

HECLA MINING CO/DE/
Form 10-Q
October 27, 2010
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 September 30, 2010

Commission file number 1-8491

HECLA MINING COMPANY
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of
i n c o r p o r a t i o n o r
organization)

77-0664171
(I.R.S. Employer
Identification No.)

6500 Mineral Drive, Suite
200
Coeur d'Alene, Idaho
(Address of principal
executive offices)

83815-9408
(Zip Code)

208-769-4100
(Registrant's telephone number, including area code)

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

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

Accelerated Filer o
Small reporting company o

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

1

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 October 25, 2010
Common stock, par value \$0.25 per share	256,360,644

Hecla Mining Company and Subsidiaries

Form 10-Q

For the Quarter Ended September 30, 2010

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*Items 2, 3, 4 and 5 of Part II are omitted as they are not applicable.

Item 1. Financial Statements

Part I - Financial Information

Hecla Mining Company and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)
(In thousands, except shares and per share data)

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$216,577	\$104,678
Investments	--	1,138
Accounts receivable:		
Trade	48,983	25,141
Other, net	829	2,286
Inventories:		
Concentrates, doré, and stockpiled ore	11,189	12,563
Materials and supplies	9,765	8,903
Current deferred income taxes	8,279	7,176
Other current assets	4,496	4,578
Total current assets	300,118	166,463
Non-current investments	1,452	2,157
Non-current restricted cash and investments	10,297	10,945
Properties, plants, equipment and mineral interests, net	824,130	819,518
Non-current deferred income taxes	35,304	38,476
Other non-current assets and deferred charges	6,282	9,225
Total assets	\$1,177,583	\$1,046,784

LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$33,227	\$13,998
Accrued payroll and related benefits	8,957	14,164
Accrued taxes	10,607	6,240
Current portion of capital leases	2,220	1,560
Current portion of accrued reclamation and closure costs	7,392	5,773
Derivative contract liabilities (Note 11)	11,268	--
Total current liabilities	73,671	41,735
Capital leases	3,677	3,281
Accrued reclamation and closure costs	118,528	125,428
Other noncurrent liabilities	13,548	10,855
Total liabilities	209,424	181,299
Commitments and contingencies (Notes 2, 4 and 9)		

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 2010 — \$7,891 and 2009 — \$8,581	39	39
Mandatory convertible preferred stock, \$0.25 par value, 2,012,500 shares issued and outstanding, liquidation preference 2010 — \$201,250 and 2009 — \$217,600	504	504
Common stock, \$0.25 par value, authorized 2010 – 500,000,000 shares and 2009 – 400,000,000 shares; issued and outstanding 2010 — 256,118,144 shares and 2009 — 238,415,742 shares	64,114	59,604
Capital surplus	1,172,734	1,121,076
Accumulated deficit	(252,432)	(300,915)
Accumulated other comprehensive loss	(14,749)	(14,183)
Treasury stock, at cost; 2010 – 335,957 and 2009 – 81,375 shares	(2,051)	(640)
Total shareholders' equity	968,159	865,485
Total liabilities and shareholders' equity	\$1,177,583	\$1,046,784

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

Part I - Financial Information (Continued)

Hecla Mining Company and Subsidiaries

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

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30,	30,	30,	30,
	2010	2009	2010	2009
Sales of products	\$115,847	\$95,181	\$284,353	\$224,512
Cost of sales and other direct production costs	46,357	41,079	118,172	112,239
Depreciation, depletion and amortization	14,966	15,986	46,055	47,131
Total cost of sales	61,323	57,065	164,227	159,370
Gross profit	54,524	38,116	120,126	65,142
Other operating expenses:				
General and administrative	3,684	4,479	12,461	13,807
Exploration	6,917	2,737	16,166	5,001
Other operating expense	1,460	1,091	4,025	3,715
Gain on sale of properties, plants, equipment, and mineral interests	--	(6)	--	(6,234)
Termination of employee benefit plan	--	--	--	(8,950)
Provision for closed operations and environmental matters	962	510	5,727	2,416
Total other operating expenses	13,023	8,811	38,379	9,755
Income from operations	41,501	29,305	81,747	55,387
Other income (expense):				
Loss on derivative contracts (Note 11)	(13,195)	--	(11,196)	--
Gain on sale of investments	--	--	588	--
Loss on impairment of investments	--	--	(739)	(3,018)
Interest and other income	70	26	137	372
Debt-related fees	--	14	--	(5,725)
Interest expense, net of amount capitalized	(505)	(2,801)	(1,712)	(10,231)
Total other income (expense)	(13,630)	(2,761)	(12,922)	(18,602)
Income before income taxes	27,871	26,544	68,825	36,785
Income tax provision	(8,080)	(598)	(10,106)	(1,028)
Net income	19,791	25,946	58,719	35,757
Preferred stock dividends	(3,408)	(3,408)	(10,225)	(10,225)
Income applicable to common shareholders	\$16,383	\$22,538	\$48,494	\$25,532
Comprehensive income:				
Net income	\$19,791	\$25,946	\$58,719	\$35,757

Reclassification of loss on sale or impairment of marketable securities included in net income	--	--	739	3,018
Change in derivative contract	--	941	--	1,565
Unrealized holding gains (losses) on investments	183	1,687	(1,305)	1,457
Comprehensive income	\$19,974	\$28,574	\$58,153	\$41,797
Basic income per common share after preferred dividends	\$0.06	\$0.10	\$0.19	\$0.12
Diluted income per common share after preferred dividends	\$0.06	\$0.09	\$0.18	\$0.11
Weighted average number of common shares outstanding - basic	256,095	236,379	249,039	220,523
Weighted average number of common shares outstanding - diluted	270,508	244,337	266,145	223,727

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

Part I - Financial Information (Continued)

Hecla Mining Company and Subsidiaries

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

	Nine Months Ended	
	September 30, 2010	September 30, 2009
Operating activities:		
Net income	\$58,719	\$35,757
Non-cash elements included in net income:		
Depreciation, depletion and amortization	46,190	47,324
Gain on sale of investments	(588)	--
Loss on impairment of investments	739	3,018
Gain on disposition of properties, plants and equipment	--	(6,234)
Provision for reclamation and closure costs	2,784	1,013
Stock compensation	3,336	2,312
Preferred shares issued for debt-related expenses	--	4,262
Deferred income taxes	2,070	--
Amortization of loan origination fees	468	3,622
Gain on termination of employee benefit plan	--	(8,950)
Loss on derivative contract	11,586	2,139
Other non-cash charges, net	690	966
Change in assets and liabilities:		
Accounts receivable	(22,385)	(32,796)
Inventories	512	4,019
Other current and non-current assets	1,026	(1,604)
Accounts payable and accrued liabilities	16,332	(9,075)
Accrued payroll and related benefits	(5,207)	3,252
Accrued taxes	4,367	2,800
Accrued reclamation and closure costs and other noncurrent liabilities	(5,371)	57
Cash provided by operating activities	115,268	51,882
Investing activities:		
Additions to properties, plants, equipment and mineral interests	(48,520)	(17,337)
Proceeds from sale of investments	1,138	--
Proceeds from disposition of properties, plants and equipment	--	8,023
Decrease in restricted investments	1,476	3,487
Net cash used in investing activities	(45,906)	(5,827)

Financing activities:

Proceeds from issue of common stock, net of related costs	--	128,325
Proceeds from exercise of stock options and warrants	45,562	--
Dividends paid to preferred shareholders	(1,105)	--
Acquisition of treasury shares	(693)	--
Payments on interest rate swap	--	(2,220)
Repayments of debt and capital leases	(1,227)	(123,968)
Net cash provided by financing activities	42,537	2,137
Change in cash and cash equivalents:		
Net increase in cash and cash equivalents	111,899	48,192
Cash and cash equivalents at beginning of period	104,678	36,470
Cash and cash equivalents at end of period	\$216,577	\$84,662
Significant non-cash investing and financing activities:		
Addition of capital lease obligations	\$2,282	\$5,882
Preferred stock issued for debt-related fees	\$--	\$4,262
Preferred stock dividends paid in common stock	\$22,891	\$--

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

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, 2009, as it may be amended from time to time.

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

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

Note 2. Investments and Restricted Cash

Investments

At December 31, 2009, the fair value of our current investments was \$1.1 million, which represents stock having a cost basis of approximately \$0.6 million. These shares were sold in January 2010 for proceeds of \$1.1 million, resulting in a pre-tax gain of approximately \$0.5 million. No current investments were held at September 30, 2010.

At September 30, 2010 and December 31, 2009, the fair value of our non-current investments was \$1.5 million and \$2.2 million, respectively. Marketable equity securities are carried at fair value, as they are classified as “available-for-sale.” The cost basis of these non-current investments, representing equity securities, was approximately \$1.2 million and \$1.9 million, respectively at September 30, 2010 and December 31, 2009.

Our accumulated other comprehensive loss balance at September 30, 2010 included total unrealized gains of \$0.3 million for investments held having a net gain position and total unrealized losses of \$0.1 million for investments held having a net loss position.

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 (which included current and non-current balances) are restricted primarily for reclamation funding or surety bonds and were \$10.3 million at September 30, 2010, and \$11.8 million at December 31, 2009.

Note 3. Income Taxes

Major components of our income tax provision for the three months and nine months ended September 30, 2010 and 2009 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Current:				
Federal	\$4,392	\$423	\$5,751	\$415
State	1,772	91	1,941	91
Foreign	115	84	344	522
Total current income tax provision	6,279	598	8,036	1,028
Deferred:				
Federal and state deferred income tax provision	1,801	- -		