

HECLA MINING CO/DE/  
Form 10-Q  
August 03, 2017  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

Commission file number 1-8491

**HECLA MINING COMPANY**

(Exact name of registrant as specified in its charter)

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

6500 Mineral Drive, Suite 200	
Coeur d'Alene, Idaho	83815-9408
(Address of principal executive offices)	(Zip Code)

208-769-4100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  . No  .

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

Yes  . No  .

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

Large Accelerated Filer .

Accelerated Filer .

Non-Accelerated Filer  . (Do not check if a smaller reporting company)

Smaller Reporting Company .

Emerging growth company .

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. .

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

Yes  . No .

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

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Class	Shares Outstanding August 1, 2017
Common stock, par value	399,018,708
\$0.25 per share	

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Hecla Mining Company and Subsidiaries

Form 10-Q

For the Quarter Ended June 30, 2017

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\*Items 2, 3 and 5 of Part II are omitted as they are not applicable.

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## Part I - Financial Information

## Item 1. Financial Statements

## Hecla Mining Company and Subsidiaries

## Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except shares)

	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 164,113	\$ 169,777
Investments	37,816	29,117
Accounts receivable:		
Trade	9,183	20,082
Taxes	10,981	187
Other, net	12,307	9,780
Inventories:		
Concentrates, doré, and stockpiled ore	25,125	25,944
Materials and supplies	23,278	24,079
Other current assets	8,955	12,125
Total current assets	291,758	291,091
Non-current investments	4,729	5,002
Non-current restricted cash and investments	1,098	2,200
Properties, plants, equipment and mineral interests, net	2,033,506	2,032,685
Non-current deferred income taxes	44,628	35,815
Other non-current assets and deferred charges	3,437	4,884
Total assets	\$ 2,379,156	\$ 2,371,677
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 47,979	\$ 60,064
Accrued payroll and related benefits	25,919	36,515
Accrued taxes	14,205	9,061
Current portion of capital leases	5,885	5,653
Current portion of debt	—	470
Other current liabilities	11,268	8,809
Current portion of accrued reclamation and closure costs	8,532	5,653
Total current liabilities	113,788	126,225

Capital leases	7,213	5,838
Accrued reclamation and closure costs	79,280	79,927
Long-term debt	501,604	500,979
Non-current deferred tax liability	121,260	122,855
Non-current pension liability	47,211	44,491
Other non-current liabilities	6,414	11,518
Total liabilities	876,770	891,833
Commitments and contingencies (Notes 2, 4, 7, 9, and 11)		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, 5,000,000 shares authorized:		
Series B preferred stock, \$0.25 par value, 157,816 shares issued and outstanding, liquidation preference — \$7,891	39	39
Common stock, \$0.25 par value, authorized 750,000,000 shares; issued and outstanding 2017 — 398,527,459 shares and 2016 — 395,286,875 shares	100,739	99,806
Capital surplus	1,614,651	1,597,212
Accumulated deficit	(166,875 )	(167,437 )
Accumulated other comprehensive loss	(28,520 )	(34,602 )
Less treasury stock, at cost; 2017 — 4,429,844 shares and 2016 — 3,941,210 shares issued and held in treasury	(17,648 )	(15,174 )
Total shareholders' equity	1,502,386	1,479,844
Total liabilities and shareholders' equity	\$2,379,156	\$2,371,677

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

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## Hecla Mining Company and Subsidiaries

## Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited)

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

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Sales of products	\$134,279	\$171,302	\$276,823	\$302,319
Cost of sales and other direct production costs	77,503	82,953	156,179	157,273
Depreciation, depletion and amortization	25,569	29,897	54,521	55,772
Total cost of sales	103,072	112,850	210,700	213,045
Gross profit	31,207	58,452	66,123	89,274
Other operating expenses:				
General and administrative	10,309	10,359	19,515	20,573
Exploration	5,853	3,362	10,367	6,312
Pre-development	1,052	521	2,304	925
Research and development	312	—	995	—
Other operating expense	697	1,024	1,387	1,664
Provision for closed operations and environmental matters	985	1,576	2,104	2,617
Lucky Friday suspension-related costs	8,024	—	9,605	—
Total other operating expenses	27,232	16,842	46,277	32,091
Income (loss) from operations	3,975	41,610	19,846	57,183
Other income (expense):				
Loss on disposition of investments	—	—	(167 )	—
Unrealized (loss) gain on investments	(276 )	1,150	51	439
Gain (loss) on derivative contracts	2,487	(6 )	(5,322 )	(6 )
Net foreign exchange (loss) gain	(3,883 )	(1,885 )	(6,145 )	(10,088 )
Interest and other income	319	113	644	201
Interest expense, net of amount capitalized	(10,543 )	(5,370 )	(19,065 )	(11,081 )
Total other income (expense)	(11,896 )	(5,998 )	(30,004 )	(20,535 )
(Loss) income before income taxes	(7,921 )	35,612	(10,158 )	36,648
Income tax (provision) benefit	(16,095 )	(11,496 )	12,976	(13,150 )
Net (loss) income	(24,016 )	24,116	2,818	23,498
Preferred stock dividends	(138 )	(138 )	(276 )	(276 )
(Loss) income applicable to common shareholders	\$(24,154 )	\$23,978	\$2,542	\$23,222
Comprehensive (loss) income:				
Net income (loss)	\$(24,016 )	\$24,116	\$2,818	\$23,498
Unrealized loss and amortization of prior service on pension plans	(16 )	—	16	—
	2,047	46	5,308	46



Change in fair value of derivative contracts designated as hedge transactions				
Reclassification of loss on disposition or impairment of marketable securities included in net (loss) income	—	—	167	1,000
Unrealized holding (losses) gains on investments	847	1,193	591	1,258
Comprehensive (loss) income	\$(21,138 )	\$25,355	\$8,900	\$25,802
Basic (loss) income per common share after preferred dividends	\$(0.06 )	\$0.06	\$0.01	\$0.06
Diluted (loss) income per common share after preferred dividends	\$(0.06 )	\$0.06	\$0.01	\$0.06
Weighted average number of common shares outstanding - basic	396,178	383,790	395,774	381,389
Weighted average number of common shares outstanding - diluted	396,178	387,512	399,236	384,685
Cash dividends declared per common share	\$0.0025	\$0.0025	\$0.0050	\$0.0050

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

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## Hecla Mining Company and Subsidiaries

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Six Months Ended June 30, 2017	June 30, 2016
Operating activities:		
Net income (loss)	\$ 2,818	\$ 23,498
Non-cash elements included in net income (loss):		
Depreciation, depletion and amortization	56,908	56,968
Loss (gain) on investments	117	(439 )
Gain on disposition of properties, plants, equipment, and mineral interests	(94 )	(311 )
Provision for reclamation and closure costs	2,247	2,005
Stock compensation	2,831	3,467
Deferred income taxes	(22,113 )	10,652
Amortization of loan origination fees	967	926
Loss on derivative contracts	5,386	5,419
Foreign exchange loss	5,201	9,721
Other non-cash charges, net	2	17
Change in assets and liabilities, net of business acquired:		
Accounts receivable	(1,150 )	(15,910 )
Inventories	1,594	(5,802 )
Other current and non-current assets	3,896	268

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Accounts payable and accrued liabilities	(10,937 )	(3,820 )
Accrued payroll and related benefits	(4,901 )	3,135
Accrued taxes	4,408	(4,591 )
Accrued reclamation and closure costs and other non-current liabilities	(1,359 )	935
Cash provided by operating activities	45,821	86,138
Investing activities:		
Additions to properties, plants, equipment and mineral interests	(45,964 )	(76,960 )
Proceeds from disposition of properties, plants and equipment	142	317
Purchases of investments	(23,280 )	(16,088 )
Maturities of investments	14,356	840
Changes in restricted cash and investment balances	1,102	(3,900 )
Net cash used in investing activities	(53,644 )	(95,791 )
Financing activities:		
Proceeds from sale of common stock, net of offering costs	9,610	8,121
Acquisition of treasury shares	(2,474 )	(3,384 )
Dividends paid to common shareholders	(1,981 )	(1,914 )
Dividends paid to preferred shareholders	(276 )	(276 )
Credit availability and debt issuance fees paid	(91 )	(83 )
Repayments of debt	(470 )	(1,339 )
Repayments of capital leases	(3,245 )	(4,356 )
Net provided by (cash used) in financing activities	1,073	(3,231 )

Effect of exchange rates on cash	1,086		1,288	
Net decrease in cash and cash equivalents	(5,664	)	(11,596	)
Cash and cash equivalents at beginning of period	169,777		155,209	
Cash and cash equivalents at end of period	\$	164,113	\$	143,613
Significant non-cash investing and financing activities:				
Addition of capital lease obligations	\$	4,645	\$	1,631
Payment of accrued compensation in stock	\$	4,240	\$	5,511

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

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In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements and notes to the unaudited interim condensed consolidated financial statements contain all adjustments, consisting of normal recurring items and items which are nonrecurring, necessary to present fairly, in all material respects, the financial position of Hecla Mining Company and its consolidated subsidiaries (except as the context otherwise requires, "we" or "our" or "us"). These unaudited interim condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related footnotes as set forth in our annual report filed on Form 10-K for the year ended December 31, 2016, as it may be amended from time to time.

The results of operations for the periods presented may not be indicative of those which may be expected for a full year. The unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in audited financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures are adequate for the information not to be misleading.

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

**Note 2. Investments**

Our current investments, which are classified as "available for sale" and consist of bonds having maturities of greater than 90 days, had a fair value and cost basis of \$37.8 million and \$29.1 million, respectively, at June 30, 2017 and December 31, 2016. During the first six months of 2017, we had purchases of such investments of \$23.3 million and maturities of \$14.4 million. Our current investments at June 30, 2017 and December 31, 2016 consisted of the following (in thousands):

<b>June 30, 2017</b>		<b>December 31, 2016</b>	
<b>Amortized</b>	<b>Unrealized</b>	<b>Amortized</b>	<b>Unrealized</b>
	<b>Fair</b>		<b>Fair</b>
	<b>value</b>		<b>value</b>

	<b>cost</b>	<b>loss</b>		<b>cost</b>	<b>loss</b>	
Corporate bonds	\$34,533	\$ (33 )	\$34,500	\$22,100	\$ (46 )	\$22,054
Municipal bonds	1,715	—	1,715	3,727	(1 )	3,726
Agency bonds	1,601	—	1,601	3,339	(2 )	3,337
Total	\$37,849	\$ (33 )	\$37,816	\$29,166	\$ (49 )	\$29,117

At June 30, 2017 and December 31, 2016, the fair value of our non-current investments was \$4.7 million and \$5.0 million, respectively. Our non-current investments consist of marketable equity securities which are carried at fair value, and are primarily classified as “available-for-sale.” The cost basis of our non-current investments was approximately \$4.0 million at June 30, 2017 and December 31, 2016.

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Major components of our income tax provision (benefit) for the three and six months ended June 30, 2017 and 2016 are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Current:				
Domestic	\$—	\$2,506	\$(12,798)	\$—
Foreign	15,935	1,627	21,451	2,642
Total current income tax provision (benefit)	15,935	4,133	8,653	2,642
Deferred:				
Domestic	2,965	8,777	(15,939)	9,365
Foreign	(2,805)	(1,414)	(5,690)	1,143
Total deferred income tax benefit	160	7,363	(21,629)	10,508
Total income tax provision (benefit)	\$16,095	\$11,496	\$(12,976)	\$13,150

As of June 30, 2017, we have a net deferred tax asset in the U.S. of \$44.6 million and a net deferred tax liability in Canada of \$121.2 million, for a consolidated worldwide net deferred tax liability of \$76.6 million. Our ability to utilize our deferred tax assets depends on future taxable income generated from operations. In the first quarter of 2017, we received consent from the Internal Revenue Service to permit us to take a different income tax position relating to the timing of deductions for the #4 Shaft development costs at Lucky Friday. This tax accounting method change substantially revised the timing of deductions for these costs for regular tax and Alternative Minimum Tax ("AMT") relative to our projected life of mine and projected taxable income. These timing changes caused us to revise our assessment of the ability to generate sufficient future taxable income to realize our deferred tax assets, resulting in a valuation allowance release of approximately \$15 million. At June 30, 2017 and December 31, 2016, the balance of the valuation allowances on our deferred tax assets was \$83 million and \$100 million, respectively, primarily for net operating losses and tax credit carryforwards. The amount of the deferred tax asset considered recoverable, however, could be reduced in the near term if estimates of future taxable income are reduced.

The current income tax provisions (benefits) for the three and six months ended June 30, 2017 and 2016 vary from the amounts that would have resulted from applying the statutory income tax rate to pre-tax income due primarily to the impact of the change in accounting method treatment of the #4 Shaft development costs described above, the impact of taxation in foreign jurisdictions, and the Company's status as an indefinite AMT taxpayer.

#### **Note 4. Commitments, Contingencies and Obligations**

##### *General*

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

##### *Rio Grande Silver Guaranty*

Our wholly-owned subsidiary, Rio Grande Silver Inc. (“Rio”), is party to a joint venture with Emerald Mining & Leasing, LLC (“EML”) and certain other parties with respect to a land package in the Creede Mining District of Colorado that is adjacent to other land held by Rio. Rio holds a 70% interest in the joint venture. In connection with the joint venture, we are required to guarantee certain environmental remediation-related obligations of EML to a third party up to a maximum liability to us of \$2.5 million. As of June 30, 2017, we have not been required to make any payments pursuant to the guaranty. We may be required to make payments in the future, limited to the \$2.5 million maximum liability, should EML fail to meet its obligations to the third party. However, to the extent that any payments are made by us under the guaranty, EML, in addition to other parties, has jointly and severally agreed to reimburse and indemnify us for any such payments. We have not recorded a liability relating to the guaranty as of June 30, 2017.



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*Lucky Friday Water Permit Matters*

In the past, the Lucky Friday unit experienced multiple regulatory issues relating to its water discharge permits and water management more generally. All of these issues have been resolved except for one: in December 2013, the EPA issued to Hecla Limited a request for information under Section 308 of the Clean Water Act directing Hecla Limited to undertake a comprehensive groundwater investigation of Lucky Friday's tailings pond no. 3 to evaluate whether the pond is causing the discharge of pollutants via seepage to groundwater that is discharging to surface water. We completed the investigation mandated by the EPA and submitted a draft report to the agency in December 2015. We are waiting for the EPA's response and we cannot predict what the impact of the investigation will be.

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

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

In May 2011, the EPA made a formal request to Hecla Mining Company for information regarding the Johnny M Mine Area near San Mateo, McKinley County, New Mexico, and asserted that Hecla Mining Company may be responsible under CERCLA for environmental remediation and past costs the EPA has incurred at the site. Mining at the Johnny M was conducted for a limited period of time by a predecessor of our subsidiary, Hecla Limited. In August 2012, Hecla Limited and the EPA entered into a Settlement Agreement and Administrative Order on Consent for Removal Action ("Consent Order"), pursuant to which Hecla Limited agreed to pay (i) \$1.1 million to the EPA for its past response costs at the site and (ii) any future response costs at the site under the Consent Order, in exchange for a covenant not to sue by the EPA. Hecla Limited paid the \$1.1 million to the EPA for its past response costs and in December 2014, submitted to EPA the Engineering Evaluation and Cost Analysis ("EE/CA") for the site. The EE/CA evaluates three alternative response actions: 1) no action, 2) off-site disposal, and 3) on-site disposal. The range in estimated costs of these alternatives is \$0 to \$221 million. In the EE/CA, Hecla Limited recommended that EPA approve on-site disposal, which is currently estimated to cost \$5.6 million, on the basis that it is the most appropriate response action under CERCLA. In June 2015, the EPA approved the EE/CA, with a few minor conditions. The EPA still needs to publish the EE/CA for public notice and comment, and the agency will not make a final decision on the appropriate response action until the public comment process is complete. It is anticipated that Hecla Limited will implement the response action selected by the EPA pursuant to an amendment to the Consent Order or a new order. Based on the foregoing, we believe it is probable that Hecla Limited will incur a liability for remediation at the site. In the fourth quarter of 2014, we accrued \$5.6 million, which continues to be our best estimate of that liability as of the date of this report. There can be no assurance that Hecla Limited's liability will not be more than \$5.6 million, or that its ultimate liability will not have a material adverse effect on Hecla Limited's or our results of operations or financial position.

In September 2016, Hecla Limited was served with a lawsuit filed by an individual in state court in New Mexico alleging personal injury claims of several millions of dollars arising from alleged exposure to contaminants as a result of allegedly living on land adjacent to the Johnny M Mine site. The case was subsequently removed to federal court in New Mexico, and Hecla Limited filed a motion to dismiss. We do not yet have enough information to conclude if Hecla Limited has any liability or to estimate any loss that it may incur.

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*Carpenter Snow Creek and Barker-Hughesville Sites in Montana*

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

In June 2011, the EPA informed Hecla Limited that it believes Hecla Limited, among several other viable companies, may be liable for cleanup of the site or for costs incurred by the EPA in cleaning up the site. The EPA stated in the June 2011 letter that it has incurred approximately \$4.5 million in response costs and estimated that total remediation costs may exceed \$100 million. Hecla Limited cannot with reasonable certainty estimate the amount or range of liability, if any, relating to this matter because of, among other reasons, the lack of information concerning the site.

In February 2017, the EPA made a formal request to Hecla Mining Company for information regarding the Barker-Hughesville Mining District Superfund site located in Judith Basin and Cascade Counties, Montana. The Barker-Hughesville site is located in a historic mining district, and between approximately June and December 1983, Hecla Limited was party to an agreement with another mining company under which limited exploration activities occurred at or near the site. Neither the EPA nor any other party has made any claims against Hecla Limited (or Hecla Mining Company), however, it is possible that such a claim will be made in the future. Unless and until such a claim is made, Hecla Limited cannot estimate the amount or range of liability, if any, relating to this matter.

*Senior Notes*

On April 12, 2013, we completed an offering of \$500 million aggregate principal amount of 6.875% Senior Notes due 2021. The net proceeds from the offering of the Senior Notes were used to partially fund the acquisition of Aurizon Mines Ltd. ("Aurizon") and for general corporate purposes, including expenses related to the Aurizon acquisition. Aurizon held our Casa Berardi mine and other interests in Quebec, Canada. In 2014, we completed additional issuances of our Senior Notes in the aggregate principal amount of \$6.5 million, which were contributed to one of our pension plans to satisfy the funding requirement for 2014. Interest on the Senior Notes is payable on May 1 and November 1 of each year, commencing November 1, 2013. See *Note 9* for more information.

*Other Commitments*

Our contractual obligations as of June 30, 2017 included approximately \$1.2 million for various costs. In addition, our open purchase orders at June 30, 2017 included approximately \$0.1 million, \$1.4 million and \$11.0 million for various capital and non-capital items at the Lucky Friday, Casa Berardi and Greens Creek units, respectively. We also have total commitments of approximately \$13.8 million relating to scheduled payments on capital leases, including interest, primarily for equipment at our Greens Creek, Lucky Friday and Casa Berardi units (see *Note 9* for more information). As part of our ongoing business and operations, we are required to provide surety bonds, bank letters of credit, and restricted deposits for various purposes, including financial support for environmental reclamation obligations and workers compensation programs. As of June 30, 2017, we had surety bonds totaling \$116.9 million in place as financial support for future reclamation and closure costs, self-insurance, and employee benefit plans. The obligations associated with these instruments are generally related to performance requirements that we address through ongoing operations. As the requirements are met, the beneficiary of the associated instruments cancels or returns the instrument to the issuing entity. Certain of these instruments are associated with operating sites with long-lived assets and will remain outstanding until closure of the sites. We believe we are in compliance with all applicable bonding requirements and will be able to satisfy future bonding requirements as they arise.

#### *Other Contingencies*

When we acquired Revett Mining Company, Inc. (now known as Hecla Montana, Inc. - "HMI") in June 2015, it was the subject of a lawsuit filed in Montana state court by a former employee of its wholly owned subsidiary, Troy Mine, Inc., alleging that Revett was responsible for injuries he suffered while working for Troy Mine. The case is continuing with plaintiff claiming injuries totaling several millions of dollars. Although we are vigorously defending the suit, it is possible that HMI faces some liability in the case; however, we are unable to estimate the amount or range of any potential liability. Insurance is currently providing a defense to HMI, but there is no guarantee it would provide coverage for any losses incurred.

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

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**Note 5. Income (Loss) Per Common Share**

We are authorized to issue 750,000,000 shares of common stock, \$0.25 par value per share. At June 30, 2017, there were 402,957,303 shares of our common stock issued and 4,429,844 shares issued and held in treasury, for a net of 398,527,459 shares outstanding.

Diluted income (loss) per share for the three and six months ended June 30, 2017 and 2016 excludes the potential effects of outstanding shares of our convertible preferred stock, as their conversion would have no effect on the calculation of dilutive shares.

For the three-month period ended June 30, 2017, all restricted share units and deferred shares were excluded from the computation of diluted loss per share, as our reported loss for that period would cause them to have no effect on the calculation of loss per share. For the six-month period ended June 30, 2017, 3,619,975 restricted stock units that were unvested or which vested in the current period and 1,352,470 deferred shares were included in the calculation of diluted income per share. For the three-month and six-month periods ended June 30, 2016, 3,515,356 restricted stock units that were unvested or which vested in the current period and 635,602 deferred shares were included in the calculation of diluted income per share. There were no options or warrants outstanding as of June 30, 2017 or June 30, 2016.

**Note 6. Business Segments**

We are currently organized and managed in four segments: the Greens Creek unit, the Lucky Friday unit, the Casa Berardi unit, and the San Sebastian unit.

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

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The following tables present information about reportable segments for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net sales to unaffiliated customers:				
Greens Creek	\$71,339	\$59,574	\$130,189	\$113,456
Lucky Friday	(187 )	22,760	19,823	44,012
Casa Berardi	43,822	53,285	85,534	85,483
San Sebastian	19,305	35,683	41,277	59,368
	\$134,279	\$171,302	\$276,823	\$302,319
Income (loss) from operations:				
Greens Creek	\$15,418	\$14,831	\$29,532	\$22,909
Lucky Friday	(8,212 )	4,047	(4,332 )	6,790
Casa Berardi	(1,708 )	10,622	(3,953 )	12,556
San Sebastian	11,892	25,583	25,346	40,495
Other	(13,415 )	(13,473 )	(26,747 )	(25,567 )
	\$3,975	\$41,610	\$19,846	\$57,183

The following table presents identifiable assets by reportable segment as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Identifiable assets:		
Greens Creek	\$674,210	\$681,303
Lucky Friday	431,331	442,829
Casa Berardi	807,180	806,044
San Sebastian	43,268	33,608
Other	423,167	407,893
	\$2,379,156	\$2,371,677

The sales and income (loss) from operations amounts reported above include results from our Lucky Friday segment. The Lucky Friday mine is our only operation where some of our employees are subject to a collective bargaining agreement, and the most recent agreement expired on April 30, 2016. On February 19, 2017, the unionized employees voted against our contract offer and on March 13, 2017 went on strike and have been on strike since that time. Production at Lucky Friday has been suspended since the start of the strike. For the first six months of 2017, suspension costs during the strike period of \$7.6 million, along with \$2.0 million in non-cash depreciation expense, are reported in a separate line item on our unaudited condensed consolidated statement of operations. We cannot

predict how long the strike will last or whether an agreement will be reached. As a result of the strike or other events related to labor at Lucky Friday, operations at Lucky Friday could continue to be disrupted, which could adversely affect our financial condition and results of operations.

Table of Contents**Note 7. Employee Benefit Plans**

We sponsor defined benefit pension plans covering substantially all U.S. employees. Net periodic pension cost for the plans consisted of the following for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended	
	June 30,	
	2017	2016
Service cost	\$ 1,196	\$ 1,077
Interest cost	1,339	1,307
Expected return on plan assets	(1,462)	(1,325)
Amortization of prior service cost	(84 )	(84 )
Amortization of net loss	1,033	1,093
Net periodic pension cost	\$ 2,022	\$ 2,068

	Six Months Ended	
	June 30,	
	2017	2016
Service cost	\$ 2,392	\$ 2,154
Interest cost	2,678	2,614
Expected return on plan assets	(2,924)	(2,650)
Amortization of prior service cost	(168 )	(168 )
Amortization of net (gain) loss	2,066	2,186
Net periodic pension cost	\$ 4,044	\$ 4,136

We made cash contributions to our defined benefit plans of \$1.2 million in April 2017 and \$5.7 million in July 2017. We expect to contribute approximately \$0.4 million to our unfunded supplemental executive retirement plan during 2017.

**Note 8. Shareholders' Equity**



*Stock-based Compensation Plans*

We periodically grant restricted stock unit awards, performance-based share awards and shares of common stock to our employees and directors as part of their compensation. We measure compensation cost for restricted stock units and stock grants at the closing price of our stock at the time of grant. We measure compensation cost for performance-based grants using a Monte Carlo simulation to estimate their value at grant date. Restricted stock unit and performance-based share grants vest after a specified period with compensation cost amortized over that period. Although we have no current plans to issue stock options, we may do so in the future.

In March 2017, the Board of Directors granted 641,406 shares of common stock to employees for payment of annual and long-term incentive compensation for the period ended December 31, 2016. The shares were distributed in March 2017, and \$4.2 million in expense related to the stock awards was recognized in the periods prior to March 31, 2017.

In June 2017, the Board of Directors granted the following restricted stock unit awards to employees:

- 775,379 restricted stock units, with one third of those vesting in June 2018, one third vesting in June 2019, and one third vesting in June 2020;
- 93,691 restricted stock units, with one half of those vesting in June 2018 and one half vesting in June 2019; and
- 15,336 restricted stock units that vest in June 2018.

The \$1.9 million in expense related to the unit awards discussed above vesting in 2018 will be recognized on a straight-line basis over the twelve months following the date of the award. The \$1.8 million in expense related to the unit awards discussed above vesting in 2019 will be recognized on a straight-line basis over the twenty-four months following the date of the award. The \$1.5 million in expense related to the unit awards discussed above vesting in 2020 will be recognized on a straight-line basis over the thirty-six month period following the date of the award.

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In June 2017, the Board of Directors granted performance-based share awards to certain executive employees. The value of the awards will be based on the ranking of the market performance of our common stock relative to the performance of the common stock of a group of peer companies over the three-year measurement period ending December 31, 2019. The number of shares to be issued will be based on the value of the awards divided by the share price at grant date. The expense related to the performance-based awards will be recognized on a straight-line base over the thirty months following the date of the award.

Stock-based compensation expense for restricted stock unit and performance-based grants to employees and shares issued to nonemployee directors recorded in the first six months of 2017 totaled \$2.8 million, compared to \$3.5 million in the same period last year.

In connection with the vesting of restricted stock units and other stock grants, employees have in the past, at their election and when permitted by us, chosen to satisfy their minimum tax withholding obligations through net share settlement, pursuant to which the Company withholds the number of shares necessary to satisfy such withholding obligations. As a result, in the first six months of 2017 we withheld 488,634 shares valued at approximately \$2.5 million, or approximately \$5.06 per share. In the first six months of 2016 we withheld 997,678 shares valued at approximately \$3.4 million, or approximately \$3.40 per share.

*Common Stock Dividends*

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

<b>Quarterly average realized</b>	<b>Quarterly dividend</b>	<b>Annualized dividend</b>
<b>silver price per ounce</b>	<b>per share</b>	<b>per share</b>
\$30	\$0.01	\$0.04
\$35	\$0.02	\$0.08
\$40	\$0.03	\$0.12
\$45	\$0.04	\$0.16
\$50	\$0.05	\$0.20

On August 3, 2017, our Board of Directors declared a common stock dividend, pursuant to the minimum annual dividend component of the policy described above, of \$0.0025 per share, for a total dividend of \$1.0 million payable in September 2017. Because the average realized silver price for the second quarter of 2017 was \$17.14 per ounce, below the minimum threshold of \$30 according to the policy, no silver-price-linked component was declared or paid. The declaration and payment of common stock dividends is at the sole discretion of our Board of Directors.

*At-The-Market Equity Distribution Agreement*

Pursuant to an equity distribution agreement dated February 23, 2016, we may issue and sell shares of our common stock from time to time through ordinary broker transactions having an aggregate offering price of up to \$75 million, with the net proceeds available for general corporate purposes. The terms of sales transactions under the agreement, including trading day(s), number of shares sold in the aggregate, number of shares sold per trading day, and the floor selling price per share, are proposed by us to the sales agent. Whether or not we engage in sales from time to time may depend on a variety of factors, including share price, our cash resources, customary black-out restrictions, and whether we have any material inside information. The agreement can be terminated by us at any time. The shares issued under the equity distribution agreement are registered under the Securities Act of 1933, as amended, pursuant to our shelf registration statement on Form S-3, which was filed with the Securities and Exchange Commission ("SEC") on February 23, 2016. As of June 30, 2017, we had sold 4,608,847 shares under the agreement for total proceeds of approximately \$17.7 million, net of commissions and fees of approximately \$362 thousand. Of those amounts, 1,828,760 shares were sold in the second quarter of 2017 for total proceeds of approximately \$9.6 million, net of commissions and fees of approximately \$196 thousand.

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*Common Stock Repurchase Program*

On May 8, 2012, we announced that our Board of Directors approved a stock repurchase program. Under the program, we are authorized to repurchase up to 20 million shares of our outstanding common stock from time to time in open market or privately negotiated transactions, depending on prevailing market conditions and other factors. The repurchase program may be modified, suspended or discontinued by us at any time. Whether or not we engage in repurchases from time to time may depend on a variety of factors, including not only price and cash resources, but customary black-out restrictions, whether we have any material inside information, limitations on share repurchases or cash usage that may be imposed by our credit agreement or in connection with issuances of securities, alternative uses for cash, applicable law, and other investment opportunities from time to time. As of June 30, 2017, 934,100 shares have been purchased at an average price of \$3.99 per share, leaving 19.1 million shares that may yet be purchased under the program. The closing price of our common stock at August 1, 2017, was \$5.54 per share.

**Note 9. Senior Notes, Credit Facility and Capital Leases**

*Senior Notes*

On April 12, 2013, we completed an offering of \$500 million in aggregate principal amount of our Senior Notes due May 1, 2021 in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended, and in 2014, an additional \$6.5 million aggregate principal amount of the Senior Notes were issued to one of our pension plans. The Senior Notes were subsequently exchanged for substantially identical Senior Notes registered with the SEC. The Senior Notes are governed by the Indenture, dated as of April 12, 2013, as amended (the "Indenture"), among Hecla Mining Company ("Hecla") and certain of our subsidiaries and The Bank of New York Mellon Trust Company, N.A., as trustee. The net proceeds from the initial offering of the Senior Notes (\$490 million) were used to partially fund the acquisition of Aurizon and for general corporate purposes, including expenses related to the Aurizon acquisition.

The Senior Notes are recorded net of a 2% initial purchaser discount totaling \$10 million at the time of the April 2013 issuance and having an unamortized balance of \$4.9 million as of June 30, 2017. The Senior Notes bear interest at a rate of 6.875% per year from the date of original issuance or from the most recent payment date on which interest has been paid or provided for. Interest on the Senior Notes is payable on May 1 and November 1 of each year, commencing November 1, 2013. During the six months ended June 30, 2017 and 2016, interest expense related to the Senior Notes and amortization of the initial purchaser discount and fees related to the issuance of the Senior Notes totaled \$17.2 million and \$10.2 million, respectively. The interest expense related to the Senior Notes for the six months ended June 30, 2017 and 2016 was net of \$0.9 million and \$7.9 million, respectively, in capitalized interest, primarily related to the #4 Shaft project at our Lucky Friday unit which was completed in January 2017. Interest

expense for the six months ended June 30, 2017 also includes \$1.1 million in costs related to our private offering of new Senior Notes in June 2017 and concurrent tender offer to purchase our existing Senior Notes, which were not completed.

The Senior Notes are guaranteed on a senior unsecured basis by certain of our subsidiaries (the "Guarantors"). The Senior Notes and the guarantees are, respectively, Hecla's and the Guarantors' general senior unsecured obligations and are subordinated to all of Hecla's and the Guarantors' existing and future secured debt to the extent of the assets securing that secured debt. In addition, the Senior Notes are effectively subordinated to all of the liabilities of Hecla's subsidiaries that are not guaranteeing the Senior Notes, to the extent of the assets of those subsidiaries.

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The Senior Notes became redeemable in whole or in part, at any time and from time to time after May 1, 2016, on the redemption dates and at the redemption prices specified in the Indenture, plus accrued and unpaid interest, if any, to the date of redemption.

Upon the occurrence of a change of control (as defined in the Indenture), each holder of Senior Notes will have the right to require us to purchase all or a portion of such holder's Senior Notes pursuant to a change of control offer (as defined in the Indenture), at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase, subject to the rights of holders of the Senior Notes on the relevant record date to receive interest due on the relevant interest payment date.

*Credit Facility*

In May 2016, we entered into a \$100 million senior secured revolving credit facility with a three year term, which was amended in July 2017 to extend the term until July 14, 2020. The credit facility is collateralized by the shares of common stock held in our material domestic subsidiaries and by our joint venture interests in the Greens Creek mine, all of our rights and interests in the joint venture agreement, and all of our rights and interests in the assets of the joint venture. Below is information on the interest rates, standby fee, and financial covenant terms under our credit facility:

## Interest rates:

Spread over the London Interbank Offer Rate	2.25	-	3.25%
Spread over alternative base rate	1.25	-	2.25%
Standby fee per annum on undrawn amounts			0.50%

## Covenant financial ratios:

Senior leverage ratio (debt secured by liens/EBITDA)	not more than 2.50:1
Leverage ratio (total debt less unencumbered cash/EBITDA) <sup>(1)</sup>	not more than 4.00:1
Interest coverage ratio (EBITDA/interest expense)	not more than 3.00:1

<sup>(1)</sup> The leverage ratio was amended to be 5.00:1 for 2016, and reverted back to 4.00:1 effective January 1, 2017.

We are also able to obtain letters of credit under the facility, and for any such letters we are required to pay a participation fee of between 2.25% and 3.25% based on our total leverage ratio, as well as a fronting fee to each issuing bank of 0.20% annually on the average daily dollar amount of any outstanding letters of credit. There were \$2.6 million in letters of credit outstanding as of June 30, 2017.

We believe we were in compliance with all covenants under the credit agreement and no amounts were outstanding as of June 30, 2017. We have not drawn funds on the current revolving credit facility as of the filing date of this report.

### *Capital Leases*

We have entered into various lease agreements, primarily for equipment at our Greens Creek, Lucky Friday, and Casa Berardi units, which we have determined to be capital leases. At June 30, 2017, the total liability balance associated with capital leases, including certain purchase option amounts, was \$13.1 million, with \$5.9 million of the liability classified as current and the remaining \$7.2 million classified as non-current. At December 31, 2016, the total liability balance associated with capital leases was \$11.5 million, with \$5.7 million of the liability classified as current and \$5.8 million classified as non-current. The total obligation for future minimum lease payments was \$13.8 million at June 30, 2017, with \$0.7 million attributed to interest.

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At June 30, 2017, the annual maturities of capital lease commitments, including interest, are (in thousands):

Twelve-month period ending June 30,	
2018	\$6,471
2019	4,168
2020	2,217
2021	981
Total	13,837
Less: imputed interest	(739 )
Net capital lease obligation	\$13,098

**Note 10. Developments in Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 Revenue Recognition, replacing guidance currently codified in Subtopic 605-10 Revenue Recognition-Overall with various SEC Staff Accounting Bulletins providing interpretive guidance. The new ASU establishes a new five step principle-based framework in an effort to significantly enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. In August 2015, the FASB issued ASU No. 2015-14 Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. ASU No. 2015-14 defers the effective date of ASU No. 2014-09 until annual and interim reporting periods beginning after December 15, 2017.

We have performed a preliminary assessment of the impact of implementation of ASU No. 2014-09, and do not believe it will change the timing of revenue recognition or amounts of revenue recognized compared to how we recognize revenue under our current policies. Our revenues involve a relatively limited number of types of contracts and customers. In addition, our revenue contracts do not involve multiple types of performance obligations. Revenues from doré are recognized, and the transaction price is known, at the time the metals sold are delivered to the customer. Concentrate revenues are generally recognized at the time of shipment. Concentrates sold at our Lucky Friday unit typically leave the mine and are received by the customer within the same day. There is a period of time between shipment of concentrates from our Greens Creek unit and their physical receipt by the customer. However, based on our assessment, we believe control of the concentrate parcels is generally obtained by the customer at the time of shipment.

Our concentrate sales involve variable consideration, as they are subject to changes in metals prices between the time of shipment and their final settlement. However, we are able to reasonably estimate the transaction price for the concentrate sales at the time of shipment using forward prices for the month of settlement, and we then adjust the values each period until final settlement. Also, it is unlikely a significant reversal of revenue for any one concentrate



parcel will occur.

During 2017, we plan to finalize our assessment of the impact of ASU No. 2014-09 on our revenue recognition, and assess the additional disclosure requirements under the new guidance.

In July 2015, the FASB issued ASU No. 2015-11 Inventory (Topic 330): Simplifying the Measurement of Inventory. The update provides for inventory to be measured at the lower of cost and net realizable value, and is effective for fiscal years beginning after December 15, 2016. We adopted this update effective January 1, 2017, and it did not have a material impact on our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17 Income Taxes - Balance Sheet Classification of Deferred Taxes (Topic 740). The update is designed to reduce complexity of reporting deferred income tax liabilities and assets into current and non-current amounts in a balance sheet. ASU No. 2015-17 requires the presentation of deferred income taxes, changes to deferred tax liabilities and assets be classified as non-current in the statement of financial position. The update is effective for fiscal years beginning after December 15, 2016. We have elected to implement ASU No. 2015-17 retrospectively, and our deferred tax asset and liability balances are classified as non-current. Deferred tax assets of \$12.3 million and deferred tax liabilities of \$1.3 million previously classified as current as of December 31, 2016 are now classified as non-current on our condensed consolidated balance sheet.

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In January 2016, the FASB issued ASU No. 2016-01 Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The guidance requires entities to measure equity investments that are not accounted for under the equity method at fair value, with any changes in fair value included in current earnings, and updates certain disclosure requirements. The update is effective for fiscal years beginning after December 15, 2017. We are currently evaluating the impact of implementing this update on our consolidated financial statements. At June 30, 2017, we had immaterial net unrealized losses related to equity investments included in accumulated other comprehensive loss.

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842). The update modifies the classification criteria and requires lessees to recognize the assets and liabilities on the balance sheet for most leases. The update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact of implementing this update on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09 Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The update simplifies the accounting for stock-based compensation, including income tax consequences and balance sheet and cash flow statement classification of awards. The update is effective for fiscal years beginning after December 15, 2016. We adopted this update effective January 1, 2017, and it did not have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update provides guidance on classification for cash receipts and payments related to eight specific issues. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the potential impact of implementing this update on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. The update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. We are currently evaluating the potential impact of implementing this update on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The update clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We will apply the applicable provisions of the update to any acquisitions occurring after the effective date.

In March 2017, the FASB issued ASU No. 2017-07 Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Period Postretirement Benefit Cost. The update provides specific requirements for classification and disclosure regarding the service cost component and other components of net benefit cost related to pension plans. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We are currently evaluating the potential impact of implementing this update on our consolidated financial statements.

Table of Contents**Note 11. Derivative Instruments***Foreign Currency*

Our wholly-owned subsidiaries owning the Casa Berardi and San Sebastian mines are U.S. dollar ("USD")-functional entities which routinely incur expenses denominated in Canadian dollars ("CAD") and Mexican pesos ("MXN"), and such expenses expose us to exchange rate fluctuations between the USD and CAD and MXN. In April 2016, we initiated a program to manage our exposure to fluctuations in the exchange rate between the USD and CAD and the impact on our future operating costs denominated in CAD. In October 2016, we also initiated a program to manage our exposure to the impact of fluctuations in the exchange rate between the USD and MXN on our future operating costs denominated in MXN. The programs utilize forward contracts to buy CAD and MXN, and each contract is designated as a cash flow hedge. As of June 30, 2017, we have 106 forward contracts outstanding to buy CAD\$230.1 million having a notational amount of US\$177.0 million, and 12 forward contracts outstanding to buy MXN\$96.0 million having a notational amount of USD\$4.8 million. The CAD contracts are related to forecasted cash operating costs at Casa Berardi to be incurred from 2017 through 2020 and have USD-to-CAD exchange rates ranging between 1.2787 and 1.3380. The MXN contracts are related to forecasted cash operating costs at San Sebastian for 2017 and have MXN-to-USD exchange rates ranging between 19.3752 and 21.0000. Our risk management policy provides for up to 75% of our planned cost exposure for five years into the future to be hedged under such programs, and for potential additional programs to manage other foreign currency-related exposure areas.

As of June 30, 2017, we recorded the following balances for the fair value of the contracts:

- a current asset of \$1.1 million, which is included in other current assets;
- a non-current asset of \$1.1 million, which is included in other non-current assets;
- a current liability of \$0.4 million, which is included in other current liabilities, and
- a non-current liability of \$0.1 million, which is included in other non-current liabilities.

Net unrealized gains of approximately \$48 thousand related to the effective portion of the hedges were included in accumulated other comprehensive income as of June 30, 2017. Unrealized gains and losses will be transferred from accumulated other comprehensive loss to current earnings as the underlying operating expenses are recognized. We estimate approximately \$0.4 million in net unrealized gains included in accumulated other comprehensive income as of June 30, 2017 would be reclassified to current earnings in the next twelve months. Net realized losses of approximately \$0.4 million on contracts related to underlying expenses which have been recognized were transferred from accumulated other comprehensive loss and included in cost of sales and other direct production costs for the six months ended June 30, 2017. Net unrealized gains of approximately \$2 thousand related to ineffectiveness of the hedges were included in current earnings for the six months ended June 30, 2017.

*Metals Prices*

At times, we use commodity forward sales commitments, commodity swap contracts and commodity put and call option contracts to manage our exposure to fluctuation in the prices of certain metals which we produce. Contract positions are designed to ensure that we will receive a defined minimum price for certain quantities of our production, thereby partially offsetting our exposure to fluctuations in the market. These instruments do, however, expose us to (i) credit risk in the event of non-performance by counterparties for contracts in which the contract price exceeds the spot price of a commodity and (ii) price risk to the extent that the spot price exceeds the contract price for quantities of our production covered under contract positions.

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We are currently using financially-settled forward contracts to manage the exposure to changes in prices of silver, gold, zinc and lead contained in our concentrate shipments between the time of shipment and final settlement. In addition, we currently use financially-settled forward contracts to manage the exposure to changes in prices of zinc and lead (but not silver and gold) contained in our forecasted future concentrate shipments. These contracts are not designated as hedges and are marked-to-market through earnings each period. As of June 30, 2017, we recorded the following balances for the fair value of the contracts:

- a current asset of \$1.2 million, which is included in other current assets;
- a current liability of \$1.3 million, which is included in other current liabilities; and
- a non-current liability of \$0.1 million, which is included in other non-current liabilities.

We recognized a \$3.3 million net loss during the first six months of 2017 on the contracts utilized to manage exposure to prices of metals in our concentrate shipments, which is included in sales of products. The net loss recognized on the contracts offsets gains related to price adjustments on our provisional concentrate sales due to changes to silver, gold, lead and zinc prices between the time of sale and final settlement.

We recognized a \$5.3 million net loss during the first half of 2017 on the contracts utilized to manage exposure to prices for forecasted future concentrate shipments. The net loss on these contracts is included as a separate line item under other income (expense), as they relate to forecasted future shipments, as opposed to sales that have already taken place but are subject to final pricing as discussed in the preceding paragraph. The net loss for the first quarter of 2017 is the result of higher zinc and lead prices. This program, when utilized, is designed to mitigate the impact of potential future declines in lead and zinc prices from the price levels established in the contracts (see average price information below).

The following tables summarize the quantities of metals committed under forward sales contracts at June 30, 2017 and December 31, 2016:

June 30, 2017	Ounces/pounds under contract (in 000's)				Average price per ounce/pound			
	Silver (ounces)	Gold (ounces)	Zinc (pounds)	Lead (pounds)	Silver (ounces)	Gold (ounces)	Zinc (pounds)	Lead (pounds)
<b>Contracts on provisional sales</b>								
2017 settlements	1,379	7	15,873	6,724	\$17.14	\$ 1,259	\$ 1.21	\$ 0.97
<b>Contracts on forecasted sales</b>								
2017 settlements	—	—	6,834	6,504	N/A	N/A	\$ 1.26	\$ 1.05
2018 settlements	—	—	28,329	16,314	N/A	N/A	\$ 1.23	\$ 1.05
2019 settlements	—	—	1,102	1,102	N/A	N/A	\$ 1.21	\$ 1.06

December 31, 2016	Ounces/pounds under contract (in 000's)				Average price per ounce/pound			
	Silver (ounces)	Gold (ounces)	Zinc (pounds)	Lead (pounds)	Silver (ounces)	Gold (ounces)	Zinc (pounds)	Lead (pounds)
<b>Contracts on provisional sales</b>								
2017 settlements	1,295	4	19,070	7,441	\$16.29	\$ 1,172	\$ 1.18	\$ 0.97
<b>Contracts on forecasted sales</b>								
2017 settlements	—	—	35,384	17,637	N/A	N/A	\$ 1.19	\$ 1.03
2018 settlements	—	—	13,779	5,732	N/A	N/A	\$ 1.21	\$ 1.05

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

Table of Contents*Credit-risk-related Contingent Features*

Certain of our derivative contracts contain cross default provisions which provide that a default under our revolving credit agreement would cause a default under the derivative contracts. As of June 30, 2017, we have not posted any collateral related to these agreements. The fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$3.2 million as of June 30, 2017. If we were in breach of any derivative contracts at June 30, 2017, we could have been required to settle our obligations under the agreements at their termination value of \$3.2 million.

**Note 12. Fair Value Measurement**

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

Description	Balance at June 30, 2017	Balance at December 31, 2016	Input Hierarchy Level
<b>Assets:</b>			
Cash and cash equivalents:			
Money market funds and other bank deposits	\$164,113	\$169,777	Level 1
Available for sale securities:			
Debt securities - municipal and corporate bonds	37,816	29,117	Level 2
Equity securities – mining industry	4,729	5,002	Level 1
Trade accounts receivable:			
Receivables from provisional concentrate sales	9,183	20,082	Level 2
Restricted cash balances:			
Certificates of deposit and other deposits	1,098	2,200	Level 1
Derivative contracts:			
Foreign exchange contracts	2,286	27	Level 2
Metal forward contracts	1,208	5,403	Level 2
Total assets	\$220,433	\$231,608	
<b>Liabilities:</b>			
Derivative contracts:			
Foreign exchange contracts	\$585	\$5,288	Level 2



Metal forward contracts	1,383	192	Level 2
Total Liabilities	\$1,968	\$5,480	

Cash and cash equivalents consist primarily of money market funds and are valued at cost, which approximates fair value, and a small portion consists of municipal bonds having maturities of less than 90 days, which are recorded at fair value.

Current available-for-sale securities consist of municipal and corporate bonds having maturities of more than 90 days, which are recorded at fair value.

Current and non-current restricted cash balances consist primarily of certificates of deposit, U.S. Treasury securities, and other deposits and are valued at cost, which approximates fair value.

Our non-current available for sale securities consist of marketable equity securities of companies in the mining industry which are valued using quoted market prices for each security.

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Trade accounts receivable include amounts due to us for shipments of concentrates, doré and precipitate sold to customers. Revenues and the corresponding accounts receivable for sales of metals products are recorded when title and risk of loss transfer to the customer (generally at the time of loading on truck or ship). Sales of concentrates are recorded using estimated forward prices for the anticipated month of settlement applied to our estimate of payable metal quantities contained in each shipment. Sales are recorded net of estimated treatment and refining charges, which are also impacted by changes in metals prices and quantities of contained metals. We estimate the prices at which sales of our concentrates will be settled due to the time elapsed between shipment and final settlement with the customer. Receivables for previously recorded concentrate sales are adjusted to reflect estimated forward metals prices at the end of each period until final settlement by the customer. We obtain the forward metals prices used each period from a pricing service. Changes in metal prices between shipment and final settlement result in changes to revenues previously recorded upon shipment. The embedded derivative contained in our concentrate sales is adjusted to fair market value through earnings each period prior to final settlement.

We use financially-settled forward contracts to manage exposure to changes in the exchange rate between the U.S. dollar and Canadian dollar and Mexican peso, and the impact on Canadian dollar- and Mexican peso-denominated operating costs incurred at our Casa Berardi and San Sebastian units (see *Note 11* for more information). These contracts qualify for hedge accounting, with unrealized gains and losses related to the effective portion of the contracts included in accumulated other comprehensive loss, and unrealized gains and losses related to the ineffective portion of the contracts included in earnings each period. The fair value of each contract represents the present value of the difference between the forward exchange rate for the contract settlement period as of the measurement date and the contract settlement exchange rate.

We use financially-settled forward contracts to manage the exposure to changes in prices of silver, gold, zinc and lead contained in our concentrate shipments that have not reached final settlement. We also use financially-settled forward contracts to manage the exposure to changes in prices of zinc and lead contained in our forecasted future concentrate shipments (see *Note 11* for more information). These contracts do not qualify for hedge accounting, and are marked-to-market through earnings each period. The fair value of each contract represents the present value of the difference between the forward metal price for the contract settlement period as of the measurement date and the contract settlement metal price.

Our Senior Notes issued in April 2013, which were recorded at their carrying value of \$501.6 million, net of unamortized initial purchaser discount at June 30, 2017 of \$4.9 million, had a fair value of \$524.6 million at June 30, 2017. Quoted market prices, which we consider to be Level 1 inputs, are utilized to estimate fair values of the Senior Notes. See *Note 9* for more information.

**Note 13. Guarantor Subsidiaries**

Presented below are Hecla's unaudited interim condensed consolidating financial statements as required by Rule 3-10 of Regulation S-X of the Securities Exchange Act of 1934, as amended, resulting from the guarantees by certain of Hecla's subsidiaries (the "Guarantors") of the Senior Notes (see *Note 9* for more information). The Guarantors consist of the following of Hecla's 100%-owned subsidiaries: Hecla Limited; Silver Hunter Mining Company; Rio Grande Silver, Inc.; Hecla MC Subsidiary, LLC; Hecla Silver Valley, Inc.; Burke Trading, Inc.; Hecla Montana, Inc.; Revett Silver Company; RC Resources, Inc.; Troy Mine Inc.; Revett Exploration, Inc.; Revett Holdings, Inc.; Mines Management, Inc.; Newhi Corp.; Montanore Minerals Corp.; Hecla Alaska LLC; Hecla Greens Creek Mining Company; Hecla Admiralty Company; and Hecla Juneau Mining Company. We completed the initial offering of the Senior Notes on April 12, 2013, and a related exchange offer for virtually identical notes registered with the SEC on January 3, 2014.

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The unaudited interim condensed consolidating financial statements below have been prepared from our financial information on the same basis of accounting as the unaudited interim condensed consolidated financial statements set forth elsewhere in this report. Investments in the subsidiaries are accounted for under the equity method. Accordingly, the entries necessary to consolidate Hecla, the Guarantors, and our non-guarantor subsidiaries are reflected in the intercompany eliminations column. In the course of preparing consolidated financial statements, we eliminate the effects of various transactions conducted between Hecla and its subsidiaries and among the subsidiaries. While valid at an individual subsidiary level, such activities are eliminated in consolidation because, when taken as a whole, they do not represent business activity with third-party customers, vendors, and other parties. Examples of such eliminations include the following:

***Investments in subsidiaries.*** The acquisition of a company results in an investment in debt or equity capital on the records of the parent company and a contribution to debt or equity capital on the records of the subsidiary. Such investments and capital contributions are eliminated in consolidation.

***Capital contributions.*** Certain of Hecla's subsidiaries do not generate cash flow, either at all or sufficient to meet their capital needs, and their cash requirements are routinely met with inter-company advances from their parent companies. On an annual basis, when not otherwise intended as debt, the boards of directors of such parent companies declare contributions of capital to their subsidiary companies, which increase the parents' investment and the subsidiaries' additional paid-in capital. In consolidation, investments in subsidiaries and related additional paid-in capital are eliminated.

***Debt.*** Inter-company debt agreements have been established between certain of Hecla's subsidiaries and their parents. The related debt liability and receivable balances, accrued interest expense (if any) and income activity (if any), and payments of principal and accrued interest amounts (if any) by the subsidiary companies to their parents are eliminated in consolidation.

***Dividends.*** Certain of Hecla's subsidiaries which generate cash flow routinely provide cash to their parent companies through inter-company transfers. On an annual basis, the boards of directors of such subsidiary companies declare dividends to their parent companies, which reduces the subsidiaries' retained earnings and increases the parents' dividend income. In consolidation, such activity is eliminated.

***Deferred taxes.*** Our ability to realize deferred tax assets and liabilities is considered on a consolidated basis for subsidiaries within the United States, with all subsidiaries' estimated future taxable income contributing to the ability to realize all such assets and liabilities. However, when Hecla's subsidiaries are viewed independently, we use the separate return method to assess the realizability of each subsidiary's deferred tax assets and whether a valuation allowance is required against such deferred tax assets. In some instances, a parent company or subsidiary may possess deferred tax assets whose realization depends on the future taxable incomes of other subsidiaries on a consolidated-return basis, but would not be considered realizable if such parent or subsidiary filed on a separate stand-alone basis. In such a situation, a valuation allowance is assessed on that subsidiary's deferred tax assets, with the resulting adjustment reported in the eliminations column of the guarantor and parent's financial statements, as is the case in the unaudited interim financial statements set forth below. The separate return method can result in

significant eliminations of deferred tax assets and liabilities and related income tax provisions and benefits. Non-current deferred tax asset balances are included in other non-current assets on the consolidating balance sheets and make up a large portion of that item, particularly for the guarantor balances.

Separate financial statements of the Guarantors are not presented because the guarantees by the Guarantors are joint and several and full and unconditional, except for certain customary release provisions, including: (1) the sale or disposal of all or substantially all of the assets of the Guarantor; (2) the sale or other disposition of the capital stock of the Guarantor; (3) the Guarantor is designated as an unrestricted entity in accordance with the applicable provisions of the indenture; (4) Hecla ceases to be a borrower as defined in the indenture; and (5) upon legal or covenant defeasance or satisfaction and discharge of the indenture.

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Effective December 31, 2015, Hecla Limited (our wholly owned subsidiary) sold 100% of its ownership of Hecla Alaska LLC (its wholly owned subsidiary) to Hecla Mining Company for consideration totaling approximately \$240.8 million. The consideration consisted of satisfaction of inter-company debt between Hecla Limited and Hecla Mining Company and an obligation by Hecla Mining Company, under certain circumstances, to fund a limited amount of the capital requirements of Hecla Limited for up to five years. Hecla Alaska LLC owns a 29.7331% interest in the joint venture which owns the Greens Creek mine. The presentation of unaudited interim condensed consolidating financial statements below reflects the effective date for accounting purposes of January 1, 2016.

**Unaudited Interim Condensed Consolidating Balance Sheets**

	As of June 30, 2017				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
	(in thousands)				
<b><u>Assets</u></b>					
Cash and cash equivalents	\$ 100,480	\$ 26,770	\$ 36,863	\$ —	\$ 164,113
Other current assets	52,728	36,677	38,816	(576 )	127,645
Properties, plants, and equipment - net	1,986	1,256,606	774,914	—	2,033,506
Intercompany receivable (payable)	432,177	(229,725 )	(330,748 )	128,296	—
Investments in subsidiaries	1,496,848	—	—	(1,496,848 )	—
Other non-current assets	2,606	193,833	5,294	(147,841 )	53,892
<b>Total assets</b>	<b>\$ 2,086,825</b>	<b>\$ 1,284,161</b>	<b>\$ 525,139</b>	<b>\$ (1,516,969 )</b>	<b>\$ 2,379,156</b>
<b><u>Liabilities and Stockholders' Equity</u></b>					
Current liabilities	\$ 35,523	\$ 51,195	\$ 32,735	\$ (5,665 )	\$ 113,788
Long-term debt	501,604	3,838	3,375	—	508,817
Non-current portion of accrued reclamation	—	60,849	18,431	—	79,280
Non-current deferred tax liability	—	12,630	123,086	(14,456 )	121,260
Other non-current liabilities	47,312	5,547	766	—	53,625
Stockholders' equity	1,502,386	1,150,102	346,746	(1,496,848 )	1,502,386
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,086,825</b>	<b>\$ 1,284,161</b>	<b>\$ 525,139</b>	<b>\$ (1,516,969 )</b>	<b>\$ 2,379,156</b>

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	As of December 31, 2016				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
	(in thousands)				
<b><u>Assets</u></b>					
Cash and cash equivalents	\$ 113,275	\$ 24,388	\$ 32,114	\$—	\$ 169,777
Other current assets	33,950	52,400	35,537	(573 )	121,314
Properties, plants, and equipment - net	2,103	1,258,890	771,692	—	2,032,685
Intercompany receivable (payable)	404,121	(222,072 )	(307,018 )	124,969	—
Investments in subsidiaries	1,496,787	—	—	(1,496,787 )	—
Other non-current assets	4,186	199,957	5,337	(161,579 )	47,901
<b>Total assets</b>	<b>\$2,054,422</b>	<b>\$ 1,313,563</b>	<b>\$ 537,662</b>	<b>\$(1,533,970 )</b>	<b>\$ 2,371,677</b>
<b><u>Liabilities and Stockholders' Equity</u></b>					
Current liabilities	\$22,401	\$ 86,730	\$ 40,093	\$(22,999 )	\$ 126,225
Long-term debt	500,979	3,065	2,773	—	506,817
Non-current portion of accrued reclamation	—	63,025	16,902	—	79,927
Non-current deferred tax liability	—	14,212	122,855	(14,212 )	122,855
Other non-current liabilities	51,198	5,108	(325 )	28	56,009
Stockholders' equity	1,479,844	1,141,423	355,364	(1,496,787 )	1,479,844
<b>Total liabilities and stockholders' equity</b>	<b>\$2,054,422</b>	<b>\$ 1,313,563</b>	<b>\$ 537,662</b>	<b>\$(1,533,970 )</b>	<b>\$ 2,371,677</b>

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	<b>Three Months Ended June 30, 2017</b>				
	<b>Parent</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(in thousands)</b>				
Revenues	\$807	\$ 70,344	\$ 63,128	\$ —	\$ 134,279
Cost of sales	(186 )	(40,816 )	(36,501 )	—	(77,503 )
Depreciation, depletion, amortization	—	(13,502 )	(12,067 )	—	(25,569 )
General and administrative	(5,721 )	(4,094 )	(494 )	—	(10,309 )
Exploration and pre-development	(66 )	(2,496 )	(4,343 )	—	(6,905 )
Research and development	—	(312 )	—	—	(312 )
Gain on derivative contracts	2,487	—	—	—	2,487
Foreign exchange gain (loss)	7,666	1	(11,550 )	—	(3,883 )
Lucky Friday suspension-related costs	—	(8,024 )	—	—	(8,024 )
Equity in earnings of subsidiaries	(2,355 )	—	—	2,355	—
Other (expense) income	(29,115)	(1,557 )	(2,400 )	20,890	(12,182 )
Income (loss) before income taxes	(26,483)	(456 )	(4,227 )	23,245	(7,921 )
(Provision) benefit from income taxes	—	1,068	3,727	(20,890 )	(16,095 )
Net income (loss)	(26,483)	612	(500 )	2,355	(24,016 )
Preferred stock dividends	(138 )	—	—	—	(138 )
Income (loss) applicable to common stockholders	(26,621)	612	(500 )	2,355	(24,154 )
Net income (loss)	(26,483)	612	(500 )	2,355	(24,016 )
Changes in comprehensive income (loss)	2,878	—	847	(847 )	2,878
Comprehensive income (loss)	\$(23,605)	\$ 612	\$ 347	\$ 1,508	\$ (21,138 )



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	<b>Six Months Ended June 30, 2017</b>				
	<b>Parent</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(in thousands)</b>				
Revenues	\$(3,286 )	\$ 153,297	\$ 126,812	\$ —	\$ 276,823
Cost of sales	(334 )	(83,588 )	(72,257 )	—	(156,179 )
Depreciation, depletion, amortization	—	(29,268 )	(25,253 )	—	(54,521 )
General and administrative	(12,190)	(6,413 )	(912 )	—	(19,515 )
Exploration and pre-development	(310 )	(4,397 )	(7,964 )	—	(12,671 )
Research and development	—	(995 )	—	—	(995 )
Loss on derivative contracts	(5,322 )	—	—	—	(5,322 )
Foreign exchange gain (loss)	10,133	(43 )	(16,235 )	—	(6,145 )
Lucky Friday suspension-related costs	—	(9,605 )	—	—	(9,605 )
Equity in earnings of subsidiaries	346	—	—	(346 )	—
Other (expense) income	13,781	(2,409 )	(9,470 )	(23,930 )	(22,028 )
Income (loss) before income taxes	2,818	16,579	(5,279 )	(24,276 )	(10,158 )
(Provision) benefit from income taxes	—	(7,901 )	(3,053 )	23,930	12,976
Net income (loss)	2,818	8,678	(8,332 )	(346 )	2,818
Preferred stock dividends	(276 )	—	—	—	(276 )
Income (loss) applicable to common stockholders	2,542	8,678	(8,332 )	(346 )	2,542
Net income (loss)	2,818	8,678	(8,332 )	(346 )	2,818
Changes in comprehensive income (loss)	6,082	—	758	(758 )	6,082
Comprehensive income (loss)	\$8,900	\$ 8,678	\$ (7,574 )	\$ (1,104 )	\$ 8,900

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	<b>Three Months Ended June 30, 2016</b>				
	<b>Parent</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(in thousands)</b>				
Revenues	\$(5,659 )	\$ 87,992	\$ 88,969	\$ —	\$ 171,302
Cost of sales	—	(47,203 )	(35,750 )	—	(82,953 )
Depreciation, depletion, amortization	—	(15,238 )	(14,659 )	—	(29,897 )
General and administrative	(6,474 )	(3,679 )	(206 )	—	(10,359 )
Exploration and pre-development	(113 )	(1,360 )	(2,410 )	—	(3,883 )
Loss on derivative contracts	(6 )	—	—	—	(6 )
Acquisition costs	(394 )	(8 )	—	—	(402 )
Equity in earnings of subsidiaries	37,111	—	—	(37,111 )	—
Other (expense) income	(349 )	2,623	(8,732 )	(1,732 )	(8,190 )
Income (loss) before income taxes	24,116	23,127	27,212	(38,843 )	35,612
(Provision) benefit from income taxes	—	(8,386 )	(4,842 )	1,732	(11,496 )
Net income (loss)	24,116	14,741	22,370	(37,111 )	24,116
Preferred stock dividends	(138 )	—	—	—	(138 )
Income (loss) applicable to common stockholders	23,978	14,741	22,370	(37,111 )	23,978
Net income (loss)	24,116	14,741	22,370	(37,111 )	24,116
Changes in comprehensive income (loss)	1,239	—	1,193	(1,193 )	1,239
Comprehensive income (loss)	\$25,355	\$ 14,741	\$ 23,563	\$ (38,304 )	\$ 25,355

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	<b>Six Months Ended June 30, 2016</b>				
	<b>Parent</b>	<b>Guarantors</b>	<b>Non- Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(in thousands)</b>				
Revenues	\$ (11,794)	\$ 169,261	\$ 144,852	\$ —	\$ 302,319
Cost of sales	—	(93,956 )	(63,317 )	—	(157,273 )