

HECLA MINING CO/DE/
Form 10-Q
November 09, 2006

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

Commission file number 1-8491

HECLA MINING COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

6500 Mineral Drive, Suite 200

Coeur d Alene, Idaho

(Address of principal executive offices)

77 0664171

(I.R.S. Employer
Identification No.)

83815-9408

(Zip Code)

208-769-4100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer Accelerated Filer Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding November 7, 2006
-------	--

<u>Class</u>	<u>Shares Outstanding November 7, 2006</u>
Common stock, par value \$0.25 per share	119,516,124

Hecla Mining Company and Subsidiaries

Form 10-Q

For the Quarter Ended September 30, 2006

INDEX

	<u>Page</u>
<u>PART I. - Financial Information</u>	
Item 1 - <u>Consolidated Financial Statements (unaudited)</u>	3
<u>Consolidated Balance Sheets -</u>	3
<u>September 30, 2006 and December 31, 2005</u>	
<u>Consolidated Statements of Operations and Comprehensive Income (Loss) -</u>	4
<u>Three Months Ended and Nine Months Ended September 30, 2006 and 2005</u>	
<u>Consolidated Statements of Cash Flows -</u>	5
<u>Nine Months Ended September 30, 2006 and 2005</u>	
<u>Notes to Interim Consolidated Financial Statements</u>	6
Item 2 - <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 3 - <u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 4 - <u>Controls and Procedures</u>	41
<u>PART II. - Other Information</u>	
Item 1 - <u>Legal Proceedings</u>	42
Item 1A - <u>Risk Factors</u>	42
Item 5 - <u>Other Information</u>	42
Item 6 - <u>Exhibits</u>	45
<u>Signatures</u>	46

*Certain items are omitted as they are not applicable.

Part I Financial Information

Hecla Mining Company and Subsidiaries

Item 1. Financial Statements
 Consolidated Balance Sheets (Unaudited)
 (In thousands, except shares)

	<u>September 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 70,806	\$ 6,308
Short-term investments and securities held for sale	14,850	40,862
Accounts and notes receivable:		
Trade	8,613	5,479
Other	10,234	12,116
Inventories	22,297	25,466
Other current assets	4,653	3,546
	<hr/>	<hr/>
Total current assets	131,453	93,777
Investments	4,480	2,233
Restricted cash and investments	21,069	20,340
Properties, plants and equipment, net	130,695	137,932
Other non-current assets	19,934	17,884
	<hr/>	<hr/>
Total assets	\$ 307,631	\$ 272,166
	<hr/>	<hr/>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 18,535	\$ 16,684
Dividends payable	138	138
Accrued payroll and related benefits	13,341	10,452
Accrued taxes	3,101	2,529
Current portion of accrued reclamation and closure costs	6,365	6,328
	<hr/>	<hr/>
Total current liabilities	41,480	36,131
Long-term debt		3,000
Accrued reclamation and closure costs	60,238	62,914
Other non-current liabilities	8,637	8,791
	<hr/>	<hr/>
Total liabilities	110,355	110,836
	<hr/>	<hr/>
<u>SHAREHOLDERS EQUITY</u>		
Preferred stock, \$0.25 par value, authorized 5,000,000 shares; 157,816 shares issued, liquidation preference - \$7,891	39	39
Common stock, \$0.25 par value, authorized 400,000,000 shares; issued 2006 119,556,457 shares, and	29,889	29,651

	September 30, 2006	December 31, 2005
issued 2005 118,602,135 shares		
Capital surplus	513,859	508,104
Accumulated deficit	(347,896)	(396,092)
Accumulated other comprehensive income	1,816	19,746
Less treasury stock, at cost; 2006 57,333 common shares, and 2005 8,274 common shares	(431)	(118)
Total shareholders equity	197,276	161,330
Total liabilities and shareholders equity	\$ 307,631	\$ 272,166

The accompanying notes are an integral part of the interim consolidated financial statements.

3

Table of Contents

Hecla Mining Company and Subsidiaries

Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)
(Dollars and shares in thousands, except for per-share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Sales of products	\$ 50,414	\$ 30,428	\$ 147,145	\$ 80,117
Cost of sales and other direct production costs	25,696	22,220	76,322	55,259
Depreciation, depletion and amortization	10,346	5,577	27,017	13,282
	36,042	27,797	103,339	68,541
Gross profit	14,372	2,631	43,806	11,576
Other operating expenses:				
General and administrative	2,601	2,652	9,482	7,581
Exploration	6,058	5,100	15,056	12,457
Pre-development expense	2,240	2,534	5,689	6,768
Depreciation and amortization	196	154	743	437
Other operating expenses	1,947	697	3,211	1,881
Gain on sale of properties, plants and equipment	(31)		(4,451)	
Provision for closed operations and environmental matters	906	830	2,503	1,517

	Three Months Ended		Nine Months Ended	
	<u>13,917</u>	<u>11,967</u>	<u>32,233</u>	<u>30,641</u>
Income (loss) from operations	455	(9,336)	11,573	(19,065)
Other income (expense):				
Gain on sale of investments			36,416	
Interest income	1,117	840	2,808	1,628
Interest expense	(189)	(31)	(552)	(39)
	<u>928</u>	<u>809</u>	<u>38,672</u>	<u>1,589</u>
Net income (loss) from operations, before income taxes	1,383	(8,527)	50,245	(17,476)
Income tax provision	(382)	(68)	(1,635)	(660)
Net income (loss)	1,001	(8,595)	48,610	(18,136)
Preferred stock dividends	(138)	(138)	(414)	(414)
Income (loss) applicable to common shareholders	<u>\$ 863</u>	<u>\$ (8,733)</u>	<u>\$ 48,196</u>	<u>\$ (18,550)</u>
Comprehensive income (loss):				
Net income (loss)	\$ 1,001	\$ (8,595)	\$ 48,610	\$ (18,136)
Change in derivative contracts				761
Reclassification of gain on sale of marketable securities included in net income			(36,422)	
Unrealized holding gains on investments	1,435	5,425	17,930	6,990
Comprehensive income (loss)	<u>\$ 2,436</u>	<u>\$ (3,170)</u>	<u>\$ 30,118</u>	<u>\$ (10,385)</u>
Basic and diluted income (loss) per common share after preferred dividends	<u>\$ 0.01</u>	<u>\$ (0.07)</u>	<u>\$ 0.40</u>	<u>\$ (0.16)</u>
Weighted average number of common shares outstanding basic	<u>119,483</u>	<u>118,484</u>	<u>119,146</u>	<u>118,422</u>
Weighted average number of common shares outstanding diluted	<u>119,869</u>	<u>118,484</u>	<u>119,561</u>	<u>118,422</u>

The accompanying notes are an integral part of the interim consolidated financial statements.

Hecla Mining Company and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Nine Months Ended	
	September 30, 2006	September 30, 2005
Operating activities:		
Net income (loss)	\$ 48,610	\$ (18,136)
Non-cash elements included in net income (loss):		
Depreciation, depletion and amortization	27,760	13,719
Gain on sale of investments	(36,416)	
Gain on disposition of properties, plants and equipment	(4,451)	(53)
Gain on sale of royalty interests	(341)	(550)
Provision for inventory obsolescence	1,342	
Provision for reclamation and closure costs	261	767
Stock compensation	2,202	1,085
Other non-cash charges, net	266	
Change in assets and liabilities:		
Accounts and notes receivable	(4,667)	(1,454)
Inventories	1,827	(4,448)
Other current and non-current assets	15	984
Accounts payable and accrued expenses	1,852	369
Accrued payroll and related benefits	2,984	717
Accrued taxes	572	304
Accrued reclamation and closure costs and other non-current liabilities	(2,158)	(3,238)
Net cash provided by (used in) operating activities	<u>39,658</u>	<u>(9,934)</u>
Investing activities:		
Additions to properties, plants and equipment	(20,115)	(31,452)
Proceeds from sale of investments	57,441	
Proceeds from disposition of properties, plants and equipment	4,368	21
Increase in restricted investments	(729)	(361)
Purchase of short-term investments and other securities held for sale	(43,060)	(68,694)
Maturities of short-term investments and other securities held for sale	28,210	91,128
Net cash provided by (used in) investing activities	<u>26,115</u>	<u>(9,358)</u>
Financing activities:		
Common stock issued under stock option plans	2,452	251
Dividends paid to preferred shareholders	(414)	(2,899)
Other financing activities		(604)
Purchase of treasury shares	(313)	
Borrowings on debt	4,060	1,000
Repayments on debt	(7,060)	(1,000)

	Nine Months Ended	
	(1,275)	(3,252)
Net cash used in financing activities	(1,275)	(3,252)
Net increase (decrease) in cash and cash equivalents	64,498	(22,544)
Cash and cash equivalents at beginning of period	6,308	34,460
Cash and cash equivalents at end of period	\$ 70,806	\$ 11,916

The accompanying notes are an integral part of the interim consolidated financial statements.

5

Table of Contents

Note 1. Basis of Preparation of Financial Statements

In the opinion of management, the accompanying unaudited consolidated balance sheets, consolidated statements of operations and comprehensive income (loss), consolidated statements of cash flows and notes to interim consolidated financial statements contain all adjustments necessary to present fairly, in all material respects, the consolidated financial position of Hecla Mining Company and its subsidiaries (we or our or us). These interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related footnotes as set forth in our annual report filed on Form 10-K for the year ended December 31, 2005, as it may be amended from time to time.

The results of operations for the periods presented may not be indicative of those which may be expected for a full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) have been condensed or omitted as permitted by GAAP.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the disclosures of contingent liabilities. Accordingly, ultimate results could differ materially from those estimates.

On November 8, 2006, we implemented a holding company structure. For additional information, see Note 13 of Notes to Consolidated Financial Statements.

Note 2. Cash, Short-term Investments, Investments and Restricted Cash

Cash

At September 30, 2006 and December 31, 2005, we held the U.S. dollar equivalent of approximately \$14.3 million and \$1.1 million, respectively, denominated in Venezuelan bolivares (2,150 bolivares to \$1.00). Additionally, we will convert into Venezuelan currency the proceeds of Venezuelan gold production sold outside of the country over the past 180 days, or approximately \$31.2 million, through April 2007. Exchanging our cash held in local currency into U. S. dollars can be done through specific Venezuelan governmental programs that have been limited and slow, or through the use of negotiable instruments on which we have incurred and may incur additional foreign currency

losses. During the third quarter of 2006, we exchanged the U.S. dollar equivalent of approximately \$6.1 million at the official exchange rate of 2,150 bolivares to \$1.00 for \$4.8 million at the open market rate, incurring a foreign exchange loss for the difference. The foreign exchange loss has been included in other operating expenses on the Consolidated Statement of Operations and Comprehensive Income (Loss). Although we are currently making appropriate applications through the Venezuelan government, our cash balances denominated in the Venezuelan bolivar may continue to grow and any future conversions, or future devaluation of the Venezuelan bolivar, may result in further losses when and if we decide to distribute money outside Venezuela.

Short-term Investments and Securities Held for Sale

Investments at September 30, 2006 and December 31, 2005 consisted of the following (in thousands)

	September 30, 2006	December 31, 2005
Adjustable rate securities	\$ 14,850	\$
Marketable equity securities (cost \$21,001)		40,862
	<u>\$ 14,850</u>	<u>\$ 40,862</u>

Adjustable rate securities are carried at amortized cost. However, due to the short-term nature of these investments, the amortized cost approximates fair market value. Marketable equity securities are carried at fair market value.

In January 2006, we sold common stock of Alamos Gold Inc., generating a \$36.4 million pre-tax gain and providing \$57.4 million of cash proceeds. In late 2004 and early 2005, we acquired our interest in

6

Table of Contents

Alamos for approximately \$21.0 million, which was recorded at fair market value on our consolidated balance sheet at December 31, 2005, under Short-term Investments. The unrealized gain on these securities at December 31, 2005 was \$19.9 million and was included as a component of Shareholders' Equity under Accumulated Other Comprehensive Income.

Non-current Investments

At September 30, 2006 and December 31, 2005, the fair market value of our non-current investments was \$4.5 million and \$2.2 million, respectively. The cost of these investments was approximately \$1.3 million and \$0.9 million, respectively.

Restricted Cash and Investments

Various laws and permits require that financial assurances be in place for certain environmental and reclamation obligations and other potential liabilities. Restricted investments primarily represent investments in money market funds and bonds of U.S. government agencies. These investments are restricted primarily for reclamation funding or surety bonds and were \$21.1 million and \$20.3 million at September 30, 2006 and December 31, 2005, respectively,

including \$8.4 million and \$8.1 million, respectively, restricted for reclamation funding for the Greens Creek Joint Venture.

Note 3. Income Taxes

For the three and nine months ended September 30, 2006, we recorded a current tax provision of \$0.4 million and \$1.6 million, respectively, primarily for U.S. alternative minimum tax and foreign withholding taxes payable. For the three and nine months ended September 30, 2005, we recorded a \$0.1 million and \$0.7 million tax provision, respectively, for U.S. alternative minimum tax, foreign withholding taxes payable and foreign income taxes payable.

The income tax provision for the third quarter and first nine months in 2006 varies from the amount that would have resulted from applying the statutory income tax rate to our pretax income primarily due to utilization of tax net operating loss carryforwards. The income tax provision for the same periods in 2005 varies from the amount that would have resulted from applying the statutory income tax rate to pretax income primarily due to non-utilization of foreign tax losses partially offset by utilization of U.S. tax net operating loss carryforwards.

Note 4. Inventories

Inventories consist of the following (in thousands):

	September 30, 2006	December 31, 2005
	<u> </u>	<u> </u>
Concentrates, doré, bullion, metals in transit and other products	\$ 9,515	\$ 10,964
Materials and supplies ⁽¹⁾	12,782	14,502
	<u> </u>	<u> </u>
	\$ 22,297	\$ 25,466
	<u> </u>	<u> </u>

(1) Net of a reserve for inventory obsolescence recorded during the first nine months of 2006 of \$1.3 million at the La Camorra unit.

The Central Bank of Venezuela maintains regulations concerning the export of gold from Venezuela, under which we are required by current regulations to sell 15% of our production within the country. Included in sales for the second and third quarters of 2006 are revenues from the sale of Venezuelan production in-country, including 8,900 ounces of gold which was held in product inventory at December 31, 2005.

Note 5. Commitments and Contingencies

Bunker Hill Superfund Site

In 1994, we, as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), entered into a Consent Decree with the

Environmental Protection Agency (EPA) and the State of Idaho concerning environmental remediation obligations at the Bunker Hill Superfund site, a 21-square-mile site located near Kellogg, Idaho (the Bunker Hill site). The 1994 Consent Decree (the Bunker Hill Decree or Decree) settled our response-cost responsibility under CERCLA at the Bunker Hill site. Parties to the Decree included us, Sunshine Mining and Refining Company (Sunshine) and ASARCO Incorporated (ASARCO). Sunshine subsequently filed bankruptcy and settled all of its obligations under the Bunker Hill Decree.

In response to a request by us and ASARCO, the Federal District Court having jurisdiction over the Bunker Hill Decree issued an order in September 2001 that the Decree should be modified in light of a significant change in factual circumstances not reasonably anticipated by the mining companies at the time they signed the Decree. In its Order, the Court reserved the final ruling on the appropriate modification to the Bunker Hill Decree until after the issuance by the EPA of a Record of Decision (ROD) on the Coeur d Alene River Basin (Basin) Remedial Investigation/Feasibility Study. The EPA issued the ROD in September 2002, proposing a \$359.0 million Basin-wide clean up plan to be implemented over 30 years. The ROD also establishes a review process at the end of the 30-year period to determine if further remediation would be appropriate. Based on the 2001 Order issued by the Court, in April 2003, we and ASARCO requested that the Court release both parties from future work under the Bunker Hill Decree.

In November 2003, the Federal District Court issued its order on ASARCO s and our request for final relief on the motion to modify the Bunker Hill Decree. The Court held that we and ASARCO were entitled to a reduction of \$7.0 million from the remaining work or costs under the Decree. The parties agreed to credit this \$7.0 million reduction against the government s alleged past costs under the Decree, although historically we had not recorded this credit to offset our estimated future costs. In January 2004, the United States and the State of Idaho appealed the modification to the Decree. In December 2005, the U.S. Ninth Circuit Court of Appeals reversed the Federal District Court s order, including the \$7.0 million reduction from the parties obligations under the Decree. Our petition for a rehearing of this matter was denied by the Ninth Circuit Court in April 2006. During July 2006, we filed a petition for a Writ of Certiorari with the U.S. Supreme Court seeking its permission to appeal the Ninth Circuit Court s decision. On October 16, 2006, the U.S. Supreme Court entered an order denying our petition for a Writ of Certiorari, thereby leaving the Ninth Circuit Court decision final.

Shortly after the Ninth Circuit Court of Appeals ruling in December 2005, we received notice that the EPA allegedly incurred \$14.6 million in costs relating to the Bunker Hill site from January 2002 to March 2005. The notice was provided so that we and ASARCO might have an opportunity to review and comment on the EPA s alleged costs prior to the EPA s submission of a formal demand for reimbursement, which has not occurred as of the date of this filing. We reviewed the costs submitted by the EPA to determine whether we have any obligation to pay any portion of the EPA s alleged costs relating to the Bunker Hill site. We were unable to determine what costs, if any, we will be obligated to pay under the Bunker Hill Decree based on the information submitted by the EPA. We requested that the EPA provide additional documentation relating to these costs. In September 2006, we received from the EPA a certified narrative cost summary, and certain documentation said to support that summary, which revised the EPA s earlier determination to state that it had incurred \$15.2 million in response costs. The September notice said that it was not a formal demand and invited us to discuss or comment on the matter. We will assess the materials sent to us and will discuss the matter with the EPA. If we are unable to reach a satisfactory resolution, we anticipate exercising our right under the Bunker Hill Decree to challenge reimbursement of the alleged costs. However, an unsuccessful challenge would likely require us to increase our expenditures and/or accrual relating to the Bunker Hill site.

In 1994, we entered into a cost-sharing agreement with other potentially responsible parties, including ASARCO, relating to required expenditures under the Bunker Hill Decree. ASARCO is in default of its obligations under the cost-sharing agreement and consequently in August 2005, we filed a lawsuit against ASARCO in Idaho State Court seeking amounts due us for work completed under the Decree. Additionally, we have claimed certain amounts due us under a separate agreement related to expert costs incurred to defend both parties with respect to the Basin litigation in Federal District Court, discussed further below. After we filed suit, ASARCO filed for Chapter 11 bankruptcy

protection in United States Bankruptcy Court in Texas in August 2005. As a result of this filing, an automatic stay is

8

Table of Contents

in effect for our claims against ASARCO. We are unable to proceed with the Idaho State Court litigation against ASARCO because of the stay, and will assert our claims in the context of the bankruptcy proceeding.

The accrued liability balance at September 30, 2006 relating to the Bunker Hill site was \$1.6 million, which is anticipated to be spent over the next two through thirty years. The liability balance represents our portion of the remaining remediation activities associated with the site, as well as our estimated portion of a long-term institutional controls program required by the Bunker Hill Decree. We have not included any amount in the accrual for government claims for past costs because, in accordance with GAAP, we are currently unable to estimate our liability for these claims. We believe ASARCO's remaining share of its future obligations will be paid through proceeds from an ASARCO trust created in 2003 for the purpose of funding certain of ASARCO's environmental obligations, as well as distributions to be determined by the Bankruptcy Court. In the event we are not successful in collecting what is due us from the ASARCO trust or through the bankruptcy proceedings, because the Bunker Hill Decree holds us jointly and severally liable, it is possible our liability balance for the remedial activity at the Bunker Hill site could be \$4.9 million, the amount we currently estimate to complete the total remaining obligation under the Decree. In addition, we may be liable for government past costs allegedly incurred by the government at the Bunker Hill site, as discussed above. There can be no assurance as to the ultimate disposition of litigation and environmental liability associated with the Bunker Hill Superfund site, and we believe it possible that a combination of various events, as discussed above, or with other events could be materially adverse to our financial results or financial condition.

Coeur d'Alene River Basin Environmental Claims

Coeur d'Alene Indian Tribe Claims

In July 1991, the Coeur d'Alene Indian Tribe (Tribe) brought a lawsuit, under CERCLA, in Federal District Court in Idaho against us, ASARCO and a number of other mining companies asserting claims for damages to natural resources downstream from the Bunker Hill site over which the Tribe alleges some ownership or control. The Tribe's natural resource damage litigation has been consolidated with the United States' litigation described below. Because of various bankruptcies and settlements of other defendants, we are the only remaining defendant in the Tribe's Natural Resource Damages case.

U.S. Government Claims

In March 1996, the United States filed a lawsuit in Federal District Court in Idaho against certain mining companies, including us, that conducted historic mining operations in the Silver Valley of northern Idaho. The lawsuit asserts claims under CERCLA and the Clean Water Act, and seeks recovery for alleged damages to, or loss of, natural resources located in the Coeur d'Alene River Basin (Basin) in northern Idaho for which the United States asserts it is the trustee under CERCLA. The lawsuit claims that the defendants' historic mining activity resulted in releases of hazardous substances and damaged natural resources within the Basin. The suit also seeks declaratory relief that we and other defendants are jointly and severally liable for response costs under CERCLA for historic mining impacts in the Basin outside the Bunker Hill site. We have asserted a number of defenses to the United States' claims.

As discussed above, in May 1998, the EPA announced that it had commenced a Remedial Investigation/Feasibility Study under CERCLA for the entire Basin, including Lake Coeur d'Alene, as well as the Bunker Hill site, in support of its response cost claims asserted in its March 1996 lawsuit. In October 2001, the EPA issued its proposed clean-up plan for the Basin. The EPA issued the ROD on the Basin in September 2002, proposing a \$359.0 million Basin-wide clean-up plan to be implemented over 30 years and establishing a review process at the end of the 30-year period to determine if further remediation would be appropriate.

During 2000 and 2001, we were involved in settlement negotiations with representatives of the United States, the State of Idaho and the Tribe. These settlement efforts were unsuccessful. However, we may participate in similar settlement negotiations in the future.

Phase I of the trial commenced on the consolidated Tribe's and the United States' claims in January 2001, and was concluded in July 2001. Phase I addressed the extent of liability, if any, of the defendants

9

Table of Contents

and the allocation of liability among the defendants and others, including the United States. In September 2003, the Court issued its Phase I ruling, holding that we have some liability for Basin environmental conditions. The Court refused to hold the defendants jointly and severally liable for historic tailings releases and instead allocated a 31% share of liability to us for impacts resulting from these releases. The portion of damages, past costs and clean-up costs to which this 31% applies, other cost allocations applicable to us and the Court's determination of an appropriate clean-up plan is to be addressed in Phase II of the litigation. The Court also left issues on the deference, if any, to be afforded the United States' clean-up plan, for Phase II.

The Court found that while certain Basin natural resources had been injured, there has been an exaggerated overstatement by the plaintiffs of Basin environmental conditions and the mining impact. The Court significantly limited the scope of the trustee plaintiffs' resource trusteeship and will require proof in Phase II of the litigation of the trustees' percentage of trusteeship in co-managed resources. The United States and the Tribe are re-evaluating their claims for natural resource damages for Phase II; such claims may be in the range of \$2.0 billion to \$3.4 billion. We believe we have limited liability for natural resource damages because of the actions of the Court described above. Because of a number of factors relating to the quality and uncertainty of the United States and Tribe's natural resources damage claims, we are currently unable to estimate what, if any, liability or range of liability we may have for these claims.

In expert reports exchanged with the defendants in August and September 2004, the United States claimed to have incurred approximately \$87.0 million for past environmental study, remediation and legal costs associated with the Basin for which it is alleging it is entitled to reimbursement in Phase II. In a July 2006 Proof of Claim filed in the ASARCO bankruptcy case, the EPA increased this claim to \$104.5 million. A portion of these costs is also included in the work to be done under the ROD. With respect to the United States' past cost claims, we have determined a potential range of liability to be \$5.6 million to \$13.6 million, with no amount in the range being more likely than any other amount.

Two of the defendant mining companies, Coeur d'Alene Mines Corporation and Sunshine Mining and Refining Company, settled their liabilities under the litigation during 2001. We and ASARCO (which, as discussed above, filed for bankruptcy in August 2005) are the only defendants remaining in the United States' litigation. Phase II of the trial was scheduled to commence in January 2006. As a result of ASARCO's bankruptcy filing as discussed above, the

Idaho Federal Court vacated the January 2006 trial date. We anticipate the Court will schedule a status conference to address rescheduling the Phase II trial date once the Bankruptcy Court rules on a motion brought by the United States to declare the bankruptcy stay inapplicable to the Idaho Court proceedings. We do not currently have an opinion as to when the Court might rule.

Although the United States has previously issued its ROD proposing a clean-up plan totaling approximately \$359.0 million and its past cost claim is \$87.0 million, based upon the Court's prior orders, including its September 2003 order and other factors and issues to be addressed by the Court in Phase II of the trial, we currently estimate the range of our potential liability for both past costs and remediation (but not natural resource damages as discussed above) in the Basin to be \$23.6 million to \$72.0 million (including the potential range of liability of \$5.6 million to \$13.6 million for the United States' past cost claims as discussed above), with no amount in the range being more likely than any other number at this time. Based upon GAAP, we have accrued the minimum liability within this range, which at September 30, 2006, was \$23.6 million. It is possible that our ability to estimate what, if any, additional liability we may have relating to the Basin may change in the future depending on a number of factors, including information obtained or developed by us prior to Phase II of the trial and its outcome, and, any interim court determinations. There can be no assurance as to the outcome of the Coeur d'Alene River Basin environmental claims and we believe it possible that a combination of various events, as discussed above, or with other events could be materially adverse to our financial results or financial condition.

Insurance Coverage Litigation

In 1991, we initiated litigation in the Idaho District Court, County of Kootenai, against a number of insurance companies that provided comprehensive general liability insurance coverage to us and our

10

Table of Contents

predecessors. We believe the insurance companies have a duty to defend and indemnify us under their policies of insurance for all liabilities and claims asserted against us by the EPA and the Tribe under CERCLA related to the Bunker Hill site and the Basin. In 1992, the Idaho State District Court ruled that the primary insurance companies had a duty to defend us in the Tribe's lawsuit. During 1995 and 1996, we entered into settlement agreements with a number of the insurance carriers named in the litigation. We have received a total of approximately \$7.2 million under the terms of the settlement agreements. Thirty percent of these settlements were paid to the EPA to reimburse the U.S. Government for past costs under the Bunker Hill Decree. Litigation is still pending against one insurer with trial suspended until the underlying environmental claims against us are resolved or settled. The remaining insurer in the litigation, along with a second insurer not named in the litigation, is providing us with a partial defense in all Basin environmental litigation. As of September 30, 2006, we have not recorded a receivable or reduced our accrual for reclamation and closure costs to reflect the receipt of any potential insurance proceeds.

Independence Lead Mines Litigation

In March 2002, Independence Lead Mines Company (Independence), notified us of certain alleged defaults by us under a 1968 lease agreement relating to the Gold Hunter area (also known as the DIA properties) of our Lucky Friday unit. Independence alleged that we violated the prudent operator obligations implied under the lease by undertaking the Gold Hunter project and violated certain other provisions of the Agreement with respect to milling equipment and calculating net profits and losses. Under the lease agreement, we have the exclusive right to manage, control and operate the DIA properties. Independence holds an 18.52% net profits interest under the lease agreement that is

payable after we recoup our investments in the DIA properties.

In June 2002, Independence filed a lawsuit in Idaho State District Court seeking termination of the lease agreement and requesting unspecified damages. Trial of the case occurred in late March 2004. In July 2004, the Court issued a decision that found in our favor on all issues and subsequently awarded us approximately \$0.1 million in attorneys fees and certain costs, which Independence has paid. In August 2004, Independence filed its Notice of Appeal with the Idaho Supreme Court. Oral arguments were heard by the Idaho Supreme Court in February 2006. In April 2006, the Idaho Supreme Court ruled in our favor on all of Independence's claims. During May 2006, Independence filed a motion for reconsideration with the Idaho Supreme Court, which was denied in June 2006. We believe that Independence has exhausted the appeals process and that the matter has concluded.

Nevada Litigation - Hollister Development Project

We and our wholly owned subsidiary, Hecla Ventures Corporation, filed a lawsuit in Elko County, Nevada, in April 2005 against our co-participants, Great Basin Gold Ltd. and Rodeo Creek Gold Inc., to resolve contractual disagreements involving our Earn-In Agreement entered into in August 2002 for the Hollister Development Project located in northern Nevada. In March 2006, the parties agreed to modify the Earn-In Agreement to reflect changing conditions at the project, revise certain deadlines and dismiss all litigation. Although there can be no assurance that other disagreements will not arise between the parties, we believe that they will not likely affect progress on the project.

Creede, Colorado, Litigation

In May 2005, the Wason Ranch Corporation filed a complaint in Federal District Court in Denver, Colorado, against us, Barrick Goldstrike Mines Inc., Chevron USA Inc. and Chevron Resources Company (collectively the defendants) for alleged violations of the Resource Conservation and Recovery Act (RCRA) and the Clean Water Act (CWA). During June 2006, Wason Ranch voluntarily dismissed the lawsuit without prejudice. In September 2006, Wason Ranch sent the defendants a Notice of Endangerment and intent to file suit under the RCRA and CWA. The notice alleges that the defendants are past and present owners and operators of mines and associated facilities located in Mineral County near Creede, Colorado, and such operations have released pollutants into the environment in violation of the RCRA and CWA. As of this date a formal complaint has not been filed or served.

11

Table of Contents

Venezuela Litigation

Our wholly owned subsidiary, Minera Hecla Venezolana, C.A. (MHV) is involved in litigation in Venezuela with SENIAT, the Venezuelan tax authority, concerning alleged unpaid tax liabilities that predate our purchase of the La Camorra mine from Monarch Resources Investments Limited (Monarch) in 1999. Pursuant to our Purchase Agreement, Monarch has assumed defense of and responsibility for the pending tax case in the Superior Tax Court in Caracas. In April 2004, SENIAT filed with the Third Superior Tax Court in Bolivar City, state of Bolivar, an embargo action against all of MHV's assets in Venezuela to secure the alleged unpaid tax liabilities. In order to prevent the embargo, in April 2004, MHV made a cash deposit with the Court for the dollar equivalent of approximately \$4.3 million, at exchange rates in effect at that time. In June 2004, the Superior Tax Court in Caracas ordered suspension and revocation of the embargo action filed by SENIAT, although the Court has retained the \$4.3 million until such tax liabilities are settled.

In October 2005, MHV, Monarch and SENIAT reached a mutual agreement to settle the case, which is awaiting approval by the court. The terms of the agreement provide that MHV will pay approximately \$0.8 million in exchange for release of the alleged tax liabilities, which we paid in August 2006. In a separate agreement, Monarch will reimburse MHV for all amounts expended in settling the case, including response costs, through a reduction in MHV's royalty obligations to Monarch. Although we believe the cash deposit will continue to prevent any further action by SENIAT with respect to the embargo, and that MHV's settlement efforts will be successful, there can be no assurances as to the outcome of this proceeding until a final settlement is approved by the court. If the tax court in Caracas or an appellate court were to subsequently award SENIAT its entire requested embargo, it could disrupt our operations in Venezuela.

In a separate matter, in February 2005 we were notified by SENIAT that it had completed its audit of our Venezuelan tax returns for the years ended December 31, 2003 and 2002. In the notice, SENIAT alleged that certain expenses are not deductible for income tax purposes and that calculations of tax deductions based upon inflationary adjustments were overstated, and has issued an assessment that is equal to taxes payable of \$3.8 million. We reviewed SENIAT's findings and submitted an appeal. In March 2006, the appeal was resolved in our favor and we were found not liable for the \$3.8 million assessment. However, there can be no assurance that there will not be additional assessments in the future, or that SENIAT or other governmental agencies or officials will not take other actions against us, whether or not justified.

La Camorra Shaft Construction Arbitration

We are disputing some of the shaft construction costs relating to the production shaft commissioned at our La Camorra mine during 2005. Pursuant to the construction agreement, we submitted the matter to the American Arbitration Association for arbitration in November 2005. The parties agreed to participate in non-binding mediation but were unable to reach a satisfactory resolution of the matter. We now expect to proceed to arbitration in 2007. The contractor asserts \$7.0 million of construction costs that we dispute. We claim approximately \$2.9 million in damages against the contractor for various claims and back charges related to the construction of the shaft. There can be no assurance that the matter will be arbitrated in our favor.

Other Contingencies

We are subject to other legal proceedings and claims not disclosed above which have arisen in the ordinary course of our business and have not been finally adjudicated. Although there can be no assurance as to the ultimate disposition of these other matters, we believe the outcome of these other proceedings will not have a material adverse effect on our financial results or condition.

12

Table of Contents

Note 6. Income (Loss) per Common Share

We are authorized to issue 400.0 million shares of common stock, \$0.25 par value per share, of which 119,556,457 shares were issued at September 30, 2006. In May 2006, shareholders approved an amendment to the Certificate of Incorporation to increase the number of authorized shares of common stock from 200.0 million to 400.0 million.

The following tables present reconciliations of the numerators and denominators used in the basic and diluted income (loss) per common share computations. Also shown is the effect that has been given to preferred dividends in arriving

at the income (losses) applicable to common shareholders for the three and nine months ended September 30, 2006 and 2005, in computing basic and diluted income (loss) per common share (dollars and shares in thousands, except per-share amounts).

	Three Months Ended September 30,					
	2006			2005		
	Net Income	Weighted Average Shares	Per-Share Amount	Net Loss	Weighted Average Shares	Per-Share Amount
Income (loss) before preferred stock dividends	\$ 1,001			\$ (8,595)		
Less: Preferred stock dividends	(138)			(138)		
Basic income (loss) applicable to common shareholders	\$ 863	119,483	\$ 0.01	\$ (8,733)	118,484	\$ (0.07)
Effect of dilutive securities		386				
Diluted income (loss) per common share	\$ 863	119,869	\$ 0.01	\$ (8,733)	118,484	\$ (0.07)
	Nine Months Ended September 30,					
	2006			2005		
	Net Income	Weighted Average Shares	Per-Share Amount	Net Loss	Weighted Average Shares	Per-Share Amount
Income (loss) before preferred stock dividends	\$ 48,610			\$ (18,136)		
Less: Preferred stock dividends	(414)			(414)		
Basic income (loss) applicable to common shareholders	\$ 48,196	119,146	\$ 0.40	\$ (18,550)	118,422	\$ (0.16)
Effect of dilutive securities		415				
Diluted income (loss) per common share	\$ 48,196	119,561	\$ 0.40	\$ (18,550)	118,422	\$ (0.16)

These calculations of diluted income (loss) per share for the three and nine months ended September 30, 2006 and 2005, exclude the effects of convertible preferred stock (liquidation preference of \$7.9 million in 2006 and 2005), as their conversion and exercise would be antidilutive. Restricted stock units outstanding during the 2005 periods, as well as common stock issuable upon the exercise of certain stock options, have also been excluded as their conversion and exercise would be antidilutive as follows:

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
1995 Stock Incentive Plan				
Stock options	1,405,500	3,006,820	1,405,500	3,006,820
2002 Key Employee Deferred Compensation Plan				
Stock options	267,300	904,290	267,300	904,290
Stock units		80,303		80,303
Restricted stock units		189,000		189,000
Note 7. Business Segments				

We are organized and managed by four operating segments, which represent our operating units and various exploration targets: the La Camorra unit and various exploration activities in Venezuela, the San Sebastian unit and various exploration activities in Mexico, the Greens Creek unit and the Lucky Friday unit. Prior to 2005, we were organized according to the geographical areas in which we operated, Venezuela (the La Camorra unit), Mexico (the San Sebastian unit) and the United States (the Greens Creek unit and the Lucky Friday unit).

At December 31, 2005, we changed our reportable segments to better reflect the economic characteristics of our operating properties and have restated the corresponding information for the third quarter and first nine months of 2005 to be comparable to the current presentation. General corporate activities not associated with operating units and their various exploration activities, as well as idle properties, are presented as other. We consider interest expense, interest income and income taxes general corporate items and are not allocated to our segments.

The following tables present information about reportable segments for the three and nine months ended September 30, 2006 and 2005 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Sales to unaffiliated customers:				
La Camorra	\$ 21,159	\$ 8,494	\$ 67,800	\$ 27,841
Greens Creek	15,899	9,692	43,809	30,232
Lucky Friday	13,356	5,271	34,581	14,920
San Sebastian		6,971	955	7,124