

HECLA MINING CO/DE/
Form 10-Q
May 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

Commission file
number 1-8491

HECLA MINING COMPANY

(Exact name of registrant as specified in its charter)

Delaware 77-0664171
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

6500 Mineral Drive, Suite 200
Coeur d'Alene, Idaho 83815-9408
(Address of principal executive offices) (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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes XX . No __ .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes XX . No __ .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated Filer XX.

Accelerated Filer __ .

Non-Accelerated Filer __ .

Smaller reporting company _ .

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes __ . No XX.

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 May 2, 2014
Common stock, par value	343,128,915
\$0.25 per share	

Hecla Mining Company and Subsidiaries

Form 10-Q

For the Quarter Ended March 31, 2014

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Part I - Financial Information

Item 1. Financial Statements

Hecla Mining Company and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except shares)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$207,642	\$212,175
Accounts receivable:		
Trade	26,159	17,672
Other, net	10,650	20,893
Inventories:		
Concentrates, doré, and stockpiled ore	22,746	27,740
Materials and supplies	21,112	21,097
Current deferred income taxes	30,946	35,734
Other current assets	13,016	8,324
Total current assets	332,271	343,635
Non-current investments	8,730	7,019
Non-current restricted cash and investments	7,702	5,217
Properties, plant, equipment and mineral interests, net	1,805,632	1,791,601
Non-current deferred income taxes	86,677	78,780
Other non-current assets and deferred charges	9,269	5,867
Total assets	\$2,250,281	\$2,232,119
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$39,232	\$51,152
Accrued payroll and related benefits	17,359	18,769
Accrued taxes	12,619	7,881
Current portion of capital leases	8,482	8,471

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Current portion of accrued reclamation and closure costs	58,640	58,425
Other current liabilities	15,228	6,781
Total current liabilities	151,560	151,479
Capital leases	14,112	14,332
Accrued reclamation and closure costs	55,353	46,766
Long-term Debt	491,042	490,726
Non-current deferred tax liability	159,890	164,861
Other non-current liabilities	34,862	37,536
Total liabilities	906,819	905,700
Commitments and contingencies (Notes 2, 4, 7, 9, and 11)		
STOCKHOLDERS' EQUITY		
Preferred stock, 5,000,000 shares authorized:		
Series B preferred stock, \$0.25 par value, 157,816 shares issued and outstanding, liquidation preference — \$7,891	39	39
Common stock, \$0.25 par value, 500,000,000 shares authorized; issued and outstanding 2014 — 342,840,128 shares and 2013 — 342,663,381 shares	85,943	85,896
Capital surplus	1,431,903	1,426,845
Accumulated deficit	(144,355)	(154,982)
Accumulated other comprehensive loss	(24,949)	(26,299)
Less treasury stock, at cost; 2014 - 932,811 and 2013 - 921,721	(5,119)	(5,080)
Total stockholders' equity	1,343,462	1,326,419
Total liabilities and stockholders' equity	\$2,250,281	\$2,232,119

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

Hecla Mining Company and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)

(Dollars and shares in thousands, except for per-share amounts)

	Three Months Ended	
	March 31, 2014	March 31, 2013
Sales of products	\$125,787	\$76,450
Cost of sales and other direct production costs	77,741	36,825
Depreciation, depletion and amortization	25,803	14,007
	103,544	50,832
Gross profit	22,243	25,618
Other operating expenses:		
General and administrative	7,941	6,939
Exploration	4,150	6,493
Pre-development	419	4,791
Other operating expense	718	1,024
Provision for closed operations and environmental matters	1,104	1,794
Lucky Friday suspension-related costs	—	1,498
Aurizon acquisition costs	—	5,292
	14,332	27,831
Income (loss) from operations	7,911	(2,213)
Other income (expense):		
Unrealized gain on investments	688	—
Gain on derivative contracts	9,452	21,539
Net foreign exchange gain (loss)	4,134	(144)
Interest and other income	79	31
Interest expense, net of amounts capitalized	(6,840)	(704)
	7,513	20,722
Income before income taxes	15,424	18,509
Income tax provision	(3,783)	(7,415)
Net income	11,641	11,094
Preferred stock dividends	(138)	(138)
Income applicable to common stockholders	\$11,503	\$10,956
Comprehensive income:		
Net income	\$11,641	\$11,094
Unrealized holding gains (losses) on investments	1,350	(2,831)
Comprehensive income	\$12,991	\$8,263

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Basic income per common share after preferred dividends	\$0.03	\$0.04
Diluted income per common share after preferred dividends	\$0.03	\$0.04
Weighted average number of common shares outstanding - basic	342,666	285,171
Weighted average number of common shares outstanding - diluted	350,018	297,164

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

Hecla Mining Company and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Three Months Ended	
	March 31, 2014	March 31, 2013
Operating activities:		
Net income	\$ 11,641	\$ 11,094
Non-cash elements included in net income:		
Depreciation, depletion and amortization	26,054	14,711
Loss (gain) on disposition of properties, plants, equipment, and mineral interests	275	(125)
Provision for reclamation and closure costs	933	591
Stock compensation	1,065	798
Deferred income taxes	(2,851)	3,990
Amortization of loan origination fees	519	135
Gain on derivative contracts	(8,847)	(19,620)
Foreign exchange gain	(4,688)	—
Other non-cash (gains) charges, net	4	(11)
Change in assets and liabilities:		
Accounts receivable	1,387	4,708
Inventories	4,669	(5,108)
Other current and non-current assets	923	382
	(5,416)	(2,712)

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Accounts payable and accrued liabilities			
Accrued payroll and related benefits	2,721		5,046
Accrued taxes	4,756		(2,497)
Accrued reclamation and closure costs and other non-current liabilities	(2,762)		(22)
Cash provided by operating activities	30,383		11,360
Investing activities:			
Additions to properties, plants, equipment and mineral interests	(26,867)		(25,753)
Proceeds from disposition of properties, plants and equipment	—		126
Purchases of investments	—		(2,562)
Changes in restricted cash and investment balances	(2,485)		(12)
Net cash used in investing activities	(29,352)		(28,201)
Financing activities:			
Acquisition of treasury shares	—		(286)
Dividends paid to common stockholders	(857)		(3,565)
Dividends paid to preferred stockholders	(138)		(138)
Debt origination fees	(468)		—
Repayments of capital leases	(2,403)		(1,540)
Net cash (used) provided by financing activities	(3,866)		(5,529)
Effect of exchange rates on cash	(1,698)		—
Net decrease in cash and cash equivalents	(4,533)		(22,370)
Cash and cash equivalents at beginning of period	212,175		190,984
Cash and cash equivalents at end of period	\$ 207,642		\$ 168,614

Significant non-cash
investing and
financing activities:

Addition of capital lease obligations	\$ 2,194	\$ 6,725
Increase to asset retirement obligations	\$ 8,210	\$ —
Payment of accrued compensation in restricted stock units	\$ 4,600	\$ —

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

Note 1. Basis of Preparation of Financial Statements

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements and notes to the interim condensed consolidated financial statements contain all adjustments, consisting of normal recurring items, necessary to present fairly, in all material respects, the financial position of Hecla Mining Company and its consolidated subsidiaries (“we” or “our” or “us”). These unaudited interim condensed 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, 2013, 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. The unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in audited financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures are adequate for the information not to be misleading.

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 June 1, 2013, we completed the acquisition of Aurizon Mines Ltd. ("Aurizon"), giving us 100% ownership of the Casa Berardi mine and various other interests in Quebec, Canada. The unaudited interim condensed consolidated financial statements included herein reflect our ownership of the assets previously held by Aurizon as of the June 1, 2013 acquisition date. We have determined that the functional currency for our Canadian operations acquired from Aurizon is the U.S. dollar.

Note 2. Investments and Restricted Cash

Investments

At March 31, 2014 and December 31, 2013, the fair value of our non-current investments was \$8.7 million and \$7.0 million, respectively. Our non-current investments consist of marketable equity securities, which are carried at fair value as they are classified as “available-for-sale.” The cost basis of our non-current investments was approximately \$9.5 million and \$10.0 million at March 31, 2014 and December 31, 2013, respectively.

At March 31, 2014, total unrealized loss positions of \$1.7 million, net of unrealized gains of \$0.9 million, for our non-current investments were included in accumulated other comprehensive loss on our condensed consolidated balance sheet.

Our non-current investments balance as of March 31, 2014 includes our ownership of approximately 29.4% of the outstanding common shares of Typhoon Exploration Inc. having a cost basis of \$0.7 million and fair value of \$1.7 million. We elected to apply the fair value option accounting method to the investment upon it meeting the criteria for equity method accounting during the second quarter of 2013. Since the acquisition, we have unrealized gains of \$0.9 million that are included in unrealized gain (loss) on investments on our condensed consolidated statement of operations and comprehensive income. We evaluate the accounting treatment of our individual investments based on whether we believe our ownership percentage and other factors indicate that we have the ability to exercise significant influence in the financial and/or operational decisions of the investee. As of March 31, 2014, we have determined that no other investments held by us qualify for equity method accounting.

Restricted Cash and Investments

Various laws, permits, and covenants require that financial assurances be in place for certain environmental and reclamation obligations and other potential liabilities. These restricted investments are used primarily for reclamation funding or for funding surety bonds, and were \$7.7 million and \$5.2 million at March 31, 2014 and December 31, 2013, respectively. Restricted investments primarily represent investments in money market funds and certificates of deposit.

Note 3. Income Taxes

Major components of our income tax provision for the three months ended March 31, 2014 and 2013 are as follows (in thousands):

	Three Months Ended March 31, 2014 2013	
Current:		
Domestic	\$6,499	\$3,137
Foreign	156	115
Total current income tax provision	6,655	3,252
Deferred:		
Domestic	(3,130)	4,163
Foreign	258	—
Total deferred income tax provision	(2,872)	4,163
Total income tax provision	\$3,783	\$7,415

As of March 31, 2014, we have a net deferred tax asset in the U.S. of \$117.6 million and a net deferred tax liability in Canada of \$160.8 million for a consolidated worldwide net deferred tax liability of \$43.2 million. Our ability to utilize our deferred tax assets depends on future taxable income generated from operations. For the three months ended March 31, 2014, there were no circumstances that caused us to change our assessment of the ability to generate sufficient future taxable income to realize the currently recognized U.S. deferred tax assets. At March 31, 2014 and December 31, 2013, the balances of the valuation allowances on our deferred tax assets were \$28 million and \$27 million, respectively, primarily for foreign net operating loss carryforwards. The amount of the deferred tax asset considered recoverable, however, could be reduced in the near term if estimates of future taxable income are reduced.

The current income tax provisions for the three months ended March 31, 2014 and 2013 vary from the amounts that would have resulted from applying the statutory income tax rate to pre-tax income primarily due to the effects of percentage depletion for all periods presented and the impact of taxation in foreign jurisdictions.

Note 4. Commitments, Contingencies and Obligations

General

We follow the FASB Accounting Standards Codification guidance in determining our accruals and disclosures with respect to loss contingencies, and evaluate such accruals and contingencies for each reporting period. Accordingly, estimated losses from loss contingencies are accrued by a charge to income when information available prior to issuance of the financial statements indicates that it is probable that a liability could be incurred and the amount of the loss can be reasonably estimated. Legal expenses associated with the contingency are expensed as incurred. If a loss contingency is not probable or reasonably estimable, disclosure of the loss contingency is made in the financial statements when it is at least reasonably possible that a material loss could be incurred.

Rio Grande Silver Guaranty

Our wholly-owned subsidiary, Rio Grande Silver Inc. (“Rio”), is party to a joint venture with Emerald Mining & Leasing, LLC (“EML”) and certain other parties with respect to a land package in the Creede Mining District of Colorado that is adjacent to other land held by Rio. Rio holds a 70% interest in the joint venture. In connection with the joint venture, we are required to guarantee certain environmental remediation-related obligations of EML to a third party up to a maximum liability to us of \$2.5 million. As of March 31, 2014, we have not been required to make any payments pursuant to the guaranty. We may be required to make payments in the future, limited to the \$2.5 million maximum liability, should EML fail to meet its obligations to the third party. However, to the extent that any payments are made by us under the guaranty, EML, in addition to other parties, have jointly and severally agreed to reimburse and indemnify us for any such payments. We have not recorded a liability relating to the guaranty as of March 31, 2014.

Lucky Friday Water Permit Matters

Over the last several years, the Lucky Friday unit has experienced several regulatory issues relating to its water discharge permits and water management more generally.

In late 2008 and during 2009, Hecla Limited experienced a number of alleged permit exceedances for water discharges at the Lucky Friday unit. These alleged violations resulted in Hecla Limited entering into a Consent Agreement and Final Order (“CAFO”) and a Compliance Order with the EPA in April 2009, which included an extended compliance time line. In connection with the CAFO, Hecla Limited agreed to pay the maximum administrative penalty to the EPA of \$177,500 to settle any liability for such alleged exceedances.

In 2009, additional alleged permit exceedances for water discharges at the Lucky Friday unit occurred. In 2010, alleged unpermitted discharges of pollutants occurred at the Lucky Friday unit. These alleged permit exceedances and certain alleged unpermitted discharges were the subject of a December 2010 Notice of Violation (“2010 NOV”) from the EPA informing Hecla Limited that the EPA was prepared to seek civil penalties for these alleged violations. In the 2010 NOV, the EPA invited Hecla Limited to discuss these matters with them prior to filing a complaint. Hecla Limited disputes many of EPA's assertions, but initiated negotiations with the EPA in an attempt to resolve the matter. There has not been any resolution of the 2010 NOV.

In 2012, the Lucky Friday unit had two weekly water samples, one of which in October exceeded the permit concentration limit for lead (but not the associated load limit), and one of which in November exceeded permit limits for zinc. Also in October and November, heavy rains resulted in alleged impacted storm water being discharged to a nearby river. After these incidents, in February 2013, the EPA issued a notice of violation and request for information to Hecla Limited alleging that the October and November 2012 storm water incidents were each a violation of Hecla Limited's storm water permit. In March 2014, the Lucky Friday unit had a weekly water sample which exceeded the maximum daily permitted limit for zinc.

The EPA referred the two alleged 2012 permit exceedances, along with the alleged violations in the 2010 NOV and some additional alleged unpermitted discharges from 2010 that were not included in the 2010 NOV, to the U.S. Department of Justice to possibly file a civil complaint by the United States against Hecla Limited. In addition, it is possible that the United States may include other alleged unpermitted discharges (including the 2012 storm water incidents) or permit violations in any complaint. There is the potential for larger civil penalties in the context of a United States complaint than in an administrative action by the EPA such as the 2009 CAFO.

In December 2013, the EPA issued to Hecla Limited a Notice of Violation (“2013 NOV”) alleging certain storm water reporting violations under Lucky Friday’s Clean Water Act Multi-Sector General Stormwater Permit for Industrial Activities. The 2013 NOV also contains a request for information under Section 308 of the Clean Water Act directing Hecla Limited to undertake a comprehensive groundwater investigation of Lucky Friday’s tailings pond No. 3 to evaluate whether the pond is causing the discharge of pollutants via seepage to groundwater that is discharging to

surface water. We cannot ascertain what impacts, if any, the 2013 NOV and request for information will have on the matters that were already pending with the United States, including the 2010 NOV.

Hecla Limited strives to maintain its water discharges and water management in general at the Lucky Friday unit in full compliance with its permits and applicable laws; however, we cannot provide assurances that it will be able to fully comply with the permit limits and other regulatory requirements regarding water management in the future.

We believe that it is reasonably possible that Hecla Limited faces some liability for the above water issues; however, we cannot with reasonable certainty estimate the amount of any such liability because, for among other reasons, we have not completed the report called for by the request for information contained in the 2013 NPOV, and we do not know what will be the impact of that report.

Johnny M Mine Area near San Mateo, McKinley County, New Mexico

In May 2011, the EPA made a formal request to Hecla Mining Company for information regarding the Johnny M Mine Area near San Mateo, McKinley County, New Mexico, and asserted that Hecla Mining Company may be responsible under CERCLA for environmental remediation and past costs the EPA has incurred at the site. Mining at the Johnny M was conducted for a limited period of time by a predecessor of our subsidiary, Hecla Limited. In August 2012, Hecla Limited and the EPA entered into a Settlement Agreement and Administrative Order on Consent for Removal Action (“Consent Decree”), pursuant to which Hecla Limited agreed to pay (i) \$1.1 million to the EPA for its past response costs at the site and (ii) any future response costs at the site, in exchange for a covenant not to sue by the EPA. The Consent Decree also describes additional work at the site to be conducted by Hecla Limited. Hecla Limited paid the \$1.1 million to the EPA for its past response costs in the fourth quarter of 2012, and our consolidated financial statements as of March 31, 2014 include an accrual balance by Hecla Limited of \$0.3 million for investigation and planning costs. Hecla Limited cannot reasonably estimate the amount of any additional liability it may face at the site until, at a minimum, the amount and type of remediation required have been determined or if EPA seeks reimbursement for additional past costs.

Carpenter Snow Creek Site, Cascade County, Montana

In July 2010, the EPA made a formal request to Hecla Mining Company for information regarding the Carpenter Snow Creek Superfund Site located in Cascade County, Montana. The Carpenter Snow Creek Site is located in a historic mining district, and in the early 1980s Hecla Limited leased 6 mining claims and performed limited exploration activities at the site. Hecla Limited terminated the mining lease in 1988.

In June 2011, the EPA informed Hecla Limited that it believes Hecla Limited, among several other viable companies, may be liable for cleanup of the site or for costs incurred by the EPA in cleaning up the site. The EPA stated in the June 2011 letter that it has incurred approximately \$4.5 million in response costs and estimated that total remediation costs may exceed \$100 million. Because Hecla Limited had very limited activity at the site, we do not believe that the outcome of the claim will have a material adverse effect on our results of operations or financial position. Hecla Limited cannot with reasonable certainty estimate the ultimate liability, if any, relating to this matter.

States of South Dakota and Colorado Superfund Sites Related to CoCa Mines, Inc.

In 1991, Hecla Limited acquired all of the outstanding common stock of CoCa Mines, Inc. (“CoCa”). CoCa is alleged to have engaged in exploration at the Gilt Edge Mine in South Dakota as well as in the area adjacent to the Nelson Tunnel property in Creede, Colorado.

Gilt Edge Mine Superfund Site

In August 2008, the EPA made a formal request to CoCa for information regarding the Gilt Edge Mine Site located in Lawrence County, South Dakota, and asserted that CoCa may be liable for environmental cleanup at the site. The Gilt Edge Mine Site was explored and/or mined beginning in the 1890s. In the early 1980s, CoCa was involved in a joint venture that conducted a limited program of exploration work at the site. This joint venture terminated in 1984, and by 1985 CoCa had divested itself of any interest in the property.

In July 2010 the United States informed CoCa that it intends to pursue CoCa and several other potentially responsible parties on a joint and several basis for liability for past and future response costs at Gilt Edge under CERCLA. Currently, the United States alleges that CoCa is liable based on participation in the joint venture, and that CoCa has succeeded to the liabilities of its predecessor, Congdon & Carey, which may have held certain property interests at the site.

As of mid-2013, the United States has alleged that estimated total costs associated with the site may exceed \$191 million, including both past and future response costs. Hecla Limited did not acquire CoCa until 1991, well after CoCa discontinued its involvement with the Gilt Edge site. In addition, CoCa is and always has been a separate corporate entity from Hecla Limited. Therefore, we believe that Hecla Limited is not liable for any cleanup at the Gilt Edge site. We believe that it is reasonably possible that CoCa faces some liability for the site; however, we cannot with reasonable certainty estimate the ultimate amount of any such liability. Furthermore, in the event CoCa incurs a liability at this site, it has limited assets with which to satisfy any such liability. Because of CoCa's limited assets, we believe that it is possible that the United States will seek to recover some of the alleged \$191 million in costs associated with the site from Hecla Limited, as the parent corporation of CoCa. We believe Hecla Limited would have strong defenses to such a claim and would vigorously defend against any such claims. Settlement negotiations with the United States commenced in 2010 and are ongoing, but there can be no assurance such negotiations will be successful, or that Hecla Limited will not incur a material liability with respect to this site.

Nelson Tunnel/Commodore Waste Rock Pile Superfund Site

In August 2009, the EPA made a formal request to CoCa for information regarding the Nelson Tunnel/Commodore Waste Rock Pile Superfund Site in Creede, Colorado. A timely response was provided and the EPA later arranged to copy additional documents. CoCa was involved in exploration and mining activities in Creede during the 1970s and the 1980s. In September 2013, the EPA made a formal claim against CoCa for past response costs under CERCLA as an owner/operator of the site, and against Hecla Limited as a corporate successor to CoCa. The EPA is seeking a total of approximately \$5 million for past response costs, plus an undetermined amount of interest from CoCa, Hecla Limited, and other potentially responsible parties. The EPA stated that it is continuing its remedial investigation/feasibility study at the site, and once that is complete, it will begin remedial design and remedial action for the site. Presumably, the EPA will also seek reimbursement of at least some of those costs from viable potentially responsible parties. In April 2014, CoCa received notice from another potentially responsible party alleging that CoCa is required to indemnify it in connection with any liability it may have with respect to the Nelson/Commodore site. Hecla Limited did not acquire CoCa until 1991, well after CoCa discontinued its historical activities in the vicinity of the site. In addition, CoCa is and always has been a separate corporate entity from Hecla Limited. Therefore, we believe that Hecla Limited is not liable for any cleanup, has strong defenses, and we will vigorously defend against the claim. If CoCa is ultimately found to be liable, it has limited assets with which to satisfy any such liability. We cannot with reasonable certainty estimate the ultimate liability, if any, relating to this matter, and therefore we have not recorded a liability relating to the site as of March 31, 2014.

Senior Notes

On January 6, 2014, we completed the offer to exchange up to \$500,000,000 aggregate principal amount of our new 6.875% Senior Notes due 2021 for a like principal amount of our previously outstanding 6.875% Senior Notes due 2021, which were issued on April 12, 2013 ("Notes"), as further discussed in *Note 9*. Interest on the Notes is payable on May 1 and November 1 of each year, commencing November 1, 2013. The net proceeds from the offering of the Notes were used to partially fund the acquisition of Aurizon Mines Ltd. ("Aurizon") and for general corporate purposes, including expenses related to the Aurizon acquisition.

Other Commitments

Our contractual obligations as of March 31, 2014 included approximately \$5.9 million for various non-capital costs. In addition, our open purchase orders at March 31, 2014 included approximately \$0.8 million, \$0.3 million, and \$1.4 million, respectively, for various capital items at the Casa Berardi, Greens Creek, and Lucky Friday units, and approximately \$1.3 million, \$0.4 million, and \$0.5 million, respectively, for various non-capital costs at such units. We also have total commitments of approximately \$23.6 million relating to scheduled payments on capital leases, including interest, primarily for equipment at our Greens Creek and Lucky Friday units (see *Note 9* for more information). In addition, in 2011, we settled Hecla Limited's Coeur d'Alene Basin environmental litigation and

related claims pursuant to a Consent Decree entered by the Court on September 8, 2011. Hecla Limited remains obligated under the Consent Decree to make payments totaling \$55.4 million by August 2014, which would be funded by proceeds from our outstanding warrants, if exercised (see *Note 8* for more information). Under the terms of the Consent Decree, the proceeds from the exercise of our outstanding warrants will be paid to the United States and the Coeur d'Alene Indian Tribe within 30 days after the end of the quarter when exercised. If the warrants are not exercised, the company is responsible for its final payment under the Consent Decree.

We had letters of credit for approximately \$1.3 million outstanding as of March 31, 2014 for workers' compensation insurance bonding.

Other Contingencies

Hecla was named as a nominal defendant in a stockholder derivative lawsuit in federal court which named as defendants certain Hecla executives and members of Hecla's Board of Directors. The case was *In Re Hecla Mining Company Derivative Shareholder Litigation*, Case No. 2:12-cv-00097 (D. Idaho). In general terms, this lawsuit alleged breaches of fiduciary duties by the individual defendants relating to past operational issues at the Lucky Friday mine and sought damages, purportedly on behalf of Hecla. The lawsuit was dismissed on February 20, 2014, and the Court gave the plaintiffs until April 21, 2014 to file an amended complaint. No amended complaint was filed, and on April 21, 2014, the Court issued a final order dismissing the case with prejudice.

In March 2012, Hecla Limited received notice of a complaint filed against it by the United Steel Workers, Local 5114, with the Federal Mine Safety and Health Review Commission for compensation for bargaining unit workers at the Lucky Friday mine idled as a result of the temporary suspension of production at the mine. The complaint alleges the bargaining unit workers are entitled to compensation under Section 111 of the Federal Mine Safety and Health Act of 1977 from November 16, 2011 - the date an order was issued by the Mine Safety Health Administration ("MSHA") to Hecla Limited - until such time as the order is terminated. We submitted a motion for summary decision to the administrative law judge within the Federal Mine Safety and Health Review Commission, which was denied in December 2012. Currently we are awaiting further proceedings. We believe the claim is without merit, and that all wages due under Section 111, which was an immaterial amount, have already been paid. Therefore, we have not recorded a liability relating to the claim as of March 31, 2014. The value of the union's claim is estimated to be in the range of \$0 to \$10 million.

We are subject to other legal proceedings and claims which arise from time to time. These can include, but are not limited to, legal proceedings and/or claims pertaining to environmental or safety matters. For example, in April 2011, a fatal accident occurred at the Lucky Friday mine which was investigated by MSHA. In November 2011, an accident occurred as part of the construction of #4 Shaft which resulted in the fatality of one contractor employee. In an unrelated incident, in December 2011, a rock burst occurred in a primary access way at the Lucky Friday mine and injured seven employees, none fatally. At the end of 2011, MSHA began a special impact investigation at the Lucky Friday mine which resulted in an order to remove built-up cementitious material from the Silver Shaft, the primary access way from the surface at the Lucky Friday mine. As a result of MSHA's investigations related to these events, Hecla Limited has been issued monetary penalties (none of which are material, individually or in the aggregate), and may face additional enforcement actions, including additional monetary penalties from MSHA or other governmental agencies. Although there can be no assurance as to the ultimate disposition of these other matters, we believe they will not have a material adverse effect on our results of operations or financial position.

On April 12, 2013, the family of Larry Marek, an employee of Hecla Limited who was fatally injured in the April 2011 accident, filed a lawsuit against us and certain of our officers and employees seeking damages for, among other claims, wrongful death and infliction of emotional distress. No dollar amount of damages is specified in the complaint, which was filed in state court in Idaho (Kootenai County District Court). We cannot reasonably predict the outcome of this matter, however, we believe the case is without merit and intend to vigorously defend this lawsuit.

On December 11, 2013, four employees of Hecla Limited who were injured in the December 2011 rock burst filed a lawsuit against us and certain of our employees seeking damages for, among other claims, intentional and willful injury and infliction of emotional distress. The plaintiffs seek damages in excess of \$1,000,000, as claimed in the complaint, which was filed in state court in Idaho (Kootenai County District Court). We cannot reasonably predict the outcome of this matter, however, we believe the case is without merit and intend to vigorously defend this lawsuit.

Note 5. Earnings Per Common Share

We are authorized to issue 500,000,000 shares of common stock, \$0.25 par value per share. At March 31, 2014, there were 343,772,939 shares of our common stock issued and 932,811 shares issued and held in treasury, for a net of 342,840,128 shares outstanding.

The following table reconciles weighted average common shares used in the computations of basic and diluted earnings per share for the three-month periods ended March 31, 2014 and 2013 (thousands, except per-share amounts):

	Three Months Ended	
	March 31, 2014	2013
Numerator		
Net income	\$ 11,641	\$ 11,094
Preferred stock dividends	(138)	(138)
Net income applicable to common shares for basic and diluted earnings per share	\$ 11,503	\$ 10,956
Denominator		
Basic weighted average common shares	342,666	285,171
Dilutive stock options and restricted stock		