HECLA MINING CO/DE/
Form 10-Q
November 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

Commission file number 1-8491

HECLA MINING COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	77-0664171 (I.R.S. Employer Identification No.)
6500 Mineral Drive, Suite 200 Coeur d'Alene, Idaho (Address of principal executive offices)	83815-9408 (Zip Code)

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

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

Yes XX .   No __ .

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

Yes XX .   No___.

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

Large Accelerated Filer _XX.   Accelerated Filer __ .

Non-Accelerated Filer __ .   Smaller reporting company _ .

(Do not check if a smaller reporting company)

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

Yes __ .   No XX.

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

Class	Shares Outstanding November 3, 2014
Common stock, par value $0.25 per share	367,376,863

Hecla Mining Company and Subsidiaries

Form 10-Q

For the Quarter Ended September 30, 2014

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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)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$222,360	$212,175
Accounts receivable:		
Trade	17,433	17,672
Other, net	9,767	20,893
Inventories:		
Concentrates, doré, and stockpiled ore	20,335	27,740
Materials and supplies	20,676	21,097
Current deferred income taxes	20,352	35,734
Other current assets	7,516	8,324
Total current assets	318,439	343,635
Non-current investments	7,022	7,019
Non-current restricted cash and investments	883	5,217
Properties, plants, equipment and mineral interests, net	1,829,500	1,791,601
Non-current deferred income taxes	93,169	78,780
Other non-current assets and deferred charges	3,440	5,867
Total assets	$2,252,453	$2,232,119
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$45,788	$51,152
Accrued payroll and related benefits	22,586	18,769
Accrued taxes	6,319	7,881
Current portion of capital leases	8,470	8,471

Current portion of accrued reclamation and closure costs	2,236	58,425
Other current liabilities	15,643	6,781
Total current liabilities	101,042	151,479
Capital leases	10,890	14,332
Accrued reclamation and closure costs	56,793	46,766
Long-term debt	498,183	490,726
Non-current deferred tax liability	156,712	164,861
Other noncurrent liabilities	42,466	37,536
Total liabilities	866,086	905,700
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, 5,000,000 shares authorized:		
Series B preferred stock, $0.25 par value, 157,816 shares issued and outstanding, liquidation preference — $7,891	39	39
Common stock, $0.25 par value, authorized 500,000,000 shares; issued and outstanding 2014 — 366,888,140 shares and 2013 — 342,663,381 shares	92,261	85,896
Capital surplus	1,484,969	1,426,845
Accumulated deficit	(157,148)	(154,982)
Accumulated other comprehensive loss	(24,894)	(26,299)
Less treasury stock, at cost; 2014 — 2,151,482 and 2013 — 921,721 shares issued and held in treasury	(8,860)	(5,080)
Total shareholders' equity	1,386,367	1,326,419
Total liabilities and shareholders' equity	$2,252,453	$2,232,119

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

Hecla Mining Company and Subsidiaries

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Sales of products	$135,507	$106,629	$378,796	$268,409
Cost of sales and other direct production costs	86,680	66,937	235,460	163,770
Depreciation, depletion and amortization	26,804	19,006	80,342	53,224
	113,484	85,943	315,802	216,994
Gross profit	22,023	20,686	62,994	51,415
Other operating expenses:				
General and administrative	7,884	7,720	23,984	22,141
Exploration	5,797	5,797	13,086	18,511
Pre-development	391	3,444	1,247	12,747
Other operating expense	442	283	1,853	170
Provision (credit) for closed operations and reclamation	1,238	933	3,609	4,572
Aurizon acquisition costs	—	768	—	26,368
	15,752	18,945	43,779	84,509
Income (loss) from operations	6,271	1,741	19,215	(33,094)
Other income (expense):				
Gain (loss) on derivative contracts	(411)	(4,564)	(2,560)	23,516
Gains on sale of investments	—	—	—	197
Unrealized loss on investments	(2,830)	—	(2,750)	—
Foreign exchange gain (loss)	7,299	(1,473)	6,051	(1,084)
Interest and other income	32	644	208	827
Interest expense, net of amount capitalized	(6,505)	(7,348)	(20,307)	(14,506)
	(2,415)	(12,741)	(19,358)	8,950
Income (loss) before income taxes	3,856	(11,000)	(143)	(24,144)
Income tax benefit (provision)	(180)	2,542	1,062	1,922
Net income (loss)	3,676	(8,458)	919	(22,222)
Preferred stock dividends	(138)	(138)	(414)	(414)
Income (loss) applicable to common shareholders	$3,538	$(8,596)	$505	$(22,636)
Comprehensive income:				
Net income (loss)	$3,676	$(8,458)	$919	$(22,222)
Reclassification of net gain on sale of marketable securities included in net income	2,425	—	2,425	(197)
Defined benefit pension plan costs	—	3,366	(1,192)	3,366
Unrealized holding gains (losses) on investments	(149)	(877)	205	(5,455)

Comprehensive income (loss)	$5,952	$(5,969)	$2,357	$(24,508)
Basic income (loss) per common share after preferred dividends	$0.01	$(0.03)	$0.00	$(0.07)
Diluted income (loss) per common share after preferred dividends	$0.01	$(0.03)	$0.00	$(0.07)
Weighted average number of common shares outstanding - basic	359,472	342,638	348,801	310,601
Weighted average number of common shares outstanding - diluted	362,262	342,638	354,673	310,601
Cash dividends declared per common share	$0.0025	$0.0025	$0.0075	$0.0075

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

Hecla Mining Company and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine Months Ended	
	September 30, 2014	September 30, 2013
Operating activities:		
Net income (loss)	$919	$(22,222)
Non-cash elements included in net income (loss):		
Depreciation, depletion and amortization	81,116	55,279
Gain on sale of investments	—	(195)
Unrealized loss (gain) on investments	2,750	(327)
Gain on disposition of properties, plants, equipment, and mineral interests	(49)	(125)
Provision for reclamation and closure costs	3,646	1,701
Stock compensation	3,826	3,253
Deferred income taxes	(5,859)	(1,304)
Amortization of loan origination fees	1,703	905
(Gain) loss on derivative contracts	6,458	(15,589)
Foreign exchange gain	(5,932)	(711)
Other non-cash items, net	(914)	442
Change in assets and liabilities:		
Accounts receivable	10,952	(14,711)
Inventories	7,125	(1,923)
Other current and non-current assets	(1,097)	(793)
Accounts payable and accrued liabilities	(4,446)	8,574
Accrued payroll and related benefits	10,205	(281)
Accrued taxes	(1,541)	(10,458)
Accrued reclamation and closure costs and other non-current liabilities	(50,094)	3,565
Cash provided by operating activities	58,768	5,080
Investing activities:		
Additions to properties, plants, equipment and mineral interests	(90,697)	(112,806)
Acquisition of Aurizon, net of cash acquired	—	(321,117)
Proceeds from sale of investments	—	1,772
Proceeds from disposition of properties, plants and equipment	447	126
Purchases of investments	(580)	(5,738)
Changes in restricted cash and investment balances	4,334	(36)
Net cash used in investing activities	(86,496)	(437,799)
Financing activities:		
Proceeds from exercise of warrants	54,418	—
Acquisition of treasury shares	(3,740)	(286)

Dividends paid to common shareholders	(2,629)	(5,134)
Dividends paid to preferred shareholders	(414)	(414)
Debt issuance and loan origination fees	(705)	(1,244)
Borrowings on debt	—	490,000
Repayments of capital leases	(6,893)	(5,171)
Net cash provided by (used in) financing activities	40,037	477,751
Effect of exchange rates on cash	(2,124)	1,820
Net increase (decrease) in cash and cash equivalents	10,185	46,852
Cash and cash equivalents at beginning of period	212,175	190,984
Cash and cash equivalents at end of period	$222,360	$237,836
Significant non-cash investing and financing activities:		
Addition of capital lease obligations	$3,450	$7,674
Stock issued for the acquisition of Aurizon	$—	$218,302
Increase in asset retirement obligations	$8,210	$—
Payment of accrued compensation in restricted stock units	$4,600	$—
Senior Notes contributed to pension plan, par value	$6,500	$—

The accompanying notes are an integral part of the interim condensed 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 the unaudited interim condensed consolidated financial statements contain all adjustments, consisting of normal recurring items, necessary to present fairly, in all material respects, the financial position of Hecla Mining Company and its consolidated subsidiaries (“we” or “our” or “us”). These unaudited interim condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related footnotes as set forth in our annual report filed on Form 10-K for the year ended December 31, 2013, as it may be amended from time to time.

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

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

On June 1, 2013, we completed the acquisition of Aurizon Mines Ltd. ("Aurizon"), giving us 100% ownership of the Casa Berardi mine and various other interests in Quebec, Canada. The unaudited interim condensed consolidated financial statements included herein reflect our ownership of the assets previously held by Aurizon as of the June 1, 2013 acquisition date. We have determined that the functional currency for our Canadian operations acquired from Aurizon is the U.S. dollar.

Note 2. Investments and Restricted Cash

Investments

At September 30, 2014 and December 31, 2013, respectively, the fair value of our non-current investments was $7.0 million. Our non-current investments consist of marketable equity securities, which are carried at fair value as they are classified as “available-for-sale.” The cost bases of our non-current investments were approximately $7.6 million and $10.0 million, respectively, at September 30, 2014 and December 31, 2013. During the third quarter of 2014, we recognized $2.5 million in current earnings on an impairment of equity shares, as we determined the impairment to be other-than-temporary.

At September 30, 2014, total unrealized loss positions of $0.5 million, net of unrealized gains of $0.3 million, for our non-current investments were included in accumulated other comprehensive loss.

Our non-current investments balance as of September 30, 2014 includes our ownership of approximately 29.4% of the outstanding common shares of Typhoon Exploration Inc. having a cost basis of $0.7 million and fair value of $0.5 million. This investment meets the criteria for equity method accounting; however, we chose to apply the fair value option to the investment upon those criteria being met during the second quarter of 2013. We individually evaluate the accounting treatment of our investments based on whether we believe our ownership percentage and other factors indicate that we have the ability to exercise significant influence in the financial and/or operational decisions of the investee. As of September 30, 2014, we have no other investments that we have determined to qualify for equity method accounting.

Restricted Cash and Investments

Various laws, permits, and covenants require that financial assurances be in place for certain environmental and reclamation obligations and other potential liabilities. These restricted investments are used primarily for reclamation funding or for funding surety bonds, and were $0.9 million at September 30, 2014 and $5.2 million at December 31, 2013. The decrease in restricted cash was attributed to a modification of Casa Berardi's reclamation funding, which substituted a letter of credit for previously held cash collateral.

Note 3. Income Taxes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Current:				
Domestic	$(778)	$(5,641)	$4,529	$(1,476)
Foreign	3	114	386	344
Total current income tax provision (benefit)	(775)	(5,527)	4,915	(1,132)
Deferred:				
Domestic	2,043	3,390	(4,973)	4,166
Foreign	(1,088)	(405)	(1,004)	(4,956)
Total deferred income tax provision (benefit)	955	2,985	(5,977)	(790)
Total income tax provision (benefit)	$180	$(2,542)	$(1,062)	$(1,922)

As of September 30, 2014, we have a net deferred tax asset in the U.S. of $113.5 million and a net deferred tax liability in Canada of $157.5 million for a consolidated worldwide net deferred tax liability of $44.0 million. Our ability to utilize our deferred tax assets depends on future taxable income generated from operations. For the nine months ended September 30, 2014, there were no circumstances that caused us to change our assessment of the ability to generate sufficient future taxable income to realize the currently recognized U.S. deferred tax assets. At September 30, 2014 and December 31, 2013, the balances of the valuation allowances on our deferred tax assets were $29 million and $27 million, respectively, primarily for foreign net operating loss carryforwards. The amount of the deferred tax asset considered recoverable, however, could be reduced in the near term if estimates of future taxable income are reduced.

The current income tax provisions for the three and nine months ended September 30, 2014 and 2013 vary from the amounts that would have resulted from applying the statutory income tax rate to pre-tax income primarily due to the effects of percentage depletion for all periods presented and the impact of taxation in foreign jurisdictions.

Note 4. Commitments, Contingencies and Obligations

General

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

Rio Grande Silver Guaranty

Our wholly-owned subsidiary, Rio Grande Silver Inc. ("Rio"), is party to a joint venture with Emerald Mining & Leasing, LLC ("EML") and certain other parties with respect to a land package in the Creede Mining District of Colorado that is adjacent to other land held by Rio. Rio holds a 70% interest in the joint venture. In connection with the joint venture, we are required to guarantee certain environmental remediation-related obligations of EML to a third party up to a maximum liability to us of $2.5 million. As of September 30, 2014, we have not been required to make any payments pursuant to the guaranty. We may be required to make payments in the future, limited to the $2.5 million maximum liability, should EML fail to meet its obligations to the third party. However, to the extent that any payments are made by us under the guaranty, EML, in addition to other parties, have jointly and severally agreed to reimburse and indemnify us for any such payments. We have not recorded a liability relating to the guaranty as of September 30, 2014.

Lucky Friday Water Permit Matters

Over the last several years, the Lucky Friday unit has experienced several regulatory issues relating to its water discharge permits and water management more generally.

- In late 2008 and early 2009, Hecla Limited experienced a number of alleged permit exceedances for water discharges at the Lucky Friday unit. These alleged violations resulted in Hecla Limited entering into a Consent Agreement and Final Order ("CAFO") and a Compliance Order with the EPA in April 2009, which included an extended compliance timeline. In connection with the CAFO, Hecla Limited paid the maximum administrative penalty to the EPA of $177,500 to settle any liability for such alleged exceedances.

- In 2009, additional alleged permit exceedances for water discharges at the Lucky Friday unit occurred. In 2010, alleged unpermitted discharges of pollutants occurred at the Lucky Friday unit. These alleged permit exceedances and certain alleged unpermitted discharges were the subject of a December 2010 notice of violation ("2010 NOV") from the EPA informing Hecla Limited that the EPA was prepared to seek civil penalties for these alleged violations. Hecla Limited disputes many of EPA's assertions, but commenced negotiations with the EPA in 2010 in an attempt to resolve the matter. There has not yet been any resolution of the 2010 NOV.

- In 2012, the Lucky Friday unit had two weekly water samples, one of which exceeded the permit concentration limit for lead (but not the associated load limit), and one of which exceeded the permit limits for zinc. Also, in late 2012, heavy rains resulted in alleged impacted storm water being discharged to a nearby river. After these incidents, in February 2013, the EPA issued a notice of violation and request for information to Hecla Limited alleging that the storm water incidents were each a violation of Hecla Limited's storm water permit. In March 2014, the Lucky Friday unit had a weekly water sample which exceeded the maximum daily permitted concentration limit for zinc (but not the associated load limit).

The EPA referred the two alleged 2012 permit exceedances, along with the alleged violations in the 2010 NOV and some additional alleged unpermitted discharges from 2010 that were not included in the 2010 NOV, to the U.S. Department of Justice to possibly file a civil complaint by the United States against Hecla Limited. In addition, it is possible that the United States may include other alleged unpermitted discharges (including the 2012 storm water incidents) or permit violations in any complaint. There is the potential for larger civil penalties in the context of a United States complaint than in an administrative action by the EPA such as the 2009 CAFO.

In December 2013, the EPA issued to Hecla Limited a notice of violation (“2013 NOV”) alleging certain storm water reporting violations under Lucky Friday’s Clean Water Act Multi-Sector General Stormwater Permit for Industrial Activities. The 2013 NOV also contained a request for information under Section 308 of the Clean Water Act directing Hecla Limited to undertake a comprehensive groundwater investigation of Lucky Friday’s tailings pond no. 3 to evaluate whether the pond is causing the discharge of pollutants via seepage to groundwater that is discharging to surface water. We cannot ascertain what impacts, if any, the 2013 NOV and request for information will have on the matters that were already pending with the United States, including the 2010 NOV.

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

We believe that it is reasonably possible that Hecla Limited faces some liability for the above water issues; however, we cannot with reasonable certainty estimate the amount or range of any such liability because, among other reasons, we have not completed the investigation called for by the request for information contained in the 2013 NPOV, and thus we do not know what the impact of the investigation will be.

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

In May 2011, the EPA made a formal request to Hecla Mining Company for information regarding the Johnny M Mine Area near San Mateo, McKinley County, New Mexico, and asserted that Hecla Mining Company may be responsible under CERCLA for environmental remediation and past costs the EPA has incurred at the site. Mining at the Johnny M was conducted for a limited period of time by a predecessor of our subsidiary, Hecla Limited. In August 2012, Hecla Limited and the EPA entered into a Settlement Agreement and Administrative Order on Consent for Removal Action (“Consent Decree”), pursuant to which Hecla Limited agreed to pay (i) $1.1 million to the EPA for its past response costs at the site and (ii) any future response costs at the site, in exchange for a covenant not to sue by the EPA. The Consent Decree also describes additional work at the site to be conducted by Hecla Limited. Hecla Limited paid the $1.1 million to the EPA for its past response costs in the fourth quarter of 2012. Hecla Limited cannot reasonably estimate the amount or range of any additional liability it may face at the site until, at a minimum, the amount and type of remediation required have been determined and EPA has determined whether to seek reimbursement for additional past costs, and if so in what amounts.

Carpenter Snow Creek Site, Cascade County, Montana

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

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

South Dakota and Colorado Superfund Sites Related to CoCa Mines, Inc.

In 1991, Hecla Limited acquired all of the outstanding common stock of CoCa Mines, Inc. (“CoCa”). CoCa is alleged to have current or prior ownership interests, and engaged in exploration activities at each of Gilt Edge Mine in South Dakota and in the area adjacent to the Nelson Tunnel property in Creede, Colorado.

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Gilt Edge Mine Superfund Site

In August 2008, the EPA made a formal request to CoCa for information regarding the Gilt Edge Mine Site located in Lawrence County, South Dakota, and asserted that CoCa may be liable for environmental cleanup at the site. The Gilt Edge Mine Site was explored and/or mined beginning in the 1870s. Beginning in the mid-1970s, CoCa held property interests at the site (primarily in the form of mining claims), and was party to an agreement with another mining company (the “operator”) that conducted a limited program of exploration work at the site. The two companies assigned the right to mine in 1983 to a third mining company, and by 1986 CoCa had divested itself of any property interests at the site.

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

The United States alleges that estimated total costs associated with the site may exceed $191 million, including both past and future response costs. We believe that it is reasonably possible that CoCa faces some liability under CERCLA based on its historical ownership interests at the site; however, we cannot with reasonable certainty estimate the amount or range of any such liability. Furthermore, in the event CoCa incurs a liability at this site, it has limited assets with which to satisfy any claim. Because of this, we believe that it is possible that the United States will seek to recover some of the alleged $191 million in costs associated with the site from Hecla Limited, as the sole stockholder of CoCa. However, we believe Hecla Limited has strong defenses and would vigorously defend against any such claim. For example, Hecla Limited did not acquire CoCa until 1991, well after CoCa discontinued its involvement with the Gilt Edge site. In addition, CoCa is and always has been a separate corporate entity from Hecla Limited. Therefore, we believe that Hecla Limited is not liable for any claims at the Gilt Edge site.

Settlement negotiations with the United States commenced in 2010 and are ongoing. Because of the unpredictability of settlement negotiations or the outcome of any trial, as well as the nature of CERCLA as a strict, joint and several liability statute, we cannot with reasonable certainty estimate the amount or range of liability faced by CoCa or Hecla Limited. Furthermore, there can be no assurance settlement negotiations will be successful, or that Hecla Limited will not incur a material liability with respect to this site.

Nelson Tunnel/Commodore Waste Rock Pile Superfund Site

In August 2009, the EPA made a formal request to CoCa for information regarding the Nelson Tunnel/Commodore Waste Rock Pile Superfund Site in Creede, Colorado. CoCa was involved in exploration and mining activities in Creede during the 1970s and the 1980s. In September 2013, the EPA made a formal claim against CoCa for past response costs under CERCLA as an owner/operator of the site, and against Hecla Limited as a corporate successor to CoCa. The EPA is seeking a total of approximately $5 million for past response costs, plus an undetermined amount of interest from CoCa, Hecla Limited, and other PRPs. The EPA stated that it is continuing its remedial investigation/feasibility study at the site, and once that is complete, it will begin remedial design and remedial action for the site. Presumably, the EPA will also seek reimbursement of at least some of those costs from viable PRPs. In April 2014, CoCa received notice from another PRP alleging that CoCa is required to indemnify it in connection with any liability it may have with respect to the Nelson/Commodore site. We believe that it is reasonably possible that CoCa faces some liability under CERCLA based on its historical ownership interests at the site. However, in the event CoCa incurs a liability for this site, it has limited assets with which to satisfy any claim. Because of this, we believe that it is possible that the United States will seek to recover some of the costs associated with the site from Hecla Limited, as the sole stockholder of CoCa. However, we believe Hecla Limited would have strong defenses to such a claim and would vigorously defend against any such claim. For example, Hecla Limited did not acquire CoCa until 1991, well after CoCa discontinued its historical activities in the vicinity of the site. In addition, CoCa is and always has been a separate corporate entity from Hecla Limited. Therefore, we believe that Hecla Limited is not liable for any claims at this site.

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

Senior Notes

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

Other Commitments

Our contractual obligations as of September 30, 2014 included approximately $4.0 million for various non-capital costs. In addition, our open purchase orders at September 30, 2014 included approximately $3.9 million, $2.2 million, and $0.5 million, respectively, for various capital items at the Greens Creek, Lucky Friday, and Casa Berardi units, and approximately $0.6 million, $0.8 million, and $1.4 million, respectively, for various non-capital costs at such units. We also have total commitments of approximately $19.4 million relating to scheduled payments on capital leases, including interest, primarily for equipment at our Greens Creek and Lucky Friday units (see *Note 9* for more information).

As part of our ongoing business and operations, we are required to provide surety bonds and bank letters of credit for various purposes, including financial support for environmental reclamation obligations and workers compensation programs. As of September 30, 2014, we had surety bonds totaling $68.9 million in place as financial support for future reclamation and closure of the Greens Creek mine. In addition, we had letters of credit for approximately $8.7 million outstanding as of September 30, 2014 for environmental reclamation and workers' compensation insurance bonding. 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 and will be able to satisfy future bonding requirements as they arise.

Other Contingencies

In March 2012, Hecla Limited received notice of a complaint filed against it by the United Steel Workers, Local 5114, with the Federal Mine Safety and Health Review Commission for compensation for bargaining unit workers at the Lucky Friday mine idled as a result of the temporary suspension of production at the mine. The complaint alleges the bargaining unit workers are entitled to compensation under Section 111 of the Federal Mine Safety and Health Act of 1977 from November 16, 2011 - the date an order was issued by the Mine Safety Health Administration (“MSHA”) to Hecla Limited - until June 12, 2013 - the date the order was terminated. We submitted a motion for summary decision to the administrative law judge within the Federal Mine Safety and Health Review Commission, which was denied in December 2012. Currently we are awaiting further proceedings. We believe the claim is without merit, and that all wages due under Section 111, which was an immaterial amount, have already been paid. Therefore, we have not recorded a liability relating to the claim as of September 30, 2014. The value of the union's claim is estimated to be in the range of $0 to $10 million.

On April 12, 2013, the family of Larry Marek, an employee of Hecla Limited who was fatally injured in an April 2011 accident, filed a lawsuit against us and certain of our officers and employees seeking damages for, among other claims, wrongful death and infliction of emotional distress. No dollar amount of damages is specified in the complaint, which was filed in state court in Idaho (Kootenai County District Court). We cannot reasonably predict the outcome of this matter, however, we believe the case is without merit and are vigorously defending this lawsuit.

On December 11, 2013, four employees of Hecla Limited who were injured in a December 2011 rock burst filed a lawsuit against us and certain of our employees seeking damages for, among other claims, intentional and willful injury and infliction of emotional distress. The plaintiffs seek damages in excess of $1,000,000, as claimed in the complaint, which was filed in state court in Idaho (Kootenai County District Court). We cannot reasonably predict the outcome of this matter, however, we believe the case is without merit and intend to vigorously defend this lawsuit.

We also have certain other contingencies resulting from litigation, claims, 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, and additional contingencies may occur as well, any of which might result in an accrual or a change in the estimated accruals recorded by us, and there can be no assurance that their ultimate disposition will not have a material adverse effect on our financial position, results of operations or cash flows.

Note 5. Earnings (Loss) Per Common Share

We are authorized to issue 500,000,000 shares of common stock, $0.25 par value per share. At September 30, 2014, there were 369,039,622 shares of our common stock issued and 2,151,482 shares issued and held in treasury, for a net of 366,888,140 shares outstanding.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator				
Net income (loss)	$3,676	$(8,458)	$919	$(22,222)
Preferred stock dividends	(138)	(138)	(414)	(414)
Net income (loss) applicable to common shares for basic and diluted earnings per share	$3,538	$(8,596)	$505	$(22,636)
Denominator				

Basic weighted average common shares	359,472	342,638	348,801	310,601
Dilutive warrants, stock options and restricted stock	2,790	—	5,872	—
Diluted weighted average common shares	362,262	342,638	354,673	310,601
Basic earnings (loss) per common share				
Net income (loss) applicable to common shares	$0.01	$(0.03)	$—	$(0.07)
Diluted earnings (loss) per common share				
Net income (loss) applicable to common shares	$0.01	$(0.03)	$—	$(0.07)

Diluted income (loss) per share for the three- and nine-month periods ended September 30, 2014 and 2013 excludes the potential effects of outstanding shares of our convertible preferred stock, as their conversion and exercise would have no effect on the calculation of dilutive shares.

For the three-month and nine-month periods ended September 30, 2014, options to purchase 259,342 shares of our common stock were excluded from the computation of diluted earnings per share, as the exercise price of the options exceeded the average price of our stock during those periods and therefore would not affect the calculation of earnings per share. All outstanding options, restricted share units, and warrants were excluded from the computation of diluted loss per share for the three-month and nine-month periods ended September 30, 2013, as our reported net losses for those periods would cause their conversion and exercise to have no effect on the calculation of loss per share.

Note 6. Business Segments

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales to unaffiliated customers:				
Greens Creek	$67,763	$64,845	$186,808	$207,576
Lucky Friday	27,883	14,395	71,740	23,324
Casa Berardi	$39,861	$27,389	$120,248	$37,509
	$135,507	$106,629	$378,796	$268,409
Income (loss) from operations:				
Greens Creek	$8,874	$15,310	$28,724	$51,164
Lucky Friday	9,007	402	20,105	(6,210)

Casa Berardi	395	572	4,940	(12,784)
Other	(12,005)	(14,543)	(34,554)	(65,264)
	$6,271	$1,741	$19,215	$(33,094)

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

	September 30, 2014	December 31, 2013
Identifiable assets:		
Greens Creek	$722,163	$744,027
Lucky Friday	347,643	313,793
Casa Berardi	796,495	821,058
Other	386,152	353,241
	$2,252,453	$2,232,119

Note 7. Employee Benefit Plans

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

	Three Months Ended September 30,	
	2014	2013
Service cost	$1,020	$569
Interest cost	1,186	422
Expected return on plan assets	(1,249)	(375)
Amortization of prior service cost	(84)	(171)
Amortization of net (gain) loss	756	660
Net periodic pension cost	$1,629	$1,105

	Nine Months Ended September 30,	
	2014	2013
Service cost	$3,060	$2,684
Interest cost	3,558	2,361
Expected return on plan assets	(3,747)	(2,784)
Amortization of prior service cost	(252)	24
Amortization of net (gain) loss	2,268	2,212
Net periodic pension cost	$4,887	$4,497

In the first nine months of 2014, we contributed our Senior Notes in the aggregate principal amount of $6.5 million to our defined benefit pension plan, with no additional contributions anticipated in 2014 (see *Note 9* for more information). We expect to contribute approximately $0.3 million to our unfunded supplemental executive retirement plan in 2014.

Note 8. Shareholders' Equity

Stock-based Compensation Plans

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

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

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

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

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

Stock-based compensation expense for restricted stock unit grants to employees and shares issued to nonemployee directors recorded in the first nine months of 2014 totaled $3.8 million, compared to $3.3 million in the same period last year.

In connection with the vesting of restricted stock units, employees have in the past, at their election and when permitted by us, chosen to satisfy their minimum tax withholding obligations through net share settlement, pursuant to which the Company withholds the number of shares necessary to satisfy such withholding obligations. As a result, in the first nine months of 2014 we withheld 695,961 shares in order to satisfy the tax withholding obligation of approximately $2.3 million, or approximately $3.27 per share.

Common Stock Dividends

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

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

On November 4, 2014, our Board of Directors declared a common stock dividend, pursuant to the minimum annual dividend component of the policy described above, of $0.0025 per share, for a total dividend of $0.9 million payable in December 2014. Because the average realized silver price for the third quarter of 2014 was $18.53 per ounce, below the minimum threshold of $30 according to the policy, no silver-price-linked component was declared or paid. The declaration and payment of common stock dividends is at the sole discretion of our Board of Directors.

Status of Warrants

At December 31, 2013, there were 22,307,623 common stock purchase warrants outstanding, all of which were exercised during the first nine months of 2014 for total proceeds of approximately $54.4 million. As a result, there were no stock purchase warrants outstanding as of September 30, 2014. Under the financial terms of the 2011 Consent Decree settling the Coeur d'Alene Basin environmental (CERCLA) litigation, the proceeds from the exercise of our outstanding warrants were paid to the United States and the Coeur d'Alene Indian Tribe.

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 September 30, 2014, a total of 934,100 shares have been purchased at an average price of $3.99 per share, including 533,800 shares purchased during the first nine months of 2014 at an average price of $2.81 per share. As of September 30, 2014, there were approximately 19.1 million shares that may yet be purchased under the program. The closing price of our common stock at November 3, 2014, was $2.29 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 the first nine months of 2014, an additional $6.5 million aggregate principal amount of the Notes were issued to our pension plan as described below (collectively, the “Notes”). The Notes are governed by the Indenture, dated as of April 12, 2013, as amended (the “Indenture”), among Hecla Mining Company ("Hecla") and certain of our subsidiaries and The Bank of New York Mellon Trust Company, N.A., as trustee. The net proceeds from the initial offering of the Notes ($490 million) were used to partially fund the acquisition of Aurizon and for general corporate purposes, including expenses related to the Aurizon acquisition.

In connection with the sale of the Notes, we entered into a Registration Rights Agreement, dated as of April 12, 2013, pursuant to which Hecla and the Guarantors agreed to exchange the Notes for a new issue of debt securities registered under the Securities Act, with terms substantially identical to those of the Notes (except with respect to certain transfer restrictions and certain obligations to pay special interest as described in the Notes). The exchange offer was completed in January 2014 with 99.99% of the then outstanding Notes tendered for exchange.

The 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 $8.3 million as of September 30, 2014. The 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 Notes is payable on May 1 and November 1 of each year, commencing November 1, 2013. During the first nine months of 2014, interest expense related to the Notes and amortization of the initial purchaser discount and fees related to the issuance of the Notes, net of $8.6 million in capitalized interest, totaled $18.6 million.

The Notes are guaranteed on a senior unsecured basis by certain of our subsidiaries (the "Guarantors"). The 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 Notes are effectively subordinated to all of the liabilities of Hecla's subsidiaries that are not guaranteeing the Notes, to the extent of the assets of those subsidiaries.

The Notes will be redeemable in whole or in part, at any time and from time to time on or 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. Prior to May 1, 2016, we may redeem some or all of the Notes at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, plus a “make whole” premium. We may redeem up to 35% of the Notes before May 1, 2016 with the net cash proceeds from certain equity offerings.

Upon the occurrence of a change of control (as defined in the Indenture), each holder of Notes will have the right to require us to purchase all or a portion of such holder's 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 Notes on the relevant record date to receive interest due on the relevant interest payment date.

On April 14, 2014, we entered into a contribution agreement with the Hecla Mining Company Retirement Plan Trust pursuant to which we agreed to contribute Notes to the trust over the course of 2014 in order to satisfy the funding requirement for our funded pension plan for 2014. On the same day we filed a registration statement with the SEC for resale of the Notes that we agreed to contribute to the trust. In the first nine months of 2014, we contributed Notes in the aggregate principal amount of $6.5 million to the trust in satisfaction of our funding obligation for 2014. The contribution agreement has been amended to provide that no further contributions are required, as the funding obligation has been satisfied.

Credit Facilities

In February 2014, we entered into a $100 million senior secured revolving credit facility having a maturity date of August 1, 2016. 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. This credit facility replaced our previous $100 million credit facility which had the same terms of collateral as described above. Below is information on the interest rates, standby fee, and financial covenant terms under our current 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)		not more than 4.00:1	
Interest coverage ratio (EBITDA/interest expense)		not more than 3.00:1	

We were in compliance with all covenants under the credit agreement and no amounts were outstanding as of September 30, 2014. We have not drawn funds on the revolving credit facility as of the filing date of this Form 10-Q.

Capital Leases

We have entered into various lease agreements, primarily for equipment at our Greens Creek and Lucky Friday units, which we have determined to be capital leases. At September 30, 2014, the total liability balance associated with capital leases, including certain purchase option amounts, was $19.4 million, with $8.5 million of the liability classified as current and the remaining $10.9 million classified as non-current. At December 31, 2013, the total liability balance associated with capital leases was $22.8 million, with $8.5 million of the liability classified as current and $14.3 million classified as non-current. The total obligation for future minimum lease payments was $20.2 million at September 30, 2014, with $0.8 million attributed to interest.

At September 30, 2014, the annual maturities of capital lease commitments, including interest, are (in thousands):

Twelve-month period ending September 30,	
2015	$9,111
2016	6,924
2017	3,348
2018	807
Total	20,190
Less: imputed interest	(828)
Net capital lease obligation	$19,362

Note 10. Developments in Accounting Pronouncements

In July 2013, the FASB issued ASU No. 2013-11, which requires entities to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss, or tax credit carryforward if certain criteria are met. The guidance eliminated the diversity in practice in the presentation of unrecognized tax benefits but will not alter the way in which entities assess deferred tax assets for realizability. ASU No. 2013-11 is effective for annual and interim reporting periods beginning after December 15, 2013. Adoption of this guidance has not had a material impact on our consolidated financial statements.

In May 2014, the FASB issued 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 guidance 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. ASU No. 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016. We are in the process of evaluating this guidance.

Note 11. Derivative Instruments

At times, we may 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 contained under contract positions.

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 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 do not qualify for hedge accounting and are marked-to-market through earnings each period. At September 30, 2014, we recorded the following balances related to these contracts:

- a non-current asset of $0.2 million which is included in other non-current assets;
- a current liability of $0.4 million which is included in other current liabilities and is net of $1.8 million in contracts in a fair value current asset position; and
- a non-current liability of $1.7 million which is included in other non-current liabilities and is net of $3.6 million in contracts in a fair value non-current asset position.

We recognized a $2.0 million net loss during the first nine months of 2014 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 $2.6 million net loss during the first nine months of 2014 on the contracts utilized to manage exposure to prices for forecasted future concentrate shipments, which is net of $4.4 million in gains realized on settled contracts. 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 during the first nine months of 2014 is the result of increasing zinc and lead prices. This program 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 September 30, 2014 and December 31, 2013:

September 30, 2014	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)
Contracts on provisional sales								
2014 settlements	901	3	27,668	6,449	$17.35	$ 1,224	$ 1.03	$ 0.94
Contracts on forecasted sales								
2014 settlements	—	—	717	—	N/A	N/A	$ 1.03	N/A
2015 settlements	—	—	61,950	29,652	N/A	N/A	$ 0.98	$ 1.07
2016 settlements	—	—	44,699	34,337	N/A	N/A	$ 0.99	$ 1.03
2017 settlements	—	—	1,984	—	N/A	N/A	$ 1.04	N/A

December 31, 2013	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)
Contracts on provisional sales								
2014 settlements	673	3	11,188	3,472	$19.50	$ 1,205	$ 0.89	$ 1.00
Contracts on forecasted sales								
2014 settlements	—	—	31,967	34,282	N/A	N/A	$ 1.00	$ 1.04
2015 settlements	—	—	39,683	36,982	N/A	N/A	$ 0.96	$ 1.07

2016 settlements	—	—	3,803	30,589	N/A	N/A	$ 0.93	$ 1.03

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 does not qualify for hedge accounting, is adjusted to market through earnings each period prior to final settlement.

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 September 30, 2014	Balance at December 31, 2013	Input Hierarchy Level
Assets:			
Cash and cash equivalents:			
Money market funds and other bank deposits	$222,360	$212,175	Level 1
Available for sale securities:			
Equity securities – mining industry	7,022	7,019	Level 1
Trade accounts receivable:			
Receivables from provisional concentrate sales	17,433	17,672	Level 2
Restricted cash balances:			
Certificates of deposit and other bank deposits	883	5,217	Level 1
Derivative contracts:			
Metal forward contracts	163	4,461	Level 2
Total assets	$247,861	$246,544	
Liabilities:			
Derivative contracts:			
Metal forward contracts	$2,160	$—	Level 2

Cash and cash equivalents consist primarily of money market funds and are valued at cost, which approximates fair value.

Current and non-current restricted cash balances consist primarily of certificates of deposit and U.S. Treasury securities and are valued at cost, adjusted for interest income earned, which approximates fair value.

Our non-current investments consist of marketable equity securities which are valued using quoted market prices for each security.

Trade accounts receivable include amounts due to us for shipments of concentrates and doré sold to smelters and refiners. 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 forward prices at which sales of our concentrates will be settled due to the time elapsed between shipment and final settlement with the smelter. 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 smelter. We obtain the forward metals prices used each period from a pricing service. Changes in metals 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 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 $498.2 million, net of unamortized initial purchaser discount at September 30, 2014, had a fair value of $477.1 million at September 30, 2014. Third-party quotes, 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 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.; RHL Holdings, Inc.; Hecla MC Subsidiary, LLC; Hecla Silver Valley, Inc.; Burke Trading, Inc.; Hecla Alaska LLC; Hecla Greens Creek Mining Company; Hecla Admiralty Company; and Hecla Juneau Mining Company. We completed the initial offering of the Notes on April 12, 2013, and a related exchange offer for virtually identical notes registered with the SEC on January 3, 2014.

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 consolidated financial statements. Investments in the subsidiaries are accounted for under the equity method. Accordingly, the entries necessary to consolidate Hecla and the Guarantors 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's 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 on the records of the parent company and a contribution of 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, and their cash requirements are routinely met with inter-company advances from their parent companies. On an annual basis, 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.

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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 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 condensed 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. These release provisions include: (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) the Guarantor ceases to be a borrower as defined in the indenture; and (5) upon legal or covenant defeasance or satisfaction and discharge of the indenture.

Condensed Consolidating Balance Sheets

	As of September 30, 2014				
	Parent	**Guarantors**	**Non-Guarantors**	**Eliminations**	**Consolidated**
	(in thousands)				
Assets					
Cash and cash equivalents	$151,739	$48,205	$ 22,416	$—	$ 222,360
Other current assets	3,032	55,060	25,878	12,109	96,079
Properties, plants, and equipment - net	1,446	1,076,560	751,494	—	1,829,500
Intercompany receivable (payable)	510,942	(116,857)	(444,144)	50,059	—
Investments in subsidiaries	1,275,038	—	—	(1,275,038)	—
Other non-current assets	2,726	183,249	6,392	(87,853)	104,514
Total assets	$1,944,923	$1,246,217	$ 362,036	$(1,300,723)	$ 2,252,453
Liabilities and Shareholders' Equity					
Current liabilities	$26,620	$63,603	$ 22,604	$(11,785)	$ 101,042
Long-term debt	498,183	10,864	26	—	509,073
Non-current portion of accrued reclamation	—	48,224	8,569	—	56,793
Non-current deferred tax liability	—	13,100	157,512	(13,900)	156,712
Other non-current liabilities	33,753	9,764	(1,051)	—	42,466
Shareholders' equity	1,386,367	1,100,662	174,376	(1,275,038)	1,386,367
Total liabilities and shareholders' equity	$1,944,923	$1,246,217	$ 362,036	$(1,300,723)	$ 2,252,453

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	As of December 31, 2013				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
	(in thousands)				
Assets					
Cash and cash equivalents	$126,271	$40,009	$ 45,895	$—	$ 212,175
Other current assets	4,795	75,083	33,129	18,453	131,460
Properties, plants, and equipment - net	803	1,052,102	738,696	—	1,791,601
Intercompany receivable (payable)	528,290	(112,815)	(464,634)	49,159	—
Investments in subsidiaries	1,195,076	—	—	(1,195,076)	—
Other non-current assets	5,249	164,563	11,115	(84,044)	96,883
Total assets	$1,860,484	$1,218,942	$ 364,201	$(1,211,508)	$ 2,232,119
Liabilities and Stockholders' Equity					
Current liabilities	$10,058	$117,421	$ 24,000	$—	$ 151,479
Long-term debt	490,726	14,292	40	—	505,058
Non-current portion of accrued reclamation	—	38,426	8,340	—	46,766
Non-current deferred tax liability	—	16,430	164,861	(16,430)	164,861
Other non-current liabilities	33,281	4,043	212	—	37,536
Stockholders' equity	1,326,419	1,028,330	166,748	(1,195,078)	1,326,419
Total liabilities and stockholders' equity	$1,860,484	$1,218,942	$ 364,201	$(1,211,508)	$ 2,232,119

Condensed Consolidating Statements of Operations

	Three Months Ended September 30, 2014				
	Parent	Guarantors	Non-Guarantors	Eliminations	Consolidated
	(in thousands)				
Revenues	$1,444	$ 94,202	$ 39,861	$ —	$ 135,507
Cost of sales	—	(57,995)	(28,685)	—	(86,680)
Depreciation, depletion, amortization	—	(17,205)	(9,599)	—	(26,804)
General and administrative	(4,048)	(3,590)	(246)	—	(7,884)
Exploration and pre-development	(4)	(3,085)	(3,099)	—	(6,188)
Gain/(loss) on derivative contracts	(411				