HECLA MINING CO/DE/
Form 10-Q
April 28, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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 N. 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, and (2) has been subject to such filing requirements for the past 90 days.
Yes x. No o.

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 o. No 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 definitions of large accelerated filer, accelerated filer and small reporting company in Rule 12b-2 of the Exchange Act.

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

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

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

Class	Shares Outstanding April 27, 2009
Common stock, par value $0.25 per share	217,921,372

Hecla Mining Company and Subsidiaries

Form 10-Q

For the Quarter Ended March 31, 2009

I N D E X*

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

Item 1. Financial Statements

Hecla Mining Company and Subsidiaries

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

		March 31, 2009		December 31, 2008
ASSETS				
Current assets:				
Cash and cash equivalents	$	62,603	$	36,470
Accounts receivable:				
Trade		15,487		8,314
Other, net		945		1,100
Inventories		24,954		21,331
Current deferred income taxes		2,481		2,481
Other current assets		4,656		4,154
Total current assets		111,126		73,850
Non-current investments		3,700		3,118
Non-current restricted cash and investments		13,814		13,133
Properties, plants, equipment and mineral interests, net		839,929		852,113
Non-current deferred income taxes		36,071		36,071
Other non-current assets		7,826		10,506
Total assets	$	1,012,466	$	988,791
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	$	15,095	$	21,850
Accrued payroll and related benefits		9,082		8,475
Accrued taxes		5,735		4,408
Short-term debt				40,000
Current portion of long-term debt and capital leases		15,713		8,018
Current portion of accrued reclamation and closure costs		4,159		2,227
Total current liabilities		49,784		84,978
Long-term debt and capital leases		100,436		113,649
Accrued reclamation and closure costs		116,461		119,120
Other noncurrent liabilities		14,686		21,587
Total liabilities		281,367		339,334
Commitments and contingencies (Notes 2, 6 and 11)				
SHAREHOLDERS EQUITY				
Preferred stock, 5,000,000 shares authorized:				
Series B preferred stock, $0.25 par value, 157,816 shares issued and outstanding, liquidation preference 2009 $8,167 and 2008 $8,029		39		39
Mandatory convertible preferred stock, $0.25 par value, 2,012,500 shares issued and outstanding, liquidation preference 2009 $207,790 and 2008 $204,520		504		504
Common stock, $0.25 par value, 400,000,000 shares authorized; issued 2009 218,002,536 shares and issued 2008 180,461,371 shares		54,501		45,115
Capital surplus		1,045,419		981,161
Accumulated deficit		(344,387)		(351,700)
Accumulated other comprehensive loss		(24,337)		(25,022)
Less treasury stock, at cost; 81,375 common shares		(640)		(640)
Total shareholders equity		731,099		649,457
Total liabilities and shareholders equity	$	1,012,466	$	988,791

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

Hecla Mining Company and Subsidiaries

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

	Three Months Ended	
	March 31, 2009	**March 31, 2008**
Sales of products	$ 54,721	$ 37,469
Cost of sales and other direct production costs	29,635	15,904
Depreciation, depletion and amortization	15,218	2,913
	44,853	18,817
Gross profit	9,868	18,652
Other operating expense (income):		
General and administrative	4,724	4,893
Exploration	1,028	5,571
Other operating expense	2,291	497
Gain on disposition of property, plants, equipment and mineral interests	(6,230)	
Termination of employee benefit plan	(8,950)	
Provision for closed operations and environmental matters	876	660
	(6,261)	11,621
Income from operations	16,129	7,031
Other income (expense):		
Interest and other income	211	2,502
Preferred shares issued for debt-related fees	(4,262)	
Interest expense, net of amount capitalized	(4,681)	(43)
	(8,732)	2,459
Income from continuing operations before income taxes	7,397	9,490
Income tax benefit (provision)	(84)	4,074
Net income from continuing operations	7,313	13,564
Income from discontinued operations, net of tax		1,918
Net income	7,313	15,482
Preferred stock dividends	(3,408)	(3,408)
Income applicable to common shareholders	$ 3,905	$ 12,074
Comprehensive income (loss):		
Net income	$ 7,313	$ 15,482
Change in derivative contracts	402	
Unrealized holding gains on investments	284	4,810
Comprehensive income	$ 7,999	$ 20,292
Basic and diluted income per common share after preferred stock dividends:		
Income from continuing operations	$ 0.02	$ 0.08
Income from discontinued operations		0.02
Income per common share	$ 0.02	$ 0.10
Weighted average number of common shares outstanding basic	198,966	122,350
Weighted average number of common shares outstanding diluted	199,393	122,777

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

Hecla Mining Company and Subsidiaries

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Operating activities:		
Net income	$ 7,313	$ 15,482
Income from discontinued operations, net of tax		(1,918)
Income from continuing operations	7,313	13,564
Non-cash elements included in net income:		
Depreciation, depletion and amortization	15,218	2,913
Gain on disposition of properties, plants and equipment	(6,230)	
Provision for reclamation and closure costs	238	
Deferred income taxes		(4,873)
Stock compensation	296	283
Preferred shares issued for debt-related fees	4,262	
Amortization of loan origination fees	2,097	
Gain on termination of employee benefit plan	(8,950)	
Other non-cash charges, net	1,007	
Change in assets and liabilities:		
Accounts and notes receivable	(7,018)	4,499
Inventories	(3,623)	(2,159)
Other current and noncurrent assets	(521)	(924)
Accounts payable and accrued liabilities	(6,657)	(1,069)
Accrued payroll and related benefits	933	416
Accrued taxes	1,327	825
Accrued reclamation and closure costs	(7)	(869)
Other non-current liabilities	(141)	(989)
Net cash provided by discontinued operations		19
Net cash provided by (used in) operating activities	(456)	11,636
Investing activities:		
Additions to properties, plants, equipment and mineral interests	(3,613)	(11,552)
Acquisition of a business		(16,340)
Proceeds from disposition of properties, plants and equipment	8,000	
Increases in restricted cash and investment balances	(681)	(145)
Maturities of short-term investments		4,036
Net cash provided by discontinued operations		679
Net cash provided by (used in) investing activities	3,706	(23,322)
Financing activities:		
Proceeds from issuance of common stock and warrants, net of related expense	70,951	
Proceeds from issuance of preferred stock, net of related expense		116
Dividend paid to preferred shareholders		(3,881)
Repayments on debt	(48,068)	
Net cash provided by (used in) financing activities	22,883	(3,765)
Change in cash and cash equivalents:		
Net increase (decrease) in cash and cash equivalents	26,133	(15,451)
Cash and cash equivalents at beginning of period	36,470	373,123
Cash and cash equivalents at end of period	$ 62,603	$ 357,672
Significant non-cash investing and financing activities:		
Stock issued for acquisition of assets	$	$ 10,494
Addition of capital equipment lease obligations	$ 2,548	$
Preferred stock issued for debt-related fees	$ 4,262	$

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

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

Note 1. Basis of Preparation of Financial Statements

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements and notes to interim condensed consolidated financial statements contain all adjustments, consisting of normal recurring items, necessary to present fairly, in all material respects, the financial position of Hecla Mining Company and its consolidated subsidiaries (we or our or us). These unaudited interim condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related footnotes as set forth in our annual report filed on Form 10-K for the year ended December 31, 2008, as it may be amended from time to time.

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

Certain condensed consolidated financial statement amounts for the prior period have been reclassified to conform to the current period presentation. These reclassifications had no effect on the net income, comprehensive income, or accumulated deficit as previously recorded.

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.

Interest costs related to assets under construction are capitalized during the construction or development period. We capitalized interest costs of $0.9 million in the first quarter of 2009, and none in the first quarter of 2008.

On April 16, 2008, we completed the acquisition of the companies owning 70.3% of the joint venture operating the Greens Creek mine for $700 million in cash and 4,365,000 million shares of our common stock, resulting in 100% ownership of Greens Creek by our various wholly owned subsidiaries. The operating results of the 70.3% portion of Greens Creek are included in our operating results from the date of acquisition and therefore, operating results on a period-by-period basis may not be comparable.

On July 8, 2008, we completed the sale of all of the outstanding capital stock of El Callao Gold Mining Company (El Callao) and Drake-Bering Holdings B.V. (Drake-Bering), our wholly owned subsidiaries which together owned our business and operations in Venezuela, to Rusoro Mining, Ltd. (Rusoro) for $20 million in cash and 3,595,781 shares of Rusoro common stock, then valued at $4.5 million. Pursuant to SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of our sold Venezuelan operations have been reported in discontinued operations for all periods presented. As a result of the sale, we revised our segment reporting to cease reporting a segment for our discontinued Venezuelan operations. See *Note 5* for further discussion.

Note 2. Investments and Restricted Cash

Non-current Investments

At March 31, 2009 and December 31, 2008, the fair value of our non-current investments was $3.7 million and $3.1 million, respectively. Marketable equity securities are carried at fair market value, as they are classified as available-for-sale securities under the provisions of SFAS No. 115. The basis of these investments, representing equity securities, was approximately $5.5 million at March 31, 2009 and December 31, 2008. Of the $3.7 million non-current investments balance at March 31, 2009, $1.6 million represents 3.6 million shares of Rusoro stock transferred to us upon the sale of El Callao and Drake Bering (see *Note 5* for information on the sale of our discontinued Venezuelan operations). At March 31, 2009, we have recorded a $2.9 million unrealized loss on the Rusoro shares, which have been in a continuous unrealized loss position since August 2008. We considered the following information in concluding that the impairment on the Rusoro shares is temporary:

We believe that we have the intent and ability to hold the investment until its cost basis is recovered, and that it is not probable that we will sell the investment at a loss.

Rusoro recently completed the acquisition of a new operating mine and continues to have access to liquidity. We believe that their assets continue to remain sound.

Analysts have recently given Rusoro stock a buy rating with a target share price greater than our cost, and analyst net asset value calculations have recently exceeded our cost.

However, the exchange on which Rusoro stock is traded has experienced a significant overall loss in value in 2009 and 2008, there has been a general reduction in investor confidence in junior mining companies in recent months, and Rusoro shares are thinly traded. If our investment in Rusoro stock continues to have a fair value less than its original cost, we will monitor these factors in determining whether it is still appropriate to record an unrealized loss for the impairment, or if the loss should instead be realized, in the future.

At March 31, 2009, total unrealized gains of $1.5 million for investments held having a net gain position and total unrealized losses of $3.3 million for investments held having a net loss position were included in accumulated other comprehensive income (loss).

Restricted Cash and Investments

Various laws and permits require that financial assurances be in place for certain environmental and reclamation obligations and other potential liabilities. Restricted investments primarily represent investments in money market funds and certificates of deposit. These investments are restricted to be used primarily for reclamation funding or for funding surety bonds and were $15.9 million at March 31, 2009 and $15.2 million at December 31, 2008.

Our loan covenants required that we maintain an unencumbered cash balance of at least $20 million at March 31, 2009. There is no legal restriction on the funds, therefore, we did not classify them as restricted cash.

Note 3. Income Taxes

For the three months ended March 31, 2009, we recorded a $0.1 million income tax provision primarily for foreign withholding tax. For the three months ended March 31, 2008, we recorded a $3.9 million income tax benefit primarily for reduction of valuation allowance on net deferred tax assets of $4.9 million offset by U.S. and foreign income taxes of $1 million of which $0.2 million was allocated to discontinued operations.

We assessed our estimate for the realization of our net deferred tax assets as of March 31, 2009, in accordance with SFAS No. 109, Accounting for Income Taxes . Realization of deferred tax assets is dependent upon future taxable income. For the three months ended March 31, 2009, we estimate a net tax loss in the U.S. primarily due to the significant costs associated with debt service. However, operational performance outperformed our previous estimate indicating that we remain on track to meet income projections used to support the utilization of the net deferred tax asset. The deferred tax benefit for the first quarter 2009 tax loss is offset by additional valuation allowance. Thus, the net deferred tax asset of $38.5 million remains unchanged from the previous reporting period, December 31, 2008. For the three months ended March 31, 2008, a significant increase in metals prices created a change in circumstances that led management to modify its judgment regarding utilization of deferred tax assets. This reassessment resulted in a reduction in the valuation allowance of $7 million for projected tax loss utilization beyond 2008. The reduction in valuation allowance was partially offset by amortization of the existing deferred tax asset of $2.1 million, resulting in a net deferred tax provision of $4.9 million.

The current income tax provisions for the first three months of 2009 and 2008 vary from the amounts that would have resulted from applying the statutory income tax rate to pre-tax income primarily due to the effects of U.S. tax net operating loss carryforwards and the valuation allowance in the respective periods.

Note 4. Inventories

Inventories consist of the following (in thousands):

	March 31, 2009	December 31, 2008
Concentrates, doré, bullion, metals in transit and in-process inventories	$ 16,676	$ 12,874
Materials and supplies	8,278	8,457
	$ 24,954	$ 21,331

Note 5. Discontinued Operations

During the second quarter of 2008, we committed to a plan to sell all of the outstanding capital stock of El Callao Gold Mining Company (El Callao) and Drake-Bering Holdings B.V. (Drake-Bering), our wholly owned subsidiaries which together owned our business and operations in Venezuela. On June 19, 2008, we announced that we had entered into an agreement to sell 100% of the shares of El Callao and Drake-Bering to Rusoro for $20 million in cash and 3,595,781 shares of Rusoro common stock. The transaction closed on July 8, 2008. Pursuant to SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of operations have been reported in discontinued operations for all periods presented.

The following table details selected financial information included in income from discontinued operations in the consolidated statements of income for the three-month period ended March 31, 2008 (in thousands):

Sales of products	$ 9,334
Cost of sales and other direct production costs	(3,137)
Depreciation, depletion and amortization	(3,108)
Exploration expense	(509)
Other operating expense	(264)
Provision for closed operations	(287)
Interest income	11
Interest expense	(122)
Income from discontinued operations	$ 1,918

Note 6: Commitments and Contingencies

Bunker Hill Superfund Site

In 1994, we, as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), entered into a Consent Decree with the Environmental Protection Agency (EPA) and the State of Idaho concerning environmental remediation obligations at the Bunker Hill Superfund site, a 21-square-mile site located near Kellogg, Idaho (the Bunker Hill site). The 1994 Consent Decree (the Bunker Hill Decree or Decree) settled our response-cost responsibility under CERCLA at the Bunker Hill site. Parties to the Decree included us, Sunshine Mining and Refining Company (Sunshine) and ASARCO Incorporated (ASARCO). Sunshine subsequently filed bankruptcy and settled all of its obligations under the Bunker Hill Decree.

In 1994, we entered into a cost-sharing agreement with other potentially responsible parties, including ASARCO, relating to required expenditures under the Bunker Hill Decree. ASARCO is in default of its obligations under the cost-sharing agreement and consequently in August 2005, we filed a lawsuit against ASARCO in Idaho State Court seeking amounts due us for work completed under the Decree. Additionally, we have claimed certain amounts due us under a separate agreement related to expert costs incurred to defend both parties with respect to the Coeur d Alene River Basin litigation in Federal District Court, discussed further below. After we filed suit, ASARCO filed for Chapter 11 bankruptcy protection in United States Bankruptcy Court in Texas in August 2005. As a result of this filing, an automatic stay is in effect for our claims against ASARCO. We are unable to proceed with the Idaho State Court litigation against ASARCO because of the stay, and have asserted our claims in the context of the bankruptcy proceeding.

In late September 2008, we reached an agreement with ASARCO to allow our claim against ASARCO in ASARCO s bankruptcy proceedings in the amount of approximately $3.3 million. Our claim included approximately $3.0 million in clean up costs incurred by us for ASARCO s share of such costs under the cost sharing agreement with ASARCO related to the Bunker Hill Decree. The remaining $330,000 is litigation-related costs incurred by us for ASARCO s share of expert fees in the Basin litigation. The agreement also provides that we and ASARCO release each other from any and all liability under the cost sharing agreement, the Bunker Hill Decree and the Basin CERCLA site (discussed below). The agreement is subject to ASARCO obtaining an order from the Federal District Court in Idaho modifying the existing Consent Decree for the Bunker Hill site. The mutual release of liability provision of the agreement is subject to final bankruptcy court approval of ASARCO s separate settlement agreement with the United States which, among other things, set and allowed the United States claim against ASARCO for ASARCO s Basin CERCLA liability. Depending on the resolution of ASARCO s bankruptcy proceedings, we could receive a portion of or all of our $3.3 million allowed claim against ASARCO in the bankruptcy proceeding. We are unable to predict the outcome and timing of ASARCO s bankruptcy proceeding.

In December 2005, we received notice that the EPA allegedly incurred $14.6 million in costs relating to the Bunker Hill site from January 2002 to March 2005. The notice was provided so that we and ASARCO might have an opportunity to review and comment on the EPA s alleged costs prior to the EPA s submission of a formal demand for reimbursement, which has not occurred as of the date of this filing. We reviewed the costs submitted by the EPA to determine whether we have any obligation to pay any portion of the EPA s alleged costs relating to the Bunker Hill site. We were unable to determine what costs we will be obligated to pay under the Bunker Hill Decree based on the information submitted by the EPA. We requested that the EPA provide additional documentation relating to these costs. In September 2006, we received from the EPA a certified narrative cost summary, and certain documentation said to support that summary, which revised the EPA s earlier determination to state that it had incurred $15.2 million in response costs. The September notice stated that it was not a formal demand and invited us to discuss or comment on the matter. In the second quarter of 2007, we were able to identify certain costs submitted by the EPA that we believe it is probable that we may have liability within the context of the Decree, and accordingly, in June of 2007, we estimated the range of our potential liability to be between $2.7 million and $6.8 million, and accrued the minimum of the range as we believed no amount in the range was more likely than any other. We will continue to assess the materials relating to the alleged costs sent to us and to discuss the matter with the EPA. If we are unable to reach a satisfactory resolution, we anticipate exercising our right under the Bunker Hill Decree to challenge reimbursement of the alleged costs. However, an unsuccessful challenge would likely require us to further increase our expenditures and/or accrual relating to the Bunker Hill site.

The accrued liability balance at March 31, 2009 relating to the Bunker Hill site was $3.2 million. The liability balance represents our portion of the remaining remediation activities associated with the site, our estimated portion of a long-term institutional controls program required by the Bunker Hill Decree, and potential reimbursement to the EPA of costs allegedly incurred by the agency as described in a notice to us by the agency. We believe ASARCO s remaining share of its future obligations will be paid through proceeds from an ASARCO trust created in 2003 for the purpose of funding certain of ASARCO s environmental obligations, as well as distributions to be determined by the Bankruptcy Court. In the event we are not successful in collecting what is due us from the ASARCO trust or through the bankruptcy proceedings, because the Bunker Hill Decree holds us jointly and severally liable, it is possible our liability balance for the remedial activity at the Bunker Hill site could be $18.3 million, the amount we currently estimate to complete the total remaining obligation under the Decree, as well as potential reimbursement to the EPA of costs allegedly incurred by the agency at the Bunker Hill site. There can be no assurance as to the ultimate disposition of litigation and environmental liability associated with the Bunker Hill Superfund site, and we believe it is possible that a combination of various events, as discussed above, or other events could be materially adverse to our financial results or financial condition.

Coeur d Alene River Basin Environmental Claims

Coeur d Alene Indian Tribe Claims

In July 1991, the Coeur d Alene Indian Tribe (Tribe) brought a lawsuit, under CERCLA, in Federal District Court in Idaho against us, ASARCO and a number of other mining companies asserting claims for damages to natural resources downstream from the Bunker Hill site over which the Tribe alleges some ownership or control. The Tribe s natural resource damage litigation has been consolidated with the United States litigation described below. Because of various bankruptcies and settlements of other defendants, we are the only remaining defendant in the Tribe s natural resource damages case.

U.S. Government Claims

In March 1996, the United States filed a lawsuit in Federal District Court in Idaho against certain mining companies, including us, that conducted historic mining operations in the Silver Valley of northern Idaho. The lawsuit asserts claims under CERCLA and the Clean Water Act, and seeks recovery for alleged damages to, or loss of, natural resources located in the Coeur d Alene River Basin (Basin) in northern Idaho for which the United States asserts it is the trustee under CERCLA. The lawsuit claims that the defendants historic mining activity resulted in releases of hazardous substances and damaged natural resources within the Basin. The suit also seeks declaratory relief that we and other defendants are jointly and severally liable for response costs under CERCLA for historic mining impacts in the Basin outside the Bunker Hill site. We have asserted a number of defenses to the United States claims.

In May 1998, the EPA announced that it had commenced a Remedial Investigation/ Feasibility Study under CERCLA for the entire Basin, including Lake Coeur d Alene, as well as the Bunker Hill site, in support of its response cost claims asserted in its March 1996 lawsuit. In October 2001, the EPA issued its proposed clean-up plan for the Basin. The EPA issued the Record of Decision (ROD) on the Basin in September 2002, proposing a $359.0 million Basin-wide clean-up plan to be implemented over 30 years and establishing a review process at the end of the 30-year period to determine if further remediation would be appropriate.

During 2000 and 2001, we were involved in settlement negotiations with representatives of the United States, the State of Idaho and the Tribe. These settlement efforts were unsuccessful. However, we have resumed efforts to explore possible settlement of these and other matters, but it is not possible to predict the outcome of these efforts.

Phase I of the trial on the consolidated Tribe s and the United States claims commenced in January 2001, and was concluded in July 2001. Phase I addressed the extent of liability, if any, of the defendants and the allocation of liability among the defendants and others, including the United States. In September 2003, the Court issued its Phase I ruling, holding that we have some liability for Basin environmental conditions. The Court refused to hold the defendants jointly and severally liable for historic tailings releases and instead allocated a 31% share of liability to us for impacts resulting from these releases. The portion of damages, past costs and clean-up costs to which this 31% applies, other cost allocations applicable to us and the Court s determination of an appropriate clean-up plan is to be addressed in Phase II of the litigation. The Court also left issues on the deference, if any, to be afforded the United States clean-up plan, for Phase II.

The Court found that while certain Basin natural resources had been injured, there has been an exaggerated overstatement by the plaintiffs of Basin environmental conditions and the mining impact. The Court significantly limited the scope of the trustee plaintiffs resource trusteeship and will require proof in Phase II of the litigation of the trustees percentage of trusteeship in co-managed resources. The United States and the Tribe are re-evaluating their claims for natural resource damages for Phase II; such claims may be in the range of $2.0 billion to $3.4 billion. We believe we have limited liability for natural resource damages because of the actions of the Court described above. Because of a number of factors relating to the quality and uncertainty of the United States and Tribe s natural resources damage claims, we are currently unable to estimate what, if any, liability or range of liability we may have for these claims.

Two of the defendant mining companies, Coeur d Alene Mines Corporation and Sunshine Mining and Refining Company, settled their liabilities under the litigation during 2001. We and ASARCO (which, as discussed above, filed for bankruptcy in August 2005) are the only defendants remaining in the United States litigation. Phase II of the trial was scheduled to commence in January 2006. As a result of ASARCO s bankruptcy filing, the Idaho Federal Court vacated the January 2006 trial date. We anticipate the Court will schedule a status conference to address rescheduling the Phase II trial date once the Bankruptcy Court rules on a motion brought by the United States to declare the bankruptcy stay inapplicable to the Idaho Federal Court proceedings. The Company does not currently have an opinion as to when the Court might rule.

In 2003, we estimated the range of potential liability for remediation in the Basin to be between $18 million and $58 million and accrued the minimum of the range, as we believed no amount in the range was more likely than any other amount at that time. In the second quarter of 2007, we determined that the cash payment approach to estimating our potential liability used in 2003 was not reasonably likely to be successful, and changed to an approach of estimating our liability through the implementation of actual remediation in portions of the Basin. Accordingly, we finalized an upper Basin cleanup plan, including a cost estimate, and reassessed our potential liability for remediation of other portions of the Basin, which caused us to increase our estimate of potential liability for Basin cleanup to the range of $60.0 million to $80.0 million. Accordingly, in June 2007, we recorded a provision of $42.0 million, which increased our total liability for remediation in the Basin from $18.0 million to $60.0 million, the low end of the estimated range of liability, with no amount in the range being more likely than any other amount. The liability is not discounted, as the timing of the expenditures is uncertain, but is expected to occur over the next 20 to 30 years.

In expert reports exchanged with the defendants in August and September 2004, the United States claimed to have incurred approximately $87.0 million for past environmental study, remediation and legal costs associated with the Basin for which it is alleging it is entitled to reimbursement in Phase II. In a July 2006 Proof of Claim filed in the ASARCO bankruptcy case, the EPA increased this claim to $104.5 million. A portion of these costs is also included in the work to be done under the ROD. With respect to the United States past cost claims, as of March 31, 2009, we have determined a potential range of liability for this past response cost to be $5.6 million to $13.6 million, with no amount in the range being more likely than any other amount.

Although the United States has previously issued its ROD proposing a clean-up plan totaling approximately $359.0 million and its past cost claim is $87.0 million, based upon the Court s prior orders, including its September 2003 order and other factors and issues to be addressed by the Court in Phase II of the trial, we currently estimate the range of our potential liability for both past costs and remediation (but not natural resource damages as discussed above) in the Basin to be $65.6 million to $93.6 million (including the potential range of liabilities of $60.0 million to $80.0 million for Basin cleanup, and $5.6 million to $13.6 million for the United States past cost claims as discussed above), with no amount in the range being more likely than any other number at this time. Based upon GAAP, we have accrued the minimum liability within this range, which at March 31, 2009, was $65.6 million. It is possible that our ability to estimate what, if any, additional liability we may have relating to the Basin may change in the future depending on a number of factors, including but not limited to information obtained or developed by us prior to Phase II of the trial and its outcome, and, any interim court determinations. There can be no assurance as to the outcome of the Coeur d Alene River Basin environmental claims and we believe it is possible that a combination of various events, as discussed above, or other events could be materially adverse to our financial results or financial condition.

Insurance Coverage Litigation

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

Mexico Litigation

In Mexico, our wholly owned subsidiary, Minera Hecla, S.A de C.V., currently is involved in two cases in the State of Durango, Mexico, concerning the Velardeña mill. The Velardeña mill processed ore from our now closed San Sebastian mine, and the mill was placed on care and maintenance upon closure of the mine. In the first case we are interveners in a commercial action initiated in April of 2006 by a creditor to the prior owner of the mill. In that litigation, the creditor to the prior mill owner seeks to demonstrate that he has an ownership interest in the mill arising out of an allegedly unpaid prior debt. We are contesting this action, and deny the assertion that the plaintiff has an ownership interest in the mill. We take this position for a number of reasons, including the fact that the mill was sold to us prior to plaintiff s obtaining his alleged ownership interest. In the second matter, a civil action involving Minera Hecla that is in a different court within the State of Durango, the same creditor as in the first case claims that his ownership of the Velardeña mill relates back to the time he allegedly performed the work on which the debt was based, rather than the time that he filed his lien relating to the debt, which was after the mill was sold to us. We are contesting the position of the creditor.

In January 2009, we began negotiations to sell the mill to the plaintiff. In February 2009, we received notice that the court in the first matter referenced above ruled in favor of the creditor, and also in February 2009, we filed a timely appeal. Notwithstanding the negative ruling by the trial court, the parties reached an agreement to sell the mill and the transaction closed in March 2009 (see *Note 15* for more information).

As part of the Asset Purchase Agreement, the parties agreed to work cooperatively under the applicable procedures of Mexican law to vacate the trial court ruling and dismiss the litigation between the parties. As of March 31, 2009, the trial court ruling had not been dismissed; however, the parties are in the process of filing the appropriate documents and expect the case to be formally dismissed later in 2009.

BNSF Railway Company Claim

In early November 2008, legal counsel for the BNSF Railway Company (BNSF) submitted a contribution claim under CERCLA against us for approximately $52,000 in past costs BNSF incurred in investigation of environmental conditions at the Wallace Yard near Wallace, Idaho. BNSF asserts that a portion of the Wallace Yard site includes the historic Hercules Mill owned and operated by Hercules Mining Company and that Hecla Limited is a successor to Hercules Mining Company. BNSF proposes that we reimburse them for the $52,000 in past costs and agree to pay all future clean up for the Hercules mill portion of the site, estimated to be $291,000, and 12.5% of any other site costs that cannot be apportioned. We requested and received additional information from BNSF and are investigating the claim.

Rio Grande Silver Guarantee

On February 21, 2008, our wholly-owned subsidiary, Rio Grande Silver Inc. (Rio), entered into an agreement with Emerald Mining & Leasing, LLC (EML) and Golden 8 Mining, LLC (G8) to acquire the right to earn-in to a 70% interest in the San Juan Silver Joint Venture, which holds a land package in the Creede Mining District of Colorado. On October 24, 2008, Rio entered into an amendment to the agreement which delays the incurrence of qualifying expenses to be paid by Rio pursuant to the original agreement. In connection with the amended agreement, we are required to guarantee certain environmental remediation-related obligations of EML and G8 to Homestake Mining Company of California (Homestake) up to a maximum liability to us of $2.5 million. As of March 31, 2009, we have not been required to make any payments pursuant to the guarantee. We may be required to make payments in the future, limited to the $2.5 million maximum liability, should EML and G8 fail to meet their obligations to Homestake. However, to the extent that any payments are made by us under the guarantee, EML and G8, in addition to other parties named in the amended agreement, have jointly and severally agreed to reimburse and indemnify us for any such payments. We have not recorded a liability relating to the guarantee as of March 31, 2009.

Other Commitments

Our contractual obligations as of March 31, 2009 included approximately $3.2 million for various capital projects at the Greens Creek and Lucky Friday units, and approximately $6.9 million for commitments relating to non-capital items at Greens Creek. In addition, our commitments relating to open purchase orders at March 31, 2009 included approximately $2.9 million and $0.9 million, respectively, for various capital items at the Greens Creek and Lucky Friday units, and approximately $0.1 million and $0.2 million, respectively, for various non-capital costs. We also have total commitments of approximately $2.6 million relating to scheduled payments on capital leases for equipment at our Greens Creek and Lucky Friday units (see *Note 11* for more information).

We periodically use derivative financial instruments to manage certain interest rate and other financial risks. In May 2008, we entered into an interest rate swap agreement that had the economic effect of modifying the LIBOR-based variable interest obligations associated with our term debt facility. See *Note 13* for more information on our interest rate swap.

Other Contingencies

We are subject to other legal proceedings and claims not disclosed above which have arisen in the ordinary course of our business and have not been finally adjudicated. These can include, but are not limited to, legal proceedings and/or claims pertaining to environmental or safety matters. Although there can be no assurance as to the ultimate disposition of these other matters, we believe the outcome of these other proceedings will not have a material adverse effect on our results from operations or financial position.

Note 7. Income per Common Share

We are authorized to issue 400,000,000 shares of common stock, $0.25 par value per share, of which 218,002,536 shares were issued and outstanding at March 31, 2009.

For the three-month periods ended March 31, 2009 and 2008, there were no material differences between basic and fully diluted earnings per share. The following table reconciles weighted average common shares used in the computations of basic and diluted earnings per share for the three-month periods ended March 31, 2009 and 2008 (dollars and shares in thousands, except per-share amounts):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Numerator		
Income from continuing operations	$ 7,313	$ 13,564
Preferred stock dividends	(3,408)	(3,408)
Income from continuing operations applicable to common shares	3,905	10,156
Income from discontinued operations, net of tax		1,918
Net income applicable to common shares for basic and diluted earnings per share	$ 3,905	$ 12,074
Denominator		
Basic weighted average common shares	198,966	122,350
Dilutive stock options and restricted stock	427	427
Diluted weighted average common shares	199,393	122,777
Basic earnings per common share		
Income from continuing operations	$ 0.02	$ 0.08
Income from discontinued operations		0.02
Net income applicable to common shares	$ 0.02	$ 0.10
Diluted earnings per common share		
Income from continuing operations	$ 0.02	$ 0.08
Income from discontinued operations		0.02
Net income applicable to common shares	$ 0.02	$ 0.10

Diluted income per share for the three months ended March 31, 2009 and 2008 exclude the potential effects of outstanding shares of our convertible preferred stock, as their conversion and exercise would have no effect on the calculation of dilutive shares.

Options to purchase 1,497,179 shares of our common stock and warrants to purchase 26,543,903 shares of our common stock were not included in the computation of diluted earnings per share in the three-month period ended March 31, 2009 because the exercise price of the options and share units exceeded the average price of our stock during the period and therefore would not affect the calculation of earnings per share. There were no such options, restricted share unit awards, or warrants to purchase shares of our common stock excluded in the computation of diluted earnings per share in the three-month period ended March 31, 2008.

Note 8. Business Segments

We are currently organized and managed by two segments, which represent our operating units: the Greens Creek unit and the Lucky Friday unit.

Prior to the first quarter of 2009, we reported an additional segment, the San Sebastian unit, for our various properties and exploration activities in Mexico. However, as a result of a recent work force reduction and a decrease in exploration activity there resulting from a company-wide cash conservation effort, and our ownership of 100% of Greens Creek (discussed further below), we have determined that the San Sebastian unit no longer meets the criteria for consideration as a reportable segment as of and for the three-month period ended March 31, 2009. The corresponding information for all periods presented have been restated.

Prior to the second quarter of 2008, we also reported a fourth segment, the La Camorra unit, representing our operations and various exploration activities in Venezuela. On June 19, 2008, we entered into an agreement to sell our wholly owned subsidiaries holding our business and operations in Venezuela, with the transaction closing on July 8, 2008. Our Venezuelan activities are reported as discontinued operations on the Condensed Consolidated Statement of Operations and Cash Flows for all periods presented (see *Note 5. Discontinued Operations*). As a result, we have determined that it is no longer appropriate to present a separate segment representing our operations in Venezuela as of and for the three-month period ended March 31, 2009, and have restated the corresponding information for all periods presented.

On April 16, 2008, we completed the acquisition of the companies owning 70.3% of the joint venture operating the Greens Creek mine for $700 million in cash and 4,365,000 shares of our common stock, resulting in 100% ownership of Greens Creek by our various wholly-owned subsidiaries. Accordingly, the information on our segments presented below reflects our 100% ownership of Greens Creek as of the April 16, 2008 acquisition date, and our previous 29.7% ownership interest prior to that date.

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

The following tables present information about reportable segments for the three months ended March 31, 2009 and 2008 (in thousands):

	Three months ended March 31, 2009	Three months ended March 31, 2008
Net sales from continuing operations:		
Greens Creek	$ 40,013	$ 13,633
Lucky Friday	14,708	23,836
	$ 54,721	$ 37,469
Income from continuing operations:		
Greens Creek	$ 16,032	$ 6,299
Lucky Friday	2,307	11,262
Other	(2,210)	(10,530)
	$ 16,129	$ 7,031

The following table presents identifiable assets by reportable segment as of March 31, 2009 and December 31, 2008 (in thousands):

	March 31, 2009	December 31, 2008
Identifiable assets:		
Greens Creek	$ 793,697	$ 800,030
Lucky Friday	106,346	103,748
Other	112,423	85,013
	$ 1,012,466	$ 988,791

Note 9. Employee Benefit Plans

We sponsor defined benefit pension plans covering substantially all of our U.S. employees. Net periodic pension cost (income) for the plans consisted of the following for the three months ended March 31, 2009 and 2008 (in thousands):

	Three Months Ended March 31,			
	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Service cost	$ 567	$ 249	$ 4	$ 2
Interest cost	915	891	14	13
Expected return on plan assets	(1,168)	(1,649)		
Amortization of prior service cost	151	107	(1)	(1)
Amortization of net gain	308	(34)	(11)	(13)
Net periodic benefit cost (income)	$ 773	$ (436)	$ 6	$ 1

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

At the end of March 2009 we made the decision to terminate a post-retirement medical benefit plan covering employees at our Greens Creek unit. Notification of the termination was sent to the plan participants on March 31, 2009. As a result, we have recognized a $9 million non-cash gain on termination of the plan during the first quarter of 2009.

Note 10. Shareholders Equity

Share-based Compensation Plans

We measure the costs of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award, pursuant to the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R).

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

No options were granted in the three-month period ended March 31, 2009. Options for 22,500 shares were granted in the three-month period ended March 31, 2008, which did not have a material impact on our financial statements.

No restricted stock units were awarded as compensation in the three-month period ended March 31, 2009. Restricted stock units for 8,818 shares were granted in the three-month period ended March 31, 2008, which did not have a material impact on our financial statements.

In March 2009, certain portions of employee bonuses, which were accrued at December 31, 2008, were paid with 1,784,671 stock units. Of these units, 739,350 were distributed as shares of common stock issued to the employees in March of 2009. The remaining 1,045,321 units have been deferred and will be distributed as common shares on January 2, 2010.

Underwritten Offering

Pursuant to our Form S-3 registration statement, on February 4, 2009, we entered into a definitive agreement for an underwritten public offering of securities for aggregate proceeds of $71.3 million, including the underwriters exercise of their over-allotment option. The offering closed on February 5, 2009. The securities in the sale included:

Approximately 36.8 million shares of our common stock.

Series 3 warrants to purchase up to approximately 18.4 million shares of our common stock at an exercise price of $2.50 per share, expiring in five years. The Series 3 warrants are exercisable from August 10, 2009 through August 10, 2014.

The units, including common stock and warrants, were priced at $2.05 per unit, resulting in gross proceeds of $75.4 million. Net proceeds to us were approximately $71 million after related expenses (including underwriting fees). In arriving at the relative values of the common stock and warrants, we used the Black-Scholes option pricing model with a risk-free interest rate of 1.99%, stock price at closing on the date before issuance of $1.74, volatility of 73%, dividend yield of 0%, and terms equal to the terms of the warrants. The relative values of our stock and warrants, in thousands, were:

	Shares	Value
Common Stock	36,800,000	$ 56,135
Series 3 warrants to purchase Common Stock	18,400,000	14,816
Total		$ 70,951

The following table summarizes certain information about our stock purchase warrants at March 31, 2009:

	Warrants	Exercise Price	Value at Issuance Date (in thousands)	Expiration Date
Warrants Issued:				
Series 1 warrants to purchase Common Stock	7,682,927	$ 2.45	$ 5,335	June 2014
Series 1 warrants to purchase Common Stock	460,976	2.56		June 2014
Series 2 warrants to purchase Common Stock	7,682,927	2.35	620	February 2009
Series 3 warrants to purchase Common Stock	18,400,000	2.50	14,816	August 2014
Total Warrants Issued	34,226,830		20,771	
Warrants Expired:				
Series 2 warrants to purchase Common Stock	(7,682,927)	2.35	(620)	February 2009
Total Warrants Outstanding	26,543,903		$ 20,151	

At March 31, 2009 the price of our common stock was lower than the exercise price of the warrants outstanding.

12% Convertible Preferred Stock

In connection with the Fourth Amendment of our credit agreement in February 2009 (see *Note 11* for more information on our credit facilities), we established a new series of 12% Convertible Preferred Stock. Pursuant to the amended and restated credit agreement, 42,621 shares of the 12% Convertible Preferred Stock were issued to the lenders in February 2009 and valued at $4.3 million at the time of issuance. In addition, we have agreed to issue to the lenders an aggregate amount of 12% Convertible Preferred Stock equal to 3.75% of the aggregate principal amount of the term facility outstanding on each subsequent July 1st and January 1st that the term loan is outstanding until the term facility is paid in full. Below is information on the characteristics of the new Series of 12% Convertible Preferred Stock.

Ranking

The 12% Convertible Preferred Stock ranks senior to our common stock and any shares of Series A preferred stock (Junior Stock), and on parity with our Series B and Mandatory Convertible Preferred Stock.

Dividends

Holders of shares of outstanding 12% Convertible Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available therefore, cumulative dividends at the rate per annum of 12% per share on the sum of the liquidation preference plus all accrued and unpaid dividends thereon from and including the date of issuance (Dividend Rate), payable quarterly in arrears on January 1, April 1, July 1, and October 1 of each year. Dividends will be cumulative from the most recent date as to which dividends shall be paid, or if no dividends have been paid, from the date of issuance, whether or not in any dividend period or periods there shall have been funds legally available for payment of such dividends. The Dividend Rate on accrued but unpaid dividends shall be compounded quarterly on January 1, April 1, July 1 and October 1 of each year.

Redemption

The 12% Convertible Preferred Stock will be redeemable as follows:

All outstanding 12% Convertible Preferred Stock will be redeemed by us on February 10, 2014, at a price equal to the sum of 100% of the liquidation preference ($100 per share) plus all accumulated and unpaid dividends thereon, from and including date of issuance.

Upon the occurrence of a change in control, at the option of the shareholder at a price of 101% of the liquidation preference plus all accumulated and unpaid dividends, from and including the date of issuance.

At our option, in whole, or, from time to time, in part, out of funds legally available for such purpose, at any time, as follows:

1. from the date of issuance through March 31, 2011, at a price equal to 103% of the sum of the liquidation preference plus all accumulated and unpaid dividends, from and including the date of issuance;
2. from April 1, 2011 through March 31, 2012, at a price equal to 102% of the sum of the liquidation preference plus all accumulated and unpaid dividends, from and including the date of issuance;
3. from April 1, 2012 through March 31, 2013, at a price equal to 101% of the sum of the liquidation preference plus all accumulated and unpaid dividends, from and including the date of issuance; and

4. from April 1, 2013 and thereafter, at a price equal to 100% of the sum of the liquidation preference plus all accumulated and unpaid dividends, from and including the date of issuance.

Liquidation Preference

The 12% Convertible Preferred shareholders will be entitled to receive, in the event that we are liquidated, dissolved or wound up, whether voluntary or involuntary, $100 per share of 12% Convertible Preferred Stock plus an amount per share equal to accumulated and unpaid dividends on the shares to the date fixed at liquidation, winding-up or dissolution, to be paid out of assets available for distribution to our shareholders, after satisfaction of liabilities owed to our creditors and distributions to holders of stock senior to the 12% Convertible Preferred Stock, and before any payment or distribution is made on any Junior Stock, including, without limitation, Common Stock. The liquidation preference as of March 31, 2009 was $4.3 million.

Voting Rights

Except under specific circumstances as set forth in the Certificate of Designations or as otherwise from time to time required by applicable law, the 12% Convertible Preferred shareholders will have no voting rights and their consent will not be required for taking any corporate action.

Conversion

Each share of 12% Convertible Preferred Stock will be convertible, in whole or in part at the option of the holder thereof, at any time after the issuance, into shares of Common Stock at the conversion price of $1.74 per share of Common Stock (equivalent to a conversion rate of 57.47 shares of common stock for each share of 12% Convertible Preferred Stock).

The terms of our 12% Convertible Preferred Stock require that we redeem all outstanding stock on the five-year anniversary of its effective date at a price equal to the sum of the liquidation preference and all accumulated and unpaid dividends. As required by SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* we have therefore classified the preferred stock as a non-current liability on our balance sheet, including the accrual of interest expense for dividends in arrears on the shares. The liability balance was $4.3 million as of March 31, 2009.

Note 11. Long-term Debt and Capital Leases

Long-term debt and capital lease obligations consist of the following:

	March 31, 2009	December 31, 2008
Long-term debt	$ 113,649	$ 121,667
Short-term debt		40,000
Capital lease obligations	2,500	
	116,149	161,667
Less: Current maturities	(15,713)	(48,018)