HECLA MINING CO/DE/
Form 10-Q
July 31, 2014
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 June 30, 2014

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 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 "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 July 28, 2014
Common stock, par value $0.25 per share	349,502,627

Hecla Mining Company and Subsidiaries

Form 10-Q

For the Quarter Ended June 30, 2014

INDEX*

	Page
PART I - Financial Information	
Item 1 – Condensed Consolidated Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets - June 30, 2014 and December 31, 2013	3
Condensed Consolidated Statements of Operations and Comprehensive Loss - Three Months Ended and Six Months Ended – June 30, 2014 and 2013	4
Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2014 and 2013	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3. Quantitative and Qualitative Disclosures About Market Risk	47
Item 4. Controls and Procedures	49
PART II - Other Information	
Item 1 – Legal Proceedings	49
Item 1A – Risk Factors	50
Item 2 – Unregistered Sales of Securities and Use of Proceeds	50
Item 4 – Mine Safety Disclosures	50
Item 6 – Exhibits	50

Signatures	51
Exhibits	52

*Items 3 and 5 of Part II are omitted as they are not applicable.

Part I - Financial Information

Item 1. Financial Statements

Hecla Mining Company and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except shares)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$222,083	$212,175
Accounts receivable:		
Trade	21,033	17,672
Other, net	8,978	20,893
Inventories:		
Concentrates, doré, and stockpiled ore	29,569	27,740
Materials and supplies	21,385	21,097
Current deferred income taxes	37,898	35,734
Other current assets	5,934	8,324
Total current assets	346,880	343,635
Non-current investments	7,466	7,019
Non-current restricted cash and investments	883	5,217
Properties, plants, equipment and mineral interests, net	1,818,632	1,791,601
Non-current deferred income taxes	77,689	78,780
Other non-current assets and deferred charges	3,577	5,867
Total assets	$2,255,127	$2,232,119
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$39,414	$51,152
Accrued payroll and related benefits	22,533	18,769
Accrued taxes	10,442	7,881
Current portion of capital leases	8,410	8,471
Other current liabilities	8,057	6,781
Current portion of accrued reclamation and closure costs	58,190	58,425
Total current liabilities	147,046	151,479
Capital leases	12,061	14,332
Accrued reclamation and closure costs	56,968	46,766
Long-term debt	496,354	490,726

Non-current deferred tax liability	165,442	164,861
Other non-current liabilities	35,873	37,536
Total liabilities	913,744	905,700
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
Common stock, $0.25 par value, authorized 500,000,000 shares; issued and outstanding 2014 — 348,689,981 shares and 2013 — 342,663,381 shares	87,516	85,896
Capital surplus	1,447,333	1,426,845
Accumulated deficit	(159,748)	(154,982)
Accumulated other comprehensive loss	(27,137)	(26,299)
Less treasury stock, at cost; 2014 — 1,466,611 shares and 2013 — 921,721 shares issued and held in treasury	(6,620)	(5,080)
Total shareholders’ equity	1,341,383	1,326,419
Total liabilities and shareholders’ equity	$2,255,127	$2,232,119

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

3

Hecla Mining Company and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

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

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Sales of products	$117,502	$85,330	$243,289	$161,780
Cost of sales and other direct production costs	71,039	60,008	148,780	96,833
Depreciation, depletion and amortization	27,735	20,211	53,538	34,218
	98,774	80,219	202,318	131,051
Gross profit	18,728	5,111	40,971	30,729
Other operating expenses:				
General and administrative	8,159	7,482	16,100	14,421
Exploration	3,140	6,221	7,290	12,714
Pre-development	437	4,512	856	9,303
Other operating expense	693	205	1,411	1,229
Provision for closed operations and environmental matters	1,267	1,845	2,371	3,639
Lucky Friday suspension-related income	—	(2,840)	—	(1,342)
Aurizon acquisition costs	—	20,308	—	25,600
	13,696	37,733	28,028	65,564
Income (loss) from operations	5,032	(32,622)	12,943	(34,835)
Other income (expense):				
Gain on sale of investments	—	197	—	197
Unrealized gain (loss) on investments	(608)	—	80	—
Gain (loss) on derivative contracts	(11,601)	6,541	(2,149)	28,080
Net foreign exchange gain (loss)	(5,382)	(144)	(1,248)	389
Interest and other income	97	829	176	183
Interest expense, net of amount capitalized	(6,962)	(6,454)	(13,802)	(7,158)
	(24,456)	969	(16,943)	21,691
Loss before income taxes	(19,424)	(31,653)	(4,000)	(13,144)
Income tax benefit (provision)	5,025	6,795	1,242	(620)
Net loss	(14,399)	(24,858)	(2,758)	(13,764)
Preferred stock dividends	(138)	(138)	(276)	(276)
Loss applicable to common shareholders	$(14,537)	$(24,996)	$(3,034)	$(14,040)
Comprehensive loss:				
Net loss	$(14,399)	$(24,858)	$(2,758)	$(13,764)
Unrealized loss and amortization of prior service on pension plans	(1,192)	—	(1,192)	—
Reclassification of net gain on sale of marketable securities included in net income	—	(197)	—	(197)
Unrealized holding (losses) gains on investments	(996)	(1,747)	354	(4,578)
Comprehensive income (loss)	$(16,587)	$(26,802)	$(3,596)	$(18,539)

Basic loss per common share after preferred dividends	$(0.04)	$(0.08)	$(0.01)	$(0.05)
Diluted loss per common share after preferred dividends	$(0.04)	$(0.08)	$(0.01)	$(0.05)
Weighted average number of common shares outstanding - basic	344,216	303,566	343,437	294,317
Weighted average number of common shares outstanding - diluted	344,216	303,566	343,437	294,317
Cash dividends declared per common share	$0.0025	$0.0025	$0.0050	$0.0050

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)

	Six Months Ended	
	June 30, 2014	June 30, 2013
Operating activities:		
Net loss	$(2,758)	$(13,764)
Non-cash elements included in net loss:		
Depreciation, depletion and amortization	54,045	34,834
Gain on sale of investments	—	(195)
(Gain) loss on disposition of properties, plants, equipment, and mineral interests	44	(125)
Provision for reclamation and closure costs	2,710	1,190
Stock compensation	2,561	1,870
Deferred income taxes	(6,840)	(1,610)
Amortization of loan origination fees	1,135	397
(Gain) loss on derivative contracts	6,231	(21,528)
Foreign exchange gain	(55)	—
Other non-cash charges, net	(986)	(25)
Change in assets and liabilities, net of amounts acquired in business combination:		
Accounts receivable	8,398	9,117
Inventories	(2,418)	3,601
Other current and non-current assets	1,617	4,254
Accounts payable and accrued liabilities	(17,084)	5,790
Accrued payroll and related benefits	9,069	(1,577)
Accrued taxes	2,582	(7,518)
Accrued reclamation and closure costs and other non-current liabilities	(1,222)	(4,436)
Cash provided by operating activities	57,029	10,275
Investing activities:		
Additions to properties, plants, equipment and mineral interests	(57,461)	(60,291)
Acqusition of Aurizon, net of cash acquired	—	(321,117)
Proceeds from sale of investments	—	1,771
Proceeds from disposition of properties, plants and equipment	238	126
Purchases of investments	—	(5,738)
Changes in restricted cash and investment balances	4,334	55
Net cash used in investing activities	(52,889)	(385,194)
Financing activities:		
Proceeds from exercise of warrants	14,112	—
Acquisition of treasury shares	(1,501)	(286)
Dividends paid to common shareholders	(1,715)	(4,277)
Dividends paid to preferred shareholders	(276)	(276)

Credit availability and debt issuance fees paid	(577)	(1,426)
Borrowings on debt	—	490,000
Repayments of capital leases	(4,525)	(3,425)
Net cash provided by financing activities	5,518	480,310
Effect of exchange rates on cash	250	—
Net increase in cash and cash equivalents	9,908	105,391
Cash and cash equivalents at beginning of period	212,175	190,984
Cash and cash equivalents at end of period	$222,083	$296,375
Significant non-cash investing and financing activities:		
Addition of capital lease obligations	$2,193	$6,725
Increase in asset retirement obligations	$8,210	$—
Stock issued for the acquisition of Aurizon	$—	$218,302
Senior notes contributed to pension plan, par value	$5,000	$—
Payment of accrued compensation in restricted stock units	$4,600	$—

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

5

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 June 30, 2014 and December 31, 2013, the fair values of our non-current investments were $7.5 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 bases of our non-current investments were approximately $9.1 million and $10.0 million, respectively, at June 30, 2014 and December 31, 2013.

At June 30, 2014, total unrealized loss positions of $2.4 million, net of unrealized gains of $0.5 million, for our non-current investments were included in accumulated other comprehensive loss.

Our non-current investments balance as of June 30, 2014 includes our ownership of approximately 29.4% of the outstanding common shares of Typhoon Exploration Inc. having a cost basis of $0.8 million and fair value of $1.0 million. This investment would have been accounted for under the equity method; however, we chose to apply the fair value option to the investment upon it meeting the criteria for equity method accounting during the second quarter of 2013. We individually evaluate the accounting treatment of our 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 June 30, 2014, we have no other investments that we have determined to 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 $0.9 million at June 30, 2014 and $5.2 million at December 31, 2013. The decrease in restricted cash was attributed to a modification of Casa Berardi's reclamation funding, which substituted a letter of credit from previously help cash collateral.

Note 3. Income Taxes

Major components of our income tax provision (benefit) for the three and six months ended June 30, 2014 and 2013 are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Current:				
Domestic	$(1,192)	$1,028	$5,307	$4,165
Foreign	227	115	383	230
Total current income tax provision (benefit)	(965)	1,143	5,690	4,395
Deferred:				
Domestic	(3,886)	(3,387)	(7,016)	776
Foreign	(174)	(4,551)	84	(4,551)
Total deferred income tax benefit	(4,060)	(7,938)	(6,932)	(3,775)
Total income tax provision (benefit)	$(5,025)	$(6,795)	$(1,242)	$620

As of June 30, 2014, we have a net deferred tax asset in the U.S. of $115.6 million and a net deferred tax liability in Canada of $166.4 million for a consolidated worldwide net deferred tax liability of $50.8 million. Our ability to utilize our deferred tax assets depends on future taxable income generated from operations. For the six months ended June 30, 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 June 30, 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 and six months ended June 30, 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 June 30, 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 June 30, 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 early 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 timeline. In connection with the CAFO, Hecla Limited paid 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. Hecla Limited disputes many of EPA's assertions, but commenced negotiations with the EPA in 2010 in an attempt to resolve the matter. There has not yet been any resolution of the 2010 NOV.

In 2012, the Lucky Friday unit had two weekly water samples, one of which exceeded the permit concentration limit for lead (but not the associated load limit), and one of which exceeded the permit concentration limit for zinc (but not the associated load limit). Also, in late 2012, 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 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 concentration limit for zinc (but not the associated load limit).

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 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 or range of any such liability because, 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. Hecla Limited cannot reasonably estimate the amount or range of any additional liability it may face at the site until, at a minimum, the amount and type of remediation required have been determined and EPA has determined whether to seek reimbursement for additional past costs, and if so in what amounts.

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. Hecla Limited cannot with reasonable certainty estimate the amount or range of liability, if any, relating to this matter because of, among other reasons, the lack of information concerning the site.

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 current or prior ownership interests, and engaged in exploration activities at each of Gilt Edge Mine in South Dakota and in the area adjacent to the Nelson Tunnel property in Creede, Colorado.

<u>Gilt Edge Mine Superfund Site</u>

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 1870s. Beginning in the mid-1970s, CoCa held property interests at the site (primarily in the form of mining claims), and was party to an agreement with another mining company (the “operator”) that conducted a limited program of exploration work at the site. The two companies assigned the right to mine in 1983 to a third mining company, and by 1986 CoCa had divested itself of any property interests at the site.

In July 2010, the United States informed CoCa that it intended to pursue CoCa and other potentially responsible parties (“PRPs”) on a strict, joint and several basis for liability for past and future response costs incurred at Gilt Edge under CERCLA. Currently, the United States alleges that CoCa is liable based on its historical relationship to the site, and that CoCa has succeeded to the liabilities of one or more predecessor entities that may have held certain property interests at the site. Most of the other viable PRPs have settled with the United States. The operator of the exploration effort that CoCa was party to settled for $26 million, while the third mining company referred to above settled for $4.2 million.

The United States alleges that estimated total costs associated with the site may exceed $191 million, including both past and future response costs. We believe that it is reasonably possible that CoCa faces some liability under CERCLA based on its historical ownership interests at the site; however, we cannot with reasonable certainty estimate the amount or range of any such liability. Furthermore, in the event CoCa incurs a liability at this site, it has limited assets with which to satisfy any claim. Because of this, 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 sole stockholder of CoCa. We believe Hecla Limited has strong defenses and would vigorously defend against any such claim. Among other things, 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 claims at the Gilt Edge site.

Settlement negotiations with the United States commenced in 2010 and are ongoing. Because of the unpredictability of settlement negotiations or the outcome of any trial, as well as the nature of CERCLA as a strict, joint and several liability statute, we cannot with reasonable certainty estimate the amount or range of liability faced by CoCa or Hecla Limited. Furthermore, there can be no assurance settlement 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. 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 PRPs. 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 PRPs. In April 2014, CoCa received notice from another PRP alleging that CoCa is required to indemnify it in connection with any liability it may have with respect to the Nelson/Commodore site. We believe that it is reasonably possible that CoCa faces some liability under CERCLA based on its historical ownership interests at the site. However, in the event CoCa incurs a liability for this site, it has limited assets with which to satisfy any claim. Because of this, we believe that it is possible that the United States will seek to recover some of the costs associated with the site from Hecla Limited, as the sole stockholder of CoCa. We believe Hecla Limited would have strong defenses to such a claim and would vigorously defend against any such claim. Among other things, 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 claims at this site.

In sum, despite the potential for liability of CoCa or Hecla Limited at the site, we cannot with reasonable certainty estimate the amount or range of that liability because, among other things, there is little information known on EPA’s remediation plans for the site, as well as the unpredictability of settlement negotiations or the outcome of any trial. Thus, there can be no assurance that Hecla Limited will not incur a material liability with respect to this site.

Senior Notes

On April 12, 2013, we completed an offering of $500 million aggregate principal amount of 6.875% Senior Notes ("Notes") due 2021. 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. In April and June 2014, we completed additional issuances of our Notes for aggregate principal amounts of $2.0 million and $3.0 million, respectively, which were contributed to our pension plan to partially satisfy the funding requirement for 2014. Interest on the Notes is payable on May 1 and November 1 of each year, commencing November 1, 2013. See *Note 9* for more information.

Other Commitments

Our contractual obligations as of June 30, 2014 included approximately $5.1 million for various non-capital costs. In addition, our open purchase orders at June 30, 2014 included approximately $0.5 million, $2.4 million, and $1.7 million, respectively, for various capital items at the Casa Berardi, Greens Creek, and Lucky Friday units, and approximately $1.1 million, $0.5 million, and $0.8 million, respectively, for various non-capital costs at such units. We also have total commitments of approximately $21.4 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 a final payment of approximately $41.3 million (net of $14.1 million paid in July 2014) by August 2014, which would be funded by proceeds from our outstanding warrants, if exercised (see *Note 8* for more information).

We had letters of credit for approximately $9.1 million outstanding as of June 30, 2014 for workers' compensation insurance bonding.

Other Contingencies

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 June 12, 2013 - the date the order was 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 June 30, 2014. The value of the union's claim is estimated to be in the range of $0 to $10 million.

On April 12, 2013, the family of Larry Marek, an employee of Hecla Limited who was fatally injured in an 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 a 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.

We also have certain other contingencies resulting from litigation, claims and other commitments and are subject to a variety of environmental and safety laws and regulations incident to the ordinary course of business. We currently expect that the resolution of such contingencies will not materially affect our financial position, results of operations or cash flows. However, in the future, there may be changes to these contingencies, and additional contingencies may occur as well, any of which might result in an accrual or a change in the estimated accruals recorded by us, and there can be no assurance that their ultimate disposition will not have a material adverse effect on our financial position, results of operations or cash flows.

Note 5. Loss Per Common Share

We are authorized to issue 500,000,000 shares of common stock, $0.25 par value per share. At June 30, 2014, there were 350,156,592 shares of our common stock issued and 1,466,611 shares issued and held in treasury, for a net of 348,689,981 shares outstanding.

The following table reconciles weighted average common shares used in the computations of basic and diluted earnings per share for the three- and six-month periods ended June 30, 2014 and 2013 (thousands, except per-share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator				
Net loss	$(14,399)	$(24,858)	$(2,758)	$(13,764)
Preferred stock dividends	(138)	(138)	(276)	(276)

Net loss applicable to common shares for basic and diluted earnings per share	$(14,537)	$(24,996)	$(3,034)	$(14,040)
Denominator				
Basic weighted average common shares	344,216	303,566	343,437	294,317
Dilutive stock options and restricted stock	—	—	—	—
Diluted weighted average common shares	344,216	303,566	343,437	294,317
Basic loss per common share				
Net loss applicable to common shares	$(0.04)	$(0.08)	$(0.01)	$(0.05)
Diluted loss per common share				
Net loss applicable to common shares	$(0.04)	$(0.08)	$(0.01)	$(0.05)

Diluted loss per share for the three- and six-month periods ended June 30, 2014 and 2013 excludes 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.

For the three-month and six-month periods ended June 30, 2014 and 2013, all outstanding options, restricted share units, and warrants were excluded from the computation of diluted loss per share, as our reported net losses for those periods would cause their conversion and exercise to have no effect on the calculation of loss per share.

Note 6. Business Segments

We are currently organized and managed in three reporting segments: the Greens Creek unit, the Lucky Friday unit and the Casa Berardi unit. On June 1, 2013 we completed the acquisition of Aurizon, giving us 100% ownership of the Casa Berardi mine in Quebec, Canada. As a result, we added a new reporting segment for the Casa Berardi unit, and the information below reflects our ownership of the assets previously held by Aurizon as of the June 1, 2013 acquisition date.

General corporate activities not associated with operating units and their various exploration activities, as well as discontinued operations and idle properties, are presented as "other." Interest expense, interest income and income taxes are considered general corporate items, and are not allocated to our segments.

The following tables present information about reportable segments for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net sales to unaffiliated customers:				
Greens Creek	$55,449	$70,082	$119,045	$142,731
Lucky Friday	23,762	5,128	43,858	8,929
Casa Berardi	38,291	10,120	80,386	10,120
	$117,502	$85,330	$243,289	$161,780
Income (loss) from operations:				
Greens Creek	$8,804	$9,802	$19,850	$36,991
Lucky Friday	6,398	(2,757)	11,098	(6,604)
Casa Berardi	996	(13,356)	4,437	(13,356)

Other	(11,166)	(26,311)	(22,442)	(51,866)
	$5,032	$(32,622)	$12,943	$(34,835)

The following table presents identifiable assets by reportable segment as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Identifiable assets:		
Greens Creek	$731,743	$744,027
Lucky Friday	335,468	313,793
Casa Berardi	796,243	821,058
Other	391,673	353,241
	$2,255,127	$2,232,119

Note 7. Employee Benefit Plans

We sponsor defined benefit pension plans covering substantially all U.S. employees. Net periodic pension cost for the plans consisted of the following for the three and six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,	
	2014	2013
Service cost	$1,020	$1,058
Interest cost	1,186	969
Expected return on plan assets	(1,249)	(1,205)
Amortization of prior service cost	(84)	98
Amortization of net (gain) loss	756	776
Net periodic pension cost	$1,629	$1,696

	Six Months Ended June 30,	
	2014	2013
Service cost	$2,040	$2,115
Interest cost	2,372	1,939
Expected return on plan assets	(2,498)	(2,409)
Amortization of prior service cost	(168)	195
Amortization of net (gain) loss	1,512	1,552
Net periodic pension cost	$3,258	$3,392

In April and June 2014, we contributed aggregate principal amounts of $2.0 million and $3.0 million, respectively, of our Senior Notes to our defined benefit pension plan, and expect to contribute an additional $2.5 million aggregate principal amount, for a total of $7.5 million, in aggregate principal amount, over the course of 2014 (see *Note 9* for more information). We expect to contribute approximately $0.3 million to our unfunded supplemental executive retirement plan in 2014.

Note 8. Shareholders' Equity

Stock-based Compensation Plans

We periodically grant restricted stock unit awards and/or shares of common stock to our employees and directors. We measure compensation cost for restricted stock units and stock grants at the closing price of our stock at the time of grant. Restricted stock unit grants vest after a specified period with compensation cost amortized over that period. Although we have no current plans to issue stock options, we may do so in the future.

On March 3, 2014, the Board of Directors granted 1,345,072 restricted stock units to employees in payment of annual and long-term incentive compensation for the period ended December 31, 2013. The restricted stock units will be distributed in August 2014, and the $4.6 million in expense related to the unit awards was recognized as of December 31, 2013.

On June 25, 2014, the Board of Directors granted the following restricted stock unit awards to employees:

- 1,251,213 restricted stock units, with one third of those vesting in June 2015, one third vesting in June 2016, and one third vesting in June 2017;
- 107,576 restricted stock units, with one half of those vesting in June 2015 and one half vesting in June 2016; and
- 87,872 restricted stock units that vest in June 2015.

The $3.1 million in expense related to the unit awards discussed above vesting in 2015 will be recognized on a straight-line basis over the next twelve months, while the $1.7 million in expense related to awards vesting in 2016 and 2017 will be recognized over the next twenty-four and thirty-six month periods, respectively.

In the second quarter of 2014, a total of 150,378 shares of common stock were granted to nonemployee directors. We granted a total of 122,250 shares of common stock to nonemployee directors in the second quarter of 2013.

Stock-based compensation expense for restricted stock unit grants to employees and shares issued to nonemployee directors recorded in the first six months of 2014 totaled $2.6 million, compared to $1.9 million in the same period last year.

In connection with the vesting of restricted stock units, employees have in the past, at their election and when permitted by us, chosen to satisfy their minimum tax withholding obligations through net share settlement, pursuant to which the Company withholds the number of shares necessary to satisfy such withholding obligations. As a result, in the first quarter of 2014 we withheld 11,090 shares for approximately $40,000, or approximately $3.57 per share.

Common Stock Dividends

In September 2011 and February 2012, our Board of Directors adopted a common stock dividend policy that has two components: (1) a dividend that links the amount of dividends on our common stock to our average quarterly realized silver price in the preceding quarter, and (2) a minimum annual dividend of $0.01 per share of common stock, in each case, payable quarterly, when and if declared. For illustrative purposes only, the table below summarizes potential per share dividend amounts at different quarterly average realized price levels according to the first component of the policy:

Quarterly average realized silver price per ounce	Quarterly dividend per share	Annualized dividend per share
$30	$0.01	$0.04
$35	$0.02	$0.08
$40	$0.03	$0.12
$45	$0.04	$0.16
$50	$0.05	$0.20
$55	$0.06	$0.24
$60	$0.07	$0.28

On July 29, 2014, our Board of Directors declared a common stock dividend, pursuant to the minimum annual dividend component of the policy described above, of $0.0025 per share, for a total dividend of $0.9 million payable in September 2014. Because the average realized silver price for the second quarter of 2014 was $19.62 per ounce, below the minimum threshold of $30 according to the policy, no silver-price-linked component was declared or paid. The declaration and payment of common stock dividends is at the sole discretion of our Board of Directors.

Status of Warrants

At December 31, 2013, there were 22,307,623 common stock purchase warrants outstanding. During the first six months of 2014, 5,856,092 warrants were exercised for total proceeds of approximately $14.1 million. At June 30, 2014, there were 16,451,531 Series 3 stock purchase warrants outstanding having an exercise price of $2.45. Under the financial terms of the 2011 Consent Decree settling the Coeur d'Alene Basin environmental (CERCLA) litigation, the proceeds from the exercise of our outstanding warrants are paid to the United States and the Coeur d'Alene Indian Tribe within 30 days after the end of the quarter when exercised. Thus, in July 2014, we paid $14.1 million in warrant proceeds over to the United States and the Tribe. The remaining Series 3 warrants expire on August 10, 2014, and any proceeds received from their exercise will also be paid over as part of the settlement. To the extent the warrants are not exercised, we are responsible for the final payment under the Consent Decree.

Common Stock Repurchase Program

On May 8, 2012, we announced that our Board of Directors approved a stock repurchase program. Under the program, we are authorized to repurchase up to 20 million shares of our outstanding common stock from time to time in open market or privately negotiated transactions, depending on prevailing market conditions and other factors. The repurchase program may be modified, suspended or discontinued by us at any time. Whether or not we engage in repurchases from time to time may depend on a variety of factors, including not only price and cash resources, but customary black-out restrictions, whether we have any material inside information, limitations on share repurchases or cash usage that may be imposed by our credit agreement or in connection with issuances of securities, alternative uses for cash, applicable law, and other investment opportunities from time to time. As of June 30, 2014, a total of 934,100 shares have been purchased at an average price of $3.99 per share, including 533,800 shares purchased during the first six months of 2014 at an average price of $2.81 per share. As of June 30, 2014, there were approximately 19.1 million shares that may yet be purchased under the program. The closing price of our common stock at July 28, 2014, was $3.26 per share.

Note 9. Senior Notes, Credit Facilities, and Capital Leases

Senior Notes

On April 12, 2013, we completed an offering of $500 million in aggregate principal amount of our Senior Notes due May 1, 2021, in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended, and in the first half of 2014, an additional $5 million aggregate principal amount of the notes were issued to our pension plan as described below (collectively, the “Notes”). The Notes are governed by the Indenture, dated as of April 12, 2013, as amended (the “Indenture”), among Hecla Mining Company ("Hecla") and certain of our subsidiaries and The Bank of New York Mellon Trust Company, N.A., as trustee. The net proceeds from the initial offering of the Notes ($490 million) were used to partially fund the acquisition of Aurizon and for general corporate purposes, including expenses related to the Aurizon acquisition.

In connection with the sale of the Notes, we en