HECLA MINING CO/DE/
Form 10-Q
May 09, 2011
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 March 31, 2011

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)	77-0664171 (I.R.S. Employer Identification No.)
6500 N. Mineral Drive, Suite 200 Coeur d'Alene, Idaho (Address of Principal Executive Offices)	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 (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 “small reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer XX	Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company)	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 5, 2011
Common stock, par value $0.25 per share	279,195,108

Hecla Mining Company and Subsidiaries

Form 10-Q

For the Quarter Ended March 31, 2011

I N D E X*

*Certain items are omitted, as they are not applicable.

Item 1. Financial Statements

Hecla Mining Company and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)
(Dollars are in thousands, except per share data)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$321,662	$283,606
Investments	—	1,474
Accounts receivable	50,236	36,840
Inventories:		
Concentrates, doré, stockpiled ore, and metals in transit and in-process	7,353	8,886
Materials and supplies	10,468	10,245
Current deferred income taxes	79,391	87,287
Other current assets	2,673	3,683
Total current assets	471,783	432,021
Non-current investments	5,237	1,194
Non-current restricted cash and investments	10,309	10,314
Properties, plants, equipment and mineral interests, net	840,264	833,288
Non-current deferred income taxes	84,834	100,072
Other non-current assets	4,662	5,604
Total assets	$1,417,089	$1,382,493
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$26,313	$31,725
Accrued payroll and related benefits	9,600	10,789
Accrued taxes	14,709	16,042
Current portion of capital leases	2,714	2,481
Current portion of accrued reclamation and closure costs	175,349	175,484
Current derivative contract liabilities	14,528	20,016
Total current liabilities	243,213	256,537
Long-term capital leases	4,004	3,792
Accrued reclamation and closure costs	143,728	143,313
Other noncurrent liabilities	15,218	16,598
Total liabilities	406,163	420,240
Commitments and contingencies		
SHAREHOLDERS' 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
6.5% Mandatory Convertible Preferred stock, $0.25 par value, issued and outstanding 2011 – 0 and 2010 – 2,012,500, liquidation preference 2011 — $0 and	—	504

2010 — $201,250		
Common stock, $0.25 par value, authorized 500,000,000; issued and outstanding 2011 — 279,190,103 shares and 2010 — 258,485,666 shares	69,881	64,704
Capital surplus	1,180,195	1,179,751
Accumulated deficit	(222,359)	(265,577)
Accumulated other comprehensive loss	(14,761)	(15,117)
Less treasury stock, at cost; 2011 — 337,670 shares and 2010 — 335,957 shares	(2,069)	(2,051)
Total shareholders' equity	1,010,926	962,253
Total liabilities and shareholders' equity	$1,417,089	$1,382,493

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

Hecla Mining Company and Subsidiaries

Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited)
(Dollars and shares in thousands, except per share amounts)

	Three Months Ended	
	March 31, 2011	March 31, 2010
Sales of products	$136,364	$79,875
Cost of sales and other direct production costs	44,529	36,270
Depreciation, depletion and amortization	12,262	16,069
	56,791	52,339
Gross profit	79,573	27,536
Other operating expense (income):		
General and administrative	4,699	4,113
Exploration	3,301	3,429
Other operating expense	1,817	964
Provision for closed operations and environmental matters	1,021	3,376
	10,838	11,882
Income from operations	68,735	15,654
Other income (expense):		
Gain on sale of investments	611	588
Loss on derivative contracts	(2,034)	—
Interest and other income	18	51
Interest expense	(477)	(678)
	(1,882)	(39)
Income before income taxes	66,853	15,615
Income tax benefit (provision)	(23,496)	6,229
Net income	43,357	21,844
Preferred stock dividends	(138)	(3,408)
Income applicable to common shareholders	$43,219	$18,436
Comprehensive income:		
Net income	$43,357	$21,844
Unrealized holding gains (losses) on investments	967	(390)
Reclassification of net gain on sale included in net income	(611)	(588)
Comprehensive income	$43,713	$20,866
Basic income per common share after preferred stock dividends	$0.16	$0.08
Diluted income per common share after preferred stock dividends	$0.15	$0.07
Weighted average number of common shares outstanding – basic	278,448	242,039
Weighted average number of common shares outstanding – diluted	296,244	261,231

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

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Hecla Mining Company and Subsidiaries

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

	Three Months Ended	
	March 31, 2011	March 31, 2010
Operating activities:		
Net income	$43,357	$21,844
Non-cash elements included in net income:		
Depreciation, depletion and amortization	12,327	16,107
Gain on sale of investments	(611)	(588)
Provision for reclamation and closure costs	279	2,220
Deferred income taxes	23,135	(6,344)
Stock compensation	377	333
Amortization of loan origination fees	166	172
Unrealized gain on derivative contracts	(5,186)	—
Other non-cash charges, net	324	446
Change in assets and liabilities:		
Accounts receivable	(13,395)	(12,241)
Inventories	1,310	(863)
Other current and noncurrent assets	1,683	1,268
Accounts payable and accrued liabilities	1,043	1,159
Accrued payroll and related benefits	(1,188)	(6,527)
Accrued taxes	(1,333)	942
Accrued reclamation and closure costs and other non-current liabilities	(1,378)	(133)
Net cash provided by operating activities	60,910	17,795
Investing activities:		
Additions to properties, plants, equipment and mineral interests	(21,831)	(6,732)
Proceeds from disposition of properties, plants and equipment	112	—
Decreases in restricted cash and investment balances	5	—
Purchases of investments	(3,200)	—
Proceeds from sale of investments	1,366	1,138
Net cash used in investing activities	(23,548)	(5,594)
Financing activities:		
Proceeds from exercise of warrants and stock options	4,739	666
Dividend paid to preferred shareholders	(3,408)	(828)
Acquisition of treasury shares	(18)	—
Repayments of debt and capital leases	(619)	(375)
Net cash provided by (used in) financing activities	694	(537)
Change in cash and cash equivalents:		
Net increase in cash and cash equivalents	38,056	11,664
Cash and cash equivalents at beginning of period	283,606	104,678
Cash and cash equivalents at end of period	$321,662	$116,342
Significant non-cash investing and financing activities:		
Addition of capital equipment through lease obligations	$1,065	$—
Accounts payable change relating to capital additions	$(3,488)	$1,518

Preferred stock dividends paid in common stock	$—	$16,344

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

Hecla Mining Company and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Basis of Preparation of Financial Statements

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements and notes to 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, 2010, 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 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 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 to make the information not 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.

Note 2. Investments and Restricted Cash

Investments

At December 31, 2010, the fair value of our current investments was $1.5 million, which represented approximately 3.6 million shares of Rusoro stock, with a basis of approximately $0.8 million. These shares were sold in February 2011 for proceeds of $1.4 million, resulting in a pre-tax gain of approximately $0.6 million. No current investments were held at March 31, 2011.

At March 31, 2011 and December 31, 2010, the fair value of our non-current investments was $5.2 million and $1.2 million, respectively. Marketable equity securities are carried at fair market value, as they are classified as "available-for-sale." The cost basis of these non-current investments, representing equity securities, was approximately $4.1 million and $0.2 million at March 31, 2011 and December 31, 2010, respectively.

At March 31, 2011, total unrealized gains of $1.7 million for investments held having a net gain position and total unrealized losses of $0.2 million for investments held having a net loss position were included in accumulated other comprehensive income (loss).

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. Restricted investments primarily represent investments in money market funds and certificates of deposit. These restricted investments are to be used primarily for reclamation funding or for funding surety bonds and were $10.3 million at March 31, 2011 and December 31, 2010.

Note 3. Income Taxes

Major components of our income tax provision (benefit) for the three months ended March 31, 2011 and 2010 are as follows (in thousands):

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Current:		
Federal	$- -	$(172)
State	- -	(61)
Foreign	115	115
Total current income tax provision (benefit)	115	(118)
Deferred:		
Federal and state deferred income tax provision	23,381	1,548
Discrete benefit for change in valuation allowance attributable to future periods	- -	(7,659)
Total deferred income tax provision (benefit)	23,381	(6,111)
Total income tax provision (benefit)	$23,496	$(6,229)

Our ability to utilize our deferred tax assets depends on future taxable income generated from operations. For the three months ended March 31, 2011, there were no circumstances that caused us to change our assessment of the ability to generate future taxable income to realize the currently recognized deferred tax assets. After first quarter utilization of $23 million, the net deferred tax asset at March 31, 2011 was $164 million. It is possible that the valuation allowance on our deferred tax asset will change in the future as a result of the analysis of our long-range forecasts, with a resulting tax provision.

The current income tax provisions for the first three months of 2011 and 2010 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 and the changes in valuation allowance in the respective periods.

Note 4. Commitments and Contingencies

Bunker Hill Superfund Site and Related Environmental Claims

Recent Developments

In February 2011, the negotiators representing Hecla Limited and the United States, the Coeur d'Alene Indian Tribe, and the State of Idaho ("Plaintiffs") reached an understanding on proposed financial terms to be incorporated into a comprehensive settlement with respect to the Coeur d'Alene Basin environmental litigation and related claims (including under the 1994 Box Consent Decree described below). The proposed financial terms would require that we pay, in the aggregate, $263.4 million to the Plaintiffs over approximately three years. Further details of the proposed financial terms of settlement are discussed below under "Accrual for Basin Claims."

In May 2011, the parties' negotiators reached an understanding on the non-monetary terms of settlement that, together with the previously disclosed monetary terms would represent a comprehensive settlement to be reflected in a Consent Decree to be lodged with, and potentially entered by, the Court. The proposed Consent Decree has been approved and executed by Hecla, but remains subject to the approval of the management of each of the Plaintiffs and approval by the Court. We anticipate that the Court will issue an order requiring frequent status conferences with the Court, starting in May, to keep the Court informed of the progress toward lodging of the Consent Decree.

If the management of each of the Plaintiffs approves the proposed Consent Decree, it will be lodged with the Court, followed by a public comment period expected to last 30 days, after which time the United States will evaluate and respond to any public comments received and then presumably seek Court approval and entry of the Consent Decree. If the Court enters the Consent Decree, Hecla Limited will have resolved all of Plaintiffs' existing claims under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA") (and certain other statutes) for past response costs, future environmental remediation costs, and natural resource damages related to historic mining activities in the Coeur d'Alene River Basin, as well as all remaining obligations of Hecla Limited under the 1994 Box Consent Decree.

Hecla is hopeful that the settlement will be completed and effective no later than during the third quarter of 2011, however, there can be no assurance as to the timing, that the parties will be successful in negotiating and agreeing on the final terms of the Consent Decree, or that the Consent Decree will be entered by the Court and thereby become final and binding.

History of Coeur d'Alene River Basin Environmental Claims

In July 1991, the Coeur d'Alene Indian Tribe ("Tribe") brought a lawsuit under CERCLA in Idaho Federal District Court against our wholly owned subsidiary Hecla Limited, ASARCO Incorporated ("ASARCO") and a number of other mining companies asserting claims for damages to natural resources downstream from a rectangular 21-square-mile site located near Kellogg, Idaho (the "Box") within the Bunker Hill Superfund 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, Hecla Limited is the only remaining defendant in the Tribe's natural resource damages case.

In 1994, Hecla Limited, as a potentially responsible party under CERCLA, entered into a Consent Decree with the U.S. Environmental Protection Agency ("EPA") and the State of Idaho concerning environmental remediation obligations in the Box. The 1994 Consent Decree (the "Box Decree" or "Decree") settled Hecla Limited's response-cost responsibility under CERCLA in the Box. Parties to the Decree included Hecla Limited, Sunshine Mining and Refining Company and ASARCO.

In March 1996, the United States filed a lawsuit in Idaho Federal District Court against certain mining companies, including Hecla Limited, that conducted historic mining operations in the Silver Valley of northern Idaho. The lawsuit asserted 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 claimed that the defendants' historic mining activity resulted in releases of hazardous substances and damaged natural resources within the Basin. The suit also sought declaratory relief as to the defendants' joint and several liability for response costs under CERCLA for historic mining impacts in the Basin outside the Box. Hecla Limited has asserted a number of defenses to the United States' claims.

In May 1998, the EPA announced that it had commenced a Remedial Investigation/Feasibility Study under CERCLA for the Basin, including Lake Coeur d'Alene (but excluding the Box), in support of its response cost claims asserted in the United States' March 1996 lawsuit. In September 2002, the EPA issued the interim Record of Decision ("ROD") for the Basin proposing a $359 million Basin-wide remediation 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. In 2009, the EPA commenced a process to adopt certain changes to the ecological remediation plan for the upper portion of the Basin only (in contrast to the 2002 ROD which addressed the entire Basin, including the upper and lower portions). In February 2010, the EPA issued a draft focused feasibility study report which presents and evaluates alternatives for remediation of the upper portions of the Basin. On July 12, 2010, the EPA released for public comment its proposed plan for remediation of the upper portion of the Basin. The public comment period concluded on November 23, 2010. Although a final remedy has not been selected, the proposed remediation plan was originally estimated to cost, in net present value terms, approximately $1.3 billion, including work in the Box. However, recently the EPA has made public statements indicating that the proposed remediation plan could have a reduced scope (and cost) from what EPA released in July 2010.

In January 2001, Phase I of the trial on the consolidated Tribe's and the United States' claims commenced, and was concluded in July 2001. Phase I addressed the extent of liability, if any, of the defendants 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 Hecla Limited has 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 22% share of liability to ASARCO and a 31% share of liability to Hecla Limited for impacts resulting from tailings releases. The portion of natural resource damages, past costs and remediation costs to which this 31% applies, other cost allocations applicable to Hecla Limited, and the Court's determination whether EPA's remediation proposals satisfy CERCLA requirements, should be addressed in Phase II of the litigation. The Court also left issues on the deference, if any, to be afforded the EPA's remediation plan, for Phase II (if the case is not settled).

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. As stated in their own filings, the United States' and the Tribe's claims for natural resource damages for Phase II may be in the range of $2.0 billion to $3.4 billion. Because of a number of factors relating to the quality and uncertainty of the United States' and Tribe's natural resource damage claims, Hecla Limited is currently unable to estimate what, if any, liability or range of liability it may have for these claims in the event the recently negotiated terms of settlement of the Basin environmental litigation and other claims do not become effective in a Consent Decree entered by the court.

Two of the defendant mining companies, Coeur d'Alene Mines Corporation and Sunshine Mining and Refining Company, settled their liabilities in the Basin litigation during 2001. On March 13, 2009, the United States reached agreement with ASARCO concerning ASARCO's liability in the Basin litigation. The agreement, among other things, required the payment by ASARCO of approximately $482 million to the United States or certain trusts. That agreement was approved by the Bankruptcy Court – ASARCO had previously filed for Chapter 11 bankruptcy in August 2005 – and the U.S. Federal District Court in Texas in late 2009. As a result of approval of ASARCO's Plan of Reorganization in the bankruptcy proceeding, and the distribution of approximately $482 million, plus interest, to the United States or certain trusts in December 2009, ASARCO was dismissed as a defendant in the Idaho Federal Court litigation in September 2010. This left Hecla Limited as the only defendant remaining in the Basin litigation. Because of the nature of ASARCO's settlement and of the bankruptcy proceeding, Hecla Limited does not believe the Basin environmental claims asserted against ASARCO in the bankruptcy proceeding or settlement distribution amounts are necessarily indicative of Hecla Limited's potential liability in the Basin litigation.

Phase II of the trial was scheduled to commence in January 2006. However, as a result of ASARCO's bankruptcy filing, the Idaho Federal Court vacated the January 2006 trial date and stayed the litigation (the stay remains in effect as of the date of this report). Hecla Limited anticipates that in the event the settlement and Consent Decree do not become effective, the Court will schedule a status conference to address lifting the stay and rescheduling the Phase II trial date.

For more than a year Hecla Limited has been involved in settlement negotiations with representatives of the United States, the State of Idaho and the Tribe. As part of such negotiations, in November 2010, the parties mutually selected a mediator and as of the date of this report, are in mediation. Between February and May 2011, the negotiators representing Hecla and the Plaintiffs reached an understanding on the proposed terms of a comprehensive settlement that would be reflected in a Consent Decree. The proposed Consent Decree has been approved and executed by Hecla, but remains subject to the approval of the management of each of the Plaintiffs. If management of each of the Plaintiffs approves the proposed Consent Decree, we expect the Consent Decree would then be lodged with the Court, followed by a public comment period expected to last 30 days, after which time the United States will evaluate and respond to any public comments received and then presumably seek Court approval and entry of the Consent Decree. There can be no assurance that the parties will be successful in resolving all outstanding matters regarding the litigation and other claims, or that the Consent Decree will be entered and become final and binding.

Accrual for Basin Claims

Assuming we are able to fully settle the Basin litigation and other claims with the Plaintiffs on the currently proposed financial terms, and the Court enters a Consent Decree, Hecla Limited would be obligated for the following payments:

- $102 million of cash, $55.5 million of cash or Hecla Mining Company common stock, and approximately $9.5 million in proceeds from series 3 warrants received by Hecla through April 12, 2011 and referred to below, all payable 30 days after entry of the Consent Decree;
- $25 million of cash 30 days after the first anniversary of entry of the Consent Decree;
- $15 million of cash 30 days after the second anniversary of entry of the Consent Decree; and
- Approximately $56.4 million by August 2014, as quarterly payments of the proceeds from the exercise of any outstanding Series 1 and Series 3 warrants (which have an exercise price of between $2.45 and $2.50 per share) during the quarter, with the remaining balance, if any, due in August 2014.

The foregoing payments of $25 million, $15 million, and $56.4 million would require third party surety. Further, commencing April 15, 2011 until the lodging of the Consent Decree, $197.5 million of the foregoing payments would accrue interest at the annual rate of 3.25%. The $25 million and $15 million payments would also accrue interest from the date the Consent Decree is entered by the Court until payment at the Superfund rate (currently 0.69%).

In addition to the foregoing payments, we would be obligated to provide a limited amount of land we currently own to be used as a repository waste site. The interests in the land to be provided was acquired by Hecla Limited in prior periods, and will require no further payments of cash.

As a result of the foregoing developments in the Basin litigation settlement discussions, we have accrued a total of $262.2 million for all of Hecla Limited's environmental obligations in the entire Basin (including the Box) relating to historic mining activities in the Basin. The $262.2 million represents the net present value of a proposed settlement totaling $263.4 million. The amount of our accrual has increased since September 30, 2010 by $193.2 million, as a result of the negotiations on financial terms of a potential settlement. This increase in our accrual from prior periods results from several factors impacting Hecla Limited's Basin liability, all of which would be addressed in the potential settlement. These factors include: (i) as a result of work completed, and information learned by us in the fourth quarter of 2010, we expect the cost of future remediation and past response costs in the upper Basin to increase from previous estimates; (ii) any potential settlement of the Basin litigation would address the entire Basin, including the lower Basin, for which we do not know the extent of any future remediation plans, other than the EPA has announced that it plans to issue a ROD amendment for the lower Basin in the future, which would include a lower Basin remediation plan for which Hecla Limited may have some liability; and (iii) inclusion of natural resource damages in any potential settlement, for which we are unable to estimate any range of liability, however, as stated in their own filings, the United States' and the Tribe's claims for natural resource damages may range in the billions of dollars.

Although we believe we have reached an understanding on the terms of potential settlement with the negotiators for the Plaintiffs in the Coeur d'Alene Basin litigation and for related claims, those terms are not binding unless and until final settlement is reached and a Consent Decree entered. There can be no assurance that the parties will be successful in resolving all outstanding matters regarding the litigation and other claims, or that the Consent Decree will be entered and become final and binding. In such event, Hecla Limited's liability and future accruals would be based on other factors, which would include (1) EPA's proposed ROD amendment which includes a remediation plan originally estimated by EPA to cost $1.3 billion, in net present value terms, (2) yet-to-be determined future remediation in other parts of the Basin, (3) prior orders issued by the Court in Phase I of the federal district court ligation, including its September 2003 ruling, and (4) other factors and issues that would be addressed by the Court in Phase II of the trial.

Despite efforts to reasonably estimate Hecla Limited's potential liability in the Basin, there can be no assurance that we have accurately estimated such liability, or that the accrual actually represents the total amount that the United States has spent in the past and that Hecla Limited will be required to spend in the future as a result of being found to have some liability for Basin environmental conditions. In addition, billions of dollars of natural resource damages are sought in the Basin litigation. Thus, in the event a final Consent Decree settling the litigation and other claims is not reached and entered, Hecla Limited may have liability in excess of the current accrual. Accordingly, in such event, our accrual could change, perhaps rapidly and materially, depending on a number of factors, including, but not limited to, any amendments to the ROD, information obtained or developed by Hecla Limited prior to Phase II of the trial and its outcome, settlement negotiations, and any interim Court determinations.

Failure to fully and finally settle the Basin litigation and other claims through entry of a Consent Decree could be materially adverse to Hecla Limited's and Hecla Mining Company's financial results or financial condition.

Insurance Coverage

In 1991, Hecla Limited initiated litigation in the Idaho District Court, County of Kootenai, against a number of insurance companies that provided comprehensive general liability insurance coverage to Hecla Limited and its predecessors. Hecla Limited believes the insurance companies have a duty to defend and indemnify Hecla Limited under their policies of insurance for all liabilities and claims asserted against it by the EPA and the Tribe under CERCLA related to the Box and the Basin. In 1992, the Idaho State District Court ruled that the primary insurance companies had a duty to defend Hecla Limited in the Tribe's lawsuit. During 1995 and 1996, Hecla Limited entered into settlement agreements with a number of the insurance carriers named in the litigation. Prior to 2009, Hecla Limited has received a total of approximately $7.2 million under the terms of the settlement agreements. Thirty percent (30%) of these settlements were paid to reimburse the U.S. Government for past costs under the Box Decree. Litigation is still pending against one insurer with trial suspended until the underlying environmental claims against Hecla Limited are resolved or settled. The remaining insurer in the litigation, along with a second insurer not named in the litigation, is providing Hecla Limited with a partial defense in all Basin environmental litigation. As of March 31, 2011, Hecla Limited has not recorded a receivable or reduced its accrual for reclamation and closure costs to reflect the receipt of any potential insurance proceeds.

BNSF Railway Company Claim

In early November 2008, BNSF Railway Company ("BNSF") submitted a contribution claim under CERCLA against Hecla Limited for approximately $52,000 in past costs BNSF incurred in investigation of environmental conditions at the Wallace Yard near Wallace, Idaho. BNSF asserts that a portion of the Wallace Yard site includes the historic Hercules Mill owned and operated by Hercules Mining Company and that Hecla Limited is a successor to Hercules Mining Company. BNSF proposes that we reimburse them for the $52,000 in past costs and agree to pay all future clean up for the Hercules mill portion of the site, estimated to be $291,000, and 12.5% of any other site costs that cannot be apportioned. In April 2010, a settlement among Union Pacific Railroad, BNSF, and the State of Idaho and the United States on behalf of the EPA for cleanup of the Wallace Yard and nearby spur lines was approved in federal court. We believe construction related to the cleanup occurred in 2010. Hecla Limited requested and received additional information from BNSF regarding the nature of its claim; however, we do not believe that the outcome of this claim will have a material adverse effect on Hecla Limited's or our results from operations or financial position. Hecla Limited has not recorded a liability relating to the claim as of March 31, 2011.

Rio Grande Silver Guaranty

On February 21, 2008, our wholly-owned subsidiary, Rio Grande Silver Inc. ("Rio"), entered into an agreement with Emerald Mining & Leasing, LLC ("EML") and Golden 8 Mining, LLC ("G8") to acquire the right to earn-in to a 70% interest in the San Juan Silver Joint Venture, which holds a land package in the Creede Mining District of Colorado. On October 24, 2008, Rio entered into an amendment to the agreement which delays the incurrence of qualifying expenses to be paid by Rio pursuant to the original agreement. In connection with the amended agreement, we are required to guarantee certain environmental remediation-related obligations of EML to Homestake Mining Company of California ("Homestake") up to a maximum liability to us of $2.5 million. As of March 31, 2011, 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 Homestake (which has since been acquired by Barrick Gold Corp.). However, to the extent that any payments are made by us under the guaranty, EML, in addition to other parties named in the amended agreement, 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, 2011.

Lucky Friday Water Permit Exceedances

In late 2008 and during 2009, Hecla Limited experienced a number of alleged water permit exceedances for water discharges at its Lucky Friday unit. The 2008 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 timeline. In connection with the CAFO, Hecla Limited agreed to pay an administrative penalty to the EPA of $177,500 to settle any liability for such exceedances. The 2009 alleged violations were the subject of a December 2010 letter from the EPA informing Hecla Limited that EPA is prepared to seek civil penalties for these alleged violations, as well as for alleged unpermitted discharges of waste water in 2010 at the Lucky Friday unit. In the same letter, EPA invited Hecla Limited to discuss these matters with them prior to filing a complaint. In April 2011, Hecla Limited received an additional request for information from the EPA on the alleged unpermitted discharges in 2010. Hecla Limited disputes EPA's assertions, but has begun negotiations with EPA in an attempt to resolve the matter.

Hecla Limited has undertaken efforts to bring its water discharges at the Lucky Friday unit into compliance with the permit, but cannot provide assurances that it will be able to fully comply with the permit limits in the future.

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”).

Gilt Edge Mine Superfund Site

In October 2008, 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 at the site, Congdon & Carey, which may have held certain property interests at the site.

As of January 2010, EPA had allegedly incurred approximately $91 million in response costs to implement remedial measures at the Gilt Edge site, and estimates future response costs will total $72 million. 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, and if CoCa might be liable, it has limited assets with which to satisfy any such liability. In August 2010, CoCa initiated negotiations with the United States in order to reach a settlement of its liabilities at the site that accounts for CoCa’s limited financial resources. In late September 2010, in connection with these negotiations, CoCa received a request from the Department of Justice for additional information regarding its finances. CoCa provided written responses and additional information in January 2011.

In April 2011, CoCa, and its parent Hecla Limited, received additional information requests related to Gilt Edge, and both entities are in the process of responding to EPA.

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 EPA later arranged to copy additional documents. CoCa was involved in exploration and mining activities in Creede during the 1970s and the 1980s. No formal claim for response costs under CERCLA has been made against CoCa for this 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, and if CoCa might be liable, it has limited assets with which to satisfy any such liability.

ASARCO, LLC Contribution Claim

In April 2011, Hecla Mining Company was informed that a complaint was filed against us and several other mining companies in Federal District Court in Montana by ASARCO, LLC, seeking contribution and cost recovery relating to the alleged payment by ASARCO of approximately $9 million to the State of Montana and the United States in connection with ASARCO's CERCLA liabilities in the Block P Mine and Mill Site, which is part of the Barker Hughesville Mining District, which is a Superfund site in Montana. Although we have not yet investigated the basis for ASARCO's claims, we do not believe that the outcome of this claim will have a material adverse effect on our results from operations or financial position. We have not recorded a liability relating to the claim as of March 31, 2011.

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 cleanup at the site and costs EPA has incurred at the site. Mining at the Johnny M was conducted for a limited period of time by Ranchers Exploration and Development Corporation, a predecessor of our subsidiary, Hecla Limited. We are in the process of responding to EPA's request and assessing what, if any, potential liability Hecla Limited may have at the site.

Other Commitments

Our contractual obligations as of March 31, 2011 included approximately $2.3 million for commitments relating to capital items, along with $1.1 million for various non-capital costs, at Lucky Friday and Greens Creek. In addition, our commitments relating to open purchase orders at March 31, 2011 included approximately $4.1 million and $1.2 million, respectively, for various capital items at the Greens Creek and Lucky Friday units, and approximately $0.3 million and $0.1 million, respectively, for various non-capital costs. We also have total commitments of approximately $7.3 million relating to scheduled payments on capital leases, including interest, for equipment at our Greens Creek and Lucky Friday units (see Note 9 for more information).

We had letters of credit for approximately $9.4 million outstanding as of March 31, 2011 for reclamation and workers' compensation insurance bonding, of which $7.6 million related to the reclamation performance bond in the amount of $30.5 million for the Greens Creek unit.

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. 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 is currently being investigated by Hecla and the Mine Safety Health Administration ("MSHA"). As a result of the MSHA investigation, Hecla Limited may be issued enforcement action as well as penalties (including monetary) from MSHA or other governmental agencies. 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 results from operations or financial position.

Note 5. Earnings per Common Share

We are authorized to issue 500,000,000 shares of common stock, $0.25 par value per share, of which 279,190,103 shares were issued and outstanding at March 31, 2011.

The following table reconciles weighted average shares of common stock used in the computations of basic and diluted earnings per share for the three-month periods ended March 31, 2011 and 2010 (dollars and shares in thousands, except per-share amounts):

	Three Months Ended March 31,	
	2011	2010
Numerator		
Net income	$43,357	$21,844
Preferred stock dividends	(138)	(3,408)
Net income applicable to common shares for basic and diluted earnings per share	$43,219	$18,436
Denominator		
Basic weighted average common shares	278,448	242,039
Dilutive stock options and restricted stock	17,796	19,192
Diluted weighted average common shares	296,244	261,231
Basic earnings per common share		
Net income applicable to common shares	$0.16	$0.08
Diluted earnings per common share		
Net income applicable to common shares	$0.15	$0.07

Diluted income per share for the three months ended March 31, 2011 and 2010 exclude the potential effects of outstanding shares of our convertible preferred stock, as their conversion and exercise would have no effect on the calculation of dilutive shares.

Options to purchase 313,388 and 861,240 shares of our common stock were not included in the computation of diluted earnings per share in the three-month periods ended March 31, 2011 and 2010, respectively. The exercise price of the options not included in the computations of diluted earnings per share exceeded the average price of our stock during those periods and therefore would not affect the calculation of earnings per share.

Note 6. Business Segments

We are currently organized and managed by two reporting segments: the Greens Creek unit and the Lucky Friday unit.

General corporate activities not associated with operating units and their various exploration activities, as well as idle properties, are presented as “other.” Interest expense, interest income and income taxes are a few of the general corporate items not allocated to our segments.

The following tables present information about reportable segments for the three months ended March 31, 2011 and 2010 (in thousands):

	Three months ended March 31, 2011	2010
Net sales to unaffiliated customers:		
Greens Creek	$101,802	$56,541
Lucky Friday	34,562	23,334
	$136,364	$79,875
Income (loss) from operations:		
Greens Creek	$58,509	$16,114
Lucky Friday	19,912	9,681
Other	(9,686)	(10,141)
	$68,735	$15,654

The following table presents identifiable assets by reportable segment as of March 31, 2011 and December 31, 2010 (in thousands):

	March 31, 2011	December 31, 2010
Identifiable assets:		
Greens Creek	$745,600	$740,573
Lucky Friday	186,091	170,928
Other	485,398	470,992
	$1,417,089	$1,382,493

Note 7. Employee Benefit Plans

We sponsor multiple defined benefit pension plans covering substantially all of our U.S. employees. Net periodic pension cost for the plans consisted of the following for the three months ended March 31, 2011 and 2010 (in thousands):

	Three Months Ended March 31,			
	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Service cost	$969	$551	$14	$11
Interest cost	1,028	931	19	18
Expected return on plan assets	(1,370)	(1,260)	--	--
Amortization of prior service cost	101	151	11	13
Amortization of net (gain) loss	220	216	(11)	(11)
Net periodic benefit cost	$948	$589	$33	$31

We do not expect to contribute to the pension plans during 2011.

Note 8. Shareholders' Equity

Share-based Compensation Plans

We periodically grant stock options and/or restricted stock unit awards to our employees.
We measure the fair value of compensation cost for stock options issued pursuant to our plans using the Black-Scholes options pricing model. Stock option grants generally vest immediately; however, grants to individual executives upon hiring vest over a defined service period. We measure compensation cost for restricted stock unit grants at the closing price of our stock at the time of grant, net of estimated forfeiture. Restricted stock unit grants vest after a named period, usually one year, with compensation cost amortized over that period.

Options and restricted stock units granted in the three-month periods ended March 31, 2011 and 2010 did not have a material impact on our financial statements. Proceeds from the exercise of options totaled $0.4 million and $0.3 million for the three month periods ended March 31, 2011 and 2010, respectively.

Preferred Stock Dividends Paid in Common Stock

In January 2010, $16.3 million in dividends declared and then unpaid on our 6.5% Mandatory Convertible Preferred Stock were paid in 2,649,231 shares of our common stock (with cash for fractional shares). The number of shares of common stock issued as dividends was calculated based on 97% of the average of the closing prices of our common stock over the five consecutive trading day period ending on the second day immediately preceding the dividend payment date.

On April 1, 2010, the declared regular quarterly dividend on the outstanding shares of our 6.5% Mandatory Convertible Preferred Stock of approximately $3.3 million was paid in 631,334 shares of our Common Stock (with cash for fractional shares). The number of shares of Common Stock issued as dividends was calculated based on 97% of the average of the closing prices of our Common Stock over the five consecutive trading day period ending on the second day immediately preceding the dividend payment date.

Conversion of 6.5% Mandatory Convertible Preferred Stock to Common Stock

On January 1, 2011, all 2,012,500 outstanding shares of our 6.5% Mandatory Convertible Preferred Stock were automatically converted to shares of our common stock at a conversion rate of 9.3773 shares of Common Stock for each share of 6.5% Mandatory Convertible Preferred Stock. We issued approximately 18.9 million shares of common stock in connection with the mandatory conversion. The final $3.3 million quarterly dividend on the 6.5% Mandatory Convertible Preferred Stock for the quarter ended December 31, 2010 was paid in cash in January 2011.

Warrants

The following table summarizes certain information about our stock purchase warrants at March 31, 2011:

Warrants Outstanding	Warrants	Exercise Price	Expiration Date
Series 1 warrants	5,231,708	$ 2.45	June 2014
Series 1 warrants	460,976	2.56	June 2014
Series 3 warrants	17,021,817	2.50	August 2014
Total warrants outstanding	22,714,501		

In the first quarter of 2011, warrants to purchase approximately 1.8 million shares of our common stock were exercised, resulting in net proceeds to us of approximately $4.4 million. Under the proposed financial terms of the potential settlement of the Coeur d'Alene Basin litigation and other claims with the Plaintiffs, the amount of proceeds from the exercise of our Series 1 and Series 3 warrants would be paid to the Plaintiffs, if full settlement is reached, within 30 days after the end of the quarter when exercised. Proceeds from previous Series 1 and Series 3 warrant exercises would also be paid over to the Plaintiffs (see Note 4 for more information).

Note 9. Credit Facilities and Capital Leases

Credit Facilities

In October 2009 we entered into an amended $60 million senior secured revolving credit agreement.   The agreement was amended in December 2010 to extend the term of the amended agreement, reduce the commitment fee rate and interest rate spreads, allow the issuance of secured and unsecured debt and investments to governmental authorities as payment of obligations owed to such authorities, and to allow the release of certain liens and security interests granted to the lenders to secure the credit facility. The facility is collateralized by our Greens Creek assets, including the shares of common stock owned by us in the wholly-owned subsidiaries that hold the equity interest in the joint venture that owns the Greens Creek mine. Amounts borrowed under the credit agreement are available for general corporate purposes. The interest rate on outstanding loans under the amended agreement is between 2.75% and 3.5% above the LIBOR or an alternative base rate plus an applicable margin of between 1.75% and 2.5%. We are required to pay a standby fee of between 0.825% and 1.05% per annum on undrawn amounts under the revolving credit agreement. The credit facility is effective until January 31, 2014. We incurred $0.2 million in interest expense in the first quarter of 2011 for the amortization of loan origination fees and $0.1 million in interest expense for commitment fees relating to the revolving credit agreement. The credit agreement includes various covenants and other limitations related to our various financial ratios and indebtedness and investments, as well as other information and reporting requirements, including the following limitations:

- Leverage ratio (calculated as total debt divided by EBITDA) of not more than 3.0:1.
- Interest coverage ratio (calculated as EBITDA divided by interest expense) of not less than 3.0:1.
- Current ratio (calculated as current assets divided by current liabilities) of not less than 1.10:1.
- Tangible net worth of greater than $500 million.

We were in compliance with all covenants under the amended credit agreement as of March 31, 2011. We have not drawn funds on the current revolving credit facility as of the filing date of the Form 10-Q.

Capital Leases

We entered into one 48-month lease agreement in 2011 and five 48-month lease agreements in 2010 and 2009 for equipment at our Greens Creek and Lucky Friday units, which we have determined to be capital leases. We have a total liability balance of $6.7 million at March 31, 2011 relating to the lease obligations, with $2.7 million of the liability classified as current and the remaining $4.0 million classified as non-current. At December 31, 2010, the total liability balance associated with capital leases was $6.3 million, with $2.5 million of the liability classified as current and $3.8 million classified as non-current. The total obligation for future minimum future lease payments was $7.3 million at March 31, 2011, with $0.6 million attributed to interest.

The annual maturities of capital lease commitments, including interest, are (in thousands):

Twelve-month period ending March 31,		
2012	$	3,089
2013		1,744
2014		1,789
2015		679
Total		7,301
Less: imputed interest		583
Net capital lease obligation	$	6,718

During the first quarter of 2011, $0.5 million in total interest incurred was recorded to expense, with no amount capitalized. During the first quarter of 2010, $0.7 million in total interest incurred was recorded to expense, with no amount capitalized.

Note 10. Derivative Instruments

We may use commodity forward sales commitments, commodity swap contracts and commodity put and call option contracts to manage our exposure to fluctuation in the prices of certain metals which we produce. Contract positions are designed to ensure that we will receive a defined minimum price for certain quantities of our production, thereby partially offsetting our exposure to fluctuations in the market. These instruments do, however, expose us to other risks, including the amount by which the contract price exceeds the spot price of a commodity, and nonperformance by the counterparties to these agreements.

In April 2010, we began utilizing financially-settled forward contracts to sell lead and zinc at fixed prices for settlement at approximately the same time that our unsettled concentrate sales contracts will settle. The settlement of each concentrate lot is based on the average spot price of the metal during the month of settlement, which may differ from the prices used to record the sale when the sale takes place. The objective of the contracts is to manage the exposure to changes in prices of zinc and lead contained in our concentrate shipments between the time of sale and final settlement. These contracts do not qualify for hedge accounting and are marked-to-market through earnings each period. We recognized a $0.7 million net gain on the contracts during the first quarter of 2011, which is included in sales of products. The net gain recognized on the contracts offsets price adjustments on our provisional concentrate sales related to changes to lead and zinc prices between the time of sale and final settlement.

In addition, in May 2010, we also began utilizing financially-settled forward contracts to manage the exposure of changes in prices of zinc and lead contained in our forecasted future concentrate shipments. These contracts also do not qualify for hedge accounting and are marked-to-market through earnings each period. We recognized a $2.0 million net loss on the contracts, including $4.9 million in losses realized on settled contracts, during the first quarter of 2011. The net losses on these contracts are included as a separate line item under other income (expense), as they relate to forecasted future shipments, as opposed to sales that have already taken place but are subject to final pricing. The losses recognized during the first quarter of 2011 are the result of increasing lead prices, partially offset by gains resulting from a reduction in zinc prices, during the quarter. However, this program is designed to mitigate the impact of potential future declines in lead and zinc prices from the price levels established in the contracts (see average price information below).

At March 31, 2011, we recorded a current liability of $14.5 million, which is included in current derivative contract liabilities, and a non-current liability of $1.1 million, which is included in other non-current liabilities, for the fair value of the contracts outstanding under the two programs discussed above.

The following table summarizes the quantities of base metals committed under forward sales contracts at March 31, 2011:

	Metric tonnes under contract		Average price per pound	
	Zinc	Lead	Zinc	Lead
Contracts on provisional sales				
2011 settlements	13,050	4,475	$1.09	$1.19
Contracts on forecasted sales				
2011 settlements	14,700	9,575	$0.96	$1.00
2012 settlements	26,650	18,000	$1.11	$1.11
2013 settlements	3,900	6,775	$1.16	$1.15

Our concentrate sales are based on a provisional sales price containing an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of the concentrates at the forward price at the time of the sale. The embedded derivative, which does not qualify for hedge accounting, is adjusted to market through earnings each period prior to final settlement.

Note 11. Fair Value Measurement

The table below sets forth our assets and liabilities that were accounted for at fair value on a recurring basis and the fair value calculation input hierarchy level that we have determined applies to each asset category (in thousands).

Description	Balance at March 31, 2011	Balance at December 31,2010	Input Hierarchy Level
Assets:			
Cash and cash equivalents:			
Money market funds and other bank deposits	$321,662	$283,606	Level 1
Available for sale securities:			
Equity securities – mining industry	5,237	2,668	Level 1
Trade accounts receivable:			