 2003; and

The description of our common stock contained in our Registration Statement on Form 8-A (File No. 1-08641), filed March 28, 1990, and any amendments or reports filed for the purpose of updating that description.

We also incorporate by reference additional documents that we may file with the SEC after the date of this prospectus. These documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements. All documents filed by us pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this prospectus and prior to the termination of the offering of the securities shall be deemed to be incorporated by reference in this prospectus and to be part of this prospectus from the date of filing such documents.

Any statement contained in this prospectus or in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in the applicable prospectus supplement or in any other subsequently filed document which also is or is deemed to be incorporated by reference modifies or supersedes the statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

You may request a copy of these filings incorporated herein by reference, including exhibits to such documents that are specifically incorporated by reference, at no cost, by writing or calling us at the following address or telephone number:

Corporate Secretary

Coeur d Alene Mines Corporation
400 Coeur d Alene Mines Building
505 Front Avenue
Coeur d Alene, Idaho 83814

Statements contained in this prospectus as to the contents of any contract or other documents are not necessarily complete, and in each instance investors are referred to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference and the exhibits and schedules thereto.

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Balance at April 26, 2008	$	448
Total realized losses included in earnings		(3)
Total unrealized losses included in other comprehensive income		(7)
Purchases, issuances, and settlements		(152)
Net transfers in (out) of Level 3		
Balance at July 25, 2008	$	286

Realized gains or losses included in earnings are included in *interest expense/(income), net* in the consolidated statement of earnings.

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Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

During the quarter ended July 25, 2008, the Company had no significant measurements of financial assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

The aspects of SFAS No. 157 for which the effective date was deferred under FSP No. 157-2 until fiscal year 2010 relate to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment.

Note 7 Financing Arrangements

Senior Convertible Notes

In April 2006, the Company issued $2,200 of 1.500 percent Senior Convertible Notes due 2011 and $2,200 of 1.625 percent Senior Convertible Notes due 2013 (collectively, the Senior Convertible Notes). The Senior Convertible Notes were issued at par and pay interest in cash semi-annually in arrears on April 15 and October 15 of each year. The Senior Convertible Notes are unsecured unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness. The Senior Convertible Notes had an initial conversion price of $56.14 per share. The Senior Convertible Notes may only be converted: (i) during any calendar quarter if the closing price of the Company s common stock reaches 140 percent of the conversion price for 20 trading days during a specified period, or (ii) if specified distributions to holders of the Company s common stock are made or specified corporate transactions occur, or (iii) during the last month prior to maturity of the applicable notes. Upon conversion, a holder would receive: (i) cash equal to the lesser of the principal amount of the note or the conversion value and (ii) to the extent the conversion value exceeds the principal amount of the note, shares of the Company s common stock, cash, or a combination of common stock and cash, at the Company s option. In addition, upon a change in control, as defined in the applicable indentures, the holders may require the Company to purchase for cash all or a portion of their notes for 100 percent of the principal amount of the notes plus accrued and unpaid interest, if any, plus a number of additional make-whole shares of the Company s common stock, as set forth in the applicable indenture. The indentures under which the Senior Convertible Notes were issued contain customary covenants. A total of $2,500 of the net proceeds from these note issuances were used to repurchase common stock. As of April 2008, pursuant to provisions in the indentures relating to the Company s increase of its quarterly dividend to shareholders, the conversion rates for each of the Senior Convertible Notes is now 17.8715, which correspondingly changed the conversion price per share for each of the Senior Convertible Notes to $55.96.

Under EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock (EITF No. 00-19), the notes are accounted for similar to traditional convertible debt (that is, as a combined instrument) because the conversion spread meets the requirements of EITF No. 00-19, including the provisions contained in paragraphs 12 32 of EITF No. 00-19. Accordingly, the conversion spread is not separated as a derivative.

Concurrent with the issuance of the Senior Convertible Notes, the Company purchased call options on its common stock in private transactions. The call options allow the Company to receive shares of the Company s common stock and/or cash from counterparties equal to the amounts of common stock and/or cash related to the excess conversion value that it would pay to the holders of the Senior Convertible Notes upon conversion. These call options will terminate upon the earlier of the maturity dates of the related Senior Convertible Notes or the first day all of the related Senior Convertible Notes are no longer outstanding due to conversion or otherwise. The call options, which cost an aggregate $1,075 ($699 net of tax benefit), were recorded as a reduction of shareholders equity.

In separate transactions, the Company sold warrants to issue shares of the Company s common stock at an exercise price of $76.56 per share in private transactions. Pursuant to these transactions, warrants for 41 million shares of the Company s common stock may be settled over a specified period beginning in July 2011 and warrants for 41 million shares of the Company s common stock may be settled over a specified period beginning in July 2013 (the settlement dates). If the average price of the Company s common stock during a defined period ending on or about the respective settlement dates exceeds the exercise price of the warrants, the warrants will be settled in shares of the Company s common stock. Proceeds received from the issuance of the warrants totaled approximately $517 and were recorded as an addition to shareholders equity. In April 2008, certain of the holders requested adjustment to the exercise price of the warrants from $76.47 to $76.30 pursuant to the anti-dilution provisions of the warrants relating to the Company s payment of dividends to common shareholders.

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EITF No. 00-19 provides that contracts are initially classified as equity if (1) the Contract requires physical settlement or net-share settlement, or (2) the Contract gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The settlement terms of the Company s purchased call options and sold warrant contracts provide for net cash settlement for the particular contract or net share settlement, depending on the method of settlement, as discussed above, which is at the option of Medtronic. Based on the guidance from EITF No. 00-19 and SFAS No. 133, Accounting for Derivative and Hedging Activities (SFAS No. 133), the purchased call option contracts were recorded as a reduction of equity and the warrants were recorded as an addition to equity as of the trade date. SFAS No. 133 states that a reporting entity shall not consider contracts to be derivative instruments if the contract issued or held by the reporting entity is both indexed to its own stock and classified in shareholders equity in its statement of financial position. The Company concluded the purchased call option contracts and the warrant contracts should be accounted for in shareholders equity.

Senior Notes

In September 2005, the Company issued two tranches of Senior Notes with the aggregate face value of $1,000. The first tranche consisted of $400 of 4.375 percent Senior Notes due 2010 and the second tranche consisted of $600 of 4.750 percent Senior Notes due 2015. Each tranche was issued at a discount which resulted in an effective interest rate of 4.433 percent and 4.760 percent for the five and ten year Senior Notes, respectively. Interest on each series of Senior Notes is payable semi-annually, on March 15 and September 15 of each year. The Senior Notes are unsecured unsubordinated obligations of the Company and rank equally with all other unsecured and unsubordinated indebtedness of the Company. The indentures under which Senior Notes were issued contain customary covenants. The Company used the net proceeds from the sale of the Senior Notes for repayment of a portion of its commercial paper.

In November 2005, the Company entered into a five year interest rate swap agreement with a notional amount of $200. This interest rate swap agreement was designated as a fair value hedge of the changes in fair value of a portion of the Company s fixed-rate $400 Senior Notes due 2010. The Company pays variable interest equal to the three-month London Interbank Offered Rate (LIBOR) minus 55 basis points and it receives a fixed interest rate of 4.375 percent. The outstanding market value of this swap agreement was an $8 unrealized gain at both July 25, 2008 and

April 25, 2008. The unrealized gain of $8 at both July 25, 2008 and April 25, 2008 is recorded in *long-term debt* with the offset recorded in *other assets* on the condensed consolidated balance sheets.

In June 2007, the Company entered into an eight year interest rate swap agreement with a notional amount of $300. This interest rate swap agreement was designated as a fair value hedge of the changes in fair value of a portion of the Company s fixed-rate $600 Senior Notes due 2015. The Company pays variable interest equal to the three-month London Interbank Offered Rate (LIBOR) minus 90 basis points and it receives a fixed interest rate of 4.750 percent. The outstanding market value of this swap agreement was a $24 and $27 unrealized gain at July 25, 2008 and April 25, 2008, respectively. The unrealized gain of $24 and $27 at July 25, 2008 and April 25, 2008, respectively, is recorded in *long-term debt* with the offset recorded in *other assets* on the condensed consolidated balance sheets.

Contingent Convertible Debentures

In September 2001, the Company completed a $2,013 private placement of 1.250 percent Contingent Convertible Debentures due September 2021 (Old Debentures). Interest is payable semi-annually. Each Old Debenture is convertible into shares of common stock at an initial conversion price of $61.81 per share; however, the Old Debentures are not convertible before their final maturity unless the closing price of our common stock reaches 110 percent of the conversion price for 20 trading days during a consecutive 30 trading day period. In September 2002 and 2004, as a result of certain holders of the Old Debentures exercising their put options, the Company repurchased $39 and $1, respectively, of the Old Debentures for cash. On January 24, 2005, the Company completed an exchange offer whereby holders of approximately $1,930 of the total principal amount of the Old Debentures exchanged their existing securities for an equal principal amount of 1.250 percent Contingent Convertible Debentures, Series B due 2021 (New Debentures), as described below. Following the completion of the exchange offer, the Company repurchased approximately $2 of the Old Debentures for cash.

The terms of the New Debentures are consistent with the terms of the Old Debentures noted above, except that: (i) the New Debentures require the Company to settle all conversions for a combination of cash and shares of our common stock, if any, in lieu of only shares. Upon conversion of the New Debentures the Company will pay holders cash equal to the lesser of the principal amount of the New Debentures or their conversion value, and shares of the Company s common stock to the extent the conversion value exceeds the principal amount of the New Debentures; and (ii) the New Debentures require the Company to pay only cash (in lieu of shares of the Company s common stock or a combination of cash and shares of our common stock) when the Company repurchases the New Debentures at the option of the holder or when the Company repurchases the New Debentures in connection with a change of control.

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In September 2006, as a result of certain holders of the New Debentures and Old Debentures exercising their put options, the Company repurchased $1,835 of the New Debentures for cash and $42 of the Old Debentures for cash. The Company may be required to repurchase the remaining debentures at the option of the holders in September 2008, 2011, or 2016. Twelve months prior to the put options becoming exercisable, the remaining balance of the New Debentures and the Old Debentures will be classified as *short-term borrowings.* At each balance sheet date without a put option within the subsequent four quarters, the remaining balance will be classified as *long-term debt.* Accordingly, during the second quarter of fiscal year 2008, $93 of New Debentures and $1 of the Old Debentures were reclassified from *long-term debt* to

short-term borrowings due to the put option becoming exercisable in September 2008. For put options exercised by the holders of the New Debentures and the Old Debentures, the purchase price is equal to the principal amount of the applicable debenture plus any accrued and unpaid interest thereon to the repurchase date. If the put option is exercised, the Company will pay holders the repurchase price solely in cash (or, for the Old Debentures, in cash or stock at our option). As of July 25, 2008, approximately $93 aggregate principal amount of New Debentures remain outstanding and approximately $1 aggregate principal amount of Old Debentures remain outstanding. The Company can redeem the debentures for cash at any time.

Commercial Paper

The Company maintains a commercial paper program that allows the Company to have a maximum of $2,250 in commercial paper outstanding, with maturities up to 364 days from the date of issuance. As of July 25, 2008 and April 25, 2008, outstanding commercial paper totaled $1,378 and $874, respectively. During the three months ended July 25, 2008, the weighted average original maturity of the commercial paper outstanding was approximately 32 days, and the weighted average interest rate was 2.15 percent. The issuance of commercial paper reduces the amount of credit available under our existing lines of credit.

Lines of Credit

The Company has existing unsecured lines of credit of approximately $2,775 with various banks at July 25, 2008. The existing lines of credit include a five-year $1,750 syndicated credit facility dated December 20, 2006 that will expire on December 20, 2011 (Credit Facility). The Credit Facility provides backup funding for the commercial paper program and may also be used for general corporate purposes.

The Credit Facility provides the Company with the ability to increase its capacity by an additional $500 at any time during the life of the five-year term of the agreement. The Company can also request the extension of the Credit Facility maturity date for one additional year on December 20, 2008, the second anniversary of the date of this facility.

Interest rates on these borrowings are determined by a pricing matrix, based on the Company s long-term debt ratings, assigned by Standard and Poor s Ratings Group and Moody s Investors Service. Facility fees are payable on the credit facilities and are determined in the same manner as the interest rates.

On November 2, 2007, the Company entered into a new Credit Agreement (the New Credit Agreement) with the Bank of Tokyo-Mitsubishi UFJ, Ltd. (the New Lender). The New Credit Agreement provides for a $300 unsecured revolving credit facility (the New Facility) maturing November 2, 2010. In addition to certain initial fees, the Company is obligated to pay a commitment fee based on the total revolving commitment. Interest rates on these borrowings are determined by a pricing matrix, based on the Company s long-term debt ratings, assigned by Standard and Poor s Ratings Group and Moody s Investors Service. The New Credit Agreement contains customary representations and warranties of the Company as well as affirmative covenants regarding the Company. Upon the occurrence of an event of default as defined under the New Credit Agreement, the New Lender could elect to declare all amounts outstanding under the New Facility to be immediately due and payable. As of July 25, 2008 and April 25, 2008, $0 and $300, respectively, were outstanding on the New Facility.

Note 8 Inventories

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis. Inventory balances are as follows:

	July 25, 2008	April 25, 2008
Finished goods	$ 816	$ 784
Work in process	269	250
Raw materials	271	246
Total	$ 1,356	$ 1,280

Note 9 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the three months ended July 25, 2008 are as follows:

	July 25, 2008
Balance at April 25, 2008	$ 7,519
Goodwill as a result of acquisitions	11
Currency adjustment, net	(1)
Balance at July 25, 2008	$ 7,529

Intangible assets, excluding goodwill, as of July 25, 2008 and April 25, 2008 are as follows:

	Purchased Technology and Patents	Trademarks and Tradenames	Other	Total
As of July 25, 2008:				
Amortizable intangible assets				
Original cost	$ 2,557	$ 373	$ 238	$ 3,168
Accumulated amortization	(665)	(190)	(166)	(1,021)
Carrying value	$ 1,892	$ 183	$ 72	$ 2,147
As of April 25, 2008:				
Amortizable intangible assets				
Original cost	$ 2,538	$ 373	$ 244	$ 3,155
Accumulated amortization	(616)	(181)	(165)	(962)

Carrying value	$	1,922	$	192	$	79	$	2,193

Amortization expense for the three months ended July 25, 2008 and July 27, 2007 was $66 and $43, respectively.

Estimated aggregate amortization expense based on the current carrying value of amortizable intangible assets is as follows:

Fiscal Year	Amortization Expense
Remaining 2009	$ 185
2010	252
2011	241
2012	227
2013	199
Thereafter	1,043
	$ 2,147

Note 10 Warranty Obligation

The Company offers a warranty on various products. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time the product is sold. Factors that affect the Company s warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The amount of the reserve recorded is equal to the costs to repair or otherwise satisfy the claim.

Changes in the Company s product warranties during the three months ended July 25, 2008 and July 27, 2007 consisted of the following:

	Three Months Ended	
	July 25, 2008	July 27, 2007
Balance at the beginning of the period	$ 43	$ 34
Warranty claims provision	9	7
Settlements made	(7)	(5)
Balance at the end of the period	$ 45	$ 36

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Note 11 Interest Expense/(Income), net

Interest income and interest expense for the three month period ended July 25, 2008 and July 27, 2007 are as follows:

	Three months ended	
	July 25, 2008	July 27, 2007
Interest income	$ (52)	$ (97)
Interest expense	61	53
Interest expense/(income), net	$ 9	$ (44)

Interest income includes interest earned on our cash and cash equivalents, short- and long-term investments and the net realized gains or losses on the sale of AFS debt securities.

Interest expense includes the expense associated with the interest that we pay on our outstanding borrowings, including short- and long-term instruments, and the amortization of debt issuance costs.

Note 12 Income Taxes

As of July 25, 2008, the Company had $463 of gross unrecognized tax benefits and accrued interest and penalties of $135. If all of the Company s unrecognized tax benefits were recognized, approximately $379 would impact the Company s effective tax rate. The Company has recorded the liability for unrecognized tax benefits as a long-term liability as it does not expect significant payments to occur or the total amount of unrecognized tax benefits to change significantly over the next 12 months. The Company will continue to recognize interest and penalties related to income tax matters in the *provision for income taxes* in the condensed consolidated statement of earnings and record the liability in the current or long-term *accrued income taxes*, as appropriate.

Tax audits associated with the allocation of income, and other complex issues, may require an extended period of time to resolve and may result in income tax adjustments if changes to the Company s allocation are required between jurisdictions with different tax rates. Tax authorities periodically review the Company s tax returns and propose adjustments to the Company s tax filings. The U.S. Internal Revenue Service (IRS) has settled its audits with the Company for all years through fiscal year 1996. Tax years settled with the IRS may remain open for foreign tax audits and competent authority proceedings. Competent authority proceedings are a means to resolve intercompany pricing disagreements between countries.

In August 2003, the IRS proposed adjustments arising out of its audit of the fiscal years 1997, 1998 and 1999 tax returns. The Company initiated a defense of these adjustments at the IRS appellate level, and in the second quarter of fiscal year 2006 the Company reached settlement on most, but not all matters. The remaining issue relates to the allocation of income between Medtronic, Inc., and its wholly owned subsidiary in Switzerland. On April 16, 2008, the IRS issued a statutory notice of deficiency with respect to this remaining issue. The Company filed a Petition with the U.S. Tax Court on July 14, 2008 objecting to the deficiency and intends to defend its position vigorously.

In September 2005, the IRS issued its audit report for fiscal years 2000, 2001 and 2002. In addition, the IRS issued its audit report for fiscal years 2003 and 2004 in March 2007. The Company has reached agreement with the IRS on substantially all of the proposed adjustments for fiscal years 2000 through 2004. The only item of significance that remains open for these years relates to the carryover impact of the allocation of income issue proposed for fiscal years 1997 through 1999.

The unresolved issue from the 1997 through 2004 tax audits, as well as tax positions taken by the IRS or foreign tax authorities during future tax audits, could have a material unfavorable impact on the Company s effective tax rate in future periods. The Company continues to believe that it has meritorious defenses for its tax filings and will vigorously defend them through litigation in the courts, as necessary. The Company believes that it has adequately provided for probable liabilities resulting from tax assessments by taxing authorities.

Note 13 Earnings Per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common shares outstanding increased by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued and reduced by the number of shares the Company could have repurchased from the proceeds from issuance of the potentially dilutive shares. Potentially dilutive shares of common stock include stock options and other stock-based awards granted under stock-based compensation plans and shares committed to be purchased under the employee stock purchase plan.

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Presented below is a reconciliation between basic and diluted earnings per share:

	Three months ended	
	July 25,	July 27,
(shares in millions)	**2008**	**2007**
Numerator:		
Net earnings	$ 747	$ 675
Denominator:		
Basic weighted average shares outstanding	1,120.9	1,138.7
Effect of dilutive securities:		
Employee stock options	4.9	11.9
Other	3.3	2.5
Diluted weighted average shares outstanding	1,129.1	1,153.1
Basic earnings per share	$ 0.67	$ 0.59
Diluted earnings per share	$ 0.66	$ 0.59

The calculation of weighted average diluted shares outstanding excludes options for approximately 22 million and 15 million common shares for the three months ended July 25, 2008 and July 27, 2007, respectively, as the exercise price of those options was greater than the average market price for the period, resulting in an anti-dilutive effect on diluted earnings per share. For the three months ended July 25, 2008 and July 27, 2007, common share equivalents related to the Company s $4,400 of Senior Convertible Notes were anti-dilutive as the market price of the Company s stock was below the conversion price of the Senior Convertible Notes and, therefore, were excluded from the calculation of weighted average diluted shares.

Note 14 Comprehensive Income and Accumulated Other Comprehensive (Loss)/Income

In addition to net earnings, comprehensive income includes changes in foreign currency translation adjustments (including the change in current exchange rates, or spot rates, of net investment hedges), unrealized gains and losses on foreign exchange derivative contracts qualifying and designated as cash flow hedges, defined benefit pension adjustments, and unrealized gains and losses on AFS marketable securities. Comprehensive income for the three months ended July 25, 2008 and July 27, 2007 was $825 and $649, respectively.

Presented below is a summary of activity for each component of *accumulated other comprehensive (loss)/income*:

	Unrealized Gain/(Loss) on Investments	Cumulative Translation Adjustments	Net Change in Retirement Obligations	Unrealized (Loss)/Gain on Foreign Exchange Derivatives	Accumulated Other Comprehensive (Loss)/Income
Balance April 25, 2008	$ (41)	$ 209	$ (189)	$ (266)	$ (286)
Period Change	(9)	2	1	85	78
Balance July 25, 2008	$ (50)	$ 211	$ (188)	$ (181)	$ (208)

Translation adjustments are not adjusted for income taxes as substantially all translation adjustments relate to permanent investments in non-U.S. subsidiaries. The tax expense on the unrealized loss on foreign exchange derivatives for the three months ended July 25, 2008 was $52. The tax benefit on the unrealized loss on investments for the three months ended July 25, 2008 was $8. The tax benefit on the defined benefit pension adjustments was not material for the three months ended July 25, 2008.

Note 15 Stock-Based Compensation

In fiscal year 2007, the Company adopted FASB SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)) which replaced SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) and superseded Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees . Under the fair value recognition provisions of SFAS No. 123(R), the Company measures stock-based compensation cost at the grant date based on the fair value of the award and recognizes the compensation expense over the requisite service period, which is generally the vesting period. The Company elected the modified-prospective method of adopting SFAS No. 123(R), under which prior periods were not retroactively restated. The provisions of SFAS No. 123(R) apply to awards granted after the April 29, 2006 effective date. Stock-based compensation expense for the non-vested portion of awards granted prior to the effective date is being recognized over the remaining service period using the fair-value based compensation cost estimated for SFAS No. 123 pro forma disclosures.

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The following table presents the components and classification of stock-based compensation expense recognized for the three months ended July 25, 2008 and July 27, 2007:

	Three months ended	
	July 25, 2008	July 27, 2007
Stock options	$ 33	$ 30
Restricted stock awards	17	13
Employee stock purchase plan	5	5
Total stock-based compensation expense	**$ 55**	**$ 48**
Cost of sales	$ 7	$ 6
Research and development expense	13	12
Selling, general and administrative expense	35	30
Total stock-based compensation expense	**$ 55**	**$ 48**

In connection with the acquisition of Kyphon on November 2, 2007, the Company assumed Kyphon s unvested stock-based awards. These awards are amortized over 2.5 years, which is their remaining weighted average vesting period at the time of acquisition. For the three months ended July 25, 2008, the Company recognized $6 of stock-based compensation expense associated with the assumed Kyphon awards. See Note 3 for further discussion of the Kyphon acquisition.

Note 16 Retirement Benefit Plans

The Company sponsors various retirement benefit plans, including defined benefit pension plans (pension benefits), post-retirement medical plans (post-retirement benefits), defined contribution savings plans and termination indemnity plans, covering substantially all U.S. employees and many employees outside the U.S. The net periodic benefit cost of the pension and post-retirement medical plans include the following components for the three months ended July 25, 2008 and July 27, 2007:

	U.S. Pension Benefits Three months ended		Non-U.S. Pension Benefits Three months ended		Post-Retirement Benefits Three months ended	
	July 25, 2008	July 27, 2007	July 25, 2008	July 27, 2007	July 25, 2008	July 27, 2007
Service cost	$ 18	$ 18	$ 8	$ 8	$ 4	$ 4
Interest cost	15	13	6	4	3	3
Expected return on plan assets	(24)	(21)	(6)	(5)	(3)	(3)
Recognized actuarial loss	1	3		1		1
Net periodic benefit cost	10	13	8	8	4	5
Special termination benefits		3				1
Total cost for period	$ 10	$ 16	$ 8	$ 8	$ 4	$ 6

As a result of the fiscal year 2007 restructuring initiative that began in the fourth quarter of fiscal year 2007, the Company has recognized special termination benefits in the three months ended July 27, 2007 related to employees electing to accept early retirement packages provided under the restructuring initiatives. The incremental expense from these special termination benefits is reflected in the table above.

Note 17 Contingencies

The Company is involved in a number of legal actions. The outcomes of these legal actions are not within the Company s complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, including injunctions barring the sale of products that are the subject of the lawsuit, that could require significant expenditures or result in lost revenues. In accordance with SFAS No. 5, Accounting for Contingencies (SFAS No. 5), the Company records a liability in the consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded. While it is not possible to predict the outcome for most of the matters discussed, the Company believes it is possible that costs associated with them could have a material adverse impact on the Company s consolidated earnings, financial position or cash flows on any one interim or annual period. With the exception of the Cordis and some of the Marquis matters discussed below, negative outcomes for the balance of the litigation matters are not considered probable or cannot be reasonably estimated.

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Litigation with Cordis Corporation

On October 6, 1997, Cordis, a subsidiary of J&J, filed suit in U.S. District Court for the District of Delaware against Arterial Vascular Engineering, Inc., which Medtronic acquired in January 1999 and which is now known as Medtronic Vascular, Inc. (Medtronic Vascular). The suit alleged that Medtronic Vascular s previously marketed stents infringe certain patents owned by Cordis. Boston Scientific Corporation is also a defendant in this suit. On December 22, 2000, a jury rendered a verdict that Medtronic Vascular s previously marketed MicroStent and GFX stents infringed valid claims of two Cordis patents and awarded damages to Cordis totaling approximately $270. On March 28, 2002, the District Court entered an order in favor of Medtronic Vascular, deciding as a matter of law that Medtronic Vascular s MicroStent and GFX stents did not infringe the patents. Cordis appealed, and on August 12, 2003, the U.S. Court of Appeals for the Federal Circuit reversed the District Court s decision and remanded the case to the District Court for further proceedings. The District Court thereafter issued a new patent claim construction and a new trial was held in March 2005. On March 14, 2005, the jury found that the previously marketed MicroStent and GFX stent products infringed valid claims of Cordis patents. On March 27, 2006, the District Court denied post-trial motions filed by the parties, including Cordis motion to reinstate the previous damages award. On April 26, 2006, Medtronic filed its Notice of Appeal of the judgment of infringement. On February 23, 2007, the United States Patent and Trademark Office (USPTO) granted a request for reexamination of the claims of the patent at issue in the above proceedings. Until that reexamination is concluded, its impact remains unknown. On January 7, 2008, the U.S. Court of Appeals for the Federal Circuit upheld the District Court s judgment of infringement. The District Court had deferred any hearing on damages issues until after the U.S. Court of Appeals for the Federal Circuit resolved the appeal on the finding of liability. A hearing date to address damages issues has not yet been set. The Company believes an unfavorable outcome in the matter is probable. In accordance with SFAS No. 5, Medtronic recorded a $243 reserve in the third quarter of fiscal year 2008 for estimated damages in the matter. The range of potential loss related to this matter is subject to a high degree of estimation. The amount recorded represents an estimate of the low end of the range of probable outcomes related to this matter. At the time the reserve was recorded, the high end of the range was undeterminable, but the range of

loss included the previous jury award of approximately $270, which did not include post-judgment interest. When including post-judgment interest, the award would have equaled approximately $450.

Litigation with Wyeth and Cordis Corporation

On February 22, 2008, Wyeth and Cordis filed a lawsuit against the Company and its subsidiary, Medtronic AVE, Inc., in U.S. District Court for the District of New Jersey, alleging that Medtronic s Endeavor drug eluting stent infringes three U.S. Morris patents alleged to be owned by Wyeth and exclusively licensed to Cordis. The same three patents are the subject of a pending arbitration between Medtronic and J&J in which Medtronic asserts that under a 1997 Agreement J&J has covenanted not to sue Medtronic on the three patents. The arbitration hearing had been scheduled to start July 21, 2008, before a panel of three arbitrators, but was postponed until October 20, 2008. On May 15, 2008, the District Court stayed the lawsuit filed by Wyeth and Cordis pending the result of the arbitration. Additionally, the Company believes it is indemnified for the claims made by Wyeth and Cordis. The Company has not recorded an expense related to damages in connection with these matters because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

Litigation with Johnson & Johnson and Cordis Corporation

On February 20, 2006, an arbitration panel issued a final, non-appealable award concluding that Medtronic Vascular s S670, S660, S540, S7 and Driver stents, which were formerly the subject of a patent infringement dispute between J&J and Cordis and Medtronic Vascular, are licensed under a 1997 agreement between the two companies and subject to a covenant not to sue contained within a 1998 amendment to the 1997 agreement. Cordis since initiated two arbitration proceedings against Medtronic Vascular alleging that certain of the products infringe certain patents of J&J and Cordis, and is seeking royalties for such infringement, if any. Medtronic Vascular believes it has meritorious defenses to these allegations and intends to assert these defenses vigorously. Hearings on the two arbitration proceedings have been scheduled for December 2008 and March 2009. The Company has not recorded an expense related to damages in this matter because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

Litigation with Abbott Cardiovascular Systems Inc.

On December 24, 1997, Abbott Cardiovascular Systems Inc. (ACS), a subsidiary of Abbott Laboratories, sued Medtronic Vascular in U.S. District Court for the Northern District of California alleging that certain models of Medtronic Vascular s bare metal stents infringe the Lau stent patents held by ACS, and seeking injunctive relief and monetary damages. Medtronic Vascular denies infringement. In February 2005, following trial in Delaware federal district court, a jury determined that the ACS Lau stent patents were valid and that Medtronic s Driver, GFX, MicroStent, S540, S660, S670, Bestent2 and S7 stents (the bare metal stents) infringe those patents. Medtronic Vascular made numerous post-trial motions challenging the jury s verdict of infringement and validity. In August 2005, the Court had issued an order continuing a stay of any further proceedings on the questions of damages or willfulness.

On March 30, 2007, the District Court denied the motions, and on April 24, 2007, the District Court decided that the patents were enforceable. The District Court entered judgment in favor of ACS and against Medtronic Vascular on the issues of validity, infringement and enforceability of the Lau patents in May 2007. ACS filed a motion for injunction in the District Court on June 29, 2007 on both the bare metal stents and the Endeavor drug eluting stent, which had never previously been named as an accused product in the lawsuit. On July 6, 2007, Medtronic filed its motion to stay ACS s June 29, 2007 motion for a permanent injunction pending arbitration under a 2002 Abbott/Medtronic agreement providing Medtronic with a license that Medtronic asserted precludes the ACS injunction motion. On February 12, 2008, the District Court conducted a hearing on the motion for permanent injunction on Medtronic s bare metal stents. Once the District Court has ruled on the motion for injunction, Medtronic will appeal the May 2007 judgment. Issues of damages have been bifurcated from the liability phase of the proceedings. On May 18, 2007, the District Court again confirmed that it would not hold a trial on damage issues until the U.S. Court of Appeals for the Federal Circuit has reviewed the underlying liability issues concerning alleged infringement, invalidity and inequitable conduct.

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On August 6, 2007, the Delaware District Court granted Medtronic s July 6, 2007 motion to stay, in part, permitting arbitration to proceed on Medtronic s assertion that it has a license to practice the U.S. Lau patents in its Endeavor stent. On February 26, 2008, an arbitrator concluded that the Company was not licensed to practice the U.S. Lau patents in its Endeavor stent. ACS filed a sealed motion with the District Court seeking to lift the July 6, 2007 stay of proceedings on ACS s motion for an injunction as to Endeavor. Medtronic has filed an opposition to the motion. The District Court has not set a hearing date with respect to the motion to lift the stay.

On June 18, 2008, Abbott initiated legal proceedings in the Netherlands against Medtronic BV, Medtronic Trading NL BV and BV Medtronic FSC asserting that certain of Medtronic s Driver, Endeavor and Endeavor Resolute large vessel diameter stents infringe an Abbott European Lau patent issued on June 18, 2008. A hearing took place on August 7, 2008 in the Netherlands district court in The Hague to consider Abbott s request for a preliminary injunction against infringement in the Netherlands. On August 28, 2008, the court granted Abbott a preliminary injunction against Medtronic prohibiting Medtronic from making, selling and distributing certain large vessel diameter Medtronic stents in the Netherlands. The affected stents are Medtronic s large vessel stents, 4.0mm and larger and one stent sized 3.5mm by 9mm. The injunction does not apply outside of the Netherlands, and Medtronic has alternative means in place for distribution of the affected stents outside of the Netherlands while the preliminary injunction remains in effect. Medtronic will appeal the decision and will also challenge this preliminary ruling at a full trial on the merits of Abbott s claims currently scheduled for February 2009. The European Lau patent remains subject to challenges to the patent s validity in opposition proceedings in the European patent office as well as in the proceedings in court in the Netherlands.

In response to Medtronic s Request for Reexamination for each of the four Lau patents, in December 2006, the USPTO issued an initial office action finding that the claims which Medtronic products were previously found to have infringed were not patentable. The USPTO granted a second petition to reexamine each of the four Lau patents. On February 11, 2008, the USPTO again determined that all claims of two of the Lau patents that Medtronic was found to have infringed were invalid with the exception of a single claim of one of those patents. The patent holder will have an opportunity to challenge the USPTO s determinations in further proceedings in the reexaminations. On March 3, 2008, the USPTO again determined that all claims of a third Lau patent that Medtronic was found to infringe were invalid with the exception of a single claim of that patent. This third patent is involved in a reexamination proceeding, which allows Medtronic to participate in the USPTO proceedings. The USPTO has also determined for a second time that all of the claims in the fourth patent that Medtronic was found to infringe are invalid at present. Until these reexaminations are concluded, their potential impact upon the claims relating to the Lau patents in the above proceeding remains unknown. The Company has not recorded an expense related to damages in this matter because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

Litigation with DePuy Spine

On January 26, 2001, DePuy Spine (formerly DePuy/AcroMed), a subsidiary of J&J, and Biedermann Motech GMBH (collectively, DePuy) filed suit in U.S. District Court for the District of Massachusetts alleging that Medtronic s subsidiary, Medtronic Sofamor Danek USA, Inc. (MSD), was infringing a patent relating to a design for a thoracolumbar multi-axial screw (MAS). DePuy subsequently supplemented its allegations to claim that MSD s M10, M8 and Vertex screws infringe the patent. On April 17, 2003 and February 26, 2004, the District Court ruled on summary judgment that the M10, M8 and Vertex screws do not infringe. On October 1, 2004, a jury found that MAS screws, which MSD no longer sells in the U.S., infringe under the doctrine of equivalents. The jury awarded damages of $21 and on February 9, 2005, the

Court entered judgment against MSD, including prejudgment interest, in the aggregate amount of $24. In the third quarter of fiscal year 2005, the Company recorded an expense equal to the $24 judgment in the matter. DePuy appealed the Court s decisions that the M10, M8 and Vertex screws do not infringe, and MSD appealed the jury s verdict that the MAS screws infringe valid claims of the patent. On November 20, 2006, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the District Court that the M10 and M8 screws do not infringe, affirmed the jury s verdict and damage award on the MAS screws, affirmed the decision that the Vertex screws do not literally infringe, but remanded the case, ruling that there is a triable issue of fact as to whether the Vertex screws infringe under the doctrine of equivalents. On remand, DePuy further supplemented its allegations to claim that an additional product, the Vertex Max screws, also infringe. On March 20, 2007, the District Court declined to stay execution of the judgment relating to the MAS product. On March 30, 2007, the judgment plus accrued interest was paid under protest. On May 30, 2007, the USPTO ordered reexamination of the patent and on March 5, 2008, confirmed the patentability of the claims in the patent. On September 27, 2007, a jury found that the Vertex and Vertex Max screws infringe under the doctrine of equivalents and awarded $226 in damages to DePuy, and the District Court entered judgment against Medtronic on December 12, 2007. Thereafter, the District Court ruled on all post-trial motions, increasing the award to DePuy to an estimated amount of $272. The District Court also granted a permanent injunction against Medtronic that prohibits Medtronic from making, using and selling Vertex and Vertex Max polyaxial screws in the U.S.; however, Medtronic s recently-introduced Vertex Select multi-axial screw is not affected by the injunction. Medtronic has filed a notice of appeal and its opening appeal brief in the U.S. Court of Appeals for the Federal Circuit, although a hearing date has not been set. The Company believes that an unfavorable outcome in this matter is not probable. Accordingly, the Company has not recorded any additional expense related to damages in this matter because any potential loss is not currently probable under SFAS No. 5.

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Litigation with Cross Medical Products, Inc.

On May 2, 2003, Cross Medical Products, Inc. (Cross) sued MSD in the U.S. District Court for the Central District of California. The suit alleges that MSD s CD Horizon, Vertex and Crosslink products infringe certain patents owned by Cross. MSD has countered that Cross cervical plate products infringe certain patents of MSD, and Cross has filed a reply alleging that certain MSD cervical plate products infringe certain patents of Cross. On May 19, 2004, the Court found that the MAS, Vertex, M8, M10, CD Horizon Sextant and CD Horizon Legacy screw products infringe one Cross patent. A hearing on the validity of that patent was held on July 12, 2004, after which the District Court ruled that the patents were valid. Cross made a motion for permanent injunction on the multi-axial screw products, which the District Court granted on September 20, 2004, but stayed the effect of the injunction until January 3, 2005. MSD requested an expedited appeal of the ruling and the U.S. Court of Appeals for the Federal Circuit granted the request. On September 30, 2005, the Federal Circuit vacated the injunction, modified the trial court s claim construction rulings, and remanded the matter for trial in the District Court. The Federal Circuit awarded costs to Medtronic on the appeal. In April 2005, the District Court ruled invalid certain claims in the patents Cross asserted against MSD s Crosslink and cervical plate products. The Court also ruled that Cross cervical plate products infringe MSD s valid patents and that MSD s redesigned pedicle screw products infringe one claim of one of the patents owned by Cross. Cross thereafter moved for an injunction against the redesigned screw products, which the District Court granted on May 24, 2005. The District Court then stayed the effectiveness of the injunction until August 22, 2005. On July 27, 2005, the U.S. Court of Appeals for the Federal Circuit granted MSD s motion to stay the District Court s injunction pending a full hearing on the appeal. On March 20, 2007, the Federal Circuit ruled that MSD s current multi-axial screw products do not infringe any claim of Cross patent and vacated the District Court s injunction, which had already been stayed. On February 28, 2008, the U.S. District Court for the Central District of California found that the remaining patent claims asserted against MSD s polyaxial screws are invalid. The trial scheduled for April 29, 2008, has been vacated, and a new trial date on remaining issues has not been set. The Company has not recorded an expense related to damages in this matter because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

Separately, on February 1, 2006, MSD filed a lawsuit against Biomet Inc., the corporate parent of Cross (Biomet) and its subsidiary EBI Spine, L.P., for patent infringement. The suit, which involves seven Medtronic patents and seeks injunctive relief and monetary damages, was filed in the U.S. District Court for the District of New Jersey. Three of the patents were purchased by Medtronic from Gary Michelson, M.D. and Karlin

Technology, Inc. and involve single-lock anterior cervical plating systems used in cervical spinal fusions. Medtronic claims that a cervical plate marketed by Biomet under the trade name VueLock Anterior Cervical Plate System, and openly promoted as a plate that has a Secure One Step Locking mechanism feature, infringes these patents. The other patents involve instruments and surgical implantation methods commonly used in spinal surgeries to implant pedicle screws.

Litigation with Fastenetix LLC

In May 2006, Fastenetix LLC (Fastenetix), a patent holding company, sued MSD in the U. S. District Court for the District of New Jersey, alleging breach of a royalty agreement, or, in the alternative, infringement of certain reissue patents held by Fastenetix. The products within the scope of the litigation consist of Medtronic multiaxial pedicle screws, including the M8, M10, and multiaxial versions of Legacy, CD Horizon, Sextant, SILO Spinal System and Basis Thoracolumbar system. Discovery has closed in this matter, and numerous summary judgment motions of both parties are pending before the Court. No trial date has been set. The Company has not recorded an expense related to damages in this matter because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

Marquis/Maximo/InSync Matters

On February 10, 2005, Medtronic voluntarily began to advise physicians about the possibility that a specific battery shorting mechanism might manifest itself in a subset of ICDs and cardiac resynchronization therapy-defibrillators (CRT-Ds). These included certain Marquis VR/DR and Maximo VR/DR ICDs and certain InSync I/II/III CRT-D devices. Subsequent to this voluntary field action, a number of lawsuits were filed against the Company alleging a variety of claims, including individuals asserting claims of personal injury and third party payors alleging entitlement to reimbursement. Many of these lawsuits were settled, and in the third quarter of fiscal year 2008, the Company recorded an expense of $123 relating to the settlement in accordance with SFAS No. 5 as the potential loss was both probable and reasonably estimable. Currently, there remain a limited number of immaterial, individual lawsuits relating to the same subject matter. In addition, class action product liability suits pending in Canada are consolidated in the Ontario Superior Court of Justice. That court certified a class proceeding on December 6, 2007 and denied Medtronic's leave to appeal certification on May 15, 2008. The class was certified to include individual implant recipients and their family members. In addition, the subrogated claims of the provincial health insurers to recover costs incurred in providing medical services to the implant class are claimed in the class proceeding. The case is at an early procedural stage during which notice of the certification will be sent to class members and the parties will engage in discovery. Discovery is expected to be completed during 2009. The Company has not recorded an expense related to damages for those remaining suits because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

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Sprint Fidelis Matters

On October 15, 2007, the Company voluntarily suspended worldwide distribution of its Sprint Fidelis (Fidelis) family of defibrillation leads. This decision was based on a variety of factors that, when viewed together, indicated that suspending distribution was the appropriate action. At

the time, Fidelis lead viability was trending lower than other Company defibrillation leads, but had not then become statistically significant. The leads are used to deliver therapy in patients with ICDs, but are generally not used in pacemaker patients. The U.S. Food and Drug Administration (FDA) subsequently classified the Company s action as a Class I recall. As of August 26, 2008, approximately 290 lawsuits regarding the Fidelis leads have been filed against the Company, including approximately 33 putative class action suits reflecting a total of approximately 760 individual personal injury cases. In general, the suits allege claims of product liability, warranty, negligence, unjust enrichment, emotional distress and consumer protection violations. One lawsuit includes a claim by an individual purporting to act as a surrogate for the Center for Medicare and Medicaid Services, and one lawsuit has been brought by a third party payor as a putative class action suit. In addition, one putative class action has been filed in the Ontario Superior Court of Justice in Canada. Approximately 95 of the lawsuits have been filed in state court, generally alleging similar causes of action. Of those state court actions, approximately 85 are consolidated before a single judge in Hennepin County District Court in the state of Minnesota. The federal court cases have been consolidated for pretrial proceedings before a single federal judge in the U.S. District Court for the District of Minnesota pursuant to the MDL rules. The MDL court has entered an Order staying all discovery pending the outcome of an October 30, 2008 hearing on Medtronic s motion to dismiss the complaints. The Company has not recorded an expense related to damages in connection with the matter because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

On November 8, 2007, a putative class action complaint was filed against the Company and certain of its officers in the U.S. District Court for the District of Minnesota, alleging violations of Section 10b-5 of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. The complaint is brought on behalf of persons or entities who purchased securities of Medtronic during the period of June 25, 2007 through October 15, 2007. The complaint alleges that materially false and misleading representations were made as to the market acceptance and use of the Fidelis defibrillator leads to artificially inflate Medtronic s stock price. Pursuant to court order, the caption of the case was changed to *Medtronic, Inc., Securities Litigation,* and a consolidated putative class action complaint was filed on April 18, 2008. The Company has filed a motion to dismiss the consolidated class action complaint with prejudice, and a hearing date is scheduled for November 5, 2008. On November 29 and December 14, 2007 respectively, Feivel Gottlieb and Alan Weinberg filed shareholder derivative actions in Hennepin County District Court in the state of Minnesota against both the Company and certain of its officers and directors, alleging breach of fiduciary duty, waste of corporate assets and other claims arising from the same subject matter as the consolidated class action complaint. On July 28, 2008, the state court stayed these actions pending final resolution of the related consolidated class action complaint.

Similarly, on January 9, 2008, Iris Markewich filed a shareholder derivative action against both the Company and certain of its officers, directors, and employees in the U.S. District Court for the District of Minnesota, alleging breach of fiduciary duty, waste of corporate assets and other claims arising from the same subject matter as the consolidated class action complaint. The defendants have moved to dismiss the complaint. A hearing on the motion has been set for November 5, 2008. The Company has not recorded an expense related to damages in connection with these Fidelis-related shareholder matters because any potential loss is not currently probable or reasonably estimable under SFAS No. 5.

Other Matters

Medtronic is a licensee to the RE 38,119 patent (119 Patent) and RE 38,897 patent (897 Patent) owned by Mirowski Family Ventures, LLC (Mirowski) relating to the treatment of hemodynamic dysfunction. Medtronic and Mirowski dispute the application of the 119 and 897 Patents to certain Medtronic cardiac resynchronization products. The parties entered into a tolling agreement deferring and conditioning any litigation of the dispute upon conditions precedent. The tolling agreement expired on October 1, 2007. In subsequent notices, Mirowski identified certain claims of the two patents that Mirowski asserts Medtronic is using. On December 17, 2007, Medtronic filed an action in U.S. District Court in Delaware seeking a declaration that none of its products infringe any valid claims of either the 119 or 897 Patents. If certain conditions are fulfilled, the 119 and/or 897 Patents are determined to be valid and the Medtronic products are found to infringe the 119 and/or 897 Patents, Medtronic will be obligated to pay royalties to Mirowski based upon sales of certain CRT-D products. As of July 25, 2008, the amount of disputed royalties and interest related to CRT-D products is $88. This amount has not been accrued because the outcome is not currently probable under SFAS No. 5.

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In addition, Medtronic is a licensee to the 4,407,288 Patent (288 Patent) owned by Mirowski relating to ICDs. Until November 2001, Medtronic accrued and paid royalties under the license based on a percentage of ICD sales. Medtronic and Mirowski dispute the application of the 288 Patent to certain Medtronic ICD products. In November 2001, Medtronic ceased paying royalties and entered into an agreement with Mirowski to pay putative royalties into an interest-bearing escrow account through the expiration of the 288 Patent in December of 2003. As of July 25, 2008, the current balance in the interest-bearing escrow account is $84. The parties also entered into a tolling agreement deferring and conditioning any litigation of the obligation to pay royalties upon certain conditions precedent. If these conditions are fulfilled and the patent determined to be invalid or Medtronic s products found not to infringe, the escrowed funds will be released to Medtronic.

In the normal course of business, the Company periodically enters into agreements that require it to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of the Company s products or the negligence of its personnel or claims alleging that its products infringe third-party patents or other intellectual property. The Company s maximum exposure under these indemnification provisions cannot be estimated, and the Company has not accrued any liabilities within the consolidated financial statements. Historically, the Company has not experienced significant losses on these types of indemnifications.

Note 18 Segment and Geographic Information

Segment information:

During fiscal year 2008, the Company revised its operating segment reporting to separate the Navigation business from Spinal. For most of fiscal year 2008, Navigation was reported as part of a stand alone segment named Corporate Technologies and New Ventures. In the fourth quarter of fiscal year 2008, the decision was made to include the Navigation business as a component of the Ear, Nose and Throat (ENT) segment, which was renamed Surgical Technologies to reflect the expanding scope and focus of this business. As a result, the Company now functions in seven operating segments, consisting of CRDM, Spinal, CardioVascular, Neuromodulation, Diabetes, Surgical Technologies, and Physio-Control. The applicable information for the three months ended July 27, 2007 has been reclassified to conform to the current presentation of seven operating segments.

Each of the Company s operating segments have similar economic characteristics, technology, manufacturing processes, customers, distribution and marketing strategies, regulatory environments, and shared infrastructures. Net sales by operating segment were as follows:

	Three months ended	
	July 25, 2008	**July 27, 2007**
Cardiac Rhythm Disease Management	$ 1,303	$ 1,235
Spinal	859	644
CardioVascular	631	486
Neuromodulation	348	289
Diabetes	269	241

Surgical Technologies	202	172
Physio-Control	94	60
Total Net Sales	**$ 3,706**	**$ 3,127**

On December 4, 2006, the Company announced its intention to pursue a spin-off of Physio-Control into an independent, publicly traded company. Physio-Control is the Company s wholly-owned subsidiary that offers external defibrillators, emergency response systems, data management solutions and support services used by hospitals and emergency response personnel. However, shortly thereafter, on January 15, 2007, the Company announced a voluntary suspension of U.S. shipments of Physio-Control products manufactured at its facility in Redmond, Washington in order to address quality system issues. In the months following the suspension of U.S. shipments, the Company worked diligently with the FDA to address the quality system issues and resumed limited shipments to critical customers. As a result of the work performed, on April 28, 2008, the Company announced that it had reached an agreement on a consent decree with the FDA regarding quality system improvements for its external defibrillator products. The agreement was filed on April 25, 2008 in the U.S. District Court for the Western District of Washington and was approved by the court on May 9, 2008. The agreement addresses issues raised by the FDA during inspections regarding Physio-Control s quality system processes and outlines the actions Physio-Control must take in order to resume unrestricted distribution of its external defibrillators. In fiscal year 2008, Physio-Control had resumed limited shipments to critical need customers in the U.S. Following the resolution of the quality system issues, the Company intends to pursue the spin-off of Physio-Control. Physio-Control s loss before interest and income taxes for the three months ended July 25, 2008 and July 27, 2007 was $(5) and $(21), respectively.

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Geographic information:

Net sales to external customers by geography are as follows:

	Three months ended	
	July 25, 2008	July 27, 2007
United States	$ 2,249	$ 1,948
Europe	949	739
Asia Pacific	386	340
Other Foreign	122	100
Total Net Sales	$ **3,706**	$ **3,127**

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Understanding Our Financial Information

The following discussion and analysis provides information management believes to be relevant to understanding the financial condition and results of operations of Medtronic, Inc. (Medtronic or the Company). For a full understanding of financial condition and results of operations, you should read this discussion along with Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended April 25, 2008. In addition, you should read this discussion along with our condensed consolidated financial statements and related Notes thereto as of July 25, 2008.

Financial Trends

Throughout this financial information, you may read about transactions or events that materially contribute to or reduce earnings and materially affect financial trends. We refer to these transactions and events as either special (such as asset impairments), restructuring, certain litigation, and purchased in-process research and development (IPR&D) charges, or certain tax adjustments. These charges, or benefits, result from facts and circumstances that vary in frequency and/or impact to operations. While understanding these charges is important in understanding and evaluating financial trends, other transactions or events may also have a material impact on financial trends. A complete understanding of the special, restructuring, certain litigation, and IPR&D charges and certain tax adjustments is necessary in order to estimate the likelihood that financial trends will continue.

Executive Level Overview

We are the global leader in medical technology - alleviating pain, restoring health and extending life for millions of people around the world. During fiscal year 2008, we revised our operating segment reporting to separate the Navigation business from Spinal. For most of fiscal year 2008, Navigation was reported as part of a stand-alone segment named Corporate Technologies and New Ventures. In the fourth quarter of fiscal year 2008, the decision was made to include the Navigation business as a component of the Ear, Nose and Throat (ENT) segment, which was renamed Surgical Technologies to reflect the expanding scope and focus of this business. As a result, the Company now functions in seven operating segments, consisting of Cardiac Rhythm Disease Management (CRDM), Spinal, CardioVascular, Neuromodulation, Diabetes, Surgical Technologies, and Physio-Control. The applicable information for the three months ended July 27, 2007 has been reclassified to conform to the current presentation of seven operating segments.

Through these seven operating segments, we develop, manufacture, and market our medical devices in more than 120 countries worldwide. Our primary products include those for cardiac rhythm disorders, cardiovascular disease, neurological disorders, spinal conditions and musculoskeletal trauma, urological and digestive disorders, diabetes, and ear, nose, and throat conditions.

Net earnings for the first quarter of fiscal year 2009 were $747 million, or $0.66 per diluted share, as compared to net earnings of $675 million, or $0.59 per diluted share for the same period in the prior fiscal year, representing an increase of 11 percent and 12 percent, respectively. Net earnings for the three months ended July 25, 2008 included a restructuring charge that decreased net earnings by $66 million. Net earnings for the three months ended July 27, 2007 included restructuring and IPR&D charges that decreased net earnings by $36 million. See further discussion of these charges in the Restructuring and IPR&D Charges section of this management s discussion and analysis. The increase in net earnings for the three months ended July 25, 2008 was driven by positive earnings growth in core operations and continual cost reductions, generating additional operating leverage.

The table below illustrates net sales by operating segment for the three months ended July 25, 2008 and July 27, 2007:

Three months ended

(dollars in millions)	July 25, 2008	July 27, 2007	% Change
Cardiac Rhythm Disease Management	$ 1,303	$ 1,235	6%
Spinal	859	644	33
CardioVascular	631	486	30
Neuromodulation	348	289	20
Diabetes	269	241	12
Surgical Technologies	202	172	17
Physio-Control	94	60	57
Total Net Sales	**$ 3,706**	**$ 3,127**	**19%**

Net sales for the first quarter of fiscal year 2009 were $3.706 billion, an increase of 19 percent from the same period in the prior fiscal year. Foreign currency translation had a favorable impact of $157 million on net sales when compared to the same period in the prior fiscal year. The net sales increase in the current fiscal year was driven by the addition of Kyphon to our Spinal business and double digit sales growth in the CardioVascular, Diabetes, Neuromodulation, and Surgical Technologies businesses. Growth outside the United States (U.S.) was especially strong, where all of our operating segments had strong double digit growth rates. See our discussion in the Net Sales section of this management s discussion and analysis for more information on the results of our significant operating segments.

We remain committed to our mission of developing lifesaving and life enhancing therapies to alleviate pain, restore health and extend life. The diversity and depth of our current product offerings enable us to provide medical therapies to patients worldwide. We work to improve patient access through well planned studies, which show the safety, efficacy, and cost-effectiveness of our therapies, and our alliance with patients, clinicians, regulators and reimbursement agencies. Our investments in research and development, strategic acquisitions, expanded clinical trials and infrastructure provide the foundation for our growth. We are confident in our ability to drive long-term shareholder value using principles of our Mission, our strong product pipelines and continued commitment to innovative research and development.

Other Matters

On December 4, 2006, we announced our intention to pursue a spin-off of Physio-Control into an independent, publicly traded company. Physio-Control is our wholly-owned subsidiary that offers external defibrillators, emergency response systems, data management solutions, and support services used by hospitals and emergency response personnel. However, shortly thereafter, in January 2007, we announced a voluntary suspension of U.S. shipments of Physio-Control products manufactured at our facility in Redmond, Washington in order to address quality system issues. In the months following the suspension of U.S. shipments, we worked diligently with the U.S. Food and Drug Administration (FDA) to address the quality system issues and resumed limited shipments to critical need customers. As a result of the work performed to date, on April 28, 2008, we announced that we had reached an agreement on a consent decree with the FDA regarding quality system improvements for our external defibrillator products. The agreement was filed on April 25, 2008 in the U.S. District Court for the Western District of Washington and was approved by the court on May 9, 2008. The agreement addresses issues raised by the FDA during inspections regarding Physio-Control s quality system processes and outlines the actions Physio-Control must take in order to resume unrestricted distribution of our external defibrillators. Following the resolution of the quality system issues, we intend to pursue the spin-off of Physio-Control. First quarter of fiscal year 2009 net sales were $94 million, up 57 percent over the same period of the prior year. The increase is the result of reaching agreement on a consent decree and having the ability to ship product under specific guidelines.

Critical Accounting Estimates

We have adopted various accounting policies to prepare the condensed consolidated financial statements in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP). Our most significant accounting policies are disclosed in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended April 25, 2008.

The preparation of the condensed consolidated financial statements, in conformity with U.S. GAAP, requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying Notes. Our estimates and assumptions, including those related to bad debts, inventories, intangible assets, property, plant and equipment, asset impairment, legal proceedings, IPR&D, warranty obligations, product liability, self-insurance, pension and post-retirement obligations, sales returns and discounts, stock-based compensation, sales returns and discounts, valuation of equity and debt securities and income tax reserves are updated as appropriate, which in most cases is at least quarterly. We base our estimates on historical experience, actuarial valuations or various assumptions that are believed to be reasonable under the circumstances.

Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (2) material changes in the estimates are reasonably likely to occur from period to period. Our critical accounting estimates include the following:

Legal Proceedings

We are involved in a number of legal actions involving both product liability and intellectual property disputes. The outcomes of these legal actions are not within our complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages as well as other relief, including injunctions barring the sale of products that are the subject of the lawsuit, that could require significant expenditures or result in lost revenues. In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies, (SFAS No. 5) we record a liability in our consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is possible, but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed in Note 17 to the condensed consolidated financial statements. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded. Our significant legal proceedings are discussed in Note 17 to the condensed consolidated financial statements. While it is not possible to predict the outcome for most of the matters discussed in Note 17 to the condensed consolidated financial statements, we believe it is possible that costs associated with them could have a material adverse impact on our consolidated earnings, financial position or cash flows on any one interim or annual period. With the exception of the Cordis and some of the Marquis matters, negative outcomes for the balance of the litigation matters discussed in Note 17 to the condensed consolidated financial statements are not considered probable or cannot be reasonably estimated.

Tax Strategies

Our effective tax rate is based on income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and that we may or may not prevail. These reserves are established and adjusted in accordance with the principles of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48). Under FIN No. 48, if we determine that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, we recognize the benefit. We measure the benefit by determining the amount that is greater than 50 percent likely of being realized upon settlement. We presume that all tax positions will be examined by a taxing authority with full knowledge of all relevant information. We regularly monitor our tax positions and FIN No. 48 tax liabilities. We reevaluate the technical merits of our tax positions and recognize an uncertain tax benefit, or derecognize a previously recorded tax benefit, when (i) there is a completion of a tax audit, (ii) there is a change in applicable tax law including a tax case or legislative guidance, or (iii) there is an expiration of the statute of limitations. Significant judgment is required in accounting for tax reserves. Although we believe that we have adequately provided for liabilities resulting from tax assessments by taxing authorities, positions taken by these tax authorities could have a material impact on our effective tax rate in future periods.

In the event there is a special, restructuring, certain litigation and/or IPR&D charge recognized in our operating results, the tax cost or benefit attributable to that item is separately calculated and recorded. Because the effective rate can be significantly impacted by these discrete items that take place in the period, we often refer to our tax rate using both the effective rate and the non-GAAP nominal tax rate. The non-GAAP nominal tax rate is defined as the income tax provision as a percentage of earnings before income taxes, excluding special, restructuring, certain litigation, and IPR&D charges. We believe that this resulting non-GAAP financial measure provides useful information to investors because it excludes the effect of these discrete items so that investors can compare our recurring results over multiple periods.

Tax regulations require certain items to be included in the tax return at different times than when those items are required to be recorded in the condensed consolidated financial statements. As a result, our effective tax rate reflected in our condensed consolidated financial statements is different than that reported in our tax returns. Some of these differences are permanent, such as expenses that are not deductible on our tax return, and some are temporary differences, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax benefit in our condensed consolidated statements of earnings. We establish valuation allowances for our deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Deferred tax liabilities generally represent tax expense recognized in our condensed consolidated financial statements for which payment has been deferred or expense has already been taken as a deduction on our tax return but has not yet been recognized as an expense in our condensed consolidated statements of earnings.

The Company s overall tax rate including the tax impact of restructuring charges has resulted in an effective tax rate of 21.59 percent for the three months ended July 25, 2008. Excluding the impact of the restructuring charges in the three months ended July 25, 2008, our operational and tax strategies have resulted in a non-GAAP nominal tax rate of 22.50 percent, versus the U.S. Federal statutory rate of 35.0 percent. An increase in our nominal tax rate of 1 percent would result in an additional income tax provision for the three months ended July 25, 2008 of approximately $10 million. See discussion of the tax rate and the tax adjustments in the Income Taxes section of this management s discussion and analysis.

Valuation of IPR&D, Goodwill, and Other Intangible Assets

When we acquire a company, the purchase price is allocated, as applicable, between IPR&D, other identifiable intangible assets, net tangible assets, and goodwill as required by U.S. GAAP. IPR&D is defined as the value assigned to those projects for which the related products have not received regulatory approval and have no alternative future use. Determining the portion of the purchase price allocated to IPR&D and other

intangible assets requires us to make significant estimates. The amount of the purchase price allocated to IPR&D and other intangible assets is determined by estimating the future cash flows of each project or technology and discounting the net cash flows back to their present values. The discount rate used is determined at the time of the acquisition in accordance with accepted valuation methods. For IPR&D, these methodologies include consideration of the risk of the project not achieving commercial feasibility.

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Goodwill represents the excess of the aggregate purchase price over the fair value of net assets, including IPR&D, of acquired businesses. Goodwill is tested for impairment annually, or more frequently if changes in circumstance or the occurrence of events suggest that the carrying amount may be impaired.

The test for impairment requires us to make several estimates about fair value, most of which are based on projected future cash flows. Our estimates associated with the goodwill impairment tests are considered critical due to the amount of goodwill recorded on our condensed consolidated balance sheets and the judgment required in determining fair value amounts, including projected future cash flows. Goodwill was $7.529 billion and $7.519 billion as of July 25, 2008 and April 25, 2008, respectively.

Other intangible assets consist primarily of purchased technology, patents, and trademarks which are amortized using the straight-line or accelerated basis, as appropriate, over their estimated useful lives, ranging from 3 to 20 years. As of July 25, 2008, all of our intangible assets have definite lives and are amortized on a straight-line basis. We review these intangible assets for impairment annually or as changes in circumstance or the occurrence of events suggest the remaining value may not be recoverable. Other intangible assets, net of accumulated amortization, were $2.147 billion and $2.193 billion as of July 25, 2008 and April 25, 2008, respectively.

New Accounting Pronouncements

Information regarding new accounting pronouncements is included in Note 2 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Acquisitions

Three months ended July 25, 2008

On July 16, 2008, we acquired Restore Medical, Inc. (Restore). Restore s Pillar Palatal Implant System (Pillar System) will be integrated into the Surgical Technologies operating segment of the Company. The Pillar System will provide the Company with a minimally invasive, implantable medical device used to treat the soft palate component of sleep breathing disorders, including mild to moderate obstructive sleep apnea and snoring. Restore shareholders received $1.60 per share in cash for each share of Restore common stock they owned. Total consideration for the transaction was approximately $30 million. The pro forma impact of Restore was not significant to our results for the three months ended July 25, 2008 and July 27, 2007.

Three months ended July 27, 2007

On June 25, 2007, we acquired substantially all of the O-arm Imaging System (O-arm) assets of Breakaway Imaging, LLC (Breakaway), a privately held company based in Littleton, Massachusetts. Prior to the acquisition, we had the exclusive rights to distribute and market the O-arm. The O-arm provides multi-dimensional surgical imaging for use in spinal and orthopedic surgical procedures. The acquisition is expected to bring the O-arm into a broad portfolio of image guided surgical solutions. Total consideration for Breakaway was approximately $26 million in cash, subject to purchase price increases, which would be triggered by the achievement of certain milestones. The pro forma impact of Breakway was not significant to our results for the three months ended July 27, 2007.

In addition to the acquisitions above, we periodically acquire certain tangible or intangible assets from certain enterprises that do not otherwise qualify for accounting as a business combination. These transactions are largely reflected in the condensed consolidated statements of cash flows as a component of investing activities under *purchase of intellectual property.*

Net Sales

The table below illustrates net sales by operating segment for the three months ended July 25, 2008 and July 27, 2007:

	Three months ended		
	July 25,	July 27,	%
(dollars in millions)	**2008**	**2007**	**Change**
Pacing Systems	$ 526	$ 494	6%
Defibrillation Systems	764	726	5
Other	13	15	(13)
CARDIAC RHYTHM DISEASE MANAGEMENT	**1,303**	**1,235**	**6**
Core Spine	477	454	5
Biologics	221	190	16
Kyphon	161		N/A
SPINAL	**859**	**644**	**33**

Coronary Stents	236	152	55
Other Coronary/Peripheral	113	95	19
Endovascular	87	69	26
Revascularization and Surgical Therapies	117	102	15
Structural Heart Disease	78	68	15
CARDIOVASCULAR	**631**	**486**	**30**
Neuro Implantables	284	237	20
Gastroenterology & Urology	64	52	23
NEUROMODULATION	**348**	**289**	**20**
DIABETES	**269**	**241**	**12**
Core ENT	87	75	16
Neurologic Technologies	79	69	14
Navigation	36	28	29
SURGICAL TECHNOLOGIES	**202**	**172**	**17**
PHYSIO-CONTROL	**94**	**60**	**57**
TOTAL	**$ 3,706**	**$ 3,127**	**19%**

In the first quarter of fiscal year 2009, net sales were favorably impacted by foreign currency translation of $157 million when compared to the first quarter of fiscal year 2008. The primary exchange rate movements that impact our consolidated net sales growth are the U.S. dollar as compared to the Euro and the Japanese Yen. The impact of foreign currency fluctuations on net sales is not indicative of the impact on net earnings due to the offsetting foreign currency impact on operating costs and expenses and our hedging activities. See the Market Risk section of this management s discussion and analysis and Note 8 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended April 25, 2008 for further details on foreign currency instruments and our related risk management strategies.

Forward-looking statements are subject to risk factors (see Cautionary Factors That May Affect Future Results set forth in our Annual Report on Form 10-K for the year ended April 25, 2008).

Cardiac Rhythm Disease Management

CRDM products consist primarily of pacemakers, implantable defibrillators, leads, ablation products, electrophysiology catheters, and information systems for the management of patients with our devices. CRDM net sales for the three months ended July 25, 2008 were $1.303 billion, an increase of 6 percent when compared to the same period of the prior fiscal year. Foreign currency translation had a favorable impact on net sales for the three months ended July 25, 2008 of approximately $66 million when compared to the same period of the prior fiscal year.

Worldwide net sales of Defibrillation Systems, our largest product line, for the three months ended July 25, 2008 were $764 million, an increase of 5 percent when compared to the same period of the prior fiscal year. Net sales growth is primarily a result of continued acceptance of Virtuoso implantable cardioverter defibrillators (ICDs) and Concerto cardiac resynchronization therapy-defibrillators (CRT-Ds), especially outside the U.S., and the benefit of foreign currency translation. Both the Virtuoso ICDs and Concerto CRT-Ds feature Conexus wireless technology which allows for remote transfer of patient data and enables easier communication between the implanted device and programmer at the time of implant, during follow-up in a clinician s office, or remotely using a patient home monitor.

Pacing Systems net sales for the three months ended July 25, 2008 were $526 million, an increase of 6 percent when compared to the same period of the prior fiscal year. This increase is due to strong sales outside the U.S. and the benefit of foreign currency translation. Sales outside the U.S. were led by the acceptance of the Adapta family of pacemakers, including the Adapta, Versa, and Sensia models. The Adapta family of pacemakers incorporates an array of automatic features to help physicians improve pacing therapy and streamline the patient follow-up process, potentially minimizing the amount of time spent in a physician s office. Adapta offers Managed Ventricular Pacing, or MVP, which is an atrial based pacing mode that significantly reduces unnecessary pacing in the right ventricle while providing the safety of a dual chamber backup if necessary. Clinical studies have suggested that reducing this unnecessary pacing in the right ventricle may decrease the risk of developing heart failure and atrial fibrillation, a potentially life-threatening irregular heartbeat.

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Looking ahead, we expect our CRDM operating segment should be impacted by the following:

The future launch and acceptance of our new Vision 3D portfolio, which will be comprised of a full line of ICDs, CRT-Ds, pacemakers and cardiac resynchronization therapy-pacemakers (CRT-Ps) to address the needs of patients with arrhythmias, heart failure and those at risk of sudden cardiac arrest. The Secura ICD and the Consulta CRT-D, the portfolio s first ICD and CRT-D devices, are expected to be commercially available in the second quarter of fiscal year 2009. Vision 3D is our first generation device with a common platform across ICDs, CRT-Ds and pacing systems. Additionally, these products provide enhanced follow-up and automaticity features and create meaningful manufacturing synergies. We will continue to develop our industry leading product portfolio to meet the medical needs of our patients.

The future acceptance of our single coil Quattro lead, which we expect to launch in markets around the world in fiscal year 2009. Some physicians prefer a single coil lead, particularly physicians in certain Western European countries. We believe the future availability of this product will help us to further recover from the impact of the voluntary suspension of worldwide distribution of the Sprint Fidelis lead in the second quarter of fiscal year 2008. For more information regarding this issue, refer to the Other Matters section of the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended April 25, 2008.

Continued acceptance of the Adapta family of pacemakers, including the Adapta, Versa, and Sensia models.

Continued expansion of the Medtronic CareLink Service, available on both the Pacing and Defibrillator platforms in the U.S., Canada, and Western Europe, and beginning in the fourth quarter of fiscal year 2008, on a pilot basis in Japan and Australia. We believe Medtronic CareLink Service continues to drive physician preference for our products.

The future launch and acceptance of the EnRhythm MRI SureScan pacing system (EnRhythm MRI). EnRhythm MRI will be the first pacemaker system to be developed and tested specifically for safe use in Magnetic Resonance Imaging (MRI) machines under specified scanning conditions. EnRhythm MRI is designed to address and mitigate interactions between the pacing system and the magnetic resonance environment. We expect to launch EnRhythm MRI in Europe in fiscal year 2009 and in the U.S. in fiscal year 2010.

Our growth in CRDM has been and will continue to be contingent upon continued market growth and our ability to maintain our market position.

Spinal

Spinal products include thoracolumbar, cervical and interbody spinal devices, and bone graft substitutes. Spinal net sales for the three months ended July 25, 2008 were $859 million, an increase of 33 percent over the same period of the prior fiscal year. Foreign currency translation had a

favorable impact on net sales for the three months ended July 25, 2008 of approximately $17 million when compared to the same period of the prior fiscal year. The growth in the first quarter of fiscal year 2009 was driven by the third quarter fiscal year 2008 acquisition of Kyphon, which generated revenue of $161 million in the period. See below and Note 3 to the condensed consolidated financial statements for further discussion about the acquisition of Kyphon.

Core Spinal net sales for the three months ended July 25, 2008 were $477 million, an increase of 5 percent over the same period of the prior fiscal year. Growth in the period was primarily based on continued acceptance of our products for the thoracolumbar and cervical sections of the spine. Thoracolumbar net sales growth for the three months ended July 25, 2008 was driven by worldwide net sales of the CD HORIZON LEGACY family of products (CD HORIZON), worldwide net sales of the CAPSTONE and VERTE-STACK CRESCENT Vertebral Body Spacers (CAPSTONE and CRESCENT) for thoracolumbar stabilization, the U.S. introduction of TSRH OsteoGrip, and worldwide net sales growth of the Lumbar Dynamic platform of products. CD HORIZON is the most comprehensive minimally invasive and open spine system on the market today. It is designed to provide procedural solutions for degenerative, deformity, or trauma applications using color coded implants, unique minimally invasive instruments and ergonomic designs. The CAPSTONE and CRESCENT are minimal access devices and techniques designed to replace and restore vertebral height in the thoracolumbar spine. The TSRH OsteoGrip is a novel pedicle screw design. The growth of our Lumbar Dynamic platform of products, which allows some range in motion as compared to our fixed stabilization devices, was driven by demand for our CD HORIZON LEGACY PEEK Rod System in the U.S. and DIAM System outside the U.S. The growth in net sales of our cervical products for the three months ended July 25, 2008 was led by continued acceptance of the VERTEX Max Reconstruction System for cervical stabilization outside the U.S. Although U.S. net sales in Core Spinal increased over the same period of the prior fiscal year, the growth was not consistent with the overall U.S. market growth. Our market share in the Core Spinal business continues to experience pressure from the proliferation of privately held companies competing in this market.

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Spinal Biologics net sales for the three months ended July 25, 2008 were $221 million, an increase of 16 percent over the same period of the prior fiscal year. This increase was primarily driven by continued strong acceptance of INFUSE Bone Graft in the U.S. The U.S. growth was influenced by the introduction of extra small and a double extra small INFUSE kits for use in spinal and oral maxillofacial procedures. These smaller kits expand the potential user population. INFUSE Bone Graft contains a recombinant human bone morphogenetic protein, or rhBMP-2, that induces the body to grow its own bone, eliminating the need for a painful second surgery to harvest bone from elsewhere in the body.

Kyphon net sales of $161 million for the three months ended July 25, 2008 were driven primarily by continued acceptance of balloon kyphoplasty procedures for treating vertebral compression fractures. Balloon kyphoplasty, using Kyphon instruments, is presently used primarily by spine specialists, including orthopedic surgeons and neurosurgeons, interventional radiologists and interventional neuroradiologists, who repair compression fractures of the spine caused by osteoporosis, cancer or benign lesions, or trauma, through minimally invasive spine surgeries.

Looking ahead, we expect our Spinal operating segment should be impacted by the following:

- Continued acceptance of our products for stabilization of the thoracolumbar and cervical sections of the spine, including the CD HORIZON LEGACY 5.5 and the VERTEX Max Reconstruction System.

Continued acceptance of the INFUSE Bone Graft for spinal fusion and certain types of acute, open tibia fractures. Additionally, continued acceptance of the extra small and double extra small Infuse kits for use in spinal and oral maxillofacial procedures.

Continued acceptance of our Lumbar dynamic platform of products including the PEEK Rod System in the U.S. and the DIAM System outside the U.S. combined with continued acceptance of Kyphon s X-Stop IPD system and the Aperius PercLID, for the treatment of mild to moderate lumbar spinal stenosis.

Continued acceptance of the Kyphon instruments for use in balloon kyphoplasty. The acquisition of Kyphon will add to the growth of our existing Spinal business by extending our product offerings into some of the fastest growing product segments of the spine market, enabling us to provide physicians with a broader range of therapies for use at all stages of the care continuum.

CardioVascular

CardioVascular products consist of coronary and peripheral stents and related delivery systems, endovascular stent graft systems, heart valve replacement technologies and tissue ablation systems, and open heart and coronary bypass grafting surgical products. CardioVascular net sales for the three months ended July 25, 2008 were $631 million, an increase of 30 percent over the same period of the prior fiscal year. Foreign currency translation had a favorable impact on net sales for the three months ended July 25, 2008 of approximately $39 million when compared to the same period of the prior fiscal year.

Coronary Stent and Other Coronary/Peripheral net sales for the three months ended July 25, 2008 were $349 million, an increase of 41 percent as compared to the same period in the prior fiscal year. The increase in net sales for the three months ended July 25, 2008 was primarily the result of the successful launch of the Endeavor drug-eluting stent (Endeavor) in the U.S. which began during the fourth quarter of fiscal year 2008. Endeavor generated $80 million of revenue in the U.S for the first quarter of fiscal year 2009. Our Endeavor and Endeavor Resolute drug-eluting stent (Endeavor Resolute) generated worldwide revenue of $175 million in the three months ended July 25, 2008. We had drug-eluting stents commercially available in essentially all global markets during the quarter except Japan. Although the market for stents and drug-eluting stents has been under pressure, sales of our Endeavor and Endeavor Resolute continue to benefit from favorable safety and efficacy data, along with their ease of delivery.

Endovascular net sales for the three months ended July 25, 2008 were $87 million, an increase of 26 percent in comparison to the same period in the prior fiscal year. For the three months ended July 25, 2008 growth in the Endovascular business was driven by worldwide net sales of the Talent AAA Stent Graft System and the Valiant Thoracic Stent Graft System outside the U.S. The Valiant Thoracic Stent Graft System is a next-generation stent graft used for the minimally invasive repair of the thoracic aorta, the body s largest artery, for several disease states including aneurysms, penetrating ulcers, acute or chronic dissections, and contained or traumatic ruptures. Net sales in the U.S. for the three months ended July 25, 2008, increased 17 percent in comparison to the same period in the prior fiscal year driven by the recent U.S. approvals of the Talent Abdominal and Thoracic Stent Graft Systems, which broaden our industry-leading portfolio of aortic repair technology.

Revascularization and Surgical Therapies net sales for the three months ended July 25, 2008 were $117 million, an increase of 15 percent in comparison to the same period in the prior fiscal year. The increase was primarily the result of strong growth outside the U.S. associated with the introduction of new cardiopulmonary and cannulae products.

Structural Heart Disease net sales for the three months ended July 25, 2008 were $78 million, an increase of 15 percent in comparison to the same period in the prior fiscal year. This increase was led by net sales growth outside the U.S. which was driven by sales of our tissue valves, including the Mosaic and Mosaic Ultra, and continued adoption of our Melody Transcatheter Pulmonary Valve and Ensemble Transcatheter Delivery System. Additionally, the first quarter of fiscal year 2009 benefited from the return to the market of the Advantage Mechanical Valve to non-U.S. markets which had been suspended for a portion of the comparable period.

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Looking ahead, we expect our CardioVascular operating segment should be impacted by the following:

- Continued acceptance of Endeavor, which was launched in the U.S. market in February 2008. Endeavor was the first new drug-eluting stent approved for use in the U.S. market in over four years and provides a beneficial safety and efficacy profile for treating patients with coronary artery disease. Additionally, we anticipate receiving regulatory approval and launching Endeavor in Japan in the first half of calendar year 2009.

- Continued acceptance of Endeavor Resolute in markets outside the U.S. Endeavor Resolute combines the proven drug and stent components of Endeavor with Biolinx, a proprietary biocompatible polymer specifically engineered for drug-eluting stent use. Biolinx facilitates the elongation of Zotarolimus elution while providing excellent biocompatibility. The design goal of Endeavor Resolute is enhanced safety and efficacy in the most complex lesions and patients.

- Further acceptance of the Talent AAA Stent Graft System in the U.S. market. The Talent AAA Stent Graft System received FDA approval in April 2008 and was commercially available during the first quarter of fiscal year 2009. Additionally, we anticipate further growth as we commercially released the Talent Thoracic Stent Graft System in the U.S. during the first quarter of fiscal year 2009.

- Continued sales growth outside the U.S. with future acceptance of our next generation Endurant AAA stent graft and continued acceptance of the Valiant Thoracic Stent Graft System. The Endurant AAA stent graft received CE Mark approval and was commercially launched late in the first quarter of fiscal year 2009.

- Further acceptance of the Melody Transcatheter Pulmonary Valve and Ensemble Transcatheter Delivery System, which received CE Mark approval for commercial sale in October 2006. A feasibility study to evaluate the use of the Medtronic Melody Transcatheter Pulmonary Valve and Ensemble Transcatheter Delivery System in the U.S. was initiated in February 2007 and enrollment was completed in September 2007.

Although Endeavor has been well received in the U.S. market to date, the growth in our Coronary Stent business may be impacted in the future by the U.S. launch of two new drug-eluting stents by our competitors. These new products were introduced late in the first quarter of fiscal year 2009.

Neuromodulation

Neuromodulation products consist of therapeutic and diagnostic devices, including implantable neurostimulation systems, implantable drug delivery devices, and urology and gastroenterology products. Neuromodulation net sales for the three months ended July 25, 2008 were $348 million, an increase of 20 percent when compared to the same period of the prior fiscal year. Foreign currency translation had a favorable impact

on net sales for the three months ended July 25, 2008 of approximately $12 million when compared to the same period of the prior fiscal year. In the first quarter of fiscal year 2008 we completed the divestiture of our Gastroenterology and Neurological diagnostics product lines. The loss of these product lines had a negative impact on net sales growth of 3 percent for the three months ended July 25, 2008.

Neuro Implantables is comprised of two product lines: Pain Management and Movement Disorders. Net sales from Neuro Implantables for the three months ended July 25, 2008 were $284 million, an increase of 20 percent over the same period in the prior fiscal year. The growth was driven by worldwide sales of key products in Pain Management including the RestoreULTRA neurostimulation system for pain management, our Synchromed II drug delivery pump and our Specify 5-6-5 surgical lead for spinal cord stimulation. RestoreULTRA, which was launched in March 2008, is our next generation rechargeable neurostimulator with advanced programming capabilities and is the thinnest 16-electrode neurostimulator on the market. Movement Disorders revenue for the three months ended July 25, 2008 was driven by worldwide net sales of Activa Deep Brain Stimulation (DBS) Therapy. Activa DBS Therapy is used for the treatment of common movement disorders including Parkinson s disease, essential tremor, and dystonia.

Net sales of Gastroenterology and Urology products for the three months ended July 25, 2008 were $64 million, an increase of 23 percent over the same period in the prior fiscal year. The growth in Gastroenterology and Urology was led by worldwide sales of our InterStim II product. InterStim II for the treatment of overactive bladder and urinary incontinence was launched in the second quarter of fiscal year 2007, and the smaller design continues to be widely accepted.

Looking ahead, we expect our Neuromodulation operating segment should be impacted by the following:

- Continued acceptance of RestoreULTRA, our next generation rechargeable neurostimulator. RestoreULTRA also offers an innovative patient programmer that gives patients the ability to customize their pain control.

- Continued acceptance of our Activa DBS Therapy for the treatment of common movement disorders. We continue to educate neurologists and the patient population on the benefits that our Activa DBS Therapy offers them. Additionally, we look forward to the anticipated launch of Activa PC and RC, our next generation neurostimulators. Activa PC is a primary cell device and Activa RC will be the therapy s first rechargeable device. We anticipate launch of Activa RC in the second half of fiscal year 2009.

- Continued acceptance of InterStim II for the treatment of overactive bladder and urinary incontinence.

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Diabetes

Diabetes products consist of external insulin pumps and related consumables, continuous glucose monitoring systems, and subcutaneous glucose sensors. Diabetes net sales for the three months ended July 25, 2008 were $269 million, an increase of 12 percent when compared to the same

period of the prior fiscal year. Foreign currency translation had a favorable impact on net sales for the three months ended July 25, 2008 of approximately $12 million when compared to the same period of the prior fiscal year.

External pump sales for the three months ended July 25, 2008 were $110 million, representing growth of 2 percent over the same period in the prior fiscal year. This increase in net sales resulted from strong demand for the Paradigm REAL-Time sensor-augmented pump system outside the U.S., offset by a modest slowdown in net sales in the U.S. as we complete the initial wave of upgrades for existing patients to our latest technology that began in the first quarter of fiscal year 2008. Net sales of Consumables, including glucose sensors and other monitoring equipment, for the three months ended July 25, 2008 were $159 million, an increase of 20 percent over the same period in the prior fiscal year. Net sales of infusion sets outside the U.S., in correlation with our strong pump growth outside the U.S., fueled the growth in Consumables.

Looking ahead, we expect our Diabetes operating segment should be impacted by the following:

Continued acceptance from both physicians and patients of the Paradigm REAL-Time sensor-augmented pump system, which integrates continuous glucose monitoring and insulin pump functionality.

Future acceptance of the CGMS *i*Pro, a continuous glucose monitoring-enabled diagnostic tool that provides the physician and patient with unprecedented insight into their blood-sugar levels, which was launched in the U.S. in July 2008.

Future acceptance of the ADVANCE interactive modules to help physicians better understand insulin pump therapy and how to incorporate it into their practice. This initiative was piloted during the first quarter of fiscal year 2009 and we anticipate expanding it throughout the U.S. during the second quarter of fiscal year 2009.

Future acceptance and customer preference for Medtronic products due to the alliances with LifeScan, Inc. (Lifescan), a Johnson & Johnson company, and Bayer Diabetes Care (Bayer), a member of the Bayer group, which we announced on August 21, 2007. The alliances reached with Lifescan (for the U.S. market) and Bayer (for markets outside the U.S.) provide for the distribution and marketing of blood glucose meters that communicate with Medtronic s insulin pumps. These alliances provide our customers an integrated solution for managing diabetes, thereby improving the quality of life and ease of use. We launched our co-developed blood glucose meters with Bayer and LifeScan in February 2008 and April 2008, respectively.

Surgical Technologies

Surgical Technologies products are used to treat conditions of the ear, nose, and throat, and certain neurological disorders. Additionally, we manufacture and sell image-guided surgery systems. Our portfolio consists of powered tissue-removal systems and other microendoscopy instruments, implantable devices, nerve monitoring systems, disposable fluid-control products, a Ménière s disease therapy device, hydrocephalus shunt devices, external drainage systems, cranial fixation devices, neuroendoscopes, dura repair products, and image-guided surgery systems. Surgical Technologies net sales for the three months ended July 25, 2008 were $202 million, an increase of 17 percent when compared to the same period of the prior fiscal year. Foreign currency translation had a favorable impact on net sales for the three months ended July 25, 2008 of approximately $6 million when compared to the same period of the prior fiscal year.

Core ENT net sales for the three months ended July 25, 2008 were $87 million, an increase of 16 percent in comparison to the same period in the prior fiscal year. The increase for the three months ended July 25, 2008 reflected the continued success of Fusion EM IGS, an advanced Image Guidance Surgery System to facilitate sinus surgeries. Fusion EM IGS is an electromagnetic-based image-guided surgery product that will avoid line of sight constraints of optical systems. In addition, there was strong performance in monitoring and drill disposables.

Neurologic Technologies net sales for the three months ended July 25, 2008 were $79 million, an increase of 14 percent in comparison to the same period in the prior fiscal year. The primary driver of growth for the three months ended July 25, 2008 in Neurologic Technologies was worldwide increased sales of disposables associated with high-speed powered surgical drill systems and the EHS Stylus system. Additionally, the Strata valves also contributed to the revenue growth.

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Navigation net sales for the three months ended July 25, 2008 were $36 million, an increase of 29 percent in comparison to the same period in the prior fiscal year. The increase for the three months ended July 25, 2008 was based on strong U.S. net sales of the O-arm Imaging Systems, a multi-dimensional surgical imaging platform that is optimized for use in spine and orthopedic surgery, and increased worldwide service revenue.

Looking ahead, we expect our Surgical Technologies operating segment should be impacted by the following:

- Continued acceptance of our FUSION EM IGS System, which was launched in the U.S. in the third quarter of fiscal year 2008.

- Continued adoption of power systems outside the U.S. for sinus procedures, including the Straightshot M4 Microdebrider, as well as continued global adoption of nerve monitoring for ENT and thyroid procedures.

- Continued development of the normal pressure hydrocephalus market, resulting in increased sales of our shunt products, including the Strata valve, and continued acceptance of our Legend high-speed drill systems, electric bone mill, and Durepair dura substitute.

- Continued acceptance of the O-arm Imaging System and future acceptance of the S7 Navigation System which we expect to release in fiscal year 2009.

- Further integration of Restore s Pillar System for the treatment of sleep breathing disorders. The Pillar System will deliver new growth by providing us with a proven office-based procedure in a very fast growing segment of the obstructive sleep apnea market.

Continued net sales growth in all operating segments is contingent on our ability to gain further market share, penetrate existing markets, develop new products, improve existing products and develop new markets.

Costs and Expenses

The following is a summary of major costs and expenses as a percent of net sales:

	Three months ended	
	July 25, 2008	July 27, 2007
Cost of products sold	23.1%	25.3%
Research and development	8.7	9.6
Selling, general and administrative	35.6	35.0
Restructuring	2.6	0.4
IPR&D		1.1
Other expense, net	4.1	1.8
Interest expense/(income), net	0.2	(1.4)

Cost of Products Sold

Cost of products sold for the three months ended July 25, 2008, as a percentage of net sales, decreased 2.2 percentage points to 23.1 percent when compared to the same period in the prior fiscal year. Cost of products sold as a percentage of net sales in the three months ended July 25, 2008 was positively impacted by 1.2 percentage points of favorable foreign currency adjustments, 0.7 of a percentage point of favorable manufacturing variances, and 0.5 of a percentage point from the impact of Kyphon. These positive variances were offset by 0.6 of a percentage point of unfavorable product mix and other product costs.

Research and Development

Consistent with prior periods, we have continued to invest in the future by spending aggressively on research and development efforts. For the three months ended July 25, 2008 and July 27, 2007, research and development spending was $324 million and $300 million, respectively, or 8.7 and 9.6 percent of net sales, respectively. While our first quarter of fiscal year 2009 research and development spending increased over the prior year in total, as a percentage of sales it has decreased. The decrease is the result of an $11 million reclassification of certain expenses to selling, general, and administrative and the impact of our global realignment initiative. Execution of the global realignment initiative resulted in delays in the start-up of certain research and development programs early in fiscal year 2009.

We remain committed to developing technological enhancements and new indications for existing products, and less invasive and new technologies to address unmet medical needs. That commitment leads to our initiation and participation in numerous clinical trials in every fiscal year. Furthermore, we expect our development activities to help reduce patient care costs and the length of hospital stays in the future. In addition to our investment in research and development, we continue to access new technologies in areas served by our existing businesses, as well as in new areas, through acquisitions, licensing agreements, alliances and certain strategic equity investments.

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Selling, General and Administrative

Selling, general and administrative expense for the three months ended July 25, 2008, as a percentage of net sales, increased by 0.6 of a percentage point to 35.6 percent as compared to the same period of the prior fiscal year. For the three months ended July 25, 2008, 0.8 of a percentage point of the increase was driven by the acquisition of Kyphon and 0.3 of a percentage point was due to the reclassification of certain expenses from research and development. These increases were offset by savings from our initiatives to leverage the Company s cost structure.

Restructuring and IPR&D Charges

Restructuring and IPR&D charges for the three months ended July 25, 2008 and July 27, 2007 were as follows:

	Three months ended	
(dollars in millions)	**July 25, 2008**	**July 27, 2007**
Restructuring charges	$ 96	$ 14
IPR&D charges		33
Total restructuring and IPR&D charges	96	47
Net tax impact of restructuring and IPR&D charges	(30)	(11)
Total restructuring and IPR&D charges, net of tax	$ 66	$ 36

Restructuring

Global Realignment Initiative

In fiscal year 2008, as part of a global realignment initiative, we recorded a restructuring charge which focused on shifting resources to those areas where we have the greatest opportunities for growth and streamlining operations to drive operating leverage. The global realignment initiative impacted most businesses and certain corporate functions. For additional information, see Note 4 to the condensed consolidated financial statements.

As a continuation of the global realignment initiative that began in fiscal year 2008, in the first quarter of fiscal year 2009 we incurred $96 of incremental restructuring charges, which consists of employee termination costs of $91 and asset write-downs of $5. The majority of the expense recognized in the first quarter of fiscal year 2009 is related to the execution of our global realignment initiative outside the U.S. This includes the realignment and elimination of personnel throughout Europe and the Emerging Markets and the closure of an existing facility in the Netherlands that will be integrated into the U.S. operations. The remainder of the expense is associated with enhanced severance benefits provided to employees identified in the fourth quarter of fiscal year 2008. These incremental costs were not accrued in fiscal year 2008 because the enhanced benefits had not yet been communicated to the impacted employees.

When this restructuring initiative began in the fourth quarter of fiscal year 2008, we estimated that approximately 1,100 positions would be eliminated through both voluntary and involuntary separation. As of July 25, 2008, we have completed the identification process and have revised our estimate of the total positions that will be impacted to 900 positions. Of the 900 positions identified, 140 have been eliminated as of July 25, 2008. The restructuring initiatives are scheduled to be substantially complete by the end of fiscal year 2009, and are expected to produce

annualized operating savings of approximately $96 million. These savings will arise mostly from reduced compensation expense.

Fiscal Year 2007 Initiative

In fiscal year 2007, we recorded a restructuring charge that was designed to drive manufacturing efficiencies in our CardioVascular business, downsize our Physio-Control business due to our voluntary suspension of U.S. shipments, and rebalance resources within our CRDM business in response to market dynamics. For additional information, see Note 4 to the condensed consolidated financial statements.

As a continuation of our fiscal year 2007 initiatives, in the first quarter of fiscal year 2008 we incurred $14 million of incremental restructuring charges associated with compensation provided to employees whose employment terminated with the Company in the first quarter of fiscal year 2008. These incremental costs were not accrued in fiscal year 2007 because these benefits had not yet been communicated to the impacted employees. Included in the total $14 million restructuring charge is $4 million of incremental defined benefit pension and post-retirement related expense for those employees who accepted early retirement packages. For further discussion on the incremental defined benefit pension and post-retirement related expense, see Note 16 to the consolidated financial statements.

When the restructuring initiative began in fiscal year 2007, we identified approximately 900 positions for elimination which were achieved through early retirement packages offered to employees, voluntary separation, and involuntary separation, as necessary. As of April 25, 2008, the initiatives begun in the fourth quarter of fiscal year 2007 were substantially complete. This restructuring initiative is expected to produce annualized operating savings of approximately $125 million mostly from reduced compensation expense.

IPR&D Charges

There were no IPR&D charges for the three months ended July 25, 2008.

During the first quarter of fiscal year 2008, we recorded IPR&D charges of $25 million related to a milestone payment under the existing terms of a royalty bearing, non-exclusive patent cross-licensing agreement with NeuroPace, Inc. and $8 million from unrelated purchases of certain intellectual property. These payments were expensed as IPR&D since technological feasibility of the underlying projects had not yet been reached and such technology has no future alternative use.

Other Expense, Net

Other expense, net includes intellectual property amortization expense, royalty income and expense, realized equity security gains and losses, realized foreign currency transaction and derivative gains and losses and impairment charges on equity securities. Other expense, net for the three months ended July 25, 2008 increased $94 million, to $151 million, compared to the same period in the prior fiscal year. The change for the three months ended July 25, 2008 is primarily due to currency hedges, which resulted in losses of $67 million in the current period compared to $2 million in the same period of the prior fiscal year and $23 million of amortization on intangible assets resulting from the Kyphon acquisition. Additionally, the first quarter of fiscal year 2008 included $13 million of gains on the sale of certain equity investments.

Interest Expense/(Income), Net

Interest expense/(income), net includes interest earned on our investments, interest paid on our borrowings, amortization of debt issuance costs and the net realized gain or loss on sales of available for sale (AFS) debt securities. For the three months ended July 25, 2008, we had interest expense/(income), net of $9 million as compared to interest expense/(income), net of $(44) million for the same period of the prior fiscal year. The decrease in the three months ended July 25, 2008 is the result of the financing of the Kyphon acquisition and lower interest rates being earned on our short- and long-term investments. The acquisition was financed through a combination of approximately $3.303 billion cash on hand causing a decrease in interest income, the issuance of $600 million short-term commercial paper and borrowing $300 million through a new long-term unsecured revolving credit facility both causing increases to interest expense.

Income Taxes

	Three months ended	
	July 25, 2008	July 27, 2007
(dollars in millions)		
Provision for income taxes	$ 206	$ 204
Effective tax rate	21.59%	23.21%
Impact of restructuring and IPR&D charges	0.91	0.04
Non-GAAP nominal tax rate [1]	22.50%	23.25%

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[1] Non-GAAP nominal tax rate is defined as the income tax (benefit) provision as a percentage of earnings before income taxes, excluding restructuring and IPR&D charges. We believe that the resulting non-GAAP financial measure provides useful information to investors because it excludes the effect of these discrete items so that investors can compare our recurring results over multiple periods.

For the three months ended July 25, 2008 and July 27, 2007, our effective tax rates were 21.59 percent and 23.21 percent, respectively. Excluding the impact of restructuring and IPR&D charges, our non-GAAP nominal tax rate for the three months ended July 25, 2008 was 22.50 percent, compared to 23.25 percent, from the same period of the prior fiscal year. The decrease in the Company s non-GAAP nominal tax rate is primarily due to the increased tax benefits derived from our international operations, which is partially offset by the decrease in tax benefits generated from the Federal Research and Development tax credit (R&D tax credit). The Federal R&D tax credit expired on December 31, 2007 and legislation to reinstate the Federal R&D tax credit was not enacted as of July 25, 2008. Accordingly, no tax benefit from the Federal R&D tax credit was included in the estimate of our fiscal year 2009 effective tax rate. In the future, if legislation is enacted and signed into law, the benefit of the Federal R&D tax credit will be recorded at that time.

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Liquidity and Capital Resources

(dollars in millions)	July 25, 2008	April 25, 2008
Working capital	$ 3,676	$ 3,787
Current ratio*	2.0:1.0	2.1:1.0
Cash, cash equivalents, and short-term investments	$ 1,745	$ 1,613
Long-term investments in public and private debt securities**	2,569	2,078
Cash, cash equivalents, short-term investments, and long-term debt securities	$ 4,314	$ 3,691
Short-term borrowings and long-term debt	$ 7,134	$ 6,956
Net cash position***	$ (2,820)	$ (3,265)

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* Current ratio is the ratio of current assets to current liabilities.
** Long-term investments include public and private debt securities with a maturity date greater than one year from the end of the period.
*** Net cash position is the sum of cash, cash equivalents, short-term investments and long-term investments in public and private debt securities less short-term borrowings and long-term debt.

We believe our liquidity remains strong as of July 25, 2008 and our strong balance sheet and liquidity provide us with flexibility in the future. We believe our existing cash and investments, as well as our unused lines of credit and commercial paper capacity of $1.745 billion, if needed, will satisfy our foreseeable working capital requirements for at least the next twelve months. However, we periodically consider various financing alternatives and may, from time to time, seek to take advantage of favorable interest rate environments or other market conditions. At July 25, 2008, our Standard and Poor s Ratings Group and Moody s Investors Service ratings remain unchanged as compared to the fiscal year ending April 25, 2008 with long-term debt ratings of AA- and A1, respectively, and strong short-term debt ratings of A-1+ and P-1.

The increase in our net cash position in the first quarter of fiscal year 2009 as compared to the fiscal year ending April 25, 2008, is primarily due to income generated from operations offset by cash used for capital expenditures, dividend payments, and share repurchases.

We have future contractual obligations and other minimum commercial commitments that are entered into in the normal course of business. We believe our off-balance sheet arrangements do not have a material current or anticipated future effect on our consolidated earnings, financial position, or cash flows. See the Off-Balance Sheet Arrangements and Long-Term Contractual Obligations section of this management s discussion and analysis for further information.

Note 17 to the condensed consolidated financial statements provides information regarding amounts we have accrued related to significant legal proceedings. In accordance with SFAS No. 5, we record a liability in our consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. In May 2008, we paid substantially all of the $123 million settlement for certain lawsuits relating to the Marquis line of ICDs and CRT-Ds and in June 2008, we paid the $75 million settlement for the Kyphon qui tam complaint, which we assumed as a liability in the acquisition of Kyphon. For more information regarding these settlements,

refer to Note 15 of the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended April 25, 2008.

At July 25, 2008 and April 25, 2008, approximately $4.073 billion and $3.317 billion, respectively, of cash, cash equivalents, short-term investments and long-term investments in debt securities were held by our non-U.S. subsidiaries. These funds are available for use by worldwide operations; however, if these funds were repatriated to the U.S. or used for U.S. operations, the amounts would be subject to U.S. tax.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include government securities, commercial paper, corporate debt securities, bank certificates of deposit, and mortgage backed and other asset backed securities including auction rate securities. Market conditions during the first quarter of fiscal year 2009 and subsequent to our quarter-end continue to indicate significant uncertainty on the part of investors on the economic outlook for the U.S. and for financial institutions that have potential exposure to the sub-prime housing market. This uncertainty has created reduced liquidity across the fixed income investment market, including certain securities in which we have invested. As a result, some of our investments have experienced reduced liquidity including unsuccessful monthly auctions for our auction rate security holdings. During the third quarter of fiscal year 2008, we reclassified all of our auction rate fixed income securities, which had a cost basis of $198 million, from *short-term investments* to *long-term investments* on our consolidated balance sheet due to the fact that they are currently not trading, and current conditions in the general debt markets have reduced the likelihood that the securities will successfully auction within the next 12 months. Auction rate securities that did not successfully auction reset to the maximum rate as prescribed in the underlying indenture and all of our holdings continue to be current with their interest payments.

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For the three months ended July 25, 2008, we recognized a $3 million impairment loss on AFS debt securities. Based on our assessment of the credit quality of the underlying collateral and credit support available to each of the remaining securities in which we are invested, we believe no other-than-temporary impairment has occurred as we have the ability and the intent to hold these investments long enough to avoid realizing any significant loss. Additionally, if we required capital we believe we could liquidate the majority of our portfolio and incur no material impairment loss and we have capacity under our commercial paper program and lines of credit that we could access. As of July 25, 2008, we do not believe that we have material risk in our current portfolio of investments that would impact our financial condition or liquidity. For further information about the risks associated with our investments see Part 1, Item 3. Quantitative and Qualitative Disclosures About Market Risk .

Summary of Cash Flows

	For the three months ended	
	July 25,	**July 27,**
(dollars in millions)	**2008**	**2007**
Cash provided by (used in):		
Operating activities	$ 800	$ 910
Investing activities	(680)	(706)
Financing activities	4	(581)
Effect of exchange rate changes on cash and cash equivalents	(14)	(6)

Net change in cash and cash equivalents	$	110	$	(383)

Operating Activities

Our net cash provided by operating activities was $800 million for the three months ended July 25, 2008 compared to $910 million provided by operating activities for the three months ended July 27, 2007. The $110 million decrease in net cash provided by operating activities was primarily attributable to the payment of settlements in the Marquis and Kyphon qui tam matters. In May 2008, we paid substantially all of the $123 million settlement for certain lawsuits relating to the Marquis line of ICDs and CRT-Ds and in June 2008, we paid the $75 million settlement for the Kyphon qui tam complaint, which we assumed as a liability in the acquisition of Kyphon. For more information regarding these settlements, refer to Note 15 of the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended April 25, 2008.

Investing Activities

Our net cash used in investing activities was $680 million for the three months ended July 25, 2008 compared to $706 million used in investing activities for the three months ended July 27, 2007. The $26 million decrease in net cash used in investing activities was primarily attributable to a decrease in cash used in other investing activities partially offset by an increase in net purchases of marketable securities.

Financing Activities

Our net cash provided by financing activities was $4 million for the three months ended July 25, 2008 compared to $581 million used in financing activities for the three months ended July 27, 2007. The $585 million increase in net cash provided by financing activities was primarily attributable to an increase in cash provided by short-term borrowings and cash provided by the issuance of common stock. These cash inflows were offset by an increase in cash used for long-term debt payments and an increase in cash used for dividend payments to shareholders. Additionally, there was a decrease in cash used for stock repurchases.

Off-Balance Sheet Arrangements and Long-Term Contractual Obligations

We acquire assets still in development, enter into research and development arrangements and sponsor certain clinical trials that often require milestone and/or royalty payments to a third-party, contingent upon the occurrence of certain future events. Milestone payments may be required contingent upon the successful achievement of an important point in the development life cycle of a product or upon certain pre-designated levels of achievement in clinical trials. In addition, if required by the arrangement, we may have to make royalty payments based on a percentage of sales related to the product under development or in the event that regulatory approval for marketing is obtained. In situations where we have no ability to influence the achievement of the milestone or otherwise avoid the payment, we have included those milestone or minimum royalty payments in the following table. However, the majority of these arrangements give us the discretion to unilaterally make the decision to stop development of a product or cease progress of a clinical trial, which would allow us to avoid making the contingent payments. Although we are unlikely to cease development if a device successfully achieves clinical testing objectives, these payments are not included in the table of contractual obligations because of the contingent nature of these payments and our ability to avoid them if we decided to pursue a different path of development or testing.

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In the normal course of business, we periodically enter into agreements that require us to indemnify customers or suppliers for specific risks, such as claims for injury or property damage arising out of our products or the negligence of our personnel or claims alleging that our products infringe third-party patents or other intellectual property. Our maximum exposure under these indemnification provisions cannot be estimated, and we have not accrued any liabilities within our consolidated financial statements or included any indemnification provisions in our commitments table. Historically, we have not experienced significant losses on these types of indemnification obligations.

We believe our off-balance sheet arrangements do not have a material current or anticipated future effect on our consolidated earnings, financial position or cash flows. Presented below is a summary of contractual obligations and other minimum commercial commitments as of July 25, 2008. See Note 7 to the condensed consolidated financial statements for additional information regarding long-term debt. See Note 12 to the condensed consolidated financial statements for additional information regarding accrued income tax obligations, which are not reflected in the table below.

		Maturity by Fiscal Year					
		Remaining					
	Total	**2009**	**2010**	**2011**	**2012**	**2013**	**Thereafter**
(dollars in millions)							
Contractual obligations related to off-balance sheet arrangements:							
Foreign currency contracts[1]	$ 6,655	$ 3,382	$ 2,274	$ 999	$	$	$
Operating leases[2]	265	77	65	37	21	18	47
Inventory purchases[3]	760	249	234	113	37	34	93
Commitments to fund minority investments/contingent acquisition consideration[4]	498	282	53	26	17	23	97
Interest payments[5]	535	115	115	106	64	64	71
Other[6]	211	36	51	34	18	5	67
Total	$ 8,924	$ 4,141	$ 2,792	$ 1,315	$ 157	$ 144	$ 375
Contractual obligations reflected in the balance sheet:							
Long-term debt, excluding capital leases[7]	$ 5,526	$ 94	$	$ 2,608	$	$ 2,200	$ 624
Capital leases[8]	78	11	13	16	17	20	1
Other	2		1	1			
Total	$ 5,606	$ 105	$ 14	$ 2,625	$ 17	$ 2,220	$ 625

(1) As these obligations were entered into as hedges, the majority of these obligations will be offset by losses/gains on the related assets, liabilities and transactions being hedged.

(2)

Certain leases require us to pay real estate taxes, insurance, maintenance, and other operating expenses associated with the leased premises. These future costs are not included in the schedule above.

(3) We have included inventory purchase commitments which are legally binding and specify minimum purchase quantities. These purchase commitments do not exceed our projected requirements and are in the normal course of business. These commitments do not include open purchase orders.

(4) Certain commitments related to the funding of minority investments and/or previous acquisitions are contingent upon the achievement of certain product-related milestones and various other favorable operational conditions. While it is not certain if and/or when these payments will be made, the maturity dates included in this table reflect our best estimates. These commitments also include amounts related to our agreement to form a joint venture with Shandong Weigao Group Medical Polymer Company Limited (Weigao), which was announced in December 2007, to market therapies in the spine and orthopedics sector throughout China. In addition, we agreed to acquire a 15 percent equity interest in Weigao for approximately $220 million. We expect to close the transaction in the second quarter of fiscal year 2009.

(5) Interest payments in the table above reflect the interest on our outstanding debt, including the $4.400 billion of Senior Convertible Notes, $1.000 billion of Senior Notes and $94 million of Contingent Convertible Debentures. The interest rate on each outstanding obligation varies and interest is payable semi-annually. The interest rate is 1.500 percent on the $2.200 billion Senior Convertible Notes due 2011 and 1.625 percent on the $2.200 billion Senior Convertible Notes due 2013, 4.375 percent on the $400 million of Senior Notes due 2010, 4.750 percent on the $600 million of Senior Notes due 2015, and 1.250 percent on the Contingent Convertible Debentures due 2021.

(6) These obligations include certain research and development arrangements.

(7) Long-term debt in the table above includes $4.400 billion Senior Convertible Notes issued in April 2006, and $1.000 billion Senior Notes issued in September 2005 and $94 million related to our Contingent Convertible Debentures. The Contingent Convertible Debentures were classified in short-term borrowings in the condensed consolidated balance sheet as of July 25, 2008 as the holders have the option to require us to repurchase the outstanding securities (referred to as a put option) in September 2008. The table above also includes the impact of the five year interest rate swap entered into in November 2005 and the eight year interest rate swap agreement entered into in June 2007.

(8) Capital lease obligations include a sale-leaseback agreement entered into in fiscal year 2006 whereby certain manufacturing equipment was sold and is being leased by us over a seven year period.

Debt and Capital

Our capital structure consists of equity and interest-bearing debt. Interest-bearing debt as a percentage of total interest-bearing debt and equity was 37 percent at July 25, 2008 in comparison to 38 percent at April 25, 2008.

Share Repurchase Program

In October 2005 and June 2007, our Board of Directors authorized the repurchase of up to 40 million and 50 million shares of our common stock, respectively. In addition, in April 2006, the Board of Directors made a special authorization for the repurchase of up to 50 million shares in connection with the $4.400 billion Senior Convertible Note offering.

Shares are repurchased from time to time to support our stock-based compensation programs and to take advantage of favorable market conditions. During the three months ended July 25, 2008, we repurchased approximately 3.4 million shares at an average price per share of $51.33. As of July 25, 2008, we have approximately 30.9 million shares remaining under current buyback authorizations approved by the Board of Directors.

Financing Arrangements

We have issued a combination of contingent convertible debentures, bank borrowings, and commercial paper to fund our short term needs. Short-term debt, including the current portion of our capital lease obligations, at July 25, 2008 was $1.635 billion compared to $1.154 billion at April 25, 2008. We utilize a combination of contingent convertible debentures, senior convertible notes, and senior notes to meet our long-term financing needs. Long-term debt at July 25, 2008 was $5.499 billion compared to $5.802 billion at April 25, 2008. For more information on our financing arrangements, see Note 7 to the condensed consolidated financial statements.

Credit Arrangements and Debt Ratings

We have existing unsecured lines of credit of approximately $2.775 billion with various banks at July 25, 2008. The existing lines of credit include a five-year $1.750 billion syndicated credit facility dated December 20, 2006 that will expire on December 20, 2011 (Credit Facility). The Credit Facility provides backup funding for the commercial paper program and may also be used for general corporate purposes.

The Credit Facility provides us with the ability to increase its capacity by an additional $500 million at any time during the life of the five-year term of the agreement. We can also request the extension of the Credit Facility maturity date for one additional year on December 20, 2008, the second anniversary of the date of this facility.

As of July 25, 2008 and April 25, 2008, we have unused credit lines and commercial paper capacity of approximately $1.745 billion and $1.945 billion, respectively.

We maintain a commercial paper program that allows us to have a maximum of $2.250 billion in commercial paper outstanding, with maturities up to 364 days from the date of issuance. As of July 25, 2008 and April 25, 2008, outstanding commercial paper totaled $1.378 billion and $874 million, respectively. During the three months ended July 25, 2008, the weighted average original maturity of the commercial paper outstanding was approximately 32 days and the weighted average interest rate was 2.15 percent. The issuance of commercial paper reduces the amount of credit available under our existing lines of credit.

In connection with the issuance of the contingent convertible debentures, Senior Notes, Senior Convertible Notes and commercial paper, Standard and Poor s Ratings Group and Moody s Investors Service issued us strong long-term debt ratings of AA- and A1, respectively, and strong short-term debt ratings of A-1+ and P-1, respectively. These ratings remain unchanged as compared to the fiscal year ending April 25, 2008. For more information on credit arrangements, see Note 7 to the condensed consolidated financial statements.

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Operations Outside of the United States

The table below illustrates U.S. net sales versus net sales outside the U.S. for the three months ended July 25, 2008 and July 27, 2007:

	Three months ended	
	July 25,	July 27,
(dollars in millions)	2008	2007
U.S. Net Sales	$ 2,249	$ 1,948
Non U.S. Net Sales	1,457	1,179
Total net sales	$ 3,706	$ 3,127

For the three months ended July 25, 2008, consolidated net sales outside the U.S. grew 24 percent over the same period of the prior year. For the three months ended July 25, 2008, growth outside the U.S. was 8 percent higher than net sales growth in the U.S. primarily as a result of the CRDM, CardioVascular, and Spinal businesses. Overall, for the three months ended July 25, 2008, outside of the U.S. net sales were led by CardioVascular s Endeavor Resolute and CRDM s Defibrillator Systems. The acquisition of Kyphon increased the sales for the Spinal business outside of the U.S. as well.

Net sales outside the U.S. are accompanied by certain financial risks, such as collection of receivables, which typically have longer payment terms. Outstanding receivables from customers outside the U.S. totaled $1.769 billion at July 25, 2008, or 53 percent, of total outstanding accounts receivable, and $1.800 billion at April 25, 2008, or 53 percent, of total outstanding accounts receivable.

Cautionary Factors That May Affect Future Results

Certain statements contained in this Quarterly Report on Form 10-Q and other written and oral statements made from time to time by us do not relate strictly to historical or current facts. As such, they are considered forward-looking statements which provide current expectations or forecasts of future events. Our forward-looking statements generally relate to our growth strategies, financial results, product development, regulatory approvals, competitive strengths, the scope of our intellectual property rights, litigation, mergers and acquisitions, integration of our acquisitions, including Kyphon, divestitures, market acceptance or continued acceptance of our products, accounting estimates, financing activities, ongoing contractual obligations, and sales efforts. Such statements can be identified by the use of terminology such as anticipate, believe, could, estimate, expect, forecast, intend, may, plan, possible, potential, project, should, will and similar wor carefully consider forward-looking statements that may be affected by inaccurate assumptions, and understand that such statements involve a variety of risks and uncertainties, known and unknown, including, among others, risks related to competition in the medical device industry, reduction or interruption in our supply, quality problems and price decreases for our products and services, and international operations, as well as those discussed in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended April 25, 2008. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. We intend to take advantage of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995 regarding our forward-looking statements, and are including this sentence for the express purpose of enabling us to use the protections of the safe harbor with respect to all forward-looking statements.

We undertake no obligation to update any forward-looking statement, but investors are advised to consult any further disclosures by us in our filings with the Securities and Exchange Commission, especially on Forms 10-K, 10-Q, and 8-K (if any), in which we may discuss in more detail various important factors that could cause actual results to differ from expected or historical results. It is not possible to foresee or identify all such factors. As such, investors should not consider any list of such factors to be an exhaustive statement of all risks, uncertainties or potentially inaccurate assumptions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Due to the global nature of our operations, we are subject to the exposures that arise from foreign currency exchange rate fluctuations. We manage these exposures using operational and economic hedges as well as derivative financial instruments. The primary currencies hedged are the Euro and the Japanese Yen.

Our objective in managing exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes. We enter into various contracts, principally forward contracts that change in value as foreign exchange rates change, to protect the value of existing foreign currency assets, liabilities, net investments, and probable commitments. The gains and losses on these contracts offset changes in the value of the related exposures. It is our policy to enter into foreign currency hedging transactions only to the extent true exposures exist; we do not enter into foreign currency transactions for speculative purposes.

We had foreign exchange derivative contracts outstanding in notional amounts of $6.655 billion and $6.613 billion at July 25, 2008 and April 25, 2008, respectively. The fair value of these contracts at July 25, 2008 was $291 million less than the original contract value. A sensitivity analysis of changes in the fair value of all foreign exchange derivative contracts at July 25, 2008 indicates that, if the U.S. dollar uniformly strengthened/weakened by 10 percent against all currencies, the fair value of these contracts would increase/decrease by $647 million, respectively. Any gains and losses on the fair value of derivative contracts would be largely offset by gains and losses on the underlying transactions. These offsetting gains and losses are not reflected in the above analysis.

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We are also exposed to interest rate changes affecting principally our investments in interest rate sensitive instruments. A sensitivity analysis of the impact on our interest rate sensitive financial instruments of a hypothetical 10 percent change in short-term interest rates compared to interest rates at July 25, 2008 indicates that the fair value of these instruments would correspondingly change by $26 million.

We have investments in marketable debt securities that are classified and accounted for as available-for-sale. Our debt securities include government securities, commercial paper, corporate debt securities, bank certificates of deposit, and mortgage backed and other asset backed securities including auction rate securities. Market conditions during the first quarter of fiscal year 2009 and subsequent to our quarter-end continue to indicate significant uncertainty on the part of investors on the economic outlook for the U.S. and for financial institutions that have

potential exposure to the sub-prime housing market. This uncertainty has created reduced liquidity across the fixed income investment market, including certain securities in which we have invested. As a result, some of our investments have experienced reduced liquidity including unsuccessful monthly auctions for our auction rate security holdings. During the third quarter of fiscal year 2008, we reclassified all of our auction rate fixed income securities, which had a cost basis of $198 million, from *short-term investments* to *long-term investments* on our consolidated balance sheet due to the fact that they are currently not trading, and current conditions in the general debt markets have reduced the likelihood that the securities will successfully auction within the next 12 months. Auction rate securities that did not successfully auction reset to the maximum rate as prescribed in the underlying indenture and all of our holdings continue to be current with their interest payments.

For the three months ended July 25, 2008, we recognized a $3 million impairment loss on AFS debt securities. Based on our assessment of the credit quality of the underlying collateral and credit support available to each of the remaining securities in which we are invested, we believe no other-than-temporary impairment has occurred as we have the ability and the intent to hold these investments long enough to avoid realizing any significant loss. Additionally, if we required capital, we believe we could liquidate the majority of our portfolio and incur no material impairment loss and we have capacity under our commercial paper program and lines of credit that we could access. As of July 25, 2008, we do not believe that we have material risk in our current portfolio of investments that would impact our financial condition or liquidity. As of July 25, 2008, we have $86 million of gross unrealized losses on our aggregate investments of $4.314 billion; however, if market conditions continue to deteriorate further, some of these holdings may experience other-than-temporary impairment in the future.

We lend certain fixed income securities to enhance our investment income. These lending activities are indemnified against counterparty risk and collateralized at an average rate of 102 percent, with the collateral determined based on the underlying securities and creditworthiness of the borrowers. The value of the securities on loan at July 25, 2008 and April 25, 2008 was $1.002 billion and $610 million, respectively.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) and changes in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) are effective and are adequately designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in applicable rules and forms.

Changes in internal control

There have been no changes in the Company s internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

A discussion of the Company s policies with respect to legal proceedings is discussed in the management s discussion and analysis and our legal proceedings and other loss contingencies are described in Note 17 of the condensed consolidated financial statements. The description of our legal proceedings in Note 17 of the condensed consolidated financial statements to this filing is incorporated herein by reference.

On October 24, 2005, the Company received a subpoena from the Office of the United States Attorney for the District of Massachusetts issued under the Health Insurance Portability & Accountability Act of 1996 requesting documents the Company may have, if any, relating to pacemakers and defibrillators and related components; monitoring equipment and services; a provision of benefits, if any, to persons in a position to recommend purchases of such devices; and the Company s training and compliance materials relating to the fraud and abuse and federal Anti-Kickback statutes. The Company is complying with the requirements of the subpoena, and has begun to produce documents on a schedule requested by the United States Attorney.

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The Company has received two letter requests from the chair of the U.S. Senate Committee on Finance. On September 20, 2007, the chair sent a letter requesting information about financial ties between the medical device industry and practicing physicians. On October 16, 2007, the chair sent a letter requesting information about the Company s decision to suspend distribution of its Sprint Fidelis family of defibrillation leads. The Company is cooperating with the information requests.

On September 25, 2007, the Company received a letter from the SEC requesting information relating to any potential violations of the U.S. Foreign Corrupt Practices Act in connection with the sale of medical devices in an unspecified number of foreign countries, including Greece, Poland and Germany. Turkey, Italy and Malaysia have since been added to the inquiry. The letter notes that the Company is a significant participant in the medical device industry, and seeks any information concerning certain types of payments made directly or indirectly to government-employed doctors. A number of competitors have publicly disclosed receiving similar letters. On November 16, 2007, the Company received a letter from the Department of Justice requesting any information provided to the SEC. The Company is cooperating with both requests.

On or about October 31, 2007, the Company received a letter from the United States Attorney s Office for the Eastern District of Pennsylvania requesting documents relating to the Company s relationship with one of its customers and any payments or things of value provided by the Company to physicians, physician groups, hospitals, medical practices or other entities relating to the purchase of the Company s cardiac resynchronization therapy devices and cardiac stents. The Company is complying with the investigation.

In late June 2008, the Company received a subpoena issued by the United States Attorney s Office for the District of Massachusetts pursuant to the Health Insurance Portability & Accountability Act of 1996, relating to the Company s marketing of biliary stents. Medtronic is complying with the terms of the subpoena.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table provides information about the shares repurchased by Medtronic during the first quarter of fiscal year 2009:

Fiscal Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as a Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
04/26/08-05/23/08		$		34,347,561
05/24/08-06/27/08	3,117,650	51.33	3,117,650	31,229,911
06/28/08-07/25/08	292,227	51.33	292,227	30,937,684
Total	3,409,877	$ 51.33	3,409,877	30,937,684

(1) In October 2005 and June 2007, our Board of Directors authorized the repurchase of up to 40 million and 50 million shares of our common stock, respectively. In addition, in April 2006, the Board of Directors made a special authorization for the repurchase of up to 50 million shares in connection with the $4.400 billion Senior Convertible Note offering. As authorized by the Board of Directors, each program expires when its total number of authorized shares has been repurchased.

Item 6. Exhibits

(a) Exhibits

10.1 Medtronic, Inc. 2008 Stock Award and Incentive Plan (a)

10.2 Form of Restricted Stock Unit Award Agreement 2008 Stock Award and Incentive Plan (Non-U.S. Employees)

10.3 Form of Restricted Stock Award Agreement 2008 Stock Award and Incentive Plan (Performance-Based)

10.4 Form of Restricted Stock Award Agreement 2008 Stock Award and Incentive Plan (Time-Based)

10.5 Form of Restricted Stock Unit Award Agreement 2008 Stock Award and Incentive Plan (U.S. Employees)

10.6 Form of Non-Qualified Stock Option Agreement 2008 Stock Award and Incentive Plan

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10.7 Terms of Non-Employee Director Compensation Under the Medtronic, Inc. 2008 Stock Award and Incentive Plan

12.1 Medtronic, Inc. Computation of Ratio of Earnings to Fixed Charges.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(a) Incorporated herein by reference to the cited appendix to our 2008 Proxy Statement, filed with the Commission on July 18, 2008.

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SIGNATURES

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

Medtronic, Inc.
(Registrant)

Date: September 3, 2008

/s/ William A. Hawkins
William A. Hawkins
Chairman and Chief Executive Officer

Date: September 3, 2008	/s/ Gary L. Ellis
	Gary L. Ellis
	Senior Vice President and
	Chief Financial Officer