HECLA MINING CO/DE/
Form 10-K
February 29, 2008
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

x **Annual report pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934 For the fiscal year ended December 31, 2007**

Commission file No. 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)

Securities to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.25 per share	New York Stock Exchange
Series B Cumulative Convertible Preferred Stock, par value $0.25 per share	New York Stock Exchange
6.5% Mandatory Convertible Preferred Stock, par value $0.25 per share	New York Stock Exchange

Securities to be registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer o
Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the registrant s voting Common Stock held by nonaffiliates was $1,028,389,934 as of June 29, 2007. There were 120,420,367 shares of the registrant s Common Stock outstanding as of June 29, 2007, and 122,982,824 shares as of February 28, 2008.

Documents incorporated by reference herein:

To the extent herein specifically referenced in Part III, the information contained in the Proxy Statement for the 2008 Annual Meeting of Shareholders of the registrant, which will be filed with the Commission pursuant to Regulation 14A within 120 days of the end of the registrant s 2007 fiscal year is incorporated herein by reference. See Part III.

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Special Note on Forward-Looking Statements

Certain statements contained in this report (including information incorporated by reference) are forward-looking statements and are intended to be covered by the safe harbor provided for under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Our forward-looking statements include our current expectations and projections about future results, performance, prospects and opportunities. We have tried to identify these forward-looking statements by using words such as may, might, will, expect, anticipate, believe, could, intend, plan, estimate and similar expressions. These forward-looking statements are based on infor currently available to us and are expressed in good faith and believed to have a reasonable basis. However, our forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements.

These risks, uncertainties and other factors include, but are not limited to, those set forth under *Item 1A. BusinessRisk Factors*. Given these risks and uncertainties, readers are cautioned not to place undue reliance on our forward-looking statements. Projections included in this Form 10-K have been prepared based on assumptions, which we believe to be reasonable, but not in accordance with United States generally accepted accounting principles (GAAP) or any guidelines of the Securities and Exchange Commission (SEC). Actual results will vary, perhaps materially, and we undertake no obligation to update the projections at any future date. You are strongly cautioned not to place undue reliance on such projections. All subsequent written and oral forward-looking statements attributable to Hecla Mining Company or to persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Except as required by federal securities laws, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

For the sole purpose of implementing a holding company structure, on November 8, 2006, an Agreement and Plan of Reorganization was filed. Under that Plan of Reorganization, Hecla Mining Company, a new Delaware corporation organized on August 7, 2006, and formerly named Hecla Holdings Inc., became the successor issuer to Hecla Limited, formerly named Hecla Mining Company. In addition, Hecla Limited became a wholly-owned subsidiary of Hecla Mining Company.

For information regarding the organization of our business segments and our significant customers, see *Note 12* of *Notes to Consolidated Financial Statements.*

Information set forth in Items 1A, 1B and 2 are incorporated by reference into this Item 1.

Introduction

Hecla Mining Company has provided precious and base metals to the U.S. economy and worldwide since its incorporation in 1891 (in this report, we or our or us refers to Hecla Mining Company and/or our affiliates and subsidiaries). We discover, acquire, develop, produce, and market silver, gold, lead and zinc. In doing so, we intend to manage our business activities in a safe, environmentally responsible and cost-effective manner.

We produce both metal concentrates, which we sell to custom smelters, and unrefined gold bullion bars (doré), which may be sold as doré or further refined before sale to precious metals traders. We are organized and managed into four segments that encompass our operating units and significant exploration interests:

- The Lucky Friday unit;
- The Greens Creek unit;
- The La Camorra unit and various exploration activities in Venezuela; and
- The San Sebastian unit and various exploration activities in Mexico.

The map below shows the locations of our operating units and our exploration projects, as well as our corporate offices located in Coeur d Alene, Idaho and Vancouver, British Columbia. We sold our interest in the Hollister Development Block in April 2007 (For further discussion, see *Note 19* of *Notes to the Consolidated Financial Statements*).

Our current business strategy is to focus our financial and human resources in the following areas:

- Expanding our proven and probable reserves and production capacity at our operating properties;
- Investing in the generation of new exploration projects in the vicinities of the following four mining districts we believe to be under-explored and under-invested: North Idaho s Silver Valley in the historic Coeur d Alene Mining District; the prolific silver-producing district near Durango, Mexico; at our Greens Creek unit on Alaska s Admiralty Island, located offshore of Juneau; and the San Juan Joint Venture near Creede, Colorado; and
- Acquisitions of companies and mining properties with potential silver and gold deposits.

We believe that our plans are credible due to our financial capability, which includes:

- Cash balance of $373.1 million and current investments of $25.8 million at December 31, 2007;
- Two effective shelf registration statements with the SEC. One allows us to sell common stock, preferred stock, warrants and debt securities as needed in order to raise capital for potential acquisitions and for general corporate purposes. The other allows us to issue up to $175.0 million in common stock and warrants in connection with business combination transactions; and
- A $30.0 million revolving credit agreement, with no amount outstanding at December 31, 2007.

For the year ended December 31, 2007, we reported net income of $53.2 million, compared to net income of $69.1 million for the year ended December 31, 2006 and net losses for the years ended December 31, 2005, 2004 and 2003 of $25.4 million, $6.1 million and $6.0 million, respectively. Our financial results over the past five years have been impacted by:

- Exploration and pre-production development expenditures, which totaled $20.8 million, $28.4 million, $26.2 million, $20.2 million and $11.0 million, respectively, for the years ended December 31, 2007, 2006, 2005, 2004 and 2003. These amounts include expenditures for the now-divested Hollister Development Block, as its development progressed, of $2.2 million, $14.4 million, $9.4 million, $4.2 million and $1.4 million, respectively, for the same periods;
- Improved metals prices, which have increased over the last five years;
- A shift in production at the La Camorra unit in Venezuela, from the La Camorra mine, where we reached the end of the known mine life in June 2007, to Mina Isidora, which requires a longer ore haulage distance; and
- Decreased production, and the eventual suspension of mining operations at the San Sebastian unit in Mexico in the fourth quarter of 2005.

A comprehensive discussion of our financial results for the years ended December 31, 2007, 2006 and 2005, individual operating unit performance, general corporate expenses and other significant items can be found in *Item 7. Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations*, as well as the *Consolidated Financial Statements* and *Notes* thereto.

Our results of operations are significantly affected by the prices of silver, gold, lead and zinc, which fluctuate and are affected by numerous factors beyond our control. Over the past five years, we have seen the prices of the metals we produce generally rise, which has helped to offset the factors having a negative impact on our net income discussed above.

Products and Segments

Our principal operating units are differentiated by geographic region and principal products produced. We produce both metal concentrates, which we sell to custom smelters on contract, and unrefined gold and silver bullion bars (doré), which are sold directly to customers or further refined before sale to precious metals traders. Our principal operating units during 2007 included:

- The Lucky Friday unit located in northern Idaho. Lucky Friday is, through our subsidiary Hecla Limited, 100%-owned (with 18% ownership by a lease from Independence Lead Mines Company) and has been a producing mine for us since 1958. During 2007, Lucky Friday contributed $81.0 million, or 36.4%, to our consolidated sales;
- The Greens Creek unit, a 29.7%-owned joint venture arrangement, through our subsidiary Hecla Limited, with Kennecott Greens Creek Mining Company, the manager, and Kennecott Juneau Mining Company, both wholly owned subsidiaries of Kennecott Minerals and indirect subsidiaries of Rio Tinto. Greens Creek is located on Admiralty Island, near Juneau, Alaska, and has been in production since 1989, with a temporary shutdown from April 1993 through July 1996. During 2007, our portion of Greens Creek revenue contributed $72.7 million, or 32.7%, to our consolidated sales;

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- The La Camorra unit, located in the eastern Venezuelan State of Bolívar, has been 100% owned by us through our wholly owned subsidiaries, Minera Hecla Venezolana, C.A. (since June 1999) and El Callao Gold Mining Company (since 2002). During 2007, the La Camorra unit contributed $69.0 million, or 30.9%, to our consolidated sales; and
- The San Sebastian unit, located in the State of Durango, Mexico, has been 100% owned by us through our wholly owned subsidiary, Minera Hecla, S.A. de C.V., since 1999. During 2005, San Sebastian reached the end of its known mine life. We are continuing an ongoing exploration program at the San Sebastian unit.

The table below summarizes our production for each year ended December 31:

	Year		
	2007	**2006**	**2005**
Silver (ounces)	5,642,558	5,509,746	6,013,929
Gold (ounces)	107,708	179,276	140,559
Lead (tons)	24,549	22,899	21,075
Zinc (tons)	26,621	24,207	23,289

On February 12, 2008, we announced an agreement to purchase the companies that hold the remaining 70.3% of the Greens Creek mine for total consideration of $750 million, which would result in our various subsidiaries holding 100% ownership of Greens Creek. We anticipate that our silver production will almost double as a result of the transaction. See *Note 20* of *Notes to Consolidated Financial Statements* for further discussion.

Employees

As of December 31, 2007, we employed 871 people, and believe relations with our employees are generally good. However, our employees at the Velardeña mill went on strike in October 2004, as discussed under the *San Sebastian Unit* property description below, and our hourly employees at the La Camorra mine went on strike in July 2005, as discussed below under the *La Camorra Unit* property description. During the second quarter of 2007, a small number of employees, along with a small group of community members, were involved in a road blockade that disrupted access to Mina Isidora at our La Camorra unit, which resulted in a temporary suspension of operations. See the *La Camorra Segment* in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A)* for further discussion. Employees at our La Camorra unit went on an additional strike for 17 days, which ended in December 2007.

Many of our employees are represented by unions. We anticipate that we will be able to negotiate a satisfactory contract with each union, although there can be no assurance that this can be done or that it can be done without disruptions to production. During 2004 and 2005, labor strikes and work slow-downs adversely affected our production in Mexico and Venezuela, and our Venezuelan operations were also impacted by labor issues in 2006 and 2007. Similar labor problems could continue to affect our financial results or condition in the future. For additional information on these strikes and work slow-downs, see *Results of Operations* in *MD&A*.

Available Information

We are a Delaware corporation, with our principal executive offices located at 6500 N. Mineral Drive, Suite 200, Coeur d Alene, Idaho 83815-9408. Our telephone number is (208) 769-4100. Our web site address is www.hecla-mining.com. We file our annual, quarterly and current reports and amendments to these reports with the SEC, copies of which are available on our website or from the SEC free of charge (www.sec.gov or 800-SEC-0330 or the SEC s Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549). Charters of our audit, compensation and corporate governance and directors nominating committees, as well as our Code of Business Conduct and Ethics for Directors, Officers and Employees, are also available on our website free of charge. We will provide copies of these materials to shareholders upon request using the above-listed contact information, directed to the attention of Investor Relations.

We have included the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) certifications regarding our public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to this report. Additionally, we filed with the New York Stock Exchange (NYSE) the CEO s certification regarding our compliance with the NYSE s Corporate Governance Listing Standards (Listing Standards) pursuant to Section 303A.12(a) of the Listing Standards, which certification was dated May 21, 2007, and indicated that the CEO was not aware of any violations of the Listing Standards.

Item 1A. Risk Factors

The following risks and uncertainties, together with the other information set forth in this Form 10-K, should be carefully considered by those who invest in our securities. Any of the following risks could materially adversely affect our business, financial condition or operating results and could decrease the value of our common and/or preferred stock.

FINANCIAL RISKS

We have had losses in the past that may occur in the future.

Although we reported net income for the years ended December 31, 2007 and 2006, of $53.2 million and $69.1 million, respectively, for the year ended December 31, 2005, we reported a net loss of $25.4 million. A comparison of operating results over the past three years can be found in *Results of Operations* in *MD&A*.

Many of the factors affecting our operating results are beyond our control, including the volatility of metals prices; interest rates; global or regional political or economic policies; inflation; developments and crises; governmental regulations; continuity of orebodies; and speculation and sales by central banks and other holders and producers of gold and silver in response to these factors. We cannot foresee whether our operations will continue to generate sufficient revenue in order for us to generate net cash from operating activities. There can be no assurance that we will not experience net losses in the future.

A substantial or extended decline in metals prices would have a material adverse effect on us.

The majority of our revenue is derived from the sale of silver, gold, lead and zinc and, as a result, our earnings are directly related to the prices of these metals. Silver, gold, lead and zinc prices fluctuate widely and are affected by numerous factors, including:

- Speculative activities;
- Relative exchange rates of the U.S. dollar;
- Global and regional demand and production;
- Recession or reduced economic activity; and
- Other political and economic conditions.

These factors are largely beyond our control and are difficult to predict. If the market prices for these metals fall below our production or development costs for a sustained period of time, we will experience losses and may have to discontinue exploration, development or operations, or incur asset write-downs at one or more of our properties.

In February 2008, we announced an agreement to acquire 70.3% of the Greens Creek mine, where we currently own the remaining 29.7% interest (see *Note 20* of *Notes to Consolidated Financial Statements* for further discussion). We have received $400 million in committed debt financing, which will be used towards funding the acquisition. If the market prices for the metals we produce fall below our production or development costs for a sustained period of time, our ability to service our debt obligations associated with this transaction may be adversely affected.

The following table sets forth the average daily closing prices of the following metals for 1995, 2001 and each year thereafter through 2007.

	2007	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**	**1995**
Silver (1) (per oz.)	$13.39	$11.57	$7.31	$6.66	$4.88	$4.60	$4.37	$5.20
Gold (2) (per oz.)	$696.66	$604.34	$444.45	$409.21	$363.51	$309.97	$272.00	$384.16
Lead (3) (per lb.)	$1.17	$0.58	$0.44	$0.40	$0.23	$0.21	$0.22	$0.29
Zinc (4) (per lb.)	$1.47	$1.49	$0.63	$0.48	$0.38	$0.35	$0.40	$0.47

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(1) London Fix
(2) London Final
(3) London Metals Exchange Cash
(4) London Metals Exchange Special High Grade Cash

On February 28, 2008, the closing prices for silver, gold, lead and zinc were $19.24 per ounce, $959.75 per ounce, $1.51 per pound and $1.21 per pound, respectively.

Hedging activities could limit our opportunities if prices rise.

We periodically enter into hedging activities, such as forward sales contracts and commodity put and call option contracts, to manage the metals prices received on our products and in an attempt to insulate our operating results from declines in those prices. However, hedging may prevent us from realizing possible revenues in the event that the market price of a metal exceeds the price stated in a forward sale or call option contract. In addition, we may experience losses if a

counterparty fails to purchase under a contract when the contract price exceeds the spot price of a commodity. We had no open hedging positions at December 31, 2007.

Our costs are subject to currency fluctuations.

Our products are sold in world markets in United States dollars, although a portion of our Venezuelan operating expenses are incurred in the Venezuelan Bolívar. Foreign exchange fluctuations may materially increase our production costs, future exploration activities and costs of capital. For more specific information with regard to foreign currency as it relates to our operations in Venezuela, see *La Camorra Segment* in *MD&A*.

Our profitability could be affected by the prices of other commodities.

Our business activities are highly dependent on the costs of commodities such as fuel, steel and cement. The recent prices for such commodities have significantly increased and have increased our costs of production and development. A material increase in costs at any of our operating properties could have a significant effect on our profitability. For additional discussion, see *Results of Operations* in *MD&A*.

Failure to comply with debt covenants could adversely affect our financial results or condition.

In September 2005, we entered into a $30.0 million revolving credit agreement that includes various covenants and other limitations related to our indebtedness and investments that require us to maintain customary measures of financial performance. At December 31, 2007, we did not have an outstanding balance under the credit agreement and were in compliance with our covenants. We believe we will be able to comply with such requirements in the future, although failure to do so could adversely affect our results or financial condition and may limit our ability to obtain financing.

In February 2008, we received $400 million in committed debt financing for possible use towards our announced acquisition of the remaining 70.3% of the Greens Creek mine (see *Note 20* of *Notes to Consolidated Financial Statements* for further discussion of the Greens Creek transaction).

For additional information, see *Note 7* of *Notes to Consolidated Financial Statements.*

Our accounting and other estimates may be imprecise.

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts and related disclosure of assets, liabilities, revenue and expenses at the date of the consolidated financial statements and reporting periods. The more significant areas requiring the use of management assumptions and estimates relate to:

- Mineral reserves that are the basis for future cash flow estimates and units-of-production depreciation, depletion and amortization calculations;
- Future metals prices;
- Environmental, reclamation and closure obligations;
- Asset impairments, including long-lived assets and investments;
- Reserves for contingencies and litigation; and
- Deferred tax asset valuation allowance.

Actual results may differ materially from these estimates using different assumptions or conditions. For additional information, see *Critical Accounting Estimates* in *MD&A*, *Note 1 Significant Accounting Policies* of *Notes to Consolidated Financial Statements* and the risk factors: *Our development of new orebodies and other capital costs may cost more and provide less return than we estimated, Our ore reserve estimates may be imprecise* and *Our environmental remediation obligations may exceed the provisions we have made.*

Our ability to recognize the benefits of deferred tax assets is dependent on future cash flows and taxable income

We recognize the expected future tax benefit from deferred tax assets when the tax benefit is considered to be more likely than not of being realized. Otherwise, a valuation allowance is applied against deferred tax assets. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, our ability to realize the deferred tax assets could be impacted. Additionally, future changes in tax law could limit our ability to obtain the future tax benefits represented by our deferred tax assets. As of December 31, 2007, our current and non-current deferred tax asset balances were $14.9 million and $7.4 million, respectively. See *Note 6* of *Notes to Consolidated Financial Statements* for further discussion of our deferred tax assets.

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OPERATION, DEVELOPMENT, EXPLORATION AND ACQUISITION RISKS

Our foreign operations are subject to additional inherent risks.

We currently conduct significant mining operations and exploration projects in Venezuela and Mexico. We anticipate that we will continue to conduct significant operations in these and possibly other international locations in the future. Because we conduct operations internationally, we are subject to political and economic risks such as:

- The effects of local political, labor and economic developments and unrest;
- Significant or abrupt changes in the applicable regulatory or legal climate;
- Exchange controls and export or sale restrictions;
- Expropriation or nationalization of assets with inadequate compensation;
- Currency fluctuations and repatriation restrictions;
- Invalidation of governmental orders, permits, or agreements;
- Renegotiation or nullification of existing concessions, licenses, permits and contracts;
- Recurring tax audits and delays in processing tax credits or refunds;
- Corruption, demands for improper payments, expropriation, and uncertain legal enforcement and physical security;
- Disadvantages of competing against companies from countries that are not subject to U.S. laws and regulations;
- Fuel or other commodity shortages;
- Illegal mining;
- Laws or policies of foreign countries and the United States affecting trade, investment and taxation;
- Civil disturbances, war and terrorist actions; and
- Seizures of assets.

Consequently, our exploration, development and production activities outside of the United States may be substantially affected by factors beyond our control, any of which could materially adversely affect our financial condition or results of operations. For more information regarding our operations in Mexico and Venezuela, see *MD&A, Item 2. Property Descriptions and other various risk factors relating to our foreign operations.*

Political, social and regulatory change in Venezuela may adversely affect us.

The success of our La Camorra unit is dependent on the political, social and regulatory stability of Venezuela. We believe we will be able to manage and operate the La Camorra unit and related exploration projects successfully. However, we face continued uncertainty in Venezuela relating to political, regulatory, legal enforcement, security and economic matters, exportation and exchange controls, and the possible effects of all of these uncertainties on our operations. Risks due to changes in policy or demands of governmental agencies or their officials, litigation, labor stoppages, industry nationalization, seizures of assets, relationships with small mining groups in the vicinity of our mining operations and the impact on commodities necessary to operate, mean there can be no assurance we will be able to operate without interruptions to our operations.

Any such factors or occurrences may have a material adverse effect on our financial results or condition. Specifically, we are currently subject to the following business risks in Venezuela, which are discussed in more detail in *MD&A*:

- In January 2007, the Venezuelan government announced its intentions to nationalize certain strategic sectors, including petroleum and communications, now owned by private entities. There has been no announced determination that the mining industry in Venezuela will be considered for nationalization, however, there can be no assurance that our operations in Venezuela will not be affected by the actions of the government in this capacity.

A fixed exchange rate of Venezuelan currency with the U.S. dollar, which has impacted our costs and operating cash flows. A recently enacted Criminal Exchange Law imposes strict sanctions, both criminal and economic, for currency exchanges outside the officially designated methods or for obtaining foreign currency under false pretenses. Effective January 1, 2007, we implemented a change in the functional currency for our Venezuelan operations from the U.S. dollar to the Bolívar, the local currency in Venezuela. See *Note 18* of *Notes to Consolidated Financial Statements* for more information.

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The Venezuelan government announced its intention to rescind inactive, non-compliant mining concessions and created a state agency that is responsible for exploration, exploitation, processing and industrialization of gold and other minerals in Venezuela.

In October 2007, the Company s subsidiary, Minera Hecla Venezolana, C.A. (MHV), received notice from the Venezuelan Ministry for Basic Industries and Mining (MIBAM) that it would commence administrative proceedings that it said could lead to the revocation of MHV s La Camorra concession (Notice). The Notice said it was based upon the alleged exhaustion of the gold reserves at the La Camorra concession and upon the alleged non-payment of an extraction tax. Hecla has ongoing mining operations at Mina Isidora that process ore at the La Camorra mill and has had, and plans to continue to have, independent contractors that extract ore from the La Camorra concession on the Company s behalf. The Company and MHV disagree with the assertions in the Notice. We have filed a formal disagreement with MIBAM, and have not received a response. We plan to contest the Notice vigorously and, based upon what we know at present, believe that we have strong legal grounds in our favor. However, there can be no assurance that our operations in Venezuela will not be affected by the government s proceedings addressed in the Notice.

Venezuela has had high levels of inflation in the recent past. Continued or increased inflation there could increase the prices we pay for products and services, including wages for our employees.

Movement of cash from Venezuela, at the official exchange rate, is regulated by the 2005 Criminal Exchange Act. We are able to repatriate cash to the U.S., however, in doing so we must utilize specific government programs that have been limited or slow, or utilize negotiable instruments on which we have incurred losses (see *Note 1* of *Notes to Consolidated Financial Statements* for further discussion).

Our development of new orebodies and other capital costs may cost more and provide less return than we estimated.

Capitalized development projects may cost more and provide less return than we estimate. If we are unable to realize a return on these investments, we may incur a related asset write-down that could adversely affect our financial results or condition.

Our ability to sustain or increase our current level of production of metals partly depends on our ability to develop new orebodies and/or expand existing mining operations. Before we can begin a development project, we must first determine whether it is economically feasible to do so. This determination is based on estimates of several factors, including:

Ore reserves;

Expected recovery rates of metals from the ore;

Future metals prices;

Facility and equipment costs;

Availability of affordable sources of power and adequacy of water supply;

Exploration and drilling success;

Capital and operating costs of a development project;

Environmental considerations and permitting;

Adequate access to the site, including competing land uses (such as agriculture and illegal mining);

Currency exchange and repatriation risks;

Applicable tax rates;

Foreign currency fluctuation and inflation rates;

Political risks and regulatory climate in the foreign countries in which we operate; and

- Availability of financing.

These estimates are based on geological and other interpretive data, which may be imprecise. As a result, actual operating and capital costs and returns from a development project may differ substantially from our estimates as a result of which it may not be economically feasible to continue with a development project.

Our ore reserve estimates may be imprecise.

Our ore reserve figures and costs are primarily estimates and are not guarantees that we will recover the indicated quantities of these metals. You are strongly cautioned not to place undue reliance on estimates of reserves. Reserves are

estimates made by our professional technical personnel, and no assurance can be given that the estimated amount of metal or the indicated level of recovery of these metals will be realized. Reserve estimation is an interpretive process based upon available data and various assumptions. Our reserve estimates, particularly those for properties that have not yet started producing, may change based on actual production experience. Further, reserves are valued based on estimates of costs and metals prices, which may not be consistent among our operating and non-operating properties. The economic value of ore reserves may be adversely affected by:

- Declines in the market price of the various metals we mine;
- Increased production or capital costs;
- Reduction in the grade or tonnage of the deposit;
- Increase in the dilution of the ore; and
- Reduced recovery rates.

Short-term operating factors relating to our ore reserves, such as the need to sequentially develop orebodies and the processing of new or different ore grades, may adversely affect our cash flow. We may use forward sales contracts and other hedging techniques to partially offset the effects of a drop in the market prices of the metals we mine. However, if the prices of metals that we produce decline substantially below the levels used to calculate reserves for an extended period, we could experience:

- Delays in new project development;
- Net losses;
- Reduced cash flow;
- Reductions in reserves; and
- Write-downs of asset values.

Efforts to expand the finite lives of our mines may not be successful, which could hinder our growth and decrease the value of our stock.

One of the risks we face is that our mines have a relatively small amount of proven and probable reserves, primarily because we have low volume, underground operations. Thus, we must continually replace depleted ore reserves. Our ability to expand or replace ore reserves primarily depends on the success of our exploration program. Mineral exploration, particularly for silver and gold, is highly speculative and expensive. It involves many risks and is often nonproductive. Even if we believe we have found a valuable mineral deposit, it may be several years before production is possible. During that time, it may become no longer feasible to produce those minerals for economic, regulatory, political or other reasons. As a result of high costs and other uncertainties, we may not be able to expand or replace our existing ore reserves as they are depleted, which would adversely affect our business and financial position in the future.

Our joint development and operating arrangements may not be successful.

It is possible we will enter into other joint venture arrangements in the future in order to share the risks and costs of developing and operating properties, similar to our joint venture arrangements related to the Greens Creek unit. In a typical joint venture arrangement, the partners own a proportionate share of the assets, are entitled to indemnification from each other and are only responsible for any future liabilities in proportion to their interest in the joint venture. If a party fails to perform its obligations under a joint venture agreement, we could incur liabilities and losses in excess of our pro-rata share of the joint venture. For further information, please see *Note 16* of *Notes to Consolidated Financial Statements*.

On February 21, 2008, we announced that our wholly-owned subsidiary, Rio Grande Silver Inc., acquired the right to earn into a 70% joint venture interest in an approximately 25-square-mile consolidated land package in the Creede Mining District of Colorado. For more information on the terms of the agreement, see *Note 20* of *Notes to Consolidated Financial Statements*.

We face inherent risks in acquisitions of other mining companies or properties that may adversely impact our growth strategy.

Mines have limited lives, which is an inherent risk in acquiring mining properties. We are actively seeking to expand our mineral reserves by acquiring other mining companies or properties. Although we are pursuing opportunities that we feel are in the best interest of our investors, these pursuits are costly and often unproductive. Inherent risks in acquisitions we may undertake in the future could adversely affect our current business and financial condition and our growth.

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There is a limited supply of desirable mineral lands available in the United States and foreign countries where we would consider conducting exploration and/or production activities, and any acquisition we may undertake is subject to inherent risks. In addition to the risk associated with limited mine lives, we may not realize the value of the companies or properties that are acquired due to a possible decline in metals prices, failure to obtain permits, labor problems, changes in regulatory environment, an inability to obtain financing and other factors previously described. Acquisitions of other mining companies or properties may also expose us to new geographic, political, operating, and geological risks. In addition, we face strong competition for companies and properties from other mining companies, some of which have greater financial resources than we do, and we may be unable to acquire attractive companies and mining properties on terms that we consider acceptable.

We may be subject to a number of risks and uncertainties if our announced acquisition agreements fail to close.

In February 2008, we announced two separate acquisition agreements: (1) an agreement with Kennecott Minerals to acquire the companies that hold 70.3% of the Greens Creek mines, and (2) and agreement to purchase substantially all of the assets of Independence Lead Mines Company (Independence). For more information, see *Note 20* of *Notes to Consolidated Financial Statements*. Failure to complete these transactions could negatively impact our stock performance and future operations. For example:

- The price of our common stock may decline to the extent that the current market price reflects an assumption that the transactions will be completed.
- We must pay expenses related to the transactions, including a nonrefundable deposit and substantial legal and accounting fees, even if the transactions are not completed. This could affect the results of our operations for the period during which the fees are incurred.
- In the case of the Greens Creek transaction, current and prospective employees may experience uncertainty about their future roles with us and Kennecott, until our strategies are announced and executed. This may adversely affect our ability to attract and retain key management and other personnel.

Our business depends on good relations with our employees.

We are dependent upon the ability and experience of our executive officers, managers, employees and other personnel, including those residing outside of the U.S., and there can be no assurance that we will be able to retain all of such employees. We compete with other companies both within and outside the mining industry in connection with the recruiting and retention of qualified employees knowledgeable in mining operations. Due to the relatively small size of our management team, the loss of these persons or our inability to attract and retain additional highly skilled employees could have an adverse effect on our business and future operations. During 2007, we significantly reduced the workforce at the La Camorra mine and mill through voluntary termination incentives, at a cost of approximately $1.3 million. Our ability to manage our costs at our La Camorra unit in Venezuela depends in part upon the success of our efforts to retain a remaining workforce that will maintain a satisfactory level of production and cost performance.

Mining accidents or other adverse events at an operation could decrease our anticipated production.

Production may be reduced below our historical or estimated levels as a result of mining accidents; unfavorable ground conditions; work stoppages or slow-downs; lower than expected ore grades; the metallurgical characteristics of the ore are less economical than anticipated; or our equipment or facilities fail to operate properly or as expected.

Our operations may be adversely affected by risks and hazards associated with the mining industry that may not be fully covered by insurance.

Our business is subject to a number of risks and hazards including:

- Environmental hazards;
- Political and country risks;
- Civil unrest or terrorism;
- Industrial accidents;
- Labor disputes or strikes;
- Unusual or unexpected geologic formations;
- Cave-ins;
- Explosive rock failures; and

- Unanticipated hydrologic conditions, including flooding and periodic interruptions due to inclement or hazardous weather conditions.

Such risks could result in:

- Personal injury or fatalities;
- Damage to or destruction of mineral properties or producing facilities;
- Environmental damage;
- Delays in exploration, development or mining;
- Monetary losses; and
- Legal liability.

For some risks, we maintain insurance to protect against losses at levels consistent with our historical experience, industry practice and circumstances surrounding each identified risk. Insurance against environmental risks is generally either unavailable or, we believe, too expensive for us, and, therefore, we do not maintain environmental insurance. Occurrence of events for which we are not insured may affect our cash flow and overall profitability.

LEGAL, MARKET AND REGULATORY RISKS

We are currently involved in ongoing legal disputes that may materially adversely affect us.

There are several ongoing legal disputes in which we are involved. If any of these disputes results in a substantial monetary judgment against us, is settled on unfavorable terms or otherwise impacts our operations, our financial results or condition could be materially adversely affected. For example, we may ultimately incur environmental remediation costs substantially in excess of the amounts we have accrued and the plaintiffs in environmental proceedings may be awarded substantial damages, which costs and damages we may not be able to recover from our insurers. For a description of the lawsuits in which we are involved, see *Note 8* of *Notes to Consolidated Financial Statements.*

We are required to obtain governmental and lessor approvals and permits in order to conduct mining operations.

In the ordinary course of business, mining companies are required to seek governmental and lessor approvals and permits for expansion of existing operations or for the commencement of new operations. Obtaining the necessary governmental permits is a complex, time-consuming and costly process. The duration and success of our efforts to obtain permits are contingent upon many variables not within our control. Obtaining environmental permits, including the approval of reclamation plans, may increase costs and cause delays depending on the nature of the activity to be permitted and the interpretation of applicable requirements implemented by the permitting authority. There can be no assurance that all necessary approvals and permits will be obtained and, if obtained, that the costs involved will not exceed those that we previously estimated. It is possible that the costs and delays associated with the compliance with such standards and regulations could become such that we would not proceed with the development or operation.

We face substantial governmental regulation and environmental risk.

Our business is subject to extensive U.S. and foreign, federal, state and local laws and regulations governing development, production, labor standards, occupational health, waste disposal, use of toxic substances, environmental regulations, mine safety and other matters. See risks titled *Our environmental remediation obligations may exceed the provisions we have made* and *Our foreign operations are subject to additional inherent risks.* We have been and are currently involved in lawsuits in which we have been accused of causing environmental damage or violating environmental laws, and we may be subject to similar lawsuits in the future. New legislation and regulations may be adopted at any time that result in additional operating expense, capital expenditures or restrictions and delays in the mining, production or development of our properties.

From time to time, the U.S. Congress considers proposed amendments to the General Mining Law of 1872, as amended, which governs mining claims and related activities on federal lands. The extent of any future changes is not known and the potential impact on us as a result of U.S. Congressional action is difficult to predict. Although a majority of our existing U.S. mining operations occur on private or patented property, changes to the General Mining Law, if adopted, could adversely affect our ability to economically develop mineral reserves on federal lands.

See also *Our foreign operations are subject to additional inherent risks* and *Political, social and regulatory instability in Venezuela may affect us,* and *MD&A*.

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Our environmental remediation obligations may exceed the provisions we have made.

We are subject to significant environmental obligations, particularly in northern Idaho. At December 31, 2007, we had accrued $106.1 million as a provision for environmental remediation, $90.2 million of which relates to our various liabilities in Idaho, and there is a significant risk that the costs of remediation could materially exceed this provision. For an overview of our potential environmental liabilities, see *Note 8* of *Notes to Consolidated Financial Statements.*

The titles to some of our properties may be defective or challenged.

Unpatented mining claims constitute a significant portion of our undeveloped property holdings, the validity of which could be uncertain and may be contested. Although we have conducted title reviews of our property holdings, title review does not necessarily preclude third parties from challenging our title. In accordance with mining industry practice, we do not generally obtain title opinions until we decide to develop a property. Therefore, while we have attempted to acquire satisfactory title to our undeveloped properties, some titles may be defective.

The price of our common stock has a history of volatility and could decline in the future.

Our common and preferred stocks are listed on the New York Stock Exchange. The market price for our common shares has been volatile, often based on:

- Fluctuating proven and probable reserves;
- Factors unrelated to our financial performance or future prospects, such as global economic developments and market perceptions of the attractiveness of particular industries;
- Changes in metals prices, particularly gold and silver;
- Our results of operations and financial condition as reflected in our public news releases or periodic filings with the SEC;
- Foreign political and regulatory risk;
- The success of our exploration program;
- Ability to meet production estimates;
- Environmental and legal risk;
- The extent of analytical coverage concerning our business; and
- The trading volume and general market interest in our securities.

The market price of our common shares at any given point in time may not accurately reflect our long-term value, and may prevent shareholders from realizing a profit on their investment.

Our Series B Preferred Stock has a liquidation preference of $50 per share or $7.9 million.

If we were liquidated, holders of our preferred stock would be entitled to receive approximately $7.9 million (plus any accrued and unpaid dividends) from any liquidation proceeds before holders of our common stock would be entitled to receive any proceeds. Our Series B Preferred Stock ranks on parity with our Mandatory Convertible Preferred Stock.

Our Mandatory Convertible Preferred Stock has a liquidation preference of $100 per share or $201.7 million.

If we were liquidated, holders of our preferred stock would be entitled to receive approximately $201.7 million (which includes any accrued and unpaid dividends) from any liquidation proceeds before holders of our common stock would be entitled to receive any proceeds. Our Mandatory Convertible Preferred Stock ranks on parity with our Series B Preferred Stock.

We may not be able to pay preferred stock dividends in the future.

In July 2005, we paid outstanding dividends in arrears on our Series B Cumulative Convertible Preferred Stock totaling approximately $2.3 million. Since July 2005, we have continued to pay regular quarterly dividends on our Series B Cumulative Convertible Preferred Stock. The annual dividend payable on the Series B preferred stock is currently $0.6 million. The expected dividend payable on our Mandatory Convertible Preferred Stock will be $3.7 million in April 2008, and then $3.2 million quarterly thereafter. Prior to the fourth quarter of 2004, we had not declared preferred dividends on Series B preferred stock since the second quarter of 2000. There can be no assurance that we will pay dividends in the future.

Additional issuances of equity securities by us would dilute the ownership of our existing stockholders and could reduce our earnings per share.

We may issue equity in the future in connection with acquisitions, strategic transactions or for other purposes. Any such acquisition could be material to us and could significantly increase the size and scope of our business, including our market capitalization. To the extent we issue substantial additional equity securities, the ownership of our existing stockholders would be diluted and our earnings per share could be reduced. We currently have an effective shelf registration statement on file with the Securities and Exchange Commission that allows us to issue up to $175.0 million in common stock and warrants in connection with business combination transactions.

If a large number of shares of our common stock is sold in the public market, the sales could reduce the trading price of our common stock and impede our ability to raise future capital.

We cannot predict what effect, if any, future issuances by us of our common stock or other equity will have on the market price of our common stock. In addition, shares of our common stock that we issue in connection with an acquisition may not be subject to resale restrictions. We may issue substantial additional shares of common stock or other securities in connection with material acquisition transactions. The market price of our common stock could decline if certain large holders of our common stock, or recipients of our common stock in connection with an acquisition, sell all or a significant portion of their shares of common stock or are perceived by the market as intending to sell these shares other than in an orderly manner. In addition, these sales could also impair our ability to raise capital through the sale of additional common stock in the capital markets.

The provisions in our certificate of incorporation, our by-laws and Delaware law could delay or deter tender offers or takeover attempts that may offer a premium for our common stock.

The provisions in our certificate of incorporation, our by-laws and Delaware law could make it more difficult for a third party to acquire control of us, even if that transaction would be beneficial to stockholders. These impediments include:

- The classification of our board of directors into three classes serving staggered three-year terms, which makes it more difficult to quickly replace board members;
- The ability of our board of directors to issue shares of preferred stock with rights as it deems appropriate without stockholder approval;
- A provision that special meetings of our board of directors may be called only by our chief executive officer or a majority of our board of directors;
- A provision that special meetings of stockholders may only be called pursuant to a resolution approved by a majority of our entire board of directors;
- A prohibition against action by written consent of our stockholders;
- A provision that our board members may only be removed for cause and by an affirmative vote of at least 80% of the outstanding voting stock;
- A provision that our stockholders comply with advance-notice provisions to bring director nominations or other matters before meetings of our stockholders;
- A prohibition against certain business combinations with an acquirer of 15% or more of our common stock for three years after such acquisition unless the stock acquisition or the business combination is approved by our board prior to the acquisition of the 15% interest, or after such acquisition our board and the holders of two-thirds of the other common stock approve the business combination; and
- A prohibition against our entering into certain business combinations with interested stockholders without the affirmative vote of the holders of at least 80% of the voting power of the then outstanding shares of voting stock.

The existence of these provisions may deprive stockholders of an opportunity to sell our stock at a premium over prevailing prices. The potential inability of our stockholders to obtain a control premium could adversely affect the market price for our common stock.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Property Descriptions

OPERATING PROPERTIES

The Lucky Friday Unit

Since 1958, we have owned and operated the Lucky Friday unit, a deep underground silver, lead and zinc mine located in the Coeur d Alene Mining District in northern Idaho. Lucky Friday is one-quarter mile east of Mullan, Idaho, and is adjacent to U.S. Interstate 90. Below is a map illustrating the location and access to the Lucky Friday unit:

There have been two ore-bearing structures mined at the Lucky Friday unit. The first, mined through 2001, was the Lucky Friday vein, a fissure vein typical of many in the Coeur d Alene Mining District. The orebody is located in the Revett Formation, which is known to provide excellent host rocks for a number of orebodies in the Coeur d Alene Mining District. The Lucky Friday vein strikes northeasterly and dips steeply to the south with an average width of six to seven feet. Its principal ore minerals are galena and tetrahedrite with minor amounts of sphalerite and chalcopyrite. The ore occurs as a single continuous orebody in and along the Lucky Friday vein. The major part of the orebody has extended from the 1,200-foot level to and below the 6,020-foot level.

The second ore-bearing structure, known as the Lucky Friday Expansion Area, has been mined since 1997. During 1991, we discovered several mineralized structures containing some high-grade silver ores in an area known as the Gold Hunter property, approximately 5,000 feet northwest of the then existing Lucky Friday workings. This discovery led to the development of the Gold Hunter property on the 4900 level. We control the Gold Hunter property under a long-term operating agreement with Independence Lead Mines Company (Independence) expiring in February 2018 and renewable thereafter, that entitles us, as operator, to an 81.48% interest in the net profits from operations from the Gold Hunter property. Under the current agreement, we would be obligated to pay a net profits interest of 18.52% to Independence after we have recouped our costs to explore and develop the property. On February 13, 2008, we announced an agreement to acquire substantially all of the assets of Independence, including the mining claims pertaining to their agreement with the Lucky Friday mine that includes all future interest or royalty obligation to Independence (see *Note 20* of *Notes to Consolidated Financial Statements* for further discussion). As of December 31, 2007, unrecouped costs totaled approximately $14.7 million. We believe all of our commitments under the operating agreement have been met. For a description of a legal claim involving the Lucky Friday unit and Independence, see *Note 8* of *Notes to Consolidated Financial Statements.*

The principal mining method at the Lucky Friday unit is ramp access, cut and fill. This method utilizes rubber-tired equipment to access the veins through ramps developed outside of the orebody. Once a cut is taken along the strike of the vein, it is backfilled with cemented tailings and the next cut is accessed, either above or below, from the ramp system.

The ore produced from Lucky Friday is processed in a 1,000-ton-per-day conventional flotation mill. In 2007, ore was processed at an average rate of approximately 908 tons per day. The flotation process produces both a silver-lead concentrate and a zinc concentrate. During 2007, mill recovery totaled approximately 92.41% silver, 92.37% lead and 78.25% zinc. All silver-lead and zinc concentrate production during 2007 was shipped to Teck Cominco Limited s smelter in Trail, British Columbia, Canada.

Information with respect to the Lucky Friday unit s production, average cost per ounce of silver produced and proven and probable ore reserves for the past three years is set forth in the table below.

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	Years Ended December 31,		
Production	**2007**	**2006**	**2005**
Ore milled (tons)	323,659	276,393	214,158
Silver (ounces)	3,071,857	2,873,663	2,422,537
Lead (tons)	18,297	16,657	14,560
Zinc (tons)	8,009	6,537	4,080
Average Cost per Ounce of Silver Produced [1]			
Cash operating costs	$ (0.90)	$ 3.57	$ 5.26
Total cash costs	$ (0.75)	$ 3.65	$ 5.27
Total production costs	$ 0.52	$ 4.90	$ 5.56
Proven Ore Reserves [2,3,4]			

Total tons	760,700	628,976	600,340
Silver (ounces per ton)	12.3	13.1	13.7
Lead (percent)	7.2	8.2	7.8
Zinc (percent)	2.5	2.8	3.1
Contained silver (ounces)	9,324,800	8,245,675	8,208,381
Contained lead (tons)	54,500	51,322	46,716
Contained zinc (tons)	18,900	17,548	18,402
Probable Ore Reserves (2,3,4)			
Total tons	680,000	732,920	688,300
Silver (ounces per ton)	11.9	13.5	13.1
Lead (percent)	7.5	8.2	7.6
Zinc (percent)	2.5	2.9	2.8
Contained silver (ounces)	8,065,200	9,890,120	9,000,887
Contained lead (tons)	50,900	60,284	52,008
Contained zinc (tons)	16,700	21,606	19,267
Total Proven and Probable Ore Reserves (2,3,4)			
Total tons	1,440,700	1,361,896	1,288,640
Silver (ounces per ton)	12.1	13.3	13.4
Lead (percent)	7.3	8.2	7.7
Zinc (percent)	2.5	2.9	2.9
Contained silver (ounces)	17,390,000	18,135,795	17,209,268
Contained lead (tons)	105,400	111,606	98,724
Contained zinc (tons)	35,600	39,154	37,669

(1) Includes by-product credits from lead and zinc production. Cash costs per ounce of silver or gold represent measurements that are not in accordance with GAAP that management uses to monitor and evaluate the performance of our mining operations. We believe cash costs per ounce of silver provide an indicator of profitability and efficiency at each location and on a consolidated basis, as well as providing a meaningful basis to compare our results to those of other mining companies and other mining operating properties. A reconciliation of this non-GAAP measure to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found in *Item 7. MD&A,* under *Reconciliation of Total Cash Costs (non-GAAP) to Costs of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP).*

(2) Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. Cutoff grade assumptions vary by ore body and are developed based on reserve prices, anticipated mill recoveries and smelter payables and cash operating costs. Due to multiple ore metals, and complex combinations of ore types, metal ratios and metallurgical performances at the Lucky Friday, the cutoff grade is expressed in terms of net smelter return (NSR), rather than metal grade. The cutoff grade at the Lucky Friday ranges from $56 per ton NSR to $68 per ton NSR. An independent audit of reserves at the Lucky Friday was conducted by Scott Wilson Roscoe Postle Associates Inc. during 2006. Our estimates of proven and probable reserves are based on the following metals prices:

	December 31, 2007	2006	2005
Silver	$10.00	$8.00	$6.20
Lead	$0.60	$0.42	$0.30
Zinc	$1.00	$0.67	$0.44

(3) Reserves are in-place materials that incorporate estimates of the amount of waste that must be mined along with the ore and expected mining recovery. Mill recoveries are expected to be 92.84% for silver, 93.40% for lead and 75.94% for zinc. Zinc recovery has improved from historical levels due to mill upgrades completed during 2005, 2006 and 2007.

(4) The changes in reserves in 2007 versus 2006, and in 2006 versus 2005, are due to addition of data from new drill holes and development work together with increases in forecast metals prices, which has resulted in the addition of new reserves based on updated estimates, partially offset by depletion due to production.

A pre-feasibility study is under way to determine whether it is possible to expand production from the Lucky Friday mine. The study is scheduled for completion in the third quarter of 2008. In addition, we are examining construction of an internal shaft, which, upon completion, would allow us to mine mineralized material below our current workings on the 5900 level, down to the 6800 level, and also provide deeper exploration access. Basic engineering and equipment procurement documents have been completed, and activities in 2008 are anticipated to include:

- Detailed engineering;
- Major equipment purchases, including a production hoist and sinker hoist;
- Pre-development from existing workings to the collar, including the hoist room and associated excavations;
- Installation of shaft collar and head frame; and
- Related development on the 5300 level.

Ultimate reclamation activities are anticipated to include stabilization of tailings ponds and waste rock areas. No final reclamation activities were performed in 2007, and at December 31, 2007, an asset retirement obligation of approximately $0.8 million had been recorded for reclamation and closure costs. The net book value of the Lucky Friday unit property and its associated plant and equipment was approximately $42.3 million as of December 31, 2007. The construction of the facilities at Lucky Friday ranges from the 1950s to 2007, and all are in good physical condition. In 2005, 2006 and 2007, we made capital improvements to our processing plant to improve concentrate grades and metal recoveries. Additions included a three-stage crushing system, increased flotation capacity and two new flash cells, new column cells and tailings thickeners, and an on-stream analyzer. The plant is maintained by our employees with assistance from outside contractors as required.

At December 31, 2007, there were 236 employees at the Lucky Friday unit. The United Steelworkers of America is the bargaining agent for the Lucky Friday s 187 hourly employees. The current labor agreement expires on May 1, 2009. Avista Corporation supplies electrical power to the Lucky Friday unit.

The Greens Creek Unit

We currently hold a 29.7% interest in the Greens Creek unit through a joint venture arrangement with Kennecott Greens Creek Mining Company and Kennecott Juneau Mining Company, subsidiaries of Rio Tinto. The term of the joint venture arrangement continues for 20 years after the effective date (May 1994), and for so long thereafter as products are produced from the properties or the participants continue to have an ownership interest in the assets, unless the arrangement is terminated earlier or is extended.

The partners of the joint venture arrangement are obligated to contribute funds to adopted programs in proportion to their respective participating interests. A participant s interest in the joint venture arrangement would change: 1) upon election to contribute less to an adopted budget than the percentage reflected by its participating interest; 2) in the event of a participant s default in making its agreed-upon contribution to an adopted budget, followed by the election of the other participant to invoke remedies as permitted in the agreement; 3) transfer by a participant of less than all of its participating interest in accordance with the terms of the agreement; or 4) acquisition by a participant of some or all of the other participant s interest, however arising.

On February 12, 2008, we announced an agreement to acquire all of the shares of the Rio Tinto subsidiaries that hold the remaining 70.3% interest in the Greens Creek mine, which will result in various subsidiaries of ours holding 100% ownership of the Greens Creek joint venture. See *Note 20* of *Notes to Consolidated Financial Statements* for further discussion. As a part of the agreement, no distributions are allowed to the venture partners from the date of the stock purchase agreement, resulting in the allocation of all cash flows, assets and liabilities, prior to the close of the transaction, to our account after netting out our interest rate factor, if any.

The Greens Creek orebody contains silver, zinc, gold and lead, and lies adjacent to the Admiralty Island National Monument, an environmentally sensitive area. The Greens Creek property includes 17 patented lode claims and one patented mill site claim, in addition to property leased from the U.S. Forest Service. Greens Creek also has title to mineral rights on 7,500 acres of federal land adjacent to the properties. The entire project is accessed by boat and served by 13 miles of road

and consists of the mine, an ore concentrating mill, a tailings impoundment area, a ship-loading facility, camp facilities and a ferry dock. The map below illustrates the location and access to Greens Creek:

The Greens Creek deposit is a polymetallic, stratiform, massive sulfide deposit. The host rock consists of predominantly marine sedimentary, and mafic to ultramafic volcanic and plutonic rocks, which have been subjected to multiple periods of deformation. These deformational episodes have imposed intense tectonic fabrics on the rocks. Mineralization occurs discontinuously along the contact between a structural hanging wall of quartz mica carbonate phyllites and a structural footwall of graphitic and calcareous argillite. Major sulfide minerals are pyrite, sphalerite, galena, and tetrahedrite/tennanite.

Pursuant to a 1996 land exchange agreement, the joint venture transferred private property equal to a value of $1.0 million to the U.S. Forest Service and received exploration and mining rights to approximately 7,500 acres of land with mining potential surrounding the existing mine. Production from new ore discoveries on the exchanged lands will be subject to federal royalties included in the land exchange agreement. The royalty is only due on production from reserves that are not part of Greens Creek s extralateral rights. Thus far, there has been no discovery triggering payment of the royalty. The royalty is 3% if the average value of the ore during a year is greater than $120 per ton of ore, and 0.75% if the value is $120 per ton or less. The benchmark of $120 per ton is adjusted annually according to the Gross Domestic Product (GDP) Implicit Price Deflator until the year 2016, and at December 31, 2007, was at approximately $154 per ton when applying the latest GDP Implicit Price Deflator observation.

Greens Creek is an underground mine which produces approximately 2,100 tons of ore per day. The primary mining methods are cut and fill and longhole stoping. The ore is processed on site at a mill, which produces lead, zinc and bulk concentrates, as well as doré containing silver and gold. The doré is sold to a precious metal refiner and the three concentrate products are sold to a number of major smelters worldwide. Concentrates are shipped from a marine terminal located on Admiralty Island about nine miles from the mine site.

The Greens Creek unit has historically been powered completely by diesel generators located on site. However, an agreement was reached during 2005 to purchase excess hydroelectric power from the local power company. Installation of the necessary infrastructure was completed in 2006, and use of hydroelectric power commenced during the third quarter of 2006. Low lake levels and increased demand in the Juneau area have combined to decrease power available to Greens Creek, and it is unlikely that Greens Creek will obtain sufficient utility power until 2009.

The employees at Greens Creek are employees of Kennecott Greens Creek Mining Company, and are not represented by a bargaining agent. There were 330 employees at the Greens Creek unit at December 31, 2007. Our interest in the net book value of the Greens Creek unit property and its associated plant and equipment was approximately $47.8 million. All equipment, infrastructure and facilities, including camp and concentrate storage facilities, are in good condition.

As of December 31, 2007, we have accrued $5.2 million for reclamation and closure costs. A reclamation trust fund has been established and funded for $29.9 million, our portion of which being approximately $8.9 million. This fund replaced other forms of security that had been provided to regulatory agencies.

Kennecott Greens Creek Mining Company s geology and engineering staff computes the estimated ore reserves, and provides the weighted average metals prices used in the reserve estimates, for the Greens Creek unit, with technical support from Rio Tinto PLC. We review geologic interpretation and reserve methodology, but the reserve compilation is not independently confirmed by us in its entirety. Information with respect to our 29.7% share of production, average costs per ounce of silver produced and proven and probable ore reserves is set forth in the following table.

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	Years Ended December 31, (reflects 29.7% interest)		
Production	**2007**	**2006**	**2005**
Ore milled (tons)	217,691	217,676	213,354
Silver (ounces)	2,570,701	2,636,083	2,873,532
Gold (ounces)	20,218	18,713	21,631
Zinc (tons)	18,612	17,670	19,209
Lead (tons)	6,252	6,242	6,515
Average Cost per Ounce of Silver Produced [(1)]			
Cash operating costs	$ (6.06)	$ (4.20)	$ 1.30

Total cash costs	$ (5.27)	$ (3.47)	$ 1.46
Total production costs	$ (1.93)	$ (0.30)	$ 4.02
Probable Ore Reserves [2,3,4,5,6]			
Total tons	2,513,700	2,282,574	2,223,872
Silver (ounces per ton)	13.7	14.4	14.5
Gold (ounces per ton)	0.11	0.11	0.12
Zinc (percent)	10.2	10.4	10.2
Lead (percent)	3.8	4.0	3.9
Contained silver (ounces)	34,497,800	32,913,002	32,150,190
Contained gold (ounces)	270,000	257,101	256,959
Contained zinc (tons)	255,900	237,187	227,807
Contained lead (tons)	95,300	90,919	86,465

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(1) Includes by-product credits from gold, lead and zinc production. Cash costs per ounce of silver represent measurements that are not in accordance with GAAP that management uses to monitor and evaluate the performance of our mining operations. We believe cash costs per ounce of silver provide an indicator of profitability and efficiency at each location and on a consolidated basis, as well as providing a meaningful basis to compare our results to those of other mining companies and other mining operating properties. A reconciliation of this non-GAAP measure to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found in *Item 7. MD&A,* under *Reconciliation of Total Cash Costs (non-GAAP) to Costs of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP).*

(2) Estimates of proven and probable ore reserves for the Greens Creek unit as of December 2007, 2006 and 2005 are derived from successive generations of reserve and feasibility analyses for different areas of the mine each using a separate assessment of metals prices. The weighted average prices used were determined by the Kennecott Greens Creek Mining Company, and differ from the prices used by us, for example, in making such calculations for our Lucky Friday unit. The average prices used for the Greens Creek unit were:

	December 31,		
	2007	**2006**	**2005**
Silver	$8.00	$6.00	$5.79
Gold	$529	$446	$381
Lead	$0.27	$0.27	$0.31
Zinc	$0.58	$0.47	$0.44

(3) Ore reserves represent in-place material, diluted and adjusted for expected mining recovery. Mill recoveries of ore reserve grades differ by ore zones and are expected to average 77% for silver, 69% for gold, 80% for zinc and 72% for lead.

(4) The changes in reserves in 2007 versus 2006 and 2006 versus 2005 are due to addition of new drill data, increases in forecasted precious metals prices, which has resulted in the addition of new reserves based on updated estimates for certain orebodies, partially offset by depletion due to production.

(5) We only report probable reserves at the Greens Creek unit, which are based on average drill spacing of 50 to 100 feet. Proven reserves typically require that mining samples are partly the basis of the ore grade estimates used, while probable reserve grade estimates can be based entirely on drilling results. Cutoff grade assumptions vary by orebody and are developed based on reserve prices, anticipated mill recoveries and smelter payables and cash operating costs. Cutoff grades range from $70 per ton net smelter return to $100 per ton net smelter return.

(6) An independent review by AMEC E&C, Inc. was completed for reserve models in 2005 for the 200 South, 5250 and Southwest Bench deposits.

The La Camorra Unit

The La Camorra unit refers to our Venezuelan operating properties and exploration projects, which are discussed below. For additional information with regard to our Venezuelan operating properties, see the *La Camorra Segment* in *MD&A.* The Mina Isidora mine is currently operating, where production commenced with completion of pre-production development there during 2006. We reached the end of the known mine life at the La Camorra mine in June 2007, and production for the La Camorra unit has transitioned primarily to Mina Isidora. Ore from Mina Isidora is shipped to the mill at the La Camorra mine for processing. The following map illustrates the location and access to the La Camorra unit:

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The mill uses a conventional carbon-in-leach process. The ore is crushed with a three-stage system consisting of a primary jaw crusher with secondary and tertiary cone crusher with a triple-deck vibrating screen. The grinding circuit includes a primary and a secondary ball mill. The ground ore is mixed with a cyanide solution and clarified, followed by countercurrent carbon-in-leach gold adsorption. The carbon is then stripped and the gold recovered and poured into gold bars for shipment to a third-party refiner. Mill recovery averages approximately 95%.

All mill equipment, infrastructure and facilities are in good condition. The mill was constructed in 1994 and has been periodically upgraded. The mill is capable of processing approximately 700 tons per day.

During 2004, we started a custom-milling program for small mining cooperatives working in the area of La Camorra and Mina Isidora mines. The cooperatives sell their ore to us for further processing at our La Camorra mill. We also process gold-bearing sands purchased from local suppliers. See *Custom Milling Business* below.

Information with respect to the La Camorra unit s production and average costs per ounce of gold produced is set forth in the table below.

	Years Ended December 31,		
Production	**2007**	**2006**	**2005**
Ore processed (tons) [(1)]	142,927	236,460	191,900
Gold (ounces) [(1)]	87,490	160,563	101,474
Average Cost per Ounce of Gold Produced [(2)]			
Cash operating costs	$ 515	$ 327	$ 330
Total cash costs	$ 537	$ 345	$ 337
Total production costs	$ 706	$ 520	$ 437

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(1) During 2007, 2006 and 2005, 16,582, 23,802 and 17,252 tons milled, respectively, and 4,114, 5,407 and 4,602 gold ounces produced were generated from our custom milling business and purchases from third parties, of ore and sands not mined at the La Camorra unit.

(2) Cash costs per ounce of gold represent measurements that are not in accordance with GAAP that management uses to monitor and evaluate the performance of our mining operations. We believe cash costs per ounce of gold provide an indicator of profitability and efficiency at each location and on a consolidated basis, as well as providing a meaningful basis to compare our results to those of other mining companies and other mining operating properties. A reconciliation of this non-GAAP measure to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found in *Item 7. MD&A*, under *Reconciliation of Total Cash Costs (non-GAAP) to Costs of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP).*

The Venezuelan Criminal Exchange Law imposes strict criminal and economic sanctions on the exchange of Venezuelan currency with other foreign currency through other than officially designated methods, or for obtaining foreign currency under false pretenses. Approvals for foreign currency exchange are limited and we are evaluating opportunities to minimize our exposure to devaluation. As a consequence, our cash balances denominated in Bolívares that are maintained in Venezuela have increased from a U.S. dollar equivalent of approximately $21.6 million at December 31, 2006, to $30.0 million at December 31, 2007. Additionally, during the next six months, we are required to convert into Venezuelan currency the U.S. Dollar proceeds of Venezuelan export sales made over the past 180 days, or a total value of approximately $8.1 million.

During 2007 and 2006, we exchanged the U.S. dollar equivalent of approximately $37.0 million and $13.9 million, respectively, valued at the official exchange rate of 2,150 Bolívares to $1.00 for approximately $19.8 million and $10.0 million, respectively, at open market exchange rates, in compliance with applicable regulations, incurring foreign exchange losses in each year for the differences. Approximately $13.8 million and $2.2 million of the 2007 and 2006 conversion losses were incurred on the repatriation of cash from Venezuela, and are included in net foreign exchange loss on the Consolidated Statement of Operations. Additional losses of approximately $3.4 million and $1.8 million for 2007 and 2006 are related to conversions of Bolívares for the payment of expatriate payroll and other U.S. dollar-denominated goods and services, and are included in the cost of sales and other direct production costs and exploration amounts reported on the Consolidated Statement of Operations. Although we are making appropriate applications through the Venezuelan government for acquisition of dollars at the official exchange rate, our cash balances denominated in the Venezuelan Bolívar may continue to grow and any future conversions or devaluation of the Bolívar may result in further losses when and if in the future we decide to distribute money outside Venezuela. Changes to the Venezuelan Criminal Exchange Law enacted in December 2007 prohibit the publication of Bolívar exchange rates other than the official rate.

The Central Bank of Venezuela maintains regulations concerning the export of gold from Venezuela. Under current regulations, 15% of our gold production from Venezuela is required to be sold in Venezuela. Prior to our acquisition of the La Camorra mine, the then owners had sold substantially all of the gold production to the Central Bank of Venezuela and built up a significant credit to cover the 15% requirement, which we assumed upon our acquisition and have fully utilized. During 2006, we identified a local market with the ability to purchase the required 15% of our production. During 2007 and 2006, we sold approximately 58% and 30% of our gold ounces, respectively, in Venezuela.

Effective January 1, 2007, we implemented a change in the functional currency for our Venezuelan operations from the U.S. dollar to the Bolívar, the national currency in Venezuela. We believe that significant changes in the economic facts and circumstances affecting our Venezuelan operations indicate that a change in the functional currency is appropriate, under the provisions of FASB Statement No. 52, Foreign

Currency Translation (SFAS 52). In accordance with SFAS 52, the balance

sheet for our Venezuelan operations was recalculated as of January 1, 2007, so that all assets and liabilities are translated at the current exchange rate of 2,150 Bolívares to $1.00, the fixed, official exchange rate. We have used the official exchange rate pursuant to guidance from the American Institute of Certified Public Accountant s *International Practices Task Force*. As a result, the dollar value of non-monetary assets, previously translated at historical exchange rates, has been significantly reduced, with a translation adjustment recorded to equity as a component of accumulated other comprehensive income. The functional currency change resulted in a reduction of approximately $7.1 million in the carrying value of net assets, with a translation adjustment for the same amount recorded to the opening balance of accumulated other comprehensive income, which is included as a component of shareholders equity on our balance sheet. Further discussion of the functional currency change, including a summary of how the functional currency indicators listed in SFAS 52 have been affected by recent changes in the economic facts and circumstances influencing our Venezuelan operations, can be found in *Note 18* of *Notes to Consolidated Financial Statements*.

The potential effects of factors such as currency exchange controls and export restrictions in Venezuela, and the change in the functional currency for our Venezuelan operations to the Bolívar, are not included in cutoff grade calculations at the La Camorra Unit, which only consider estimated operating cost requirements. However, the effects of these items are considered in calculating the total estimated cash flow and net present value of our Venezuelan projects, measures used to determine whether overall project economics are positive. By definition, reserves cannot be present at new projects unless they pass a positive economic test. Therefore, it is possible for a project to have sufficient ore grades to meet estimated operating cost requirements, but have negative overall economics, and not meet proven or probable reserve criteria, when considering the factors above.

The La Camorra Mine

The La Camorra mine is located approximately 180 miles southeast of Puerto Ordaz in the eastern Venezuelan State of Bolívar. The mine is accessed via a gravel road that we maintain and is six miles east of state Highway 10, which is a paved two-lane road running from Upata south to the Brazilian border.

We acquired the La Camorra mine in 1999 from Monarch Resources Investments Limited (Monarch), and it is 100% owned by us through our Venezuelan subsidiary, Minera Hecla Venezolana, C.A. (MHV). The purchase agreement includes a provision to pay Monarch a net smelter return (NSR) royalty on production exceeding a cumulative total of 600,000 ounces of gold from the properties acquired in Venezuela from Monarch. The royalty is based on a sliding scale that is dependent on the price of gold. When the gold price is below $300.00 per troy ounce, there is no royalty; when the price is between $300.00 and $399.99 per troy ounce the royalty is 1%; when the price is between $400.00 and $499.99 per troy ounce, the royalty is 2%; and when the price is $500.00 and above, the royalty is 3%. The 600,000 ounce production milestone was reached during the second quarter of 2004. Gold production since that time has been subject to the provisions of the royalty agreement, the payments of which have been offset by our costs incurred related to ongoing tax litigation, as discussed in *Note 8* of *Notes to Consolidated Financial Statements*.

The La Camorra mine is located on an exploration concession granted by the Ministry of Energy and Mines in 1964 that has been converted to a fifty-year exploitation license. The mine is a high-grade underground gold mine that exploits two shear-zone hosted quartz veins known as the Main zone and the Betzy vein. It lies in the Botanamo greenstone belt of the Precambrian Guayana Shield and is hosted by the Caballape Group of volcanoclastic rocks. The formations most likely date from Archean to Proterozoic in age and consist primarily of intermediate volcanics with subordinate metasediments. Gold mineralization at La Camorra is confined to narrow, near vertical quartz veins hosted in an east-west trending, left-lateral shear zone. Most economic mineralization in the La Camorra veins occur in distinct ore shoots. Gold occurs both as free particles in quartz and attached to, or included in, pyrite. Locally, gold is also seen on chloritic partings.

In 2007, the principal working levels of the La Camorra mine were located between the elevations of 1640 and 2130 feet below sea level. The proven and probable reserves extended to the 2130-foot elevation, and exploration drill holes have intersected gold mineralization below the current reserve limits at the 3100-foot level.

At the end of 2003, the mine had been developed to the 1570-foot level. Engineering studies undertaken in 2002 and 2003 indicated that the combination of ventilation and haulage requirements would make mining below the 1640-foot level extremely difficult and marginally economic without the development of a shaft. In August 2003, due to the long construction lead-time necessary, the board of directors approved the development of a production shaft at the La Camorra mine in order to develop further ore reserves and mine more efficiently at greater depths. We began using the production shaft during the second half of 2005. The shaft loading station is at the 1330-foot level.

The underground workings at the La Camorra mine are accessed via the shaft and a ramp from the surface, excavated at a -15% grade, that provides access to numerous levels. The main access ramp has been developed to a depth of approximately 1995 feet below sea level.

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Ore has been mined primarily by longhole stoping and extracted from the stopes using rubber-tired equipment and hauled to the surface in mine haulage trucks and, beginning in the second half of 2005, the production shaft. Sub-economic material has been used to backfill mined-out stopes.

Site infrastructure, equipment and facilities are in good condition and include a water supply system, maintenance shop, warehouse, living quarters, a dining facility, administration building and a National Guard post. We also share a housing facility located near the town of El Callao with units for approximately 50 families. Mine electric power is purchased from Eleoriente (a state-owned electric company). Diesel-powered electric generators are available on-site for operation of critical equipment during power outages. At December 31, 2007, the net book value of the La Camorra mine property and its associated plant and equipment was approximately $2.4 million.

Our reclamation plan has been approved by the Ministry of Environment and Natural Resources. Planned activities include recontouring and revegetation of disturbed areas. The reclamation and closure accrual as of December 31, 2007, was $3.7 million.

At December 31, 2007, there were 31 hourly and 31 salaried employees associated with the La Camorra mine. The hourly employees are covered by a collective bargaining agreement, the contract for which expires in June 2008. In an effort to reduce the workforce at the La Camorra mine, as a result of reaching the end of the known mine life there in June 2007, the contract for the collective bargaining agreement provided incentives for a substantial number of hourly workers to voluntarily terminate during 2007. Approximately 232 workers accepted the voluntary termination incentive, and we have recorded a total cost to operations of approximately $1.3 million, primarily in the first half of 2007. In addition, there were 24 employees at the administrative office in Puerto Ordaz as of December 31, 2007.

Information with respect to the La Camorra mine s proven and probable ore reserves is set forth in the table below.

	Years Ended December 31,		
Proven Ore Reserves [1,2,3]	**2007**	**2006**	**2005**
Total tons		55,418	107,327
Gold (ounces per ton)		0.50	0.62
Contained gold (ounces)		27,698	66,365
Probable Ore Reserves [1,2,3]			
Total tons		29,229	86,315
Gold (ounces per ton)		0.53	0.63
Contained gold (ounces)		15,370	54,351
Total Proven and Probable Ore Reserves [1,2,3]			
Total tons		84,647	193,642
Gold (ounces per ton)		0.51	0.62
Contained gold (ounces)		43,068	120,716

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(1) The company s estimates of proven and probable reserves are based on a gold price of $500 and $400 per ounce, respectively, in 2006 and 2005. Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis.

(2)

The 2006 year-end proven and probable reserves decrease in tonnage and grade, as well as an associated decrease in ounces when compared to the 2005 year-end proven and probable reserves, are a result of mining depletion of 114,044 tons in 2006, not extending reserve limits in 2006 and encountering lower than expected grade in development areas compared to the grade estimated in the 2005 reserve estimate.

(3) At the end of 2006, the La Camorra mine development of the vein system was complete within 80 feet vertical of the reserve limit. Accordingly, proven and probable ore reserve estimates at the La Camorra mine were primarily based on polygonal estimates from development headings and drilling with spacing of 100 to 160 feet. Cutoff grade assumptions were developed based on reserve prices, anticipated mill recoveries and cash operating costs. The cutoff grade at La Camorra was 0.49 ounces of gold per ton. Proven and probable ore reserves were exhausted at the La Camorra mine in June 2007.

We also have the exploration rights to approximately 9,500 hectares (36-square miles) adjacent to the La Camorra mine. This property is controlled through eight different contracts with the Venezuelan state-owned development company, Corporacion Venezolana de Guayana, as well as five different concessions with the Ministry of Basic Industries and Mines (formerly the Ministry of Energy and Mines). The contracts and concessions were granted at various times with expiration dates between 2011 and 2020, and most are renewable for a period of 10 to 20 years.

In 2006, proven and probable reserves decreased at the La Camorra mine as the deposit exhibited lower ore grades. No significant exploration results were returned from drilling on the La Camorra veins during 2006, and we reached the end of

the known mine life at the La Camorra mine in June 2007. However, continued exploration activity has focused on the delineation of new auriferous zones on the concessions surrounding the La Camorra concession. Work in 2007 consisted of linecutting, geological, geochemical and geophysical surveying. Many new drill targets were identified by this work and drilling is planned in the future once permitting requirements are met.

Block B

In March 2002, we acquired the Block B exploration and mining lease near El Callao in the Venezuelan state of Bolívar from CVG-Minerven, a Venezuelan government-owned gold mining company. The lease runs through March 2023. The area s mining history dates back to the 1800s. Block B is a seven-square-mile property position in the El Callao gold mining district and contains many historic mines including the Chile, Laguna and Panama mines, which collectively produced over 1.6 million ounces of gold between 1921 and 1946.

Pursuant to the lease agreement, we will pay CVG-Minerven a royalty of 2% to 3% on production from Block B, based on production levels. The royalty terms are: (i) 2% if the price of gold is below $290.00 per ounce of refined gold during the month preceding payment; (ii) 2.5% if the price of gold is equal or greater than $290.00 and equal to or below $310.00 per ounce of refined gold during the month preceding payment; and (iii) 3% if the price of gold is greater than $310.00 per ounce of refined gold during the month preceding payment. In 2007, 2006 and 2005, $1.4 million, $1.8 million and $0.3 million, respectively, in royalty expense was incurred relating to production at Block B.

The El Callao area is located approximately 120 miles southeast of Puerto Ordaz in the eastern Venezuelan state of Bolívar, and is just a short distance from Highway 10, a paved two-lane road running from Upata south to the Brazilian border. Overall good infrastructure exists and an 115kw electricity power line supplies the area predominantly populated by miners operating underground small-scale mines. The population of El Callao is approximately 25,000 people.

Geologically, the gold is found in shear-zone hosted quartz veins and stockworks in Proterozoic greenstone volcanics, primarily andesitic to basaltic lavas and pyroclastics. Gold occurs as free gold in quartz and is also commonly associated with coarse-grained pyrite. Upon acquisition, exploration began on the Chile vein system, which we believed to host high-grade gold mineralization. The Chile mine itself was an important gold producer that historically produced more than 550,000 ounces of gold at an average grade of over one ounce per ton. Since the mine shut down in the 1940s, two phases of exploration drilling were undertaken prior to our work in the Block B lease area, one in the 1960s, and more recent drill testing in the 1980s that encountered high grades west of the old mine.

During 2003 and 2004, we completed an exploration drilling campaign including 131 drill holes and 117,620 feet of drilling resulting in the discovery of what we refer to as Mina Isidora, which we access via a ramp and an inclined shaft. During 2007, production at Mina Isidora included 80,512 tons of ore and 64,371 ounces of gold. Mina Isidora ore is shipped to the mill at the La Camorra concession for beneficiation. At December 31, 2007, the net book value for the development of Mina Isidora and related plant and equipment totaled $33.1 million. In addition, we had an accrual for future reclamation and closure costs of $0.7 million. At December 31, 2007, there were 108 salaried and 285 hourly employees associated with Block B.

Information with respect to Mina Isidora s proven and probable ore reserves is set forth in the table below.

	Years Ended December 31,		
Proven Ore Reserves (1,2,3)	**2007**	**2006**	**2005**
Total tons	77,500	104,223	
Gold (ounces per ton)	1.08	0.79	
Contained gold (ounces)	84,000	81,931	
Probable Ore Reserves (1,2,3)			
Total tons	120,300	247,065	398,754
Gold (ounces per ton)	0.84	0.91	0.80
Contained gold (ounces)	101,100	225,469	320,676
Total Proven and Probable Ore Reserves (1,2,3)			
Total tons	197,800	351,288	398,754
Gold (ounces per ton)	0.94	0.88	0.80
Contained gold (ounces)	185,100	307,400	320,676

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(1) Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. An independent audit of the 2006 reserve model for Mina Isidora was completed by Scott Wilson Roscoe Postle Associates Inc. in 2007. Our estimates of proven and probable reserves were based on a gold price of $570, $500 and $400 per ounce, respectively, in 2007, 2006 and 2005.

(2) Proven and probable ore reserves at Mina Isidora are based on diamond drill hole spacing of 98 to 115 feet, and estimated using geostatistical modeling. Cutoff grade assumptions are developed based on reserve prices, anticipated mill recoveries and cash operating costs.

(3) The changes to the Mina Isidora ore reserves in 2007 compared to 2006 and in 2006 compared to 2005 are attributed to additional drill data, changes in modeling techniques, changes in mining assumptions, mining depletion and costs. The cutoff grade at Isidora is 0.60 ounces of gold per ton.

During 2007 exploration drilling at and adjacent to the Isidora mine was successful in outlining several new potential zones of economic mineralization. A possible down plunge extension of the S vein was discovered returning 0.75 ounces of gold per ton over 10.5 feet. This intersection is located approximately 328 feet below the currently defined resource block.

A new parallel vein/shear was discovered approximately 1,300 feet to the west of the Isidora Mine and 160 feet north in the footwall of the S Vein. The uppermost part of this structure returned low gold values. However, at a depth of 820 feet, three potentially economic intercepts were returned over a strike length of 738 feet. Values of 0.61 ounces per ton over a width of 5.02 feet, 1.28 ounces per ton over 6.59 feet and 2.56 ounces per ton over 1.73 feet were returned.

Exploration work at Mina Isidora in 2008 will consist of follow-up drilling of the potential economic intersections discovered below and adjacent to the Isidora Mine during the 2007 exploration program. These holes will target targeting mineralization approximately 325 500 feet below the current economic mineral resource at a vertical depth of 1150 1300 feet. Additional holes will be drilled along strike to the east to explore for other zones of deep mineralization. At least 24,500 feet are planned.

Outside the Mina Isidora area, other exploration work on the Block B concessions has included geologic mapping, geophysical surveying, geochemical sampling and 160,000 feet of exploration diamond drilling. This work led to the discovery of two mineralized zones, the Twin and Conductora mineralized zones, located approximately one-kilometer northeast of the Mina Isidora orebody.

The Twin structure was discovered through drilling during the second quarter of 2004, and is host to a large mineralized zone known as the Twin mineralized zone. The Twin mineralized zone has a minimum strike length of 2,500 feet and a minimum vertical extent of 1,100 feet, and is still open down dip and along strike. Mineralization is somewhat erratic with values ranging from 0.10 ounces per ton to over 0.58 ounces per ton and widths from three feet to over 65 feet. The gold mineralization is associated with disseminated pyrite in a moderate-to-strong schistose shear zone, with moderate-to-intense ankerite/sericite alteration and minor quartz veining. The Conductora structure, which is a possible extension to the northeast of the Twin structure, is a second shear zone that has been traced over a strike length of about 2,300 feet and is still open in both directions along strike and also down dip. The structure is host to the Conductora mineralized zone, which has erratic gold values associated with sulphides in narrow, quartz veins and/or wide zones of quartz veinlets in moderate-to-intensely schistose rocks with strong ankerite/sericite alteration.

The significance of the Twin/Conductora discovery is that it outlines a previously unidentified shear structure and a new style of mineralization on the Block B concession that might exist in other unexplored areas.

Exploration work has also been completed on the Panama/Santa Rita/A-Lode structure situated approximately one mile to the northeast of the Isidora Mine. Drilling has encountered encouraging values of between 0.36 to 0.71 ounces per ton to as high as 12.87 ounces per ton, and defines a distinct zone of mineralization that is open to depth. We are currently reviewing the results from the programs completed in 2006 and 2007 and formulating plans for another drilling campaign late in 2008.

Custom Milling Business

During 2004, we completed construction of a small-scale crushing and sampling plant on the Block B concessions that allows us to purchase ore produced from small underground mines in the area. Ore purchased from the small mines are crushed, sampled and assayed at the sampling plant, and then trucked to the mill at the La Camorra mine for further beneficiation. The sampling plant is designed to process up to 400 tons of purchased ore per day. Payment for the ore is calculated and made to the miners generally within three days of assaying of the ore. We also purchase ore and gold-bearing sands from small mining groups and suppliers in the El Dorado and El Callao areas, which are shipped directly to the mill at the La Camorra mine.

As a part of this program, we provide small mine operators with financing and technical assistance, including technical advice on mining techniques, grade controls and safety standards. The small mine activity in Venezuela is a significant part of the country s mining industry, and we believe working with the miners provides goodwill and develops positive relationships with local mining groups, as well as assistance to the communities that are impacted by our operations. We have

received a positive response from local and national politicians and citizens for our efforts in helping the small mining cooperatives to improve their practices, and for assisting in providing a stimulus to the local economy.

As part of the custom milling business, we enter into contracts with the small mining groups and advance funds in the form of equipment and working capital, and collect such advances from ore delivered to the sampling and crushing plant. As of December 31, 2007, we had unrecouped advances to small mining cooperatives totaling $0.3 million, net of a reserve of $3.1 million, for geologic and technical factors which inhibit recoupment from the small miner community. The net book value for the plant and equipment associated with the custom milling business at December 31, 2007 was $1.6 million. In addition, we had an accrual for future reclamation and closure costs of $0.2 million.

EXPLORATION PROPERTIES

The San Sebastian Unit

The San Sebastian mine is located approximately 56 miles northeast of the city of Durango, Mexico, on concessions acquired in 1999. Access to San Sebastian is via Mexico Highway 40, approximately 7 miles east of Guadalupe Victoria, and then approximately 14 miles of paved rural road through the towns of Ignacio Allende and Emiliano Zapata. The processing plant is located near Velardeña, Durango, Mexico, and was acquired in April 2001. The map below illustrates the location and access to the San Sebastian unit:

Our concession holdings cover approximately 346 square miles, including the Francine vein, the Don Sergio vein and multiple outlying active exploration areas. Production from the Francine vein was from a high-grade silver vein with significant gold credits. Production from the Don Sergio vein was from a high-grade gold vein with some silver credits. Mineral concession titles are obtained and held under the laws of Mexico, and are valid for 50 years with the possibility of extending another 50 years. There are work assessment and tax requirements that are variable and increase with the time that the concession is held.

Several intermediate sulfidation epithermal veins occur within the Saladillo Valley and include the Francine, Profesor, Middle and North vein systems. These veins are proximal to each other and are hosted within a series of shales with interbedded fine-grained sandstones interpreted to belong to the Cretaceous Caracol Formation. The Don Sergio, Jessica, Andrea and Antonella veins located in the Cerro Pedernalillo area, about

4 miles from Francine, are end member low sulfidation epithermal veins hosted by the same formation with the addition of dioritic intrusive rocks.

Underground development along the Francine vein started in May 2001, and reached full production during the second quarter of 2002. Mining of economic ore on the upper Francine vein was completed during the first quarter of 2005. The mine has been placed on care and maintenance as exploration continues on the property, including the Hugh Zone, which is located 2300 feet below historic mining. Mining of economic ore on the Don Sergio vein was completed in the fourth quarter of 2005 and reclamation of this portion of the mine site was completed during 2006. San Sebastian s life-of-mine production over four years was 11.2 million ounces of silver and 155,937 ounces of gold.

The Francine vein strikes northwest and dips southwest, and is located on the southwestern limb of a doubly plunging anticline. The vein ranges in true thickness from more than 13 feet to less than 1.5 feet, and consists of several episodes of banded quartz, silica-healed breccias and minor amounts of calcite. The vein is oxidized to a depth of approximately 328 vertical feet and the wall rocks contain an alteration halo of less than 7 feet next to the vein. Mineralization within the oxidized portion of the vein contains limonite, hematite, silver halides and various copper carbonates. Higher-grade gold and silver mineralization is associated with disseminated hematite and limonite after pyrite and chalcopyrite, copper carbonates including malachite and azurite and hydrous copper silicates including chrysocolla. Native gold occurs associated with hematite and limonite. Mineralization in the sulfide portion of the Francine vein contains pyrite, chalcopyrite, sphalerite, galena, native silver, argentite and trace amounts of aguilarite. Hugh Zone mineralization contains chalcopyrite, sphalerite, galena, argentite, acanthite, tetrahedrite, polybasite, stephanite, freibergite, and pyrargyrite.

Access to both underground workings has been through ramps from the surface connecting one or more levels. Ore has been mined by the cut-and-fill stoping method and extracted from the stopes using rubber-tired equipment and hauled to the surface in trucks. Run of mine ore has been hauled in trucks by contractors to our processing facility near Velardeña, which is approximately 68 miles from the San Sebastian mine and 72 miles from the Don Sergio mine. The mill is a conventional leach, counter-current decantation and Merrill Crowe precipitation circuit. The ore has been crushed in a two-stage crushing plant consisting of a primary jaw, a secondary cone crusher and a double-deck vibrating screen. The grinding circuit includes a primary ball mill and cyclone classifiers. The ground ore was thickened, followed by agitated leaching and four stages of counter-current decantation to wash solubilized silver and gold from the pulp. The solution bearing silver and gold was clarified, deaerated and zinc dust added to precipitate silver and gold that is recovered in plate and frame filters. The precious

metal precipitate was smelted and refined into doré, and was then shipped to a third-party refiner. Processing of economic ore was completed during the fourth quarter of 2005, and the mill has been placed on care and maintenance.

During 2007, a pre-feasibility study for the Hugh Zone was completed, as well as the initial drilling of several proximal and district scaled targets, including the La Roca target area. In 2008, exploration activities will be focused in the La Roca target area, district scaled soil geochemistry, and district scaled target identification through detailed mapping and sampling.

Additional exploration at the San Sebastian unit during 2007 included activity at the Rio Grande exploration project, which is located approximately 51 miles north of Fresnillo in Zacatecas State, on concessions acquired under an option to purchase agreement in 2007. Access to the property is via Mexico Highway 49, approximately 1 mile south of the city of Rio Grande followed by approximately 6 miles of dirt road west to the center of the property.

Our Rio Grande concession holdings cover approximately 5 square miles and several low- to intermediate-sulfidation epithermal vein systems including the La Soledad, Arcangeles, El Leon, Sacramento, Concepcion, and San Martin vein systems in addition to multiple outlying active exploration areas. These veins are proximal to each other and are hosted within a series of shales with interbedded fine-grained sandstones interpreted to belong to the Cretaceous Caracol Formation. The Rio Grande vein systems strike north to northwest and dips to the west and southwest. The veins range in true thickness from more than 46-feet to less than 1.5 feet, and consist of several episodes of banded quartz, silica-healed breccias and minor amounts of calcite. These veins are partially oxidized to a depth of approximately 196 vertical feet and the wall rocks contain an alteration halo of less than 33 feet next to the vein. Mineralization within these veins consists of limonite, hematite, marcasite, pyrite, argentite, and pyrargyrite and trace amounts of chalcopyrite.

During 2007, the initial drilling of the La Soledad, Arcangeles, El Leon, Sacramento, Concepcion, San Martin, and Aguila Mexicana veins was completed. In 2008, exploration activities in the Rio Grande exploration project will be focused on additional drilling and district scaled target identification through detailed mapping and sampling.

At December 31, 2007, the net book value of the San Sebastian unit property and its associated plant and equipment was $3.2 million. The mill was constructed in 1994 and is capable of processing approximately 550 tons per day. Site infrastructure includes a water supply system, maintenance shop, warehouse, laboratory, tailings impoundment and various offices. Equipment and facilities, including the mill, are in good condition and have been placed on care and maintenance pending a resumption of operations. Long-term future operations at the mill would require replacement of the water supply pipeline.

As of December 31, 2007, $1.1 million has been accrued for reclamation and closure costs, and there were 41 hourly and 35 salaried employees performing exploration, care and maintenance, reclamation and security functions. Due to the curtailment of mining activity, the collective bargaining agreement with the National Mine and Mill Workers Union for hourly mill employees was terminated during the fourth quarter of 2005. Electric power is purchased from Comisión Federal de Electricidad (a Mexico federal electric company).

Information with respect to the San Sebastian unit s production and average cost per ounce of silver produced are set forth in the table below.

	Years Ended December 31,		
Production	**2007**	**2006**	**2005**
Ore milled (tons)			71,671
Silver (ounces)			717,860
Gold (ounces)			17,160
Average Cost per Ounce of Silver Produced [1,2]			
Cash operating costs	$	$	$ 1.85
Total cash costs	$	$	$ 2.27
Total production costs	$	$	$ 6.14

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(1) For the year ended December 31, 2005, gold by-product credits were approximately $10.78 per silver ounce, and were deducted from operating costs in the calculation of cash costs per ounce. If our accounting policy had been changed to treat gold production as a co-product, the following total cash costs per ounce would have been reported:

	2007	2006	2005
Silver	$	$	$7.79
Gold	$	$	$326

(2) Cash costs per ounce of silver represent measurements that management uses to monitor and evaluate the performance of our mining operations that are not in accordance with GAAP. We believe cash costs per ounce of silver provide an indicator of profitability and efficiency at each location and on a consolidated basis, as well as providing a meaningful basis to compare our results to those of other mining companies and other mining

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operating properties. A reconciliation of this non-GAAP measure to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found in *Item 7, MD&A,* under *Reconciliation of Total Cash Costs (non-GAAP) to Costs of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP).*

(3) Proven and probable reserves were exhausted during the fourth quarter of 2005.

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IDLE PROPERTIES

The Grouse Creek Mine

The Grouse Creek gold mine is located in central Idaho, 27 miles southwest of the town of Challis in the Yankee Fork Mining District. Mining at Grouse Creek began in late 1994 and ended in April 1997, due to higher-than-expected operating costs and less-than-expected operating margins, primarily because the ore occurred in thinner, less continuous structures than had been originally expected.

The following map illustrates the location and access to the Grouse Creek mine:

In 2000, we notified state and federal agencies that the Grouse Creek mine would proceed to a permanent suspension of operations. We signed an agreement with the State of Idaho and a voluntary administrative order on consent (AOC) with the U.S. Forest Service and U.S. Environmental Protection Agency, in which the main work elements include dewatering of the tailings impoundment, recovery of contaminated groundwater, and closure of the tailings impoundment.

In 2003, we received authorization from the agencies to start direct discharge of tailings impoundment waters. The elevation goal of dewatering was reached in September 2007. Dewatering continues in order to facilitate closure construction activities.

The AOC required submission of a work plan for final closure of the tailings impoundment prior to the completion of the tailings impoundment dewatering. The tailings impoundment closure Engineering Evaluation and Cost Analysis (EE/CA) was submitted to the agencies in early 2006. The federal agencies issued the Decision Memo in 2007, which approved the EE/CA recommendation for tailings impoundment closure. The State of Idaho has approved the work plan for closure of the tailings impoundment, and approval from the federal agencies is pending.

As of December 31, 2007, approximately 80% of the site area outside of the tailings impoundment has been reclaimed. Projects completed through 2007 include:

- Demolition of mill facility and site cleanup;
- Reclamation of exploration roads and drill pads in the Grouse deposit area;
- Reclamation of 90 acres around the waste rock storage facility and Sunbeam pit;
- Reshaping and stabilization of slopes below the Grouse underground haul road;
- Hydroseeding and revegetation of approximately 350 acres;
- Application of soil supplements to reclaimed areas;
- Stockpiling rock and topsoil for future reclamation;
- Installation of a majority of permanent water conveyance ditches on the Waste Rock Storage Facility and Sunbeam Pit areas; and
- Mass fill of approximately 65% of the tailings impoundment area to elevation 7212.

The project reclamation cost estimate includes costs of site reclamation as well as administration, water management, and closure planning. The reclamation accrual balance as of December 31, 2007, was $19.1 million.

Item 3. Legal Proceedings

For a discussion of our legal proceedings, see *Note 8* of *Notes to Consolidated Financial Statements.*

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2007.

Executive Officers of the Registrant

Information set forth in Part III, Item 10 is incorporated by reference into this Part I, Item 4.

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PART II

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) (i) Shares of our common stock are traded on the New York Stock Exchange, Inc.

(ii) Our common stock quarterly high and low sale prices for the past two years were as follows:

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007	High	$9.21	$9.89	$9.80	$12.57
	Low	$6.36	$7.47	$6.58	$8.18
2006	High	$6.89	$7.09	$6.65	$7.95
	Low	$3.93	$4.05	$4.77	$4.90

(b) As of February 28, 2008, there were 6,660 shareholders of record of the common stock.

(c) No dividends have been declared on our common stock in the last two years. Quarterly dividends were paid on our Series B Cumulative Convertible Preferred Stock in 2007 and no dividends are in arrears. Dividends have not been paid on our Mandatory Convertible Preferred Stock, for which there were cumulative, undeclared, unpaid dividends of $0.5 million at December 31, 2007. We have no plans for payment of dividends on common stock. We cannot pay dividends on our common stock if we fail to pay, when due, dividends on our Series B or Mandatory Convertible Preferred Stock.

(d) The following table provides information as of December 31, 2007, regarding our compensation plans under which equity securities are authorized for issuance:

	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders:			
1995 Stock Incentive Plan	1,033,500	6.85	3,922,253
Stock Plan for Nonemployee Directors		N/A	754,942
Key Employee Deferred Compensation Plan	100,000	3.81	4,254,657
Total	1,133,500	6.58	8,931,852

See *Notes 9* and *10* of *Notes to Consolidated Financial Statements* for information regarding the above plans.

(e) We have not sold any unregistered securities in the last three years. However, in the first quarter of 2008, we issued unregistered common shares as follows:

a. On January 17, 2008, we issued 550,000 unregistered common shares to fund our donation to the Hecla Charitable Foundation (see *Note 1A.* of *Notes to Consolidated Financial Statements*).

b. On January 24, 2008, we issued 118,333 unregistered common shares in a private placement pursuant to section 4(2) of the 1933 Act and Regulation D to an accredited investor to acquire properties in the Silver Valley of Northern Idaho.

In May 2007, we purchased shares of our common stock, as a result of the election by employees to return restricted stock units upon vesting to satisfy tax withholding obligations, as follows (for further discussion, see *Note 10* of *Notes to Consolidated Financial Statements*):

Period

	Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares that May Yet be Purchased Under the Plan
May 2007	24,042	$ 8.67		

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(f) Comparison of Five-Year Cumulative Total Shareholder Return December 2001 through December 2007[1]:
Hecla Mining, S&P 500, S&P 500 Gold Index, 2006 Peer Group[2], and 2007 Revised Peer Group[3]

Date	Hecla Mining	S&P 500	S&P 500 Gold Index	2006 Custom Peer Group	2007 Revised Custom Peer Group
December 2002	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00
December 2003	$ 163.83	$ 128.63	$ 168.25	$ 140.94	$ 124.31
December 2004	$ 115.22	$ 142.59	$ 154.49	$ 134.15	$ 123.13
December 2005	$ 80.24	$ 149.58	$ 187.42	$ 164.97	$ 146.05
December 2006	$ 151.38	$ 173.15	$ 159.79	$ 276.54	$ 204.73
December 2007	$ 184.78	$ 182.64	$ 174.86	$ 356.00	$ 249.36

(1) Total shareholder return assuming $100 invested on December 31, 2002 and reinvestment of dividends on quarterly basis.
(2) Agnico-Eagle Mines Ltd., Coeur d Alene Mines Corp., Pan American Silver Corp.
(3) Agnico-Eagle Mines Ltd., Centerra Gold, Inc., Coeur d Alene Mines Corp., Golden Star Resources Ltd., IAMGOLD Corporation, Kinross Gold Corporation, Meridian Gold, Inc., Northgate Minerals Corporation, Pan American Silver Corp., Stillwater Mining Company.

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Item 6. Selected Financial Data

The following table (in thousands, except per share amounts, common shares issued, shareholders of record, and employees) sets forth selected historical consolidated financial data as of and for each of the years ended December 31, 2003 through 2007, and is derived from our audited financial statements. The data set forth below should be read in conjunction with, and is qualified in its entirety by, our Consolidated Financial Statements and the Notes thereto.

	2007	2006	2005	2004	2003
Sales of products	$				