HECLA MINING CO/DE/
Form 10-K
March 10, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For the fiscal year ended **December 31, 2005**

Commission file no. 1-8491

HECLA MINING COMPANY

(Exact name of registrant as specified in its charter)

Delaware	82-0126240
(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)

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

Title of each class		**Name of each exchange on which registered**
Common Stock, par value $0.25 per share	)	
	)	
Preferred Share Purchase Rights for	)	

Series A Junior Participating Preferred Stock, par value $0.25 per share	)	New York Stock Exchange
	)	
Series B Cumulative Convertible Preferred Stock, par value $0.25 per share	)	

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Act.
Large Accelerated Filer o. Accelerated Filer x. Non-Accelerated Filer o.

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

The aggregate market value of the Registrant s voting Common Stock held by nonaffiliates was $536,570,480 as of June 30, 2005. There were 118,444,004 shares of the Registrant s Common Stock outstanding as of June 30, 2005, and 118,691,945 shares as of March 3, 2006.

Documents incorporated by reference herein:

To the extent herein specifically referenced in Part III, the information contained in the Proxy Statement for the 2006 Annual Meeting of Shareholders of the Registrant, which will be filed with the Commission pursuant to Regulation 14A within 120 days of the end of the Registrant s 2005 fiscal year is incorporated herein by reference. See Part III.

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Special Note on Forward-Looking Statements

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

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

PART I

Item 1. Business

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

Introduction

Hecla Mining Company is a precious metals company originally incorporated in 1891 (in this report, we or our or us refers to Hecla Mining Company and/or our affiliates and subsidiaries). We are engaged in the exploration and development of mineral properties and the mining and processing of silver, gold, lead and zinc. Our business is to discover, acquire, develop, produce and market mineral resources. Prior to 2002, we were also engaged in the mining and processing of industrial minerals.

Our current strategy is to focus our efforts and resources on expanding our proven and probable reserves and mineralized and other material through a combination of acquisitions and exploration efforts in order to position ourselves to expand our silver and gold production. In doing so, we intend to:

- Manage all our business activities in a safe, environmentally responsible and cost-effective manner;
- Give preference to projects where we will be the manager of the operation;
- Provide a work environment that promotes personal excellence and growth for all our employees; and
- Conduct our business with integrity and honesty.

Our corporate headquarters are in Coeur d Alene, Idaho, USA. For GAAP purposes and in accordance with Statement of Financial Accounting Standard (SFAS) No. 131, Disclosures About Segments of an Enterprise and Related Information, we are organized and managed into four segments that represent our operating units and various exploration locations: the La Camorra unit and various Venezuelan exploration activities; the San Sebastian unit and various exploration activities in Mexico; the Greens Creek unit and the Lucky Friday unit. The maps show the locations of our operating units and our exploration projects, as well as the Hollister Development Block.

For the years ended December 31, 2005, 2004 and 2003, we reported net losses of $25.4 million, $6.1 million and $6.0 million, respectively. Our financial results over the past three years have been impacted by: our exploration expenditures, which totaled $16.8 million, $16.0 million and $9.6 million, respectively; increased expenditures on the Hollister Development Block as its development progresses of $9.4 million, $4.2 million and $1.4 million, respectively; and increased costs for operating supplies; and decreased production from the La Camorra and San Sebastian units. A comprehensive discussion of our financial results for the years ended December 31, 2005, 2004 and 2003, individual operating unit performance, general corporate expenses and other significant items can be found in *Item 7 - Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations*, as well as the *Consolidated Financial Statements* and *Notes* thereto.

Our results of operations are significantly affected by the prices of silver, gold, lead and zinc, which fluctuate widely and are affected by numerous factors beyond our control. Over the past three years, we have seen the prices of the metals we produce continue to rise, which has helped to offset the negative factors discussed above.

Products and Segments

Our principal operating units are differentiated by geographic region and principal products produced. We produce both metal concentrates, which we sell to custom smelters on contract, and unrefined gold and silver bullion bars (doré), which are further refined before sale to metals traders. Our principal producing operating units during 2005 included:

The La Camorra unit, located in the eastern Venezuelan State of Bolivar, has been 100% owned by us through our wholly owned subsidiary, Minera Hecla Venezolana, C.A., since June 1999. During 2005, La Camorra contributed $39.0 million, or 35.4%, to our consolidated sales;

The San Sebastian unit, located in the State of Durango, Mexico, has been 100% owned by us through our wholly owned subsidiary, Minera Hecla, S.A. de C.V., since 1999. During 2005, San Sebastian reached the end of its known mine life. We are continuing an ongoing exploration program at the San Sebastian unit. The San Sebastian unit contributed $12.6 million, or 11.5%, to our consolidated sales in 2005.

The Greens Creek unit, a 29.73% owned joint venture arrangement with Kennecott Greens Creek Mining Company, the manager, and Kennecott Juneau Mining Company, both wholly owned subsidiaries of Kennecott Minerals. Greens Creek is located on Admiralty Island, near Juneau, Alaska, and has been in production since 1989, with a temporary shutdown from April 1993 through July 1996. During 2005, our portion of Greens Creek revenue contributed $36.7 million, or 33.3%, to our consolidated sales; and

The Lucky Friday unit located in northern Idaho. Lucky Friday is 100% owned and has been a producing mine for us since 1958. During 2005, Lucky Friday contributed $21.8 million, or 19.8%, to our consolidated sales.

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

	Year		
	2005	2004	2003
Silver (ounces)	6,013,929	6,960,580	9,817,324
Gold (ounces)	140,559	189,860	204,091
Lead (tons)	21,075	19,558	21,224
Zinc (tons)	23,289	25,644	25,341

Prior to 2005, we were organized according to the geographical areas in which we operated, and our segments included: Venezuela (the La Camorra unit), Mexico (the San Sebastian unit) and the United States (the Greens Creek unit and the Lucky Friday unit). During 2005, we separated the United States segment into the Greens Creek and Lucky Friday segments. Prior to 2003, we were organized by principal mineral mined at each location. For further information with respect to our business segments, our domestic and export sales and our customers, refer to *Note 12* of *Notes to Consolidated Financial Statements.*

Employees

As of December 31, 2005, we employed 1,191 people, and believe relations with our employees are generally good. However, our employees at the Velardeña mill went on strike in October 2004, as discussed under the *San Sebastian Unit* property description below, and our hourly employees at the La Camorra mine went on strike in July 2005, as discussed further under the *La Camorra Unit* property description.

Available Information

Hecla Mining Company is a Delaware corporation, with our principal executive offices located at 6500 N. Mineral Drive, Suite 200, Coeur d Alene, Idaho 83815-9408. Our telephone number is (208) 769-4100. Our web site address is www.hecla-mining.com. We file our annual, quarterly and current reports and amendments to these reports with the SEC, copies of which are available on our website or from the SEC free of charge (www.sec.gov or 800-SEC-0330 or the SEC s Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549). Charters of our audit, compensation and corporate governance and directors nominating committees, as well as our Code of Business Conduct and Ethics for Directors, Officers and Employees, are also available on our website free of charge. We will provide copies of these materials to shareholders upon request using the above-listed contact information, directed to the attention of Investor Relations.

We have included the CEO and CFO certifications regarding our public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to this report. Additionally, we filed with the New York Stock Exchange (NYSE) the CEO s certification regarding our compliance with the NYSE s Corporate Governance Listing Standards (Listing Standards) pursuant to Section 303A.12(a) of the Listing Standards, which certification was dated May 19, 2005, and indicated that the CEO was not aware of any violations of the Listing Standards.

Item 1A. Risk Factors

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

FINANCIAL RISKS

We have a history of losses that may continue in the future.

For the years ended December 31, 2005, 2004 and 2003, we reported net losses of $25.4 million, $6.1 million and $6.0 million, respectively. A comparison of operating results over the past three years can be found in *Results of Operations* in *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).*

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

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

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

- Expectations for inflation;
- Speculative activities;
- Relative exchange rates of the U.S. dollar;
- Global and regional demand and production; and
- Political and economic conditions.

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

The following table sets forth the average daily closing prices of the following metals for 1990, 1995, 2000 and each year thereafter through 2005.

	1990	1995	2000	2001	2002	2003	2004	2005
Silver[1] (per oz.)	$ 4.83	$ 5.20	$ 4.95	$ 4.37	$ 4.60	$ 4.88	$ 6.66	$ 7.31
Gold [2] (per oz.)	$ 383.46	$ 384.16	$ 279.03	$ 272.00	$ 309.97	$ 363.51	$ 409.21	$ 444.45
Lead [3] (per lb.)	$ 0.37	$ 0.29	$ 0.21	$ 0.22	$ 0.21	$ 0.23	$ 0.40	$ 0.44
Zinc [4] (per lb.)	$ 0.69	$ 0.47	$ 0.51	$ 0.40	$ 0.35	$ 0.38	$ 0.48	$ 0.63

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

On March 3, 2006, the closing prices for silver, gold, lead and zinc were $10.26 per ounce, $565 per ounce, $0.56 per pound and $1.07 per pound, respectively.

Hedging activities could expose us to losses.

From time to time, we enter into hedging activities, such as forward sales contracts and commodity put and call option contracts, to manage the metals prices received on our products and in an attempt to insulate our operating results from declines in those prices. However, hedging may prevent us from realizing possible revenues in the event that the market price of a metal exceeds the price stated in a forward sale or call option contract. In addition, we may experience losses if a counterparty fails to purchase under a contract when the contract price exceeds the spot price of a commodity or for any other reason. At December 31, 2005, we had no outstanding forward sales contracts, commodity put and call options contracts or other hedging positions.

Our costs are subject to currency fluctuations.

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

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

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

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

In September 2005, we entered into a $30.0 million revolving credit agreement that includes various covenants and other limitations related to our indebtedness and investments that require us to maintain customary measures of financial performance. At December 31, 2005, we had $3.0 million outstanding under the credit agreement and were in compliance with our covenants. We believe we will be able to comply with such requirements in the future, although failure to do so could adversely affect our results or financial condition and may limit our ability to obtain financing. For additional information, see *Note 7* of *Notes to Consolidated Financial Statements.*

Our accounting and other estimates may be imprecise.

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

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

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

Material weaknesses relating to our internal controls over financial reporting could adversely affect our financial results or condition and share price.

In our 2004 Annual Report on Form 10-K, management concluded that internal controls over financial reporting in place at December 31, 2004 were ineffective due to three material weaknesses. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. During 2005, these material weaknesses were remediated and we reported no material weaknesses at December 31, 2005. However, there can be no assurance that material weaknesses regarding our internal controls will not be discovered in the future, which could result in costs to remediate such controls or inaccuracies in our financial statements. A material weakness in controls over financial reporting may result in increased difficulty or expense in transactions, such as financings, or a risk of adverse reaction by the market generally that would result in a decrease of our stock prices.

OPERATION, DEVELOPMENT AND EXPLORATION RISKS

Our foreign operations are subject to additional inherent risks.

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

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

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

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

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

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

- Requirement to sell 15% of our production within Venezuela. Markets for gold sales within Venezuela are limited, which could result in delays in sales, lower realized sales prices and operating cash flows.
- A fixed exchange rate of Venezuelan currency with the U.S. dollar, which has impacted our costs and operating cash flows. A new Criminal Exchange Law imposes strict sanctions, both criminal and economic, for currency exchanges outside the officially designated methods or for obtaining foreign currency under false pretenses.
- We are involved in litigation with the Venezuelan tax authority concerning alleged unpaid tax liabilities that predate our purchase of La Camorra in 1999, as well as tax audits of our Venezuelan tax returns for the years ended December 31, 2003 and 2002.
- The Venezuelan government announced its intention to rescind inactive, non-compliant mining concessions and created a state agency that is responsible for exploration, exploitation, processing and industrialization of gold and other minerals in Venezuela.
- In February 2004, the Venezuelan National Guard impounded a shipment of our dorè due to alleged irregularities in documentation that accompanied the shipment. The dorè was returned to us in July of that year, and all subsequent shipments of dorè have been exported without intervention by Venezuelan government authorities.

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

Capitalized development projects may cost more and provide less return than we estimate, including the Lucky Friday 5900 level expansion, development of Mina Isidora in Venezuela and the recently completed shaft at the La Camorra mine in Venezuela, which was placed into service in August 2005. If we are unable to realize a return on these investments, we may incur a related asset write-down that could adversely affect our financial results or condition.

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

- Ore reserves;
- Expected recovery rates of metals from the ore;
- Future metals prices;
- Facility and equipment costs;
- Availability of economic sources of power and adequacy of water supply;
- Exploration and drilling success;
- Capital and operating costs of a development project;
- Environmental considerations and permitting;
- Adequate access to the site, including competing land uses (such as agriculture and illegal mining);
- Currency exchange and repatriation risks;
- Applicable tax rates;
- Foreign currency fluctuation and inflation rates;
- Political risks and regulatory climate in the foreign countries in which we operate; and
- Availability of financing.

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

Our ore reserve estimates may be imprecise.

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

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

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

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

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

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

Our joint development and operating arrangements may not be successful.

It is possible we will enter into other joint venture arrangements in the future in order to share the risks and costs of developing and operating properties, similar to our joint venture arrangements related to the Greens Creek unit and Hollister Development Block project. In a typical joint venture arrangement, the partners own a proportionate share of the assets, are entitled to indemnification from each other party and are only responsible for any future liabilities in proportion to its interest in the joint venture. If a party fails to perform its obligations under a joint venture agreement, we could incur liabilities and losses in excess of our pro-rata share of the joint venture.

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

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

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

Our business depends on good relations with our employees.

We are dependent upon the ability and experience of our executive officers, managers, employees and other personnel including those residing outside of the U.S., and there can be no assurance that we will be able to retain all of such employees. We compete with other companies both within and outside the mining industry in connection with the recruiting and retention of qualified employees knowledgeable in mining operations. Due to the relatively small size of our management team, the loss of these persons or our inability to attract and retain additional highly skilled employees could have an adverse effect on our business and future operations.

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

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

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

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

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

- Environmental hazards;
- Political and country risks;
- Civil unrest or terrorism;
- Industrial accidents;
- Labor disputes or strikes;
- Unusual or unexpected geologic formations;
- Cave-ins;
- Explosive rock failures; and
- Unanticipated hydrologic conditions, including flooding and periodic interruptions due to inclement or hazardous weather conditions.

Such risks could result in:

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

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

LEGAL, MARKET AND REGULATORY RISKS

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

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

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

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

We face substantial governmental regulation and environmental risk.

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

From time to time, the U.S. Congress considers proposed amendments to the General Mining Law of 1872, as amended, which governs mining claims and related activities on federal lands. There has been no significant activity with respect to mining law reform in Congress during the past several years. The extent of any future changes is not known and the potential impact on us as a result of U.S. Congressional action is difficult to predict. Although a majority of our existing U.S. mining operations occur on private or patented property, changes to the General Mining Law, if adopted, could adversely affect our ability to economically develop mineral reserves on federal lands.

See also Our foreign operations are subject to additional inherent risks and Political, social and regulatory instability in Venezuela may effect us, and Item 7, Management Discussion Analysis.

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

We are subject to significant environmental obligations, particularly in northern Idaho. At December 31, 2005, we had accrued $69.2 million as a provision for environmental remediation, $55.8 million of which relates to our various liabilities in Idaho, and there is a significant risk that the costs of remediation could materially exceed this provision. For an overview of our potential environmental liabilities, see *Note 8* of *Notes to Consolidated Financial Statements.*

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

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

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

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

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

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

Our preferred stock has a liquidation preference of $50 per share or $7.9 million.

If we were liquidated, holders of our preferred stock would be entitled to receive approximately $7.9 million (plus any accrued and unpaid dividends) from any liquidation proceeds before holders of our common stock would be entitled to receive any proceeds.

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

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

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

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

- The rights issued in connection with our stockholder rights plan that will substantially dilute the ownership of any person or group that acquires 15% or more of our outstanding common stock unless the rights are first redeemed by our board of directors, at its discretion. Furthermore, our board of directors may amend the terms of these rights, at its discretion, including an amendment to lower the acquisition threshold to as low as 10% of the outstanding common stock;
- The classification of our board of directors into three classes serving staggered three-year terms, which makes it more difficult to quickly replace board members;
- The ability of our board of directors to issue shares of preferred stock with rights as it deems appropriate without stockholder approval;
- A provision that special meetings of our board of directors may be called only by our chief executive officer or a majority of our board of directors;
- A provision that special meetings of stockholders may only be called pursuant to a resolution approved by a majority of our entire board of directors;
- A prohibition against action by written consent of our stockholders;
- A provision that our board members may only be removed for cause and by an affirmative vote of at least 80% of the outstanding voting stock;
- A provision that our stockholders comply with advance-notice provisions to bring director nominations or other matters before meetings of our stockholders;

A prohibition against certain business combinations with an acquirer of 15% or more of our common stock for three years after such acquisition unless the stock acquisition or the business combination is approved by our board prior to the acquisition of the 15% interest, or after such acquisition our board and the holders of two-thirds of the other common stock approve the business combination; and

A prohibition against our entering into certain business combinations with interested stockholders without the affirmative vote of the holders of at least 80% of the voting power of the then outstanding shares of voting stock.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Property Descriptions

OPERATING PROPERTIES

The La Camorra Unit

The La Camorra unit refers to our Venezuelan operating properties and exploration projects, which are discussed below. For additional information with regard to our Venezuelan operating properties, see the *La Camorra Segment* in *MD&A.* At the present time, the La Camorra mine is operating and development of Mina Isidora is continuing. Limited production of ore in 2005 from Mina Isidora was achieved and Mina Isidora will be ramping up to a full production rate in mid-2006. All ore from Mina Isidora is shipped to the mill at the La Camorra mine for processing.

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

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

During 2004, we started a custom-milling program for small mining cooperatives working in the area of Mina Isidora. The cooperatives sell their ore to us for further processing at our La Camorra mill. See *Custom Milling Business* below.

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

	Years Ended December 31,		
Production	**2005**	**2004**	**2003**
Ore processed (tons) (1)	191,900	199,453	197,591
Gold (ounces) (1)	101,474	130,437	126,567
Average Cost per Ounce of Gold Produced (2)			
Cash operating costs	$ 330	$ 176	$ 154
Total cash costs	$ 337	$ 180	$ 154
Total production costs	$ 437	$ 271	$ 222

(1) During 2005, 2004 and 2003, 17,252, 24,264 and 15,155 tons milled, respectively, and 4,602, 4,789 and 3,049 gold ounces produced were generated from our custom milling business and other purchases of ore from third parties not mined at La Camorra.

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

The La Camorra Mine

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

We acquired the La Camorra mine in 1999 from Monarch Resources Investments Limited (Monarch), and it is 100% owned by us through our Venezuelan subsidiary, Minera Hecla Venezolana, C.A. (MHV). The purchase agreement includes a provision to pay Monarch a net smelter return (NSR) royalty on production exceeding a cumulative total of 600,000 ounces of gold from the properties acquired in Venezuela from Monarch. The royalty is based on a sliding scale that is dependent on the price of gold. When the gold price is below $300 per troy ounce, there is no royalty; when the price is between $300.00 and $399.99 per troy ounce the royalty is 1%; when the price is between $400.00 and $499.99 per troy ounce, the royalty is 2%; and when the price is $500.00 and above, the royalty is 3%. The 600,000 ounce production milestone was reached during the second quarter of 2004. Gold production since that time has been subject to the provisions of the royalty agreement, the payments of which have been offset by our costs incurred related to on-going tax litigation, as discussed in *Note 8* of *Notes to Consolidated Financial Statements.*

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

At the end of 2005, the principal working levels of the La Camorra mine lay between the elevations of 400 and 560 meters below sea level. The proven and probable reserves extend to the 610-meter elevation and exploration drill holes have intersected gold mineralization below the current reserve limits at the 950-meter level.

At the end of 2003, the mine had been developed to the 480-meter level. Engineering studies undertaken in 2002 and 2003 indicated that the combination of ventilation and haulage requirements and logistics would make mining below the 500-meter level extremely difficult and marginally economic without the development of a shaft. In August 2003, the board of directors approved the development of a production shaft at the La Camorra mine based on the long lead-time necessary to construct the shaft and to develop further ore reserves. The production shaft is complete and was commissioned during the second half of 2005. The shaft loading station is at the 405-meter level and is 550 meters below sea level.

Access to the underground workings at the La Camorra mine is made via the shaft and a ramp from the surface excavated at a -15% grade and connecting numerous levels. The main access ramp has been developed to a depth of approximately 578 meters below sea level.

Ore is mined primarily by longhole stoping and is extracted from the stopes using rubber-tired equipment and hauled to the surface in mine haulage trucks and during the second half of 2005, the production shaft. Sub-economic material is used to backfill and stabilize mined-out stopes. The mine is currently producing approximately 450 tons of ore per day.

Site infrastructure, equipment and facilities are in good condition and includes a water supply system, maintenance shop, warehouse, living quarters, a dining facility, administration building and a National Guard post. We also share a housing facility located near the town of El Callao with units for approximately 50 families. Mine electric power is purchased from Eleoriente (a state-owned electric company). Diesel-powered electric generators are available on-site for operation of critical equipment during power outages. At December 31, 2005, the net book value of the La Camorra mine property and its associated plant and equipment was approximately $32.7 million.

Our reclamation plan has been approved by the Ministry of Environment and Natural Resources. Planned activities include regrading and revegetation of disturbed areas. The reclamation and closure accrual as of December 31, 2005, was $2.2 million.

At December 31, 2005, there were 401 hourly and 118 salaried employees associated with the La Camorra mine. The hourly employees are covered by a collective bargaining agreement, the contract for which will expire in October 2006. In addition, there were 32 employees contracted to fill-in for vacation and absentee purposes, and 31 employees at the administrative office in Puerto Ordaz as of December 31, 2005.

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

	Years Ended December 31,		
	2005	2004	2003
Proven and Probable Ore Reserves [1,2,3,4]			
Total tons	193,642	356,192	318,644
Gold (ounces per ton)	0.62	0.60	0.69
Contained gold (ounces)	120,716	213,244	220,552

(1) The Company s estimates of proven and probable reserves are based on a gold price of $400, $350 and $335 per ounce, respectively, in 2005, 2004 and 2003. Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. An independent audit of the 2004 year-end reserves at the La Camorra mine was completed in 2005 by Roscoe Postle Associates Inc. (RPA). Following the audit, RPA made several recommendations for our proven and probable reserve calculation, all of which we reviewed and addressed in the 2005 proven and probable reserves, which were not subject to audit by RPA.

(2) The 2005 year-end proven and probable reserves decrease in tonnage and grade, as well as an associated decrease in ounces when compared to the 2004 year-end proven and probable reserves, are a result of a combination of new drill data and underground sampling information, a revision of ore shoot limits and the depletion of reserves by mining.

(3) The 2004 year-end reserves show an increase in tonnage and decrease in grade resulting in a decrease in ounces when compared to the 2003 year-end reserves. The changes are a result of a combination of new drill data and underground sampling information, a revision of ore shoot limits and the increase in mine dilution being applied to the Betzy vein material together with a depletion of reserves by mining.

(4) Proven and probable ore reserves at the La Camorra mine are based on drill spacing of 30 to 50 meters and closely spaced chip sample information. Cutoff grade assumptions are developed based on reserve prices, anticipated mill recoveries and cash operating costs. The cutoff grade at La Camorra is 14 grams of gold per tonne.

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

In 2005, proven and probable reserves decreased at the La Camorra mine as the deposit exhibited lower ore grades. No significant exploration results were returned from drilling on the La Camorra veins during 2005. In 2006, exploration activity will focus on strike extensions to the Main and Betsy veins and other known veins on the concession and on the properties surrounding the mine, once the appropriate permits are granted.

The Block B Concessions

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

Pursuant to the lease agreement, we will pay CVG-Minerven a royalty of 2% to 3% on production from Block B, based on production levels. The royalty terms are: (i) 2% if the price of gold is below $290 per ounce of refined gold during the month preceding payment; (ii) 2.5% if the price of gold is equal or greater than $290 and equal to or below $310 per ounce of refined gold during the month preceding payment; and (iii) 3% if the price of gold is greater than $310 per ounce of refined gold during the month preceding payment. As a result of limited production in 2005, $0.3 million in royalty expense was incurred. Prior to inception of production, we made lease payments of $30,000 in 2004 and $24,000 in 2003 to CVG-Minerven.

The El Callao area is accessed on a maintained, asphalt highway that runs from Puerto Ordaz, on the south side of the River Orinoco, through to Santa Elena on the Brazilian border. Overall good infrastructure exists and an 115kw electricity power line supplies the area predominantly populated by miners operating underground small-scale mines. The population of El Callao is approximately 25,000 people.

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

We completed a detailed exploration drilling campaign including 163 drill holes and 40,000 meters of drilling resulting in the discovery of what we refer to as Mina Isidora (formerly the Chile mine), which we anticipate will be accessible by both a ramp and an inclined shaft. Mina Isidora reported limited production during 2005 (17,503 tons, resulting in approximately 22,000 ounces of gold). Mina Isidora ore is shipped to the mill at the La Camorra mine for processing. At December 31, 2005, the net book value for the development of Mina Isidora totaled $32.6 million. In addition, we had an accrual for future reclamation and closure costs of $0.5 million. At December 31, 2005, there were 70 salaried and 205 hourly employees associated with Block B.

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

Proven and Probable Ore Reserves [1,2,3]	**Years Ended December 31,**		
	2005	**2004**	**2003**
Total tons	398,754	338,965	500,011
Gold (ounces per ton)	0.80	1.03	0.66
Contained gold (ounces)	320,676	350,547	327,303

(1) Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. Associated Mining Consultants, Ltd., whom has referred to Mina Isidora as the Isidora Gold Project within their consent included as exhibit 23.5 to this document, completed an independent audit of the 2003 year-end reserves at Mina Isidora in 2004. Our estimates of proven and probable reserves were based on a gold price of $400, $350 and $335 per ounce, respectively, in 2005, 2004 and 2003.

(2) Proven and probable ore reserves at Mina Isidora are based on diamond drill hole spacing of 30 to 35 meters, geostatistical modeling. Cutoff grade assumptions are developed based on reserve prices, anticipated mill recoveries and cash operating costs.

(3) The changes to the Mina Isidora ore reserves in 2005 compared to 2004 are attributed to additional drill data, changes in modeling techniques, changes in mining assumptions and costs. The cutoff grade at Isidora is 12 grams of gold per tonne.

Outside the Mina Isidora area, other exploration work on the Block B concessions has included geologic mapping, geophysical surveying, geochemical sampling and 20,000 meters of exploration diamond drilling. This work has lead to the discovery of two mineralized zones, the Twin and Conductora mineralized zones, located approximately one-kilometer northeast of the Mina Isidora orebody.

The Twin structure was discovered through drilling during in the second quarter of 2004, and is host to a large mineralized zone known as the Twin mineralized zone. The Twin mineralized zone has a minimum strike length of 750 meters and a minimum vertical extent of 350 meters, and is still open down dip and along strike. Mineralization is somewhat erratic with values ranging from three grams per tonne to over 18 grams per tonne and widths from one meter to over 20 meters. The gold mineralization is associated with disseminated pyrite in a moderate-to-strong schistose shear zone, with moderate-to-intense ankerite/sericite alteration and minor quartz veining. Additional drilling is planned for 2006.

The Conductora structure, which is a possible extension to the northeast of the Twin structure, is a second shear zone that has been traced over a strike length of about 700 meters and is still open in both directions along strike and also down dip. The structure is host to the Conductora mineralized zone, which has erratic gold values associated with sulphides in narrow, quartz veins and/or wide zones of quartz veinlets in moderate-to-intensely schistose rocks with strong ankerite/sericite alteration.

Geological interpretation is continuing to determine the relationship between the Twin and Conductora structures and mineralized zones. The significance of the Twin/Conductora discovery is that it outlines a previously unidentified shear structure and a new style of mineralization on the Block B concession that might exist in other unexplored areas.

Custom Milling Business

During 2004, we completed construction of a small scale crushing and sampling plant on the Block B concessions that allows us to purchase ore produced from small underground mines in the area. Ores purchased from the small mines are initially crushed, sampled and assayed at the sampling plant, and then trucked to the mill at the La Camorra mine for further processing. The sampling plant is designed to process up to 400 tons of purchased ore per day, and includes an assay lab, operated by an outside analytical assay firm, where ore samples are ground and assayed. Ore is received from small mining groups, crushed, sampled and assayed, and then payment for the ore is calculated and made to the miners generally within three days of receipt of the ore.

As a part of this program, we provide small mine operators with financing and technical assistance, including technical advice on mining techniques, grade controls and safety standards. The small mine activity in Venezuela is a significant part of the country s mining industry, and we believe working with the miners provides goodwill and develops positive relationships with local mining groups, as well as assistance to the communities that are impacted by our operations. We have received a positive response from local and national politicians and citizens for our efforts in helping the small mining cooperatives to improve their practices, and for assisting in providing a stimulus to the local economy.

As part of the custom milling business, we enter into contracts with the small mining groups and advance funds in the form of equipment and working capital, and collect such advances from ore delivered to the sampling and crushing plant. As of December 31, 2005, we had a receivable from small mining cooperatives totaling $2.0 million, net of a reserve of $1.1 million. The net book value of the plant and equipment associated with the custom milling business was $2.6 million at December 31, 2005. In addition, we had an accrual for future reclamation and closure costs of $0.2 million.

The San Sebastian Unit

The San Sebastian mine is located approximately 56 miles northeast of the city of Durango, Mexico, on concessions acquired in 1999. Access to San Sebastian is via Mexico highway 40, approximately 12 kilometers east of Guadalupe Victoria, and then approximately 23 kilometers of paved rural road through the towns of Ignacio Allende and Emiliano Zapata. The processing plant is located near Velardeña, Durango, Mexico, and was acquired in April 2001.

Our concession holdings cover approximately 200-square miles, including the Francine vein, the Don Sergio vein and multiple outlying active exploration areas. Production from the Francine vein has been from a high-grade silver vein with significant gold credits. Production from the Don Sergio vein has been from a high-grade gold vein with some silver credits. Mineral concession titles are obtained and held under the laws of Mexico, and are valid for 50 years with the possibility of extending another 50 years. There are work assessment and tax requirements that are variable and increase with the time that the concession is held.

Several epithermal veins within the Saladillo Valley include the Francine, Profesor, Middle and North vein systems that are proximal to each other and hosted within a series of shales with interbedded fine-grained sandstones interpreted to belong to the Cretaceous Caracol Formation. The Don Sergio, Jessica, Andrea and Antonella veins located in the Cerro Pedernalillo area, about six kilometers from Francine, are hosted by the same formation with the addition of dioritic intrusive rocks.

Underground development along the Francine vein started in May 2001, and reached full production during the second quarter of 2002. Mining of economic ore on the upper Francine vein was completed during the first quarter of 2005. The mine has been placed on care and maintenance as exploration continues on the property including the Hugh Zone, which is located several hundred meters below historic mining. Mining of economic ore on the Don Sergio vein was completed in the fourth quarter of 2005 and reclamation of this portion of the mine site is underway. San Sebastian s life-of-mine production over four years was 11.2 million ounces of silver and 155,937 ounces of gold. During 2006, surface drilling will continue on the Hugh Zone. If such results are favorable, a decision to initiate an underground exploration and feasibility program could be made before the end of 2006.

The Francine vein strikes northwest and dips southwest and is located on the southwestern limb of a doubly plunging anticline. The vein ranges in true thickness from more than four meters to less than half a meter, and consists of several episodes of banded quartz, silica-healed breccias and minor amounts of calcite. The vein is oxidized to a depth of approximately 100 vertical meters and the wall rocks contain an alteration halo of less than two meters next to the vein. Mineralization within the oxidized portion of the vein contains limonite, hematite, silver halides and various copper carbonates. Higher-grade gold and silver mineralization is associated with disseminated hematite and limonite after pyrite and chalcopyrite, copper carbonates including malachite and azurite and hydrous copper silicates including chrysocolla. Native gold occurs associated with hematite and limonite. Mineralization in the sulfide portion of the Francine vein contains pyrite, chalcopyrite, sphalerite, galena, native silver, argentite and trace amounts of aguilarite.

Access to both underground workings has been through ramps from the surface connecting one or more levels. Ore has been mined by the cut-and-fill stoping method and extracted from the stopes using rubber-tired equipment and hauled to the surface in trucks. Run of mine ore has been hauled in trucks by contractors to our processing facility near Velardeña. The mill has been a conventional leach, counter-current decantation and Merrill Crowe precipitation circuit. The ore has been crushed in a two-staged crushing plant consisting of a primary jaw, a secondary cone crusher and a double-deck vibrating screen. The grinding circuit includes a primary ball mill and cyclone classifiers. The ground ore has been thickened followed by agitated leaching and four stages of counter-current decantation to wash solubilized silver and gold from the pulp. The solution bearing silver and gold has been clarified, deaerated and zinc dust added to precipitate silver and gold that is recovered in plate and frame filters. The precious metal precipitate was smelted and refined into doré, and was then shipped to a third-party refiner. Processing of economic ore was completed during the fourth quarter of 2005, and the mill has been placed on care and maintenance.

At December 31, 2005, the net book value of the San Sebastian unit property and its associated plant and equipment was $3.4 million. The mill was constructed in 1994 and is capable of processing approximately 550 tons per day. Site infrastructure includes a water supply system, maintenance shop, warehouse, laboratory, tailings impoundment and various offices. Equipment and facilities, including the mill, are in good condition and have been supported by ongoing diagnostic and preventative maintenance programs. Long-term future operations at the mill would require replacement of the water supply pipeline.

As of December 31, 2005, $1.1 million has been accrued for reclamation and closure costs, and there were 44 hourly and 25 salaried employees performing exploration, care and maintenance, reclamation and security functions. Due to the curtailment of mining activity, the collective bargaining agreement with the National Mine and Mill Workers Union for hourly mill employees was terminated during the fourth quarter of 2005. Electric power is purchased from Comisiòn Federal de Electricidad (a Mexico federal electric company).

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

	Years Ended December 31,		
Production	**2005**	**2004**	**2003**
Ore milled (tons) [(1)]	71,671	128,711	150,717
Silver (ounces) [(1)]	717,860	2,042,173	4,085,038
Gold (ounces) [(1)]	17,160	33,563	47,721
Average Cost per Ounce of Silver Produced [(2,3)]			
Cash operating costs	$ 1.85	$ (0.10)	$ (0.46)
Total cash costs	$ 2.27	$ 0.21	$ (0.25)
Total production costs	$ 6.14	$ 2.11	$ 0.71
Proven and Probable Ore Reserves [(4, 5)]			
Total tons		30,300	170,711
Silver (ounces per ton)		15.4	22.3
Gold (ounces per ton)		0.29	0.26
Contained silver (ounces)		465,400	3,812,503
Contained gold (ounces)		8,600	43,731

(1) Silver and gold production during 2005 was impacted by a strike initiated in October 2004, by hourly employees at the Velardeña mill, as well as by the curtailment of mining activity discussed above. The strike ended in June 2005, with a satisfactory labor agreement that we believe will not inhibit our ability to work in the area in the future.

(2) The low costs per silver ounce are due in part to significant by-product credits from gold production and an increase in price over the last three years. For the years ended December 31, 2005, 2004 and 2003, gold by-product credits were approximately $10.78, $6.61 and $4.25 per silver ounce, respectively, and were deducted from operating costs in the calculation of cash costs per ounce. If our accounting policy had been changed to treat gold production as a co-product, the following total cash costs per ounce would have been reported:

	2005	2004	2003
Silver	$ 7.79	$ 3.42	$ 2.14
Gold	$ 326	$ 208	$ 160

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

(4) Our estimates of proven and probable reserves have been based on the following metals prices:

	December 31, 2004	2003
Silver	$ 5.60	$ 4.95
Gold	$ 350	$ 335

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

The Greens Creek Unit

We hold a 29.73% interest in the Greens Creek unit through a joint venture arrangement with Kennecott Greens Creek Mining Company and Kennecott Juneau Mining Company. The term of the joint venture arrangement continues for 20 years after the effective date (May 1994), and for so long thereafter as products are produced from the properties or the participants continue to have an ownership interest in the assets, unless the arrangement is terminated earlier or is extended.

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

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

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

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

Greens Creek is an underground mine which produces approximately 2,000 tons of ore per day. The primary mining methods are cut and fill and longhole stoping. The ore is processed on-site at a mill, which produces lead, zinc and bulk concentrates, as well as doré containing silver and gold. The doré is sold to a precious metal refiner and the three concentrate products are sold to a number of major smelters worldwide. Concentrates are shipped from a marine terminal located on Admiralty Island about nine miles from the mine site.

The Greens Creek unit is currently powered by diesel generators located on site. However, an agreement was reached during 2005 to purchase excess hydroelectric power from the local power company, and installation of the necessary infrastructure is expected to be complete during the first half of 2006. It is estimated that 23% to 35% of the diesel-generated power will be replaced, as a result of this project, through 2008. Construction of a new hydroelectric plant by the local power company is anticipated by 2009, at which time it is estimated that it will have the capacity to supply 95% of Greens Creek power.

The employees at Greens Creek are employees of Kennecott Greens Creek Mining Company, and are not represented by a bargaining agent. There were 266 employees at the Greens Creek unit at December 31, 2005. Our interest in the net book value of the Greens Creek unit property and its associated plant and equipment was approximately $47.5 million. All equipment, infrastructure and facilities, including camp and concentrate storage facilities, are in good condition.

As of December 31, 2005, we have accrued $5.0 million for reclamation and closure costs. A reclamation trust fund has been established and funded for $27.3 million, into which we have paid approximately $8.1 million. This fund replaced other forms of security that had been provided to regulatory agencies.

Kennecott Greens Creek Mining Company s geology and engineering staff computes the estimated ore reserves for the Greens Creek unit with technical support from Rio Tinto plc. We review geologic interpretation and reserve methodology, but the reserve compilation is not independently confirmed by us in its entirety. Information with respect to our 29.73% share of production, average costs per ounce of silver produced and proven and probable ore reserves is set forth in the following table.

Production	Years Ended December 31, (reflects 29.73% interest) 2005	2004	2003
Ore milled (tons)	213,354	239,456	232,297
Silver (ounces)	2,873,532	2,886,264	3,480,800
Gold (ounces)	21,631	25,624	29,564
Zinc (tons)	19,209	22,649	22,809
Lead (tons)	6,515	7,384	8,289
Average Cost per Ounce of Silver Produced [1]			
Cash operating costs	$ 1.30	$ 0.98	$ 1.10
Total cash costs	$ 1.46	$ 1.13	$ 1.18
Total production costs	$ 4.02	$ 3.47	$ 3.64
Proven and Probable Ore Reserves [2,3,4,5,6,7]			
Total tons	2,223,872	2,358,189	2,226,361
Silver (ounces per ton)	14.5	14.1	14.1
Gold (ounces per ton)	0.12	0.11	0.12
Zinc (percent)	10.2	10.2	10.7
Lead (percent)	3.9	3.9	4.0
Contained silver (ounces)	32,150,190	33,334,025	31,386,366
Contained gold (ounces)	256,959	261,604	256,726
Contained zinc (tons)	227,807	240,467	237,202
Contained lead (tons)	86,465	92,916	89,422

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

(2) Estimates of proven and probable ore reserves for the Greens Creek unit as of December 2005, 2004 and 2003 are derived from successive generations of reserve and feasibility analyses for different areas of the mine each using a separate assessment of metals prices. The weighted average prices used were:

	December 31, 2005	2004	2003
Silver	$ 5.79	$ 5.00	$ 5.00
Gold	$ 381	$ 338	$ 300
Lead	$ 0.31	$ 0.25	$ 0.24
Zinc	$ 0.44	$ 0.46	$ 0.45

(3) Ore reserves represent in-place material, diluted and adjusted for expected mining recovery. Mill recoveries of ore reserve grades differ by ore zones and are expected to be in the range of 72-76% for silver, 65-70% for gold, 77-79% for zinc and 65-68% for lead.

(4) The changes in reserves in 2005 versus 2004 are due to depletion by mining. Additional information from drilling and sampling resulted only in minor reserve increases that did not offset production.

(5) The changes in reserves in 2004 versus 2003 are due to addition of new drill data, increases in forecast precious metals prices, which has resulted in the addition of new reserves based on updated estimates for certain orebodies, partially offset by depletion due to production.

(6) Proven and probable reserves at the Greens Creek unit are based on average drill spacing of 50 to 100 feet. Cutoff grade assumptions vary by orebody and are developed based on reserve prices, anticipated mill recoveries and smelter payables and cash operating costs. Cutoff grades range from $70 per ton net smelter return to $100 per ton net smelter return.

(7) Independent reviews by AMEC E&C, Inc. were completed for reserve models in 2005 for the 200 South, 5250 and Southwest Bench deposits, and in 2003 for the Northwest West Zones. No third-party reviews were conducted in 2004.

The Lucky Friday Unit

Since 1958, we have owned and operated the Lucky Friday unit, a deep underground silver and lead mine located in the Coeur d Alene Mining District in northern Idaho. Lucky Friday is one-quarter mile east of Mullan, Idaho, and is adjacent to U.S. Interstate 90. The principal ore-bearing structure mined at the Lucky Friday unit through 1997 was the Lucky Friday vein, a fissure vein typical of many in the Coeur d Alene Mining District. The orebody is located in the Revett Formation, which is known to provide excellent host rocks for a number of orebodies in the Coeur d Alene Mining District. The Lucky Friday vein strikes northeasterly and dips steeply to the south with an average width of six to seven feet. Its principal ore minerals are galena and tetrahedrite with minor amounts of sphalerite and chalcopyrite. The ore occurs as a single continuous orebody in and along the Lucky Friday vein. The major part of the orebody has extended from the 1,200-foot level to and below the 6,020-foot level.

During 1991, we discovered several mineralized structures containing some high-grade silver ores in an area known as the Gold Hunter property, approximately 5,000 feet northwest of the then existing Lucky Friday workings. This discovery led to the development of the Gold Hunter property on the 4900 level. We control the Gold Hunter property under a long-term operating agreement with Independence Lead Mines Company (Independence) expiring in February 2018 and renewable thereafter, that entitles us, as operator, to an 81.48% interest in the net profits from operations from the Gold Hunter property. We will be obligated to pay a net profits interest of 18.52% to Independence after we have recouped our costs to explore and develop the property. As of December 31, 2005, unrecouped costs totaled approximately $43.2 million. All of our commitments under the operating agreement have been met. For a description of a legal claim involving the Lucky Friday unit and Independence, see *Note 8* of *Notes to Consolidated Financial Statements.*

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

The ore produced from Lucky Friday is processed in a 1,100-ton-per-day conventional flotation mill. In 2005, ore was processed at a rate of approximately 587 tons per day. The flotation process produces both a silver-lead concentrate and a zinc concentrate. During 2005, mill recovery totaled approximately 93% silver, 93% lead and 70% zinc. All silver-lead and zinc concentrate production during 2005 was shipped to Teck Cominco Limited s smelter in Trail, British Columbia, Canada.

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

	Years Ended December 31,		
Production	**2005**	**2004**	**2003**
Ore milled (tons)	214,158	166,866	151,991
Silver (ounces)	2,422,537	2,032,143	2,251,486
Lead (tons)	14,560	12,174	12,935
Zinc (tons)	4,080	2,995	2,532
Average Cost per Ounce of Silver Produced (1)			
Cash operating costs	$ 5.26	$ 5.12	$ 4.86
Total cash costs	$ 5.27	$ 5.12	$ 4.86
Total production costs	$ 5.56	$ 5.17	$ 4.88
Proven and Probable Ore Reserves (2,3,4,5)			
Total tons	1,288,640	757,700	659,380
Silver (ounces per ton)	13.4	14.7	15.4
Lead (percent)	7.7	7.9	8.4
Zinc (percent)	2.9	2.4	2.4
Contained silver (ounces)	17,209,268	11,150,368	10,154,299
Contained lead (tons)	98,724	59,888	55,192
Contained zinc (tons)	37,669	18,047	15,715

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

(2) Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. Our estimates of proven and probable reserves are based on the following metals prices:

	December 31, 2005	2004	2003
Silver	$ 6.20	$ 5.60	$ 4.95
Lead	$ 0.30	$ 0.28	$ 0.24
Zinc	$ 0.44	$ 0.42	$ 0.40

(3) Reserves are in-place materials that incorporate estimates of the amount of waste that must be mined along with the ore and expected mining recovery. Mill recoveries are expected to be 93% for silver, 93% for lead and 76% for zinc.

(4) We are currently developing the 5900 level, which is expected to reach full production levels in mid-2006. Due to increased data made possible from this development, proven and probable reserves reported at December 31, 2005, doubled after accounting for production during 2005.

(5) The changes in reserves in 2004 versus 2003 are due to addition of data from new drill holes and development work together with increases in forecast metals prices, which has resulted in the addition of new reserves based on updated estimates, partially offset by depletion due to production.

Ultimate reclamation activities contemplated include stabilization of tailings ponds and waste rock areas. No final reclamation activities were performed in 2005, and at December 31, 2005, approximately $0.5 million had been accrued for reclamation and closure costs. The net book value of the Lucky Friday unit property and its associated plant and equipment was approximately $15.6 million as of December 31, 2005. The construction of the facilities at Lucky Friday ranges from the 1950s to 2005, and are in good physical condition. In 2005, we made capital improvements to our processing plant to improve concentrate grades and metal recoveries. Additions included a third-stage crushing system, increased flotation capacity and a new flash cell, new column cells and tailings thickeners. The plant is maintained by our employees with assistance from outside trade specialists as required.

At December 31, 2005, there were 171 employees at the Lucky Friday unit. The United Steelworkers of America is the bargaining agent for the Lucky Friday s 138 hourly employees. The current labor agreement expires on May 1, 2009, however, it can be reopened only for economic consideration on May 1, 2006. Under the agreement, no strikes may occur during the economic consideration phase, as both parties have agreed to binding arbitration, if necessary. Avista Corporation supplies electrical power to the Lucky Friday unit.

PRE-DEVELOPMENT EXPLORATION PROPERTIES

Hollister Development Block

In August 2002, our wholly owned subsidiary, Hecla Ventures Corporation, entered into an earn-in agreement with Rodeo Creek Gold, Inc., a wholly owned subsidiary of Great Basin Gold Ltd. (Great Basin), for the exploration, development and production of Great Basin s underground gold property in the Ivanhoe Mining District of northern Nevada known as the Hollister Development Block (Hollister). Located on the northwestern extension of the Carlin Trend, the nearest active mining operations are the Dee mine, located eight miles to the southeast, and the Ken Snyder mine, located twelve miles to the northwest. The nearest major population centers are the towns of Battle Mountain, 38 miles to the southwest; Elko, approximately 47 miles to the southeast; and Winnemucca, 64 miles to the west-southwest.

The Earn-in Agreement, as modified by the parties in March 2006, provides us with an option to earn a 50% working interest in Hollister in return for funding the first stage of an advanced exploration and development program and funding 50% of the second stage. We estimate the cost to achieve our 50% interest to be a maximum of $25.1 million, with our share of the total project to reach full production levels at approximately $36.0 million. We are the manager of the exploration and development activities and if we complete earn-in activities, and if we achieve successful exploration results and upon completion of a favorable feasibility study, we will be the operator of the property. Our project costs through 2005 total $15.7 million.

Hollister is defined by a 6,000-foot by 7,000-foot project boundary, or 964 acres, within a larger claim block held by Newmont Mining Corporation and Great Basin Gold. The most recent operation was the Hollister mine, operated from 1990 through 1996, consisting of two open-pit gold mines and a heap-leach facility.

The underground exploration project consists of approximately 7,500 feet of underground excavation, including a decline access to the mineralized structures, crosscuts, diamond drill stations, muck bays and miscellaneous openings. Approximately 5,000 to 15,000 tons of bulk samples from the different veins within the system are planned, along with approximately 55,000 feet of diamond drilling from underground locations. Surface support facilities for the underground exploration project are located in the existing east Hollister pit, thereby limiting most surface disturbance to areas associated with previous mining activities.

In 2005, construction of the surface facilities was completed and physical exploration efforts underground continued. By the end of 2005, a total of 4,227 feet of openings had been created, and one of the veins had been intersected. Forty nine full-time employees work on the project, with an additional eight contractor/part-time employees performing support roles. All surface facilities and systems have been installed and are operational, with the exception of the waste-rock dump evaporation sump. The originally conceived sump system has not been constructed due to high groundwater levels below the surface. Modifications to the sump design have been approved by federal and state regulatory agencies.

In 2006, we anticipate completing physical exploration by driving another 3,300 feet of openings, and to complete approximately 55,000 additional feet of diamond drilling from underground drill platforms. Metallurgical testing is expected to be conducted, negotiations with potential milling facilities are likely to be pursued and a feasibility study is expected to be compiled. A decision on the viability of a commercial operation is anticipated to be made during 2007. If a production decision was not favorable, closure and reclamation activities would commence pursuant to the stipulations in the Earn-In Agreement.

In April 2005, Hecla Ventures Corporation filed a lawsuit in Elko County, Nevada, against Great Basin and Rodeo Creek Gold Inc., to resolve contractual disagreements involving the Earn-In Agreement. In March 2006, the parties agreed to amend the original Earn-In Agreement to reflect changing conditions at the project, revise certain deadlines and to dismiss all litigation. The main modifications to the Earn-In Agreement were as follows:

- We have committed to complete and fund 100% of the remaining Stage 1 earn-in activities by March 31, 2007;
- We and Great Basin will fund Stage 2 equally, although we will fund Great Basin s Stage 2 activities until we deliver the feasibility study, at which time Great Basin will reimburse us for their Stage 2 expenses;
- If the decision is made to develop and operate a mine, we must achieve full production by August 2009, as a condition of earning a 50% working interest in the project;

We are entitled to the proceeds of the first 50,000 ounces of gold (or equivalent) up to the actual costs of Stage 1 activities plus 15%, not to exceed $25.1 million, from Stage 1 activities, thereafter any revenues will be shared equally; and

We and Great Basin have agreed to terminate the litigation.

For additional information, see *Note 8* of *Notes to Consolidated Financial Statements* and *Our joint development and operating arrangements may not be successful* in Item 1A Risk Factors.

EXPLORATION PROPERTIES

Noche Buena

Noche Buena is located in the state of Sonora, Mexico, 44 miles northwest of Caborca, and is 100% owned through our wholly-owned subsidiary, Minera Hecla, S.A. de C.V. Purchased in 1998, 1,000 hectares are held under two concessions. An operating permit was received in 2000.

In early 2004, we initiated an updated feasibility study, and since have drilled 9,211 meters of core in 86 holes, which were added to an existing database containing results from 12,492 meters of core drilling in 102 holes and 44,826 meters of reverse circulation drilling in 414 holes. A new geologic interpretation was completed along with an updated model. Other activities have included collecting samples for additional column leach tests, engineering studies for an open pit heap-leaching operation and investigations into updating the existing operating permit.

We completed the feasibility study in 2005 and determined the project did not meet our economic requirements. During the fourth quarter of 2005, we elected to market the concessions. Several companies have expressed interest in acquiring Noche Buena and at December 31, 2005, we had granted one such company exclusive right to evaluate the property in detail and are continuing to negotiate in an effort to reach a definitive agreement, although there can be no assurance this evaluation and negotiation will result in the sale of Noche Buena.

IDLE PROPERTIES

The Grouse Creek Mine

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

In 2000, we notified state and federal agencies that the Grouse Creek mine would proceed to a permanent suspension of operations. We signed an agreement with the State of Idaho and a voluntary administrative order on consent with the U.S. Forest Service and U.S. Environmental Protection Agency (the agencies) in which we agreed to dewater the tailings impoundment, complete a water balance report and monitoring plan for the site, and complete certain studies necessary for closure of the tailings impoundment. The voluntary administrative order on consent requires that a work plan for final reclamation and closure of the tailings impoundment be submitted by us no later than one year prior to estimated completion of the tailings impoundment dewatering, currently anticipated to be in 2007. We currently expect the work plan to be submitted to us during the third quarter of 2006.

In 2003, we received authorization from the agencies to start direct discharge of tailings impoundment waters, with the discharge process ongoing to date. As of December 31, 2005, approximately 50% of the site area has been reclaimed. Projects completed through 2005 include:

- Demolition of mill facility and site cleanup;
- Reclamation of exploration roads and drill pads in the Grouse deposit area;
- Reclamation of 90 acres around the waste rock storage facility and Sunbeam pit;
- Reshaping and stabilization of slopes below the Grouse underground haul road;
- Hydroseeding and revegetation of approximately 300 acres;
- Application of soil supplements to reclaimed areas; and
- Stockpiling rock and topsoil for future reclamation.

By mid-2006, the tailings impoundment is expected to be sufficiently dewatered for reclamation to begin within the impoundment. The reclamation cost estimate includes costs of site reclamation as well as administration, water management, and closure planning. The reclamation accrual balance as of December 31, 2005, was $28.2 million.

The Republic Mine

The Republic gold mine is located in the Republic Mining District near Republic, Washington. In February 1995, we completed operations at the Republic mine and have been conducting reclamation work in connection with the mine and mill closure. In August 1995, we entered into an agreement with Newmont Gold Company (successor to Santa Fe Pacific Gold Corp.) to explore and develop the Golden Eagle deposit on the Republic mine property. Kinross Gold Corporation (formerly Echo Bay Mines Ltd.) acquired Newmont s interest in 2000 and conducted a limited exploration program on the project until December 2004, when Kinross terminated the agreement.

The remaining net book value of the Republic mine property and its associated plant and equipment was approximately $0.4 million as of December 31, 2005. At December 31, 2005, the accrued reclamation and closure costs balance totaled $2.6 million.

Item 3. Legal Proceedings

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

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

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2005.

Executive Officers of the Registrant

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

PART II

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

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

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005 - High	$ 6.22	$ 5.52	$ 4.71	$ 4.34
- Low	$ 4.98	$ 3.91	$ 3.33	$ 2.95
2004 - High	$ 9.31	$ 8.55	$ 7.48	$ 7.50
- Low	$ 7.10	$ 5.00	$ 4.83	$ 5.30

(b) As of March 3, 2006, there were 7,486 shareholders of record of the common stock.

(c) In July 2005, we paid outstanding dividends in arrears on our Series B Cumulative Convertible Preferred Stock totaling approximately $2.3 million. Since the fourth quarter of 2004, we have declared and continue to pay our regular quarterly dividend on our preferred stock, and on January 3, 2006, we paid the regularly scheduled dividend on outstanding preferred stock for the fourth quarter of 2005. Dividends have also been declared for the first quarter of 2006, payable April 3, 2006.

(d) As of December 31, 2005, there were 157,816 shares of Series B Cumulative Convertible Preferred Stock outstanding. During the years ended December 31, 2004 and 2003, we entered into various agreements to acquire Series B preferred stock in exchange for newly issued shares of common stock as follows:

	Year ended December 31, 2004	2003
Number of shares of Series B preferred stock exchanged for shares of common stock	306,961	288,625
Number of shares of common stock issued	2,436,098	2,183,719
Non-cash preferred stock dividend incurred in exchange (millions of dollars)[1]	$ 10.9	$ 9.6

(1) The non-cash dividend represents the difference between the value of the common stock issued in the exchange offer and the value of the shares that were issuable under the stated conversion terms of the Series B preferred stock. The non-cash dividend had no impact on our total shareholders equity as the offset was an increase in common stock and surplus. The shares exchanged pursuant to the exchange offer were not registered with the Securities and Exchange Commission under the Securities Act of 1933 in reliance of the exemption provided by Section 3(a)(9).

(e) The following table provides information as of December 31, 2005, regarding our compensation plans under which equity securities are authorized for issuance:

	Number of Securities To Be Issued	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders:			
1995 Stock Incentive Plan	2,904,820	5.27	4,476,040
Stock Plan for Nonemployee Directors	129,298	N/A	821,452
Key Employee Deferred Compensation Plan[1]	1,229,734	4.52	4,578,055
Equity Compensation Plans Not Approved by Security Holders			
Total	4,263,852	5.08	9,875,547

(1) The number of securities to be issued include 260,326 shares, which will not require payment of any exercise price

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

Item 6. Selected Financial Data

The following table (in thousands except per share amounts, common shares issued, shareholders of record, and employees) sets forth selected historical consolidated financial data as of and for each of the years ended December 31, 2001 through 2005, and is derived from our audited financial statements. The data set forth below should be read in conjunction with, and is qualified in its entirety by, our Consolidated Financial Statements.

	2005	2004	2003	2002	2001
Sales of products	$ 110,161	$ 130,826	$ 116,353	$ 105,700	$ 85,247
Income (loss) from continuing operations before cumulative effect of change in accounting principle [1]	$ (25,360)	$ (6,134)	$ (7,088)	$ 10,863	$ (9,582)
Income (loss) from discontinued operations [2]				(2,224)	11,922
Net income (loss)	(25,360)	(6,134)	(6,016)	8,639	2,340
Preferred stock dividends [3,4]	(552)	(11,602)	(12,154)	(23,253)	(8,050)
Loss applicable to common shareholders	$ (25,912)	$ (17,736)	$ (18,170)	$ (14,614)	$ (5,710)
Loss from continuing operations per common share	$ (0.22)	$ (0.15)	$ (0.16)	$ (0.15)	$ (0.25)
Basic and diluted loss per common share	$ (0.22)	$ (0.15)	$ (0.16)	$ (0.18)	$ (0.08)
Total assets	$ 272,166	$ 279,448	$ 278,195	$ 160,141	$ 153,116
Accrued reclamation & closure costs	$ 69,242	$ 74,413	$ 70,048	$ 49,316	$ 52,481
Noncurrent portion of debt	$ 3,000	$	$ 2,341	$ 4,657	$ 11,948
Cash dividends paid per common share	$	$	$	$	$
Cash dividends paid per preferred share [4]	$ 18.38	$	$	$	$
Common shares issued	118,602,135	118,350,861	115,543,695	86,187,468	73,068,796
Shareholders of record	7,568	7,853	8,203	8,584	8,926
Employees	1,191	1,417	1,074	720	701

(1) In 2003, we adopted SFAS No. 143 Accounting for Asset Retirement Obligations, which resulted in a positive cumulative effect of a change in accounting principle of $1.1 million.

(2) Our former industrial minerals segment was recorded as a discontinued operation as of and for the years ended December 31, 2002 and 2001. The balance sheet for December 31, 2001 was reclassified to reflect the net assets of the industrial minerals segment as a discontinued operation.

(3) During the years ended December 31, 2004 and 2003, we entered into various agreements to acquire Series B preferred stock in exchange for newly issued shares of common stock as follows:

	Year ended December 31,	
	2004	2003
Number of shares of Series B preferred stock exchanged for shares of common stock	306,961	288,625
Number of shares of common stock issued	2,436,098	2,183,719
Non-cash preferred stock dividend incurred in exchange (millions of dollars) [(a)]	$ 10.9	$ 9.6

(a) The non-cash dividend represents the difference between the value of the common stock issued in the exchange offer and the value of the shares that were issuable under the stated conversion terms of the Series B preferred stock. The non-cash dividend had no impact on our total shareholders equity as the offset was an increase in common stock and surplus.

(4) As of December 31, 2004, we had not declared or paid a total of $2.3 million of Series B preferred stock dividends. As the dividends are cumulative, they are reported in determining the income (loss) applicable to common stockholders, but are excluded in the amount reported as cash dividends paid per preferred share. The $2.3 million in cumulative, undeclared dividends were paid in July 2005. A $0.875 per share dividend was declared on the 157,816 outstanding Series B preferred shares in December 2004, and paid in January 2005, and additional dividends totaling $0.4 million were declared and paid during 2005. A total of $2.9 million in dividends paid during 2005 are included in the amount reported as cash dividends paid per preferred share for 2005, and $0.6 million in dividends declared during 2005 were included in the determination of loss applicable to common stockholders.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations
Overview

We are a precious metals company engaged in the exploration and development of mineral properties and the mining and processing of silver, gold, lead and zinc, primarily in the United States, Mexico and Venezuela, and generate revenues, income and cash flows from the sale of these metals. The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the related Notes thereto.

Looking Back

During 2005, we believe that we continued to lay the foundation for long-term growth of our operations through significant investments in exploration and development on or near our existing operating properties. Our focus was to continue progress on major capital projects underway, exploration and development of new and existing targets and low-cost production. We increased expenditures with respect to exploration and pre-development activities in each of the past three years and we anticipate to continue this level of expenditure in 2006. During 2005, we accomplished the following:

- Completion of a production shaft at the La Camorra mine in Venezuela;
- Significantly advanced development of the 5900 level expansion at Lucky Friday in Idaho and Mina Isidora in Venezuela, both of which are expected to report increased production in 2006;
- Doubled proven and probable silver ounce reserves at Lucky Friday after accounting for 2005 production;
- Construction of surface facilities was completed and physical exploration efforts underground continued at the Hollister Development Block in Nevada. By the end of 2005, a total of 4,227 feet of openings had been created, and one of the veins had been intersected;
- The discovery of the Hugh Zone at the San Sebastian unit; and
- Completion of a processing plant upgrade project at Lucky Friday.

Our commitment to growth has impacted our bottom line, resulting in net losses of $25.4 million in 2005 and $6.1 million and $6.0 million in 2004 and 2003, respectively. We recorded cash flow used in operations of $5.9 million in 2005, from cash flow provided by operations of $13.3 million in 2004 and $26.0 million in 2003. Capital expenditures were over $40.0 million in both 2005 and 2004, up from $19.5 million spent in 2003. Our debt balance went to $3.0 million outstanding at December 31, 2005, under a new $30.0 million revolving credit facility entered into in September 2005, from no balance outstanding at December 31, 2004.

During 2005, we filed two shelf registration statements with the Securities and Exchange Commission (SEC). In July 2005, we filed a registration statement that allows us to sell up to $275.0 million in common stock, preferred stock, warrants and debt in order to raise capital for general corporate purposes. In December 2005, we filed a registration statement that allows us to issue up to $175.0 million in common stock and warrants in connection with business combination transactions. Both registration statements have been declared effective by the SEC. We have not issued securities pursuant to either of these registration statements.

In January 2006, we sold our shares of Alamos Gold Inc., generating a $36.0 million pre-tax gain and netting $57.4 million of cash proceeds. In late 2004 and early 2005, we acquired our interest in Alamos for approximately $21.0 million, which is recorded at fair market value on our consolidated balance sheet at December 31, 2005 and 2004, under *Short-Term Investments* ($40.9 million).

Looking Forward

In 2006, we anticipate:

- Production of approximately 6.0 million ounces of silver and 150,000 ounces of gold;
- Reduction of capital expenditures below the current level;
- Completion of mine development projects at Lucky Friday and Mina Isidora; and
- Continuation of our exploration efforts on all existing operations or concessions, including the Hugh Zone in Mexico, where drilling will continue and the decision to initiate an underground exploration and feasibility program could be made by the end of the year, and the Hollister Development Block, where underground drilling will take place, with the anticipation of completing a feasibility study in 2007 on whether the deposit will be economically feasible to mine.

Our strategy to increase production and expand our proven and probable reserves is to be implemented by development and exploration, as well as potential future acquisitions. One of the risks we face is that our mines have a relatively small amount of proven and probable reserves, primarily because we have low volume, underground operations. This has been the case historically, although despite a 60-year operating history at Lucky Friday, at December 31, 2005, we are reporting as many or more proven and probable reserves there than at any other time. In 2006, we anticipate exploration and pre-development expenses of approximately $12.0 million in the United States, $4.5 million in Mexico, and $4.5 million in Venezuela, with potential for an additional $4.0 million in Mexico where we may pursue underground exploration on San Sebastian s Hugh Zone.

We continue to face risks associated with environmental litigation and ongoing reclamation activities and it is possible that our estimate of these liabilities may change in the future. For a more comprehensive discussion of our environmental litigation and liabilities, see *Note 8* of *Notes to Consolidated Financial Statements.* In accordance with our environmental policy, our operating activities will be conducted in a manner that attempts to minimize risks to public health and safety. We believe that natural resources can be developed and utilized in a manner consistent with proper stewardship for the environment and our projects will be designed and managed in an attempt to reasonably minimize risk and mitigate negative impacts to the environment. We will continue to strive to ensure that our activities are conducted in compliance with applicable laws and regulations.

Results of Operations

For the year ended December 31, 2005, we reported a net loss of approximately $25.4 million, compared to net losses of $6.1 million and $6.0 million in 2004 and 2003, respectively. The increased loss in 2005 was primarily the result of the following:

- A strike at our Velardeña mill and the suspension of mine and mill operations at our San Sebastian unit, which prevented production for six months in 2005 (see further discussion in the *San Sebastian Segment* section below);
- Decreased production and operating income at our La Camorra unit due to a work slowdown initiated by a new labor union, lower gold ore grades and higher labor and material costs (see the *La Camorra Segment* section below);
- Increased exploration costs due to continued exploration efforts in Venezuela on the Block B concessions and at our La Camorra mine, and in Mexico;
- Increased pre-production development costs, as we continued advancement of the underground exploration decline at the Hollister Development Block gold project in Nevada;
- Rising fuel, steel and cement prices that impacted most of our operations during 2005; and
- Increased general and administrative costs (see further discussion in the *Corporate Matters* section below).

These negative effects were partially offset by the following:

- Increased average prices for all metals produced at our operations; and
- Increased production and operating income at our Greens Creek and Lucky Friday units (see *Greens Creek Segment and Lucky Friday Segment* sections below).

For the years ended December 31, 2005, 2004 and 2003, we recorded losses applicable to common shareholders of approximately $25.9 million ($0.22 per common share), $17.7 million ($0.15 per common share) and $18.2 million ($0.16 per common share), respectively, which included preferred stock dividends of $0.6 million, $11.6 million and $12.2 million. The 2004 and 2003 dividends included non-cash charges of approximately $10.9 million and $9.6 million, respectively, related to exchanges of preferred stock for common stock. In 2005, all preferred dividends previously not declared and in arrears have been paid.

The La Camorra Segment

The table below provides a comparison of operating results and key production statistics for our La Camorra unit, which consisted of the La Camorra mine, a custom milling business and exploration and development activities on the Block B concessions for the years ended December 31, 2005, 2004 and 2003. During 2004, we commenced development of an additional operating gold property, Mina Isidora, which is located on the Block B concessions. Mina Isidora reported limited production during 2005, and is anticipated to reach full production by mid-2006.

	(in thousands, except production statistics) Years Ended December 31,		
	2005	**2004**	**2003**
Sales	$ 39,009	$ 47,884	$ 39,192
Cost of sales and other direct production costs	(27,432)	(23,914)	(17,124)
Depreciation, depletion and amortization	(9,622)	(11,439)	(8,538)
Exploration expense	(8,261)	(5,873)	(3,253)
Foreign exchange gains (losses) and other income (expense)	(1,308)	60	67
Income (loss) from operations	$ (7,614)	$ 6,718	$ 10,344
Tons of ore milled	191,900	199,453	197,591
Gold ounces produced	101,474	130,437	126,567
Gold ounce per ton	0.558	0.684	0.679
Total cash cost per gold ounce [1]	$ 337	$ 180	$ 154

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

Income from operations at the La Camorra unit decreased by over 200% during 2005 compared to 2004, and by 35% during 2004 compared to 2003, primarily due to the following:

- Lower production of gold in 2005, caused by an 18% decrease in the gold ore grade;
- A strike at our La Camorra mine, which suspended operations for 13 days during the third quarter of 2005, although labor issues continued to affect operational output that considerably lowered planned production;
- Escalating costs due to higher cost of mining at greater depths at the La Camorra mine, which are anticipated to be reduced in the future due to the recently competed shaft;
- Increased exploration expenditures;
- Decreased foreign exchange gains that reduced cost of sales due to our inability to access U.S. dollars outside Venezuela (as discussed further below under *Criminal Exchange Law*);
- Costs of establishing the custom milling operation and Block B activities; and
- A foreign exchange loss in March 2005 due to an increase in the government-fixed exchange rate of the bolivar to the U.S. dollar at 2,150 to $1 (previously set at 1,920 to $1).

In order to mine more efficiently at the greater depths of the La Camorra mine and potentially develop further proven and probable reserves, in 2003 we made the decision to construct a production shaft based on the long lead-time necessary to construct the shaft. We completed construction of the shaft, which was placed into service during the third quarter of 2005. In 2005, proven and probable ore reserves decreased, as the mine exhibits lower ore grades, and no significant results were returned from drilling on the La Camorra veins. We have commenced depreciation of the shaft, for which we had $2.6 million in depreciation expense as of December 31, 2005, which also contributed to the negative variances in operating results when compared to the 2004 period. Declining proven and probable ore reserves at a lower ore grade will have an impact on any decisions for longer-term plans at the La Camorra mine.

The negative factors above were partially offset by a 23% and 11% increase in the realized price of gold in 2005 versus 2004 and 2004 versus 2003, respectively ($451 per ounce in 2005, $366 in 2004 and $329 in 2003). Our realized gold prices during 2004 and 2003 were less than the average London Final price by $43 and $35 per ounce due to forward gold sales contracts at $288.25 per ounce for a portion of our production. We delivered on all outstanding forward gold sales contracts by the end of 2004.

The construction of the production shaft was more costly than originally anticipated and we are disputing some of the shaft construction costs submitted by the contractor. Pursuant to the construction agreement, we submitted the matter to arbitration in November 2005. The contractor has asserted $6.3 million more in construction costs that we dispute. We claim approximately $6.8 million in damages against the contractor for various claims and back charges related to the construction of the shaft. We believe we have grounds to dispute the claims, although there can be no assurance that the matter will be arbitrated in our favor and we may have to pay additional amounts for construction costs.

Business Risks in Venezuela

Export of Production

The Central Bank of Venezuela maintains regulations concerning the export of gold from Venezuela. Under current regulations, 15% of our gold production from Venezuela is required to be sold in Venezuela. Prior to our acquisition of the La Camorra mine, the previous owners had sold substantially all of the gold production to the Central Bank of Venezuela and built up a significant credit to cover the 15% requirement, which we assumed upon our acquisition. Since we began operating in Venezuela in 1999, all of our production of gold has been exported and no sales have been made in the Venezuelan market. In May 2005, we applied for a waiver with the Central Bank of Venezuela on the requirement to sell 15% of our gold in country, however, no action has been taken.

In June 2005, the Central Bank of Venezuela informally notified us that our past credits for local sales had been exhausted, and that we would have to withhold 15% of our production from export. Markets within Venezuela are limited, and historically the Central Bank of Venezuela has been the primary customer of gold. There can be no assurance that the Central Bank of Venezuela will purchase gold from us and we may be required to sell gold into a limited market, which could result in lower sales and cash flows from gold as a result of discounts.

As of December 31, 2005, our product inventory included 8,900 ounces of gold in product inventory until such time as we find a suitable purchaser within Venezuela for our gold or the Central Bank of Venezuela grants us a waiver of its requirement. Product inventory at La Camorra was $6.7 million at December 31, 2005, compared to $2.0 million at December 31, 2004, for which the increase also resulted in the lower sales reported by the La Camorra unit in 2005.

Criminal Exchange Law

The Venezuelan government announced new regulations effective April 1, 2005, and a new Criminal Exchange Law effective October 14, 2005, which affect the export of goods and services from Venezuela. The Criminal Exchange Law imposes strict sanctions, criminal and economic, for the exchange of Venezuelan currency with other foreign currency, except through officially designated methods, or for obtaining foreign currency under false pretenses. Under the Criminal Exchange Law, the government of Venezuela may impose penalties on anyone in violation.

As mentioned above, the Venezuelan government has fixed the exchange rate of the bolivar to the U.S. dollar; however, markets outside of Venezuela have reflected a devaluation of the Venezuelan currency from such fixed rates. Prior to the Criminal Exchange Law, we recognized foreign exchange gains of approximately $6.6 million, $12.4 million and $6.3 million in 2005, 2004 and 2003, respectively, which partially offset costs recorded for capital expenditures, cost of goods sold and exploration activities. During the fourth quarter of 2005, the Criminal Exchange Law impacted our costs and Venezuelan cash flows and could continue to do so in the future, as well as impact our profitability of operations and gold production. There can be no assurance that further developments or interpretations of Venezuelan laws and regulations are limited to the impact we have described herein.

SENIAT

Our wholly owned subsidiary, Minera Hecla Venezolana, C.A. (MHV), which owns and operates our La Camorra mine, is involved in litigation with the Venezuelan tax authority (SENIAT) concerning alleged unpaid tax liabilities that predate our purchase of La Camorra from Monarch Resources Investments Limited (Monarch) in 1999. Pursuant to our purchase agreement, Monarch has assumed defense of and responsibility for a pending tax case in the Superior Tax Court in Caracas. In April 2004, SENIAT filed with the Superior Tax Court in Bolivar City, State of Bolivar, an embargo action against all of MHV s assets in Venezuela to secure the alleged unpaid tax liabilities. In order to prevent the embargo, in April 2004, MHV made a cash deposit with the Court of approximately $4.3 million, at exchange rates in effect at that time. In June 2004, the Superior Tax Court in Caracas ordered suspension and revocation of the embargo action filed by SENIAT, although the Court has maintained the $4.3 million until such tax liabilities are settled.

In October 2005, MHV and SENIAT reached a mutual agreement to settle the case, which is awaiting approval by the court. The terms of the agreement provide that MHV pay approximately $0.8 million in exchange for a release of the alleged tax liabilities and release of the cash bond. In a separate agreement, Monarch will reimburse MHV for all amounts in settling the case, including defense costs, through a reduction in MHV s royalty obligations to them. Although we believe the cash deposit will continue to prevent any further action by SENIAT with respect to the embargo related with this case and that MHV s settlement efforts will be successful, there can be no assurance as to the outcome of this proceeding until a final settlement is executed and entered by the court. If the tax court in Caracas or an appellate court were to subsequently award SENIAT the previously requested embargo, it could disrupt our Venezuela operations and have a material adverse effect on our financial results or condition.

In February 2005, we were notified by SENIAT that it had completed its audit of our Venezuelan tax returns for the years ended December 31, 2003 and 2002. In the notice, SENIAT has alleged that certain expenses are not deductible for income tax purposes and that calculations of tax deductions based upon inflationary adjustments were overstated, and has issued an assessment that is equal to taxes payable of $3.8 million. We have reviewed SENIAT s findings and have submitted an appeal. Any resolution could be significantly delayed, and involve further legal proceedings, additional related costs and further uncertainty. We have not accrued any amounts associated with the tax audits as of December 31, 2005. There can be no assurance that we will be successful in defending against the tax assessment, that there will not be additional assessments in the future, or that SENIAT or other governmental agencies or officials will not take other actions against us, whether or not justified, which, in each case, could disrupt our operations in Venezuela and have a material adverse effect on our financial results or condition.

In October 2005, we responded to news articles concerning an accounting review of our taxes to be performed by SENIAT in response to claims of irregularities by the local labor union, which had recently been replaced. We have not received notice of an audit from SENIAT regarding such a review, although we have undergone such reviews in the past with satisfactory results. We believe any future review by SENIAT will be resolved to the satisfaction of both parties, although there can be no assurance we will be able to operate without interruptions to our Venezuelan operations.

Venezuelan State Mining Company

In September 2005, the Venezuelan government announced its intention to rescind inactive, non-compliant mining concessions and incorporate a state mining company, which would administer such mining rights. In December 2005, the government authorized the creation of Empresa de Producion Social Minera Nacional, C.A., which will be responsible for exploration, exploitation, processing and industrialization of gold and other minerals in Venezuela. We have several mining contracts, two concessions and one lease, which could be subject to review. To the best of our knowledge, we have fully complied with the requirements necessary to maintain our concessions. However, there can be no assurance we will be able to comply with these requirements in the future or that a state mining company will not adversely affect our ability to develop and operate our Venezuelan properties. Additionally, we believe we have gone beyond the mandated requirements in community and social development, and believe we are generally perceived as having an overall positive impact on the region.

Seizure of Assets

In February 2004, the Venezuelan National Guard impounded a shipment of approximately 5,000 ounces of gold dorè produced by us, allegedly due to irregularities in documentation that accompanied the shipment. In June 2004, the Superior Tax Court in Caracas ordered the return of our impounded gold, which had been stored at the Central Bank of Venezuela. Although we encountered difficulties, delays and costs in enforcing such order, the impounded gold was returned in July 2004. All subsequent shipments of gold dorè have been exported without intervention by Venezuelan government authorities, although there can be no assurance that such impoundments will not occur in the future or, that, if such were to occur, they would be resolved in a similar manner or time frame or upon acceptable conditions or costs.

Other

Although we believe we will be able to manage and operate the La Camorra unit and related exploration projects successfully, there is a continued uncertainty relating to political, regulatory, legal enforcement, security and economic matters, as well as exportation and exchange control. This uncertain state of affairs could affect our operations, including changes in policy or demands of governmental agencies or their officials, litigation, labor stoppages, seizures of assets, relationships with small mining groups in the vicinity of our mining operations, and an impact on our supplies of oil, gas and other supplies. As a result, there can be no assurance we will be able to operate without interruptions to our operations, and any such occurrences could have a material adverse effect on our financial results or condition.

The San Sebastian Segment

The following is a comparison of the operating results and key production statistics of our San Sebastian segment and various exploration activities in Mexico (dollars are in thousands):

	Years Ended December 31,		
	2005	**2004**	**2003**
Sales	$ 12,632	$ 30,229	$ 34,956
Cost of sales and other direct production costs	$ (11,546)	$ (15,322)	$ (15,092)
Depreciation, depletion and amortization	$ (3,180)	$ (3,659)	$ (3,597)
Exploration expense	$ (5,746)	$ (7,501)	$ (4,121)
Foreign exchange gain (loss)	$ 129	$ (190)	$ (240)
Income (loss) from operations	$ (7,711)	$ 3,557	$ 11,906
Tons of ore milled	71,671	128,711	150,717
Silver ounces produced	717,860	2,042,173	4,085,038
Gold ounces produced	17,160	33,563	47,721
Silver ounces per ton	11.40	17.94	28.77
Gold ounces per ton	0.27	0.29	0.35
Total cash cost per silver ounce (1)	$ 2.27	$ 0.21	$ (0.25)
Gold by-product credits	$ 7,737	$ 13,493	$ 17,367
Gold by-product credit per silver ounce	$ 10.78	$ 6.61	$ 4.25

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

The 2005 loss from operations and the decrease in income from operations in 2004, compared to 2003, resulted primarily from two factors: a strike at our Velardeña mill, which prevented production during most of the fourth quarter of 2004 and first half of 2005; and the conclusion of certain operations in October 2005, as we reached the end of the known mine life on the Francine and Don Sergio veins. The strike was initiated by the National Miners Union in October 2004 in an attempt to unionize employees at the San Sebastian mine. During the strike, costs related to our mining operations were included in the valuation of our stockpile inventory, while costs related to the idle mill were expensed as incurred. The mine and mill are currently on care-and-maintenance status as we continue exploration efforts there.

Gold has been considered a by-product credit at the San Sebastian unit. The significant increases in by-product credit per silver ounce in our total cash cost per silver ounce produced calculation in 2005 from 2004 and 2003, were due to higher average gold prices for each year, and the reduction in silver ounces produced as discussed above. While value from by-product gold has been significant for San Sebastian, we believe that identification of silver as the primary product, with gold as a by-product, was appropriate because:

- We have historically presented San Sebastian as a producer primarily of silver, based on the original analysis that justified putting the project into production, and believe that consistency in disclosure is important to our investors regardless of the relationships of metals prices and production from year to year;
- San Sebastian is in a mining district historically identified with silver;
- Exploration has been directed toward silver, and recent exploration results have shown a predominant silver content; and
- Our mining methods and production planning target silver as our primary product, which has been accompanied by a significant gold presence.

Costs related to the Velardeña mill strike and care and maintenance of the mine and mill of $2.0 million were not included in the calculation of 2005 total cash costs per ounce, while in 2004, the total cash costs per ounce calculation excluded strike-related costs of $0.8 million.

The Greens Creek Segment

The following is a comparison of the operating results and key production statistics of our Greens Creek segment (dollars are in thousands and reflect our 29.73% share):

	Years Ended December 31,		
	2005	2004	2003
Sales	$ 36,728	$ 34,153	$ 29,107
Cost of sales and other direct production costs	$ (19,255)	$ (17,451)	$ (16,114)
Depreciation, depletion and amortization	$ (7,067)	$ (6,594)	$ (7,986)
Exploration expense	$ (1,138)	$ (1,020)	$ (815)
Income from operations	$ 9,268	$ 9,088	$ 4,192
Tons of ore milled	213,354	239,456	232,297
Silver ounces produced	2,873,532	2,886,264	3,480,800
Gold ounces produced	21,631	25,624	29,564
Zinc tons produced	19,209	22,649	22,809
Lead tons produced	6,515	7,384	8,289
Silver ounces per ton	18.17	16.65	19.69
Gold ounces per ton	0.15	0.16	0.19
Zinc percent	10.34	11.14	12.29
Lead percent	3.98	4.05	4.60
Total cash cost per silver ounce (1)	$ 1.46	$ 1.13	$ 1.18
By-product credits	$ 30,200	$ 29,486	$ 25,893
By-product credit per silver ounce	$ 10.51	$ 10.22	$ 7.44

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

The 2% increase in income from operations during 2005, compared to 2004 was primarily the result of higher average metals prices and improved silver ore grades, partially offset by the effects of mine rehabilitation work and higher diesel prices. Allocation of equipment and manpower resources to rehabilitation work related to ground falls in various areas of the mine negatively affected production during the second half of 2005. The improvement in income from operations during 2004 compared to 2003 was primarily attributed to higher average metals prices.

The Greens Creek operation is currently powered by diesel generators, and therefore, production costs have been significantly affected by increasing fuel prices. As a result, infrastructure is currently being installed that will allow hydroelectric power to be supplied to Greens Creek by Alaska Electric Light and Power Company (AEL&P), via a submarine cable from North Douglas Island, near Juneau, to Admiralty Island, where Greens Creek is located. The submarine cable and substations on North Douglas Island are in place, electric poles and transmission lines have been installed, and the expected project completion date is during the first half of 2006. AEL&P has agreed to supply its excess power to Greens Creek, which will replace an estimated 23% to 35% of the diesel-generated power through 2008. Completion of a new hydroelectric plant by AEL&P is anticipated by 2009, at which time it is estimated they will supply 95% of Greens Creek power. This project is anticipated to reduce production costs at Greens Creek in the future.

The 29% increase in total cash costs per silver ounce in 2005, compared to 2004, is due to higher production costs, partially offset by increased by-product credits, as the prices for gold, lead and zinc have continued to rise. The 4% decrease in total cash cost per silver ounce in 2004, versus 2003, is also attributed to improved by-product credits. While value from zinc, lead and gold by-products is significant, we believe that identification of silver as the primary product is appropriate because:

We have historically presented Greens Creek as a producer primarily of silver, based on the original analysis that justified putting the project into production, and believe that consistency in disclosure is important to our investors regardless of the relationships of metals prices and production from year to year;
Silver has historically accounted for a higher proportion of revenue than any other metal;
Metallurgical treatment maximizes silver recovery;
The Greens Creek deposit is a massive sulfide deposit containing an unusually high proportion of silver; and
In most of its working areas, Greens Creek utilizes selective mining methods in which silver is the metal targeted for highest recovery.

We periodically review our proven and probable reserves to ensure that reporting of primary products and by-products is appropriate. Because we consider zinc, lead and gold to be by-products of our silver production, the values of these metals offset increases in operating costs due to increased prices.

The Lucky Friday Segment

The following is a comparison of the operating results and key production statistics of our Lucky Friday segment (dollars are in thousands):

	Years Ended December 31,		
	2005	2004	2003
Sales	$ 21,792	$ 18,560	$ 12,578
Cost of sales and other direct production costs	$ (16,958)	$ (14,715)	$ (12,263)
Depreciation, depletion and amortization	$ (593)	$ 140	
Exploration expense	$ (539)	$ (343)	$ (184)
Income from operations	$ 3,702	$ 3,642	$ 131
Tons of ore milled	214,158	166,866	151,991
Silver ounces produced	2,422,537	2,032,143	2,251,486
Lead tons produced	14,560	12,174	12,935
Zinc tons produced	4,080	2,995	2,532
Silver ounces per ton	12.20	13.11	15.76
Lead percent	7.30	7.83	9.05
Zinc percent	2.74	2.37	2.18
Total cash cost per silver ounce [(1)]	$ 5.27	$ 5.12	$ 4.86
By-product credits	$ 12,962	$ 11,281	$ 7,076
By-product credit per silver ounce	$ 5.35	$ 5.55	$ 3.14

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

The increase in operating income in 2005, compared to 2004 and 2003, primarily resulted from higher average metals prices, partially offset by increased costs related to mining at greater depth. Full production on the 5900 level expansion is expected to be reached in 2006. Approximately 338,000 ounces of silver were mined from the 5900 level during 2005, with the revenue associated with those ounces offsetting capital costs incurred with the project. This deposit is located on property we have been mining at the Lucky Friday unit for the past several years under a long-term lease agreement negotiated in 1968.

The increase in total cash costs per silver ounce in 2005, as compared to 2004 and 2003, is attributed to increased production costs and longer ore haulage, partially offset by improved by-product credits in each year resulting from increasing average lead and zinc prices. While value from lead and zinc is significant, we believe that identification of silver as the primary product, with zinc and lead as by-products, is appropriate because:

- Silver accounts for a higher proportion of revenue than any other metal and is expected to do so in the future;
- The Lucky Friday unit is situated in a mining district long associated with silver production; and
- The Lucky Friday unit utilizes selective mining methods to target silver production.

We periodically review our proven and probable reserves to ensure that reporting of primary products and by-products is appropriate. Because we consider zinc and lead to be by-products of our silver production, the values of these metals offset increases in operating costs due to the increased average prices. Total cash costs per ounce at Lucky Friday are anticipated to decrease beginning in 2006, a result of increased production from the 5900 level expansion, as well as, increased efficiencies of newly installed mill components during the fourth quarter of 2005. Additions to the mill included a third-stage crushing system, increased flotation capacity and a new flash cell, new column cells and tailings thickeners.

Corporate Matters

The following are explanations of significant variances affecting the results of our 2005 operations as compared to 2004:

- Accruals made for closed operations and environmental matters decreased significantly during 2005, as accrual increases were recorded in 2004 for estimated future environmental and reclamation expenditures in Idaho s Coeur d Alene Basin ($5.6 million) and for the Grouse Creek mine clean-up in central Idaho ($2.9 million) (for additional information on the accruals made in 2004, see *Notes 5* and *8* of *Notes to Consolidated Financial Statements* and the *Grouse Creek Mine* property description in *Part I, Item 2*;
- The 2005 increase in pre-development expense is due to increased activity at the Hollister Development Block in Nevada;
- Higher general and administrative expenses in 2005, the result of increased accounting and audit fees, increased stock compensation accruals and increased employee medical costs;
- Lower income tax provision due to variances in foreign withholding taxes payable and foreign income taxes payable (for additional information, see *Note 6* of *Notes to Consolidated Financial Statements);*

Increased other operating expenses due to increased foreign exchange losses in Venezuela and higher corporate insurance, severance and legal expenditures, partially offset by reduced expenses related to variable plan accounting on certain stock options; and

Increased interest income from recovery of value-added taxes from the government of Mexico, offset by lower interest income of decreased cash balances.

Significant variances relating to 2004 results of operations compared to 2003 are as follows:

General and administrative expenses increased, primarily due to the addition of personnel, offset by decreased employee incentive compensation;

Increased exploration expense, the result of increased exploration in Mexico on the Don Sergio vein, areas at or near San Sebastian and at the Noche Buena project in northern Mexico, and in Venezuela on the Block B concessions and at or near the La Camorra mine;

Pre-development costs increased due to increased activity at the Hollister Development Block;

Other operating expenses, net of other operating income, increased primarily due to a one-time $4.0 million cash litigation settlement received during 2003 and increased legal, consulting and accounting costs incurred in 2004 related to compliance with the Sarbanes-Oxley Act of 2002, partially offset by decreased accruals related to variable plan accounting on certain stock options;

The 2004 provision for closed operations and environmental matters was substantially lower than the 2003 provision, due to higher accruals in 2003 for the Coeur d Alene Basin ($16.0 million) and the Grouse Greek mine clean-up ($6.8 million);

Interest income decreased, due to interest received in 2003 from the Mexican government on unpaid value-added tax balances, partially offset by increased income generated from short-term investments;

Interest expense decreased significantly, the result of lower average borrowings, including no outstanding debt at December 31, 2004;

Increased income tax provision, as a result of an increase in the deferred tax provision relating to an increase in the valuation allowance for net deferred tax assets in Mexico; and

A positive cumulative effect of a change in accounting principle of $1.1 million, relating to the adoption of SFAS No. 143 Accounting for Asset Retirement Obligations, was included in the net loss for 2003.

Reconciliation of Total Cash Costs (non-GAAP) to Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP)

The tables below present reconciliations between non-GAAP total cash costs to cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP) for our gold (the La Camorra segment only) and silver operations (the San Sebastian, Greens Creek and Lucky Friday segments), for the years ended December 31, 2005, 2004 and 2003 (in thousands, except costs per ounce).

Total cash costs include all direct and indirect operating cash costs related directly to the physical activities of producing metals, including mining, processing and other plant costs, third-party refining and marketing expense, on-site general and administrative costs, royalties and mining production taxes, net of by-product revenues earned from all metals other than the primary metal produced at each unit. Total cash costs provide management and investors an indication of net cash flow, after consideration of the realized price received for production sold. Management also uses this measurement for the comparative monitoring of performance of our mining operations period-to-period from a cash flow perspective. Total cash cost per ounce is a measure developed by gold companies in an effort to provide a comparable standard, however, there can be no assurance that our reporting of this non-GAAP measure is similar to that reported by other mining companies.

Cost of sales and other direct production costs and depreciation, depletion and amortization, is the most comparable financial measure calculated in accordance with GAAP to total cash costs. The sum of the cost of sales and other direct production costs and depreciation, depletion and amortization for our silver and gold operating units in the tables below, as well as the cost of sales and other direct production costs and depreciation, depletion and amortization associated with our former industrial minerals segment (2003 only), is presented in our Consolidated Statement of Operations and Comprehensive Loss.

	2005	2004	2003
San Sebastian, Greens Creek and Lucky Friday Segments (combined) [1]			
Total cash costs	$ 16,807	$ 14,078	$ 14,041
Divided by silver ounces produced	5,677	6,960	9,817
Total cash cost per ounce produced	$ 2.96	$ 2.02	$ 1.43
Reconciliation to GAAP:			
Total cash costs	$ 16,807	$ 14,078	$ 14,041
Depreciation, depletion and amortization	10,840	10,113	11,583
Treatment & freight costs	(22,424)	(22,964)	(21,810)
By-product credits	50,899	54,260	50,336
Change in product inventory	(939)	1,395	33
Strike-related costs	1,341	777	
Care and maintenance-related costs	681		
Reclamation, severance and other costs	1,395	408	869
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$ 58,600	$ 58,067	$ 55,052
San Sebastian Segment [1,2,3]			
Total cash costs	$ 1,631	$ 421	$ (1,007)
Divided by silver ounces produced	718	2,042	4,085
Total cash cost per ounce produced	$ 2.27	$ 0.21	$ (0.25)
Reconciliation to GAAP:			
Total cash costs	$ 1,631	$ 421	$ (1,007)
Depreciation, depletion and amortization	3,180	3,659	3,597
Treatment & freight costs	(328)	(1,069)	(2,158)
By-product credits	7,737	13,493	17,367
Change in product inventory	(614)	1,476	597
Strike-related costs	1,341	777	
Care and maintenance-related costs	681		
Reclamation, severance and other costs	1,096	224	294
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$ 14,724	$ 18,981	$ 18,690

Greens Creek Segment [1]			
Total cash costs	$ 4,190	$ 3,257	$ 4,108
Divided by silver ounces produced	2,874	2,886	3,481
Total cash cost per ounce produced	$ 1.46	$ 1.13	$ 1.18
Reconciliation to GAAP:			
Total cash costs	$ 4,190	$ 3,257	$ 4,108
Depreciation, depletion and amortization	7,067	6,594	7,986
Treatment & freight costs	(15,090)	(15,218)	(13,990)
By-product credits	30,200	29,486	25,893
Change in product inventory	(330)	(231)	(472)
Reclamation, severance and other costs	286	158	575
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$ 26,323	$ 24,046	$ 24,100

	2005	2004	2003
Lucky Friday Segment (1)			
Total cash costs	$ 10,986	$ 10,400	$ 10,940
Divided by silver ounces produced	2,085	2,032	2,251
Total cash cost per ounce produced	$ 5.27	$ 5.12	$ 4.86
Reconciliation to GAAP:			
Total cash costs	$ 10,986	$ 10,400	$ 10,940
Depreciation, depletion and amortization	593	(140)	
Treatment & freight costs	(7,006)	(6,677)	(5,662)
By-product credits	12,962	11,281	7,076
Change in product inventory	5	150	(92)
Reclamation, severance and other costs	13	26	
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$ 17,553	$ 15,040	$ 12,262
La Camorra Segment (1)			
Total cash costs	$ 32,648	$ 22,617	$ 19,498
Divided by gold ounces produced	97	126	127
Total cash cost per ounce produced	$ 337	$ 180	$ 154
Reconciliation to GAAP:			
Total cash costs	$ 32,648	22,617	19,498
Depreciation, depletion and amortization	9,622	11,439	8,538
Treatment & freight costs	(2,612)	(1,980)	(1,634)
By-product credits	1,914	1,892	
Change in product inventory	(4,605)	1,383	(810)
Reclamation, severance and other costs	87	2	70
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$ 37,054	$ 35,353	$ 25,662
Reconciliation to GAAP, All Locations:			
Total cash costs	$ 49,455	$ 36,695	$ 33,539
Depreciation, depletion and amortization	20,462	21,552	20,121
Treatment & freight costs	(25,036)	(24,944)	(23,444)
By-product credits	52,813	56,152	50,336
Strike-related costs	1,341	777	
Care and maintenance-related costs	681		
Cost of goods sold, industrial minerals			604
Change in product inventory	(5,544)	2,778	(777)
Reclamation, severance and other costs	1,482	410	939
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$ 95,654	$ 93,420	$ 81,318

(1) Total Cash Costs includes all direct and indirect operating costs related directly to the physical activities of producing metals, including mining, processing and other plant costs, third-party refining and marketing expense, on-site general and administrative costs, royalties and mine production taxes, net of by-product revenues earned from all metals other than the primary metal produced at each unit.

(2) Costs totaling $2.0 million and $0.8 million have been excluded from the determination of silver costs per ounce in 2005 and 2004, respectively, as they relate to the strike at the Velardeña mill during the fourth quarter of 2004 and for most of the first six month of 2005, and the curtailment of mining activity during the fourth quarter of 2005. These costs are not representative of operating costs.

(3) Gold has been accounted for as a by-product at the San Sebastian unit whereby revenues from gold have been deducted from operating costs in the calculation of cash costs per ounce. If our accounting policy had been changed to treat gold production as a co-product, the following costs per ounce would have been reported:

	2005	2004	2003
Total cash costs (in thousands)	$ 9,368	$ 13,914	$ 16,360
Revenue			
Silver	40.3%	49.9%	53.4%
Gold	59.7%	50.1%	46.6%
Ounces produced (in thousands)			
Silver	718	2,042	4,085
Gold	17	34	48
Total cash cost per ounce produced			
Silver	$ 7.79	$ 3.42	$ 2.14
Gold	$ 326	$ 208	$ 160

Financial Liquidity and Capital Resources

During 2005, sources of cash were provided by operations, by existing bank balances, maturities of short-term investments and by borrowings on our revolving line of credit. Cash and cash equivalents totaled $6.3 million at the end of 2005, a decrease of $28.2 million from 2004. Our ongoing cash needs will be met by cash generated from our operating properties, from the sale of investments, through periodic borrowing on our revolving line of credit as necessary and/or through debt or equity issuances. Planned significant uses of cash during 2006 are anticipated to include the following:

- Capital expenditures of approximately $37.0 million, primarily related to the completion of the expansion project at Lucky Friday and the development of Mina Isidora in Venezuela;
- Exploration and pre-development expenditures of approximately $25.0 million;
- General funding of operations and general and administrative expenses; and
- Reclamation and other closure costs of approximately $9.0 million, including an increase of $1.0 million to the surety bond at Greens Creek.

During 2005, we filed two shelf registration statements with the SEC. In July 2005, we filed a registration statement that allows us to sell up to $275.0 million in common stock, preferred stock, warrants and debt in order to raise capital for general corporate purposes. In December 2005, we filed a registration statement that allows us to issue up to $175.0 million in common stock and warrants in connection with business combination transactions. Both registration statements have been declared effective by the SEC. We have not issued securities pursuant to either of these registration statements.

In September 2005, we entered into a $30.0 million revolving credit agreement for an initial two-year term, with the right to extend the facility, for two additional one-year periods, on terms acceptable to us and the lender. Under the credit agreement, we are subject to various covenants and other limitations related to our indebtedness and investments, as well as other information and reporting requirements. During 2005, we incurred loan initiation, commitment and legal fees of $0.6 million related to the establishment of the facility. At December 31, 2005, the outstanding balance on the revolving line was $3.0 million. We have pledged our interest in the Greens Creek Joint Venture as collateral under the credit agreement. For additional information, see *Note 7* of *Notes to Consolidated Financial Statements.*

In January 2006, we sold our shares of Alamos Gold Inc., generating a $36 million pre-tax gain and netting $57.4 million of cash proceeds. In late 2004 and early 2005, we acquired our interest in Alamos for approximately $21.0 million, which is recorded at fair market value on our consolidated balance sheet at December 31, 2005 and 2004, under *Short-Term Investments*. The unrealized gain at December 31, 2005, was $19.9 million and was included as a component of shareholders equity under *Accumulated Other Comprehensive Income.*

Operating Activities

Operating activities used cash of $5.9 million in 2005, in contrast to cash provided in 2004 totaling $13.3 million. The most significant change over the two years was a $19.2 million increase in our net loss in 2005 compared to 2004, primarily due to increased pre-development activity at the Hollister Development Block and by decreased income from operations from our La Camorra and San Sebastian units totaling $30.8 million. In addition, the non-cash elements affecting net loss were $10.9 million lower in 2005 due to higher recognition in 2004 of a provision for reclamation and closure costs. However, working capital, which increased in both years, required $10.8 million less cash in 2005 than in 2004, due substantially to collections of value-added taxes, decreased working capital for the custom milling operation in Venezuela and liquidation of most of our inventory at the San Sebastian operation. Conversely, product inventory in Venezuela increased in 2005 due to a requirement that 15% of our sales be within the country, which we had not yet met as of December 31, 2005.

Investing Activities

We used $27.5 million less cash for investing activities in 2005 than in 2004. Our restricted investments used $12.9 million less cash in 2005 as we deposited $7.9 million for a Greens Creek reclamation surety and $4.3 in Venezuela in 2004. In addition, net liquidations of short-term investments other than equity securities yielded $36.6 million cash in 2005, $23.9 million more than in 2004. However, additions to properties, plants, and equipment were $3.5 million higher in 2005 due to completion of the shaft project in Venezuela, a mill upgrade project at Lucky Friday and ongoing development costs at Lucky Friday and Mina Isidora, and we used $5.4 million more in 2005 than 2004 for purchase of available-for-sale securities.

Financing Activities

Financing activities, nearly breakeven in 2005, used $2.8 million less cash than in 2004. Net repayments of debt in 2004 contrasted with net borrowings in 2005 by a total of $7.7 million as we ended the year 2004 debt-free, but ended the year 2005 with a balance of $3.0 million on our revolving credit facility. A use of cash in 2005 that did not occur in 2004 was payment of $2.9 million in dividends to preferred shareholders, including $2.3 million dividends in arrears since the fourth quarter of 2000.

Other

We sponsor defined benefit pension plans covering substantially all U. S. employees and provide certain post-retirement benefits for qualifying retired employees. As of December 31, 2005, we reviewed our pension assumptions regarding benefit plans based upon current market conditions, current asset mix and our current compensation structure, and reduced our discount rate from 6.0% to 5.75% effective January 2006. We maintained our assumptions regarding compensation increases at 4%, and our expected rate of return on plan assets at 8%, which represents approximately 80.0% of our past five-year s average annual return rate of 10%. As of the measurement date for pension obligations (September 30, 2005), plan assets totaled $73.9 million and exceeded the benefit obligation by $15.4 million. As a result, we do not expect to make contributions to the plans in 2006. For additional information related to our pension plans, see *Note 9* of *Notes to Consolidated Financial Statements.*

Contractual Obligations and Contingent Liabilities and Commitments

The table below presents our fixed, non-cancelable contractual obligations and commitments primarily related to our outstanding purchase orders, certain capital expenditures and lease arrangements as of December 31, 2005 (in thousands):

	Payments Due By Period				
	Less than 1 year	1-3 years	3-5 years	After 5 years	Total
Purchase obligations	$ 4,491				$ 4,491
Long term debt (1)	3,000				3,000
Contractual obligations (2)	4,387				4,387
Operating lease commitments (3)	1,130	510			1,640
Total contractual cash obligations	$ 13,008	$ 510	$	$	$ 13,518

(1) Paid in February 2006, including accrued interest of $5,000. In September 2005, we entered into a $30.0 million revolving credit agreement subject to an interest rate of 2.25% above the London InterBank Offered Rate or an alternate base rate plus 1.25%. For additional information, see *Note 7* of *Notes to Consolidated Financial Statements.*

(2) As of December 31, 2005, we were committed to approximately $2.5 million for various capital projects at the Lucky Friday and Greens Creek units.

(3) We enter into operating leases in the normal course of business. Substantially all lease agreements have fixed payment terms based on the passage of time. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional operating lease arrangements.

We maintain reserves for costs associated with mine closure, reclamation of land and other environmental matters. At December 31, 2005, our reserves for these matters totaled $69.2 million, for which no contractual or commitment obligations exist. Future expenditures related to closure, reclamation and environmental expenditures are difficult to estimate, although we anticipate we will make expenditures relating to these obligations over the next 30 years. For additional information relating to our environmental obligations, see *Notes 5* and *8* of *Notes to Consolidated Financial Statements.*

Off-Balance Sheet Arrangements

At December 31, 2005, we had no existing off-balance sheet arrangements, as defined under SEC regulations, that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make a wide variety of estimates and assumptions that affect: (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and (ii) the reported amounts of revenues and expenses during the reporting periods covered by the financial statements. Our management routinely makes judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties increases, these judgments become even more subjective and complex. Our accounting policies are described in *Note 1* of *Notes to Consolidated Financial Statements.* We have identified our most critical accounting policies below that are important to the portrayal of our current financial condition and results of operations. Management has discussed the development and selection of these critical accounting policies with the audit committee of our board of directors, and the audit committee has reviewed the disclosures presented below.

Revenue Recognition

Sales of all metals products sold directly to smelters, including by-product metals, are recorded as revenues when title and risk of loss transfer to the smelter at forward prices for the estimated month of settlement. Sales from our San Sebastian, Greens Creek and Lucky Friday units include significant value from by-product metals mined along with net values of each unit s primary metal. Due to the time elapsed from the transfer to the smelter and the final settlement with the smelter, we must estimate the price at which our metals will be sold in reporting our profitability and cash flow. Recorded values are adjusted to month-end metals prices until final settlement. If a significant variance was observed in estimated metals prices or metal content compared to the final actual metals prices or content, our monthly results of operations could be affected. Sales of metals in products tolled, rather than sold to smelters, are recorded at contractual amounts when title and risk of loss transfer to the buyer. Third-party smelting, refinery costs and freight expense are recorded as a reduction of revenue.

Our 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.

Changes in the market price of metals significantly affect our revenues, profitability and cash flow. Metals prices can and often do fluctuate widely and are affected by numerous factors beyond our control, such as political and economic conditions; demand; forward selling by producers; expectations for inflation; central bank sales; custom smelter activities; the relative exchange rate of the U.S. dollar; purchases and lending; investor sentiment; and global mine production levels. The aggregate effect of these factors is impossible to predict. Because our revenue is derived from the sale of silver, gold, lead and zinc, our earnings are directly related to the prices of these metals.

Proven and Probable Ore Reserves

At least annually, management reviews the reserves used to estimate the quantities and grades of ore at our mines which management believes can be recovered and sold economically. Management s calculations of proven and probable ore reserves are based on in-house engineering and geological estimates using current operating costs and metals prices. Periodically, management obtains external audits of reserves. During the first half of 2005, we obtained third-party audits of our reserves at the La Camorra unit. Additionally, a partial audit of reserves at Greens Creek was concluded during the fourth quarter of 2005.

Reserve estimates will change as existing reserves are depleted through production and as production costs and/or metals prices change. A significant drop in metals prices may reduce reserves by making some portion of such ore uneconomic to develop and produce. Changes in reserves may also reflect that actual grades of ore processed may be different from stated reserve grades because of variation in grades in areas mined, mining dilution and other factors. Estimated reserves, particularly for properties that have not yet commenced production, may require revision based on actual production experience.

Declines in the market prices of metals, increased production or capital costs, reduction in the grade or tonnage of the deposit or an increase in the dilution of the ore or reduced recovery rates may render ore reserves uneconomic to exploit unless the utilization of forward sales contracts or other hedging techniques are sufficient to offset such effects. If our realized price for the metals we produce were to decline substantially below the levels set for calculation of reserves for an extended period, there could be material delays in the development of new projects, net losses, reduced cash flow, restatements or reductions in reserves and asset write-downs in the applicable accounting periods. Reserves should not be interpreted as assurances of mine life or of the profitability of current or future operations. No assurance can be given that the estimate of the amount of metal or the indicated level of recovery of these metals will be realized.

Depreciation and Depletion

The mining industry is extremely capital intensive. We capitalize property, plant and equipment, and depreciate these items consistent with industry standards. The cost of property, plant and equipment is charged to depreciation expense based on the estimated useful lives of the assets using straight-line and unit-of-production methods. Depletion is computed using the unit-of-production method. As discussed above, our estimates of proven and probable ore reserves may change, possibly in the near term, resulting in changes to depreciation, depletion and amortization rates in future reporting periods.

Impairment of Long-Lived Assets

Management reviews the net carrying value of all facilities, including idle facilities, on an annual basis or more frequently if conditions or assumptions materially change that could negatively impact any net carrying value. We estimate the net realizable value of each property based on the estimated undiscounted future cash flows that will be generated from operations at each property, the estimated salvage value of the surface plant and equipment and the value associated with property interests. These estimates of undiscounted future cash flows are dependent upon the future metals price estimates over the estimated remaining mine life. If undiscounted cash flows and the asset fair value are less than the carrying value of a property, an impairment loss is recognized.

Management s estimates of metals prices, recoverable ore reserves and operating, capital and reclamation costs are subject to risks and uncertainties of change affecting the recoverability of our investment in various projects. Although management believes it has made a reasonable estimate of these factors based on current conditions and information, it is reasonably possible that changes could occur in the near term which could adversely affect management s estimate of net cash flows expected to be generated from our operating properties and the need for asset impairment write-downs. All estimates and assumptions are inherently subjective to some extent and may be impacted by bias, error or changing conventions in the methodology of their determination, or in changing industry conditions.

Environmental Matters

Our operations are subject to extensive federal, state and local environmental laws and regulations. The major environmental laws to which we are subject include, among others, the Federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA, also known as the Superfund law). CERCLA can impose joint and several liability for cleanup and investigation costs, without regard to fault or legality of the original conduct, on current and predecessor owners and operators of a site, as well as those who generate, or arrange for the disposal of, hazardous substances. The risk of incurring environmental liability is inherent in the mining industry. We own or operate properties, or have previously owned and operated property, used for industrial purposes. Use of these properties may subject us to potential material liabilities relating to the investigation and cleanup of contaminants and claims alleging personal injury or property damage as the result of exposures to, or release of, hazardous substances.

At our operating properties, we accrue costs associated with environmental remediation obligations in accordance with Statement of Financial Accounting Standards (SFAS) No. 143 Accounting for Asset Retirement Obligations. SFAS No. 143 requires us to record a liability for the present value of our estimated environmental remediation costs and the related asset created with it in the period in which the liability is incurred. The liability will be accreted and the asset will be depreciated over the life of the related asset. Adjustments for changes resulting from the passage of time and changes to either the timing or amount of the original present value estimate underlying the obligation will be made.

At our non-operating properties, we accrue costs associated with environmental remediation obligations when it is probable that such costs will be incurred and they are reasonably estimable from a range of reasonable estimates in accordance with SFAS No. 5 Accounting for Contingencies and AICPA Statement of Position 96-1 Environmental Remediation Liabilities. Accruals for estimated losses from environmental remediation obligations have historically been recognized no later than completion of the remedial feasibility study for such facility and are charged to provision for closed operations and environmental matters.

We periodically review our accrued liabilities for costs of remediation as evidence becomes available indicating that our remediation liabilities have potentially changed. Such costs are based on management s then current estimate of amounts expected to be incurred when the remediation work is performed within current laws and regulations. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

Future closure, reclamation and environment-related expenditures are difficult to estimate in many circumstances due to the early stages of investigation, uncertainties associated with defining the nature and extent of environmental contamination, the uncertainties relating to specific reclamation and remediation methods and costs, application and changing of environmental laws, regulations and interpretations by regulatory authorities and the possible participation of other potentially responsible parties. Reserves for closure costs, reclamation and environmental matters totaled $69.2 million at December 31, 2005, and we anticipate that the majority of these expenditures relating to these reserves will be made over the next 30 years. It is reasonably possible that the ultimate cost of remediation could change in the future and that changes to these estimates could have a material effect on future operating results as new information becomes known. For environmental remediation sites known as of December 31, 2005, if the highest estimate from the range (based upon information presently available) were recorded, the total estimated liability would be increased by approximately $56.4 million. For additional information, see *Notes 5* and *8* of *Notes to Consolidated Financial Statements.*

Foreign Exchange in Venezuela

The Venezuelan government has fixed the exchange rate of their currency to the U.S. dollar at 2,150 bolivares to $1, which is the exchange rate we utilize to translate the financial statements of our Venezuelan subsidiary included in our consolidated financial statements. Rules and regulations regarding the implementation of exchange controls in Venezuela have been published and periodically revised and/or updated.

Due to the exchange controls in place, the La Camorra unit recognized foreign exchange gains, which reduced our cost of sales, capital expenditures and exploration activities by $6.6 million in 2005, $12.4 million in 2004 and $6.3 million in 2003, due to the use of multiple exchange rates in valuing U.S. dollar denominated transactions. As discussed above, the Venezuelan government has fixed the exchange rate of the bolivar to the U.S. dollar at 2,150 to $1; however, markets outside of Venezuela have reflected a devaluation of the Venezuelan currency from such fixed rates.

By-product Credits

Cash costs per ounce are consistent with how costs per ounce are calculated within the mining industry. Cash costs per ounce of silver include significant credits from by-product metals production, including gold, lead and zinc. Our current view of our proven and probable reserves indicates that our treatment of gold, lead and zinc as by-products at the San Sebastian, Greens Creek and Lucky Friday units continues to be appropriate. However, management periodically assesses the relationships between metals produced to ensure that presentation of by-product credits in our calculation of cash costs per ounce remains appropriate.

Cash costs per ounce of silver at the San Sebastian unit included significant by-product credits from gold production due to strong prices. While value from by-product gold has been significant for San Sebastian, we believe that identification of silver as the primary product, with gold as a by-product, was appropriate because:

- We have historically presented San Sebastian as a producer primarily of silver, based on the original analysis that justified putting the project into production, and believe that consistency in disclosure is important to our investors regardless of the relationships of metals prices and production from year to year;
- San Sebastian is in a mining district historically identified with silver;
- Exploration has been directed toward silver, and recent exploration results have shown a predominant silver content; and
- Our mining methods and production planning target silver as our primary product, which has been accompanied by a significant gold presence.

Strike and shutdown-related costs have been excluded from 2005 and 2004 costs per ounce. For the year ended December 31, 2005, the total cash cost was $2.27 per silver ounce, compared to $0.21 per silver ounce in 2004, and a negative $0.25 per silver ounce in 2003. For the years ended December 31, 2005, 2004 and 2003, gold by-product credits were approximately $10.78, $6.61, and $4.25 per silver ounce, respectively. By-product credits at the San Sebastian unit are deducted from operating costs in the calculation of cash costs per ounce. If our accounting policy were changed to treat gold production as a co-product, the following total cash costs per ounce would be reported:

	2005	2004	2003
Silver	$ 7.79	$ 3.42	$ 2.14
Gold	$ 326	$ 208	$ 160

Significant by-product credits are also used in calculation of cash costs per ounce of silver at the Greens Creek and Lucky Friday units. For these operations, we view zinc, lead and gold strictly as by-products because:

We have historically presented Greens Creek and Lucky Friday, as well as San Sebastian, as producers primarily of silver, based on the original analysis that justified putting the project into production, and believe that consistency in disclosure is important to our investors regardless of the relationships of metals prices and production from year to year;

Silver represents a higher value that any other metal;

Silver is the primary object of the cost structures at Greens Creek and Lucky Friday, which utilize selective mining methods for recovery of silver rather than bulk methods for recovery of lower-value base metals; and

By-products include two other metals for Lucky Friday, and three other metals for Greens Creek.

The values of all by-products per ounce of silver produced, net of treatment and freight costs, were:

	2005	2004	2003
Greens Creek	$ 5.26	$ 4.94	$ 3.42
Lucky Friday	$ 2.86	$ 2.26	$ 0.62

Cash costs per ounce of silver or gold represent measurements that management uses to monitor and evaluate the performance of our mining operations that are not in accordance with GAAP. We believe cash costs per ounce of silver or gold produced provide management and investors an indication of net cash flow, after consideration of the realized price received for production sold. Management also uses this measurement for the comparative monitoring of performance of our mining operations. A reconciliation of this non-GAAP measure to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found under *Reconciliation of Total Cash Costs (non-GAAP) to Costs of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP).*

Venezuela Value-added Taxes

Value-added taxes (VAT) are assessed in Venezuela on purchases of materials and services. VAT is recorded as an account receivable on our consolidated balance sheet, with a balance of $7.7 million (net of a reserve for anticipated discounts totaling $1.3 million) at December 31, 2005, and $7.4 million at December 31, 2004 (net of a reserve for anticipated discounts of $1.9 million).

As an exporter from Venezuela, we are eligible for refunds from the government for payment of VAT, and we prepare a monthly filing to obtain this refund. Refunds are given by the government in the form of tax certificates, which are marketable in Venezuela. We received our most recent certificate from the Venezuelan government in March 2005, for all periods through November 2004. While we believe that we will receive certificates for all outstanding VAT from the Venezuelan government, issuance of certificates is slow and the likelihood of recovery at our recorded value may diminish over time. We have established a reserve of 15% and 20% of face value at December 31, 2005 and 2004, respectively, with reserves established by our analysis of past collections and the likelihood of future collections.

New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an Amendment of ARB No. 43, Chapter 4. SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) be recognized as current period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material effect on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29. The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material effect on our consolidated financial statements.

For the years ended December 31, 2005, 2004 and 2003, we have measured compensation cost for stock option plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which revised SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25 and its related implementation guidance. SFAS No. 123(R) requires the measurement and recording in the financial statements of the costs of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, recognized over the period during which an employee is required to provide service in exchange for such award. We adopted SFAS No. 123(R) on January 1, 2006, and have selected the modified prospective method. For all newly granted awards and awards modified, repurchased or cancelled after January 1, 2006, the effect on net income (loss) and earnings per share in the periods following adoption of SFAS No. 123(R) are expected to be consistent with our pro forma disclosure under SFAS No. 123, as reported in *Note 1* of *Notes to Consolidated Financial Statements*, except that estimated forfeitures will be considered in the calculation of compensation expense under SFAS No. 123(R). Additionally, the actual effect on net income (loss) per share will vary depending upon the number and fair value of options granted in future years compared to prior years. As of December 31, 2005, all of our outstanding stock options were vested and will not impact future year s net income (loss) under SFAS No. 123(R), with the exception of certain options purchased under our deferred compensation plan. The expense associated with these options will not be material.

In March 2005, the FASB issued FASB Interpretation No. 47 Accounting for Conditional Asset Retirement Obligations an Interpretation of SFAS No. 143. FIN No. 47 provides clarification of the term conditional asset retirement obligation as used in paragraph A23 of SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 applies to legal obligations associated with the retirement of a tangible long-lived asset, and states that an entity shall recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. The term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN No. 47 became effective for us in December 2005, and its adoption did not have a material effect on our consolidated financial statements.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 changes the accounting and reporting for voluntary changes in accounting principles, whereby the effects will be reported as if the newly adopted principle has always been used. SFAS No. 154 also includes minor changes concerning the accounting for changes in estimates, correction of errors and changes in reporting entities. SFAS No. 154 is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005.

Forward-Looking Statements

The foregoing discussion and analysis, as well as certain information contained elsewhere in this Form 10-K, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor created thereby. See the discussion in *Special Note on Forward-Looking Statements* included prior to *Part I, Item 1*.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our risk-management activities includes forward-looking statements that involve risk and uncertainties, as well as summarizes the financial instruments and derivative instruments held by us at December 31, 2005, which are sensitive to changes in interest rates and commodity prices and are not held for trading purposes. Actual results could differ materially from those projected in the forward-looking statements. In the normal course of business, we also face risks that are either nonfinancial or nonquantifiable (see Part I, Item 1A Risk Factors).

Interest-Rate Risk Management

At December 31, 2005, our debt was subject to changes in market interest rates and was sensitive to those changes. In February 2006, we paid the $3.0 million outstanding under our $30.0 million revolving credit facility at December 31, 2005, including accrued average interest of 6.63%. For additional information regarding our $30.0 million revolving credit facility, see *Note 7* of *Notes to Consolidated Financial Statements.*

Commodity-Price Risk Management

At times, we use commodity forward sales commitments, commodity swap contracts and commodity put and call option contracts to manage our exposure to fluctuation in the prices of certain metals which we produce. Contract positions are designed to ensure that we will receive a defined minimum price for certain quantities of our production. We use these instruments to reduce risk by offsetting market exposures.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements are included herein beginning on page F-1. Financial statement schedules are omitted as they are not applicable or the information required is included in the Consolidated Financial Statements.

The following table sets forth supplementary financial data (in thousands except per share amounts) for each quarter of the years ended December 31, 2005 and 2004, derived from our unaudited financial statements. The data set forth below should be read in conjunction with and is qualified in its entirety by reference to our Consolidated Financial Statements.

2005		First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total
Sales of products	$	24,434	$	25,255	$	30,428	$	30,044	$	110,161
Gross profit	$	5,465	$	3,480	$	2,631	$	2,931	$	14,507
Net loss	$	(3,296)	$	(6,245)	$	(8,595)	$	(7,226)	$	(25,360)
Preferred stock dividends	$	(138)	$	(138)	$	(138)	$	(138)	$	(552)
Loss applicable to common shareholders	$	(3,434)	$	(6,383)	$	(8,733)	$	(7,364)	$	(25,912)
Basic and diluted loss per common share	$	(0.03)	$	(0.05)	$	(0.07)	$	(0.06)	$	(0.22)
2004										
Sales of products	$	36,650	$	31,712	$	33,718	$	28,746	$	130,826
Gross profit	$	13,409	$	10,071	$	6,905	$	7,021	$	37,406
Net income (loss)	$	6,180	$	2,748	$	(11,292)	$	(3,770)	$	(6,134)
Preferred stock dividends	$	(11,188)	$	(138)	$	(138)	$	(138)	$	(11,602)
Income (loss) applicable to common shareholders	$	(5,008)	$	2,610	$	(11,430)	$	(3,908)	$	(17,736)
Basic and diluted income (loss) per common share	$	(0.04)	$	0.02	$	(0.10)	$	(0.03)	$	(0.15)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2005, in ensuring them in a timely manner that material information required to be disclosed in this report has been properly recorded, processed, summarized and reported.

Management s Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting, which is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

Because of its inherent limitations, any system of internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements due to the possibility that a control can be circumvented or overridden or that misstatements due to error or fraud may occur that are not detected. Also, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2005, using criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that we have maintained effective internal control over financial reporting as of December 31, 2005, based on these criteria.

Our internal control over financial reporting as of December 31, 2005, and our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005, have been audited by BDO Seidman, LLP, an independent registered public accounting firm, as stated in the report which is included herein.

Management excluded the Greens Creek Joint Venture (Greens Creek), a 29.73% owned subsidiary, from its assessment of internal control over financial reporting as of December 31, 2005, as we do not have the ability to dictate or modify the controls at Greens Creek. Greens Creek total assets and total sales of products represent 23.6% and 33.3%, respectively, of our related consolidated financial statement amounts as of and for the year ended December 31, 2005.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Hecla Mining Company
Coeur d Alene, Idaho

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that Hecla Mining Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hecla Mining Company management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

The Company s financial statements included Greens Creek Joint Venture: a 29.73 percent owned subsidiary that is proportionately consolidated in accordance with Emerging Issues Task Force No. 00-1. Management has been unable to assess the effectiveness of internal control at this subsidiary due to the fact the Company does not have the ability to dictate or modify the controls of the subsidiary and also does not have the ability to assess those controls.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Hecla Mining Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, Hecla Mining Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hecla Mining Company as of December 31, 2005 and 2004, and the related consolidated statements of operations, comprehensive loss, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2005, of Hecla Mining Company and our report dated February 23, 2006, expressed an unqualified opinion.

Spokane, Washington
February 23, 2006

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information with respect to our directors and executive officers is set forth as follows:

	Age at May 5, 2006	Position and Committee Assignments
Phillips S. Baker, Jr.	46	President and Chief Executive Officer, Director [1,5]
Michael H. Callahan	42	Vice President Corporate Development
Ronald W. Clayton	47	Vice President North American Operations
Vicki Veltkamp (Larson)	49	Vice President Investor and Public Relations
Lewis E. Walde	39	Vice President and Chief Financial Officer [5]
Philip C. Wolf	58	Vice President and General Counsel
Arthur Brown	65	Chairman of the Board [1,6]
David J. Christensen	44	Director [2]
John E. Clute	71	Director [1,3,4]
Ted Crumley	61	Director [1,3,4]
Charles L. McAlpine	72	Director [2,3,4,6]
George R. Nethercutt, Jr.	61	Director [2]
Jorge E. Ordoñez C.	66	Director [2,3,6]
Dr. Anthony P. Taylor	64	Director [6]

(1) Member of Executive Committee
(2) Member of Audit Committee
(3) Member of Corporate Governance and Directors Nominating Committee
(4) Member of Compensation Committee
(5) Member of Retirement Board
(6) Member of Technical Committee

Phillips S. Baker, Jr., has been our Chief Executive Officer since May 2003; President since November 2001; and a director since November 2001. Prior to that, Mr. Baker was our Chief Financial Officer from May 2001 to June 2003; Chief Operating Officer from November 2001 to May 2003; and Vice President from May 2001 to November 2001. Prior to joining us, Mr. Baker served as Vice President and Chief Financial Officer of Battle Mountain Gold Company (a gold mining company) from March 1998 to January 2001 and Vice President and Chief Financial Officer of Pegasus Gold Corporation (a gold mining company) from January 1994 to January 1998. Mr. Baker also serves as a director for Questar Corporation (a Utah natural gas, pipeline and exploration and development company).

Michael H. Callahan has been our Vice President - Corporate Development since February 2002. Mr. Callahan was also the President of our subsidiary company, Minera Hecla Venezolana from 2000 to 2003. Prior to that, Mr. Callahan was our Director of Accounting and Information Services from 1999 to 2000. From 1997 to 1999, Mr. Callahan was the Financial Manager of Silver Valley Resources. Mr. Callahan was also a Senior Financial Analyst for us from 1994 to 1996. Mr. Callahan is the son-in-law of Arthur Brown, Chairman of our board of directors.

Ronald W. Clayton has been our Vice President - North American Operations since September 2002. Prior to joining us, Mr. Clayton was Vice President Operations for Stillwater Mining Company (a mining company) from July 2000 to May 2002. Mr. Clayton was also our Vice President Metals Operations from May 2000 to July 2000. Mr. Clayton also served as Manager of Operations and General Manager of our Rosebud, Republic and Lucky Friday mines from 1987 to 2000.

Vicki Veltkamp (Larson) has been our Vice President - Investor and Public Relations since May 2000. Prior to that, Ms. Veltkamp (Larson) served in various administrative functions with us from 1988 to 1993 and 1995 to 2000, including Public Relations Specialist, Manager of Public Relations, Manager of Corporate Communications and Director of Investor and Public Relations. Ms. Veltkamp (Larson) was Director of Corporate Communications for Santa Fe Pacific Gold from 1993 to 1995.

Lewis E. Walde has been our Vice President since June 2001 and our Chief Financial Officer since June 2003. Mr. Walde has also served as our Treasurer since February 2002. Prior to that, Mr. Walde was our Controller from May 2000 to June 2003, our Assistant Controller from January 1999 to April 2000, and held various accounting functions with us from June 1992 to December 1998.

Philip C. Wolf was appointed Vice President and General Counsel in February 2006. Prior to his employment with us, Mr. Wolf was Senior Vice President, General Counsel and Secretary of Compressus Inc. (a small software technology company) from 2001 to 2004. Mr. Wolf also served as Senior Vice President, General Counsel and Secretary of Cyprus Amax Minerals Company (a public, Fortune 500, international company) from 1993 to 1999. Prior to that, Mr. Wolf held various positions with Cyprus Minerals Company.

Arthur Brown has been Chairman of our Board of Directors since June 1987 and served as our Chief Executive Officer from May 1987 to May 2003. Prior to that, Mr. Brown was our President from May 1986 to November 2001 and our Chief Operating Officer from May 1986 to

May 1987. Mr. Brown also serves as a director for AMCOL International Corporation (an American industrial minerals company), and Idaho Independent Bank. Mr. Brown is the father-in-law of Michael H. Callahan, our Vice President - Corporate Development.

David J. Christensen was appointed to Hecla s Board of Directors in August 2003. He had previously served as a director from May 2002 to October 2002 when he was elected to the Board of Directors by preferred shareholders in May 2002. The payment of the dividends in arrears in July 2005 resulted in the elimination of this director position, at such time he was then was appointed to the board when the number of director positions was increased from seven to nine. Mr. Christensen was a research analyst with Credit Suisse First Boston (an investment banking company) from October 2002 to August 2003; Global Coordinator and First Vice President, Merrill Lynch & Co. (an investment banking company) from 1998 to 2001; Vice President and Precious Metals Equity Analyst, Merrill Lynch & Co. from 1994 to 1998; Portfolio Manager of Franklin Gold Fund and Valuemark Precious Metals Funds for Franklin Templeton Group from 1990 to 1994.

John E. Clute has served as a director since 1981. Mr. Clute has been a Professor of Law at Gonzaga University School of Law from 2001 to the present. Prior to that, Mr. Clute was the Dean of Gonzaga University School of Law from 1991 to 2001. Mr. Clute serves as a director of The Jundt Growth Fund, Inc.; the Jundt Funds, Inc. (Jundt U.S. Emerging Growth Fund, Jundt Opportunity Fund, Jundt Mid-Cap Growth Fund, Jundt Science & Technology Fund and Jundt Twenty-Five Fund); American Eagle Funds, Inc. (American Eagle Capital Appreciation Fund, American Eagle Large-Cap Growth Fund and American Eagle Twenty Fund); and RealResume, Inc.

Ted Crumley has served as a director since 1995. Mr. Crumley served as the Executive Vice President and Chief Financial Officer of OfficeMax Inc. (distributor of office products) from January 2005 to November 2005, and as Senior Vice President from November 2004 to January 2005. Prior to that, Mr. Crumley was Senior Vice President and Chief Financial Officer of Boise Cascade Corp. (a wood and paper company), from 1994 to 2004.

Charles L. McAlpine has served as a director since 1989. Mr. McAlpine served as the President of Arimathaea Resources Inc. (a Canadian gold exploration company) from 1982 to 1992. Since 1992, Mr. McAlpine has been retired. Mr. McAlpine also serves as a director of First Tiffany Resource Corporation, Goldstake Explorations Inc. and Postec Systems Inc.

George R. Nethercutt, Jr. was appointed to Hecla s Board of Directors in February 2005. Mr. Nethercutt has been a principal of Lundquist, Nethercutt & Griles, LLC, (a strategic planning and consulting firm) and a board member for the Washington Policy Center since February 2005. In August 2005, Mr. Nethercutt was appointed Of Counsel with the law firm of Paine, Hamblen, Coffin, Brooke & Miller LLP. Mr. Nethercutt serves as a board member of ARCADIS Corporation, the Juvenile Diabetes Research Foundation International, as well as being the U.S. Chairman of the Permanent Joint Board on Defense U.S./Canada. From 1995 to 2005, Mr. Nethercutt served in the U.S. House of Representatives, including House subcommittees on Interior, Agriculture, Defense Appropriations, and Energy. He has been a member of the Washington State Bar Association since 1972.

Jorge E. Ordoñez C. has served as a director since 1994. Mr. Ordoñez has served as the President and Chief Executive Officer of Ordoñez Profesional S.C. (a business and management consulting corporation specializing in mining) from 1988 to present. Mr. Ordoñez has also served as Chief Executive Officer of Minera Cima, S.A. de C.V. since 2005 and Vice President of Minera Montoro, S.A. de C.V. since 1996. Mr. Ordoñez received the Mexican National Geology Recognition in 1989 and was elected to the Mexican Academy of Engineering in 1990.

Dr. Anthony P. Taylor has served as a director since May 2002 upon election by preferred shareholders. The payment of the dividends in arrears in July 2005 resulted in the elimination of this director position, at such time he was then appointed to the board when the number of director positions was increased from seven to nine. Mr. Taylor has been the President, CEO and Director of Gold Summit Corporation (a public Canadian minerals exploration company) since October 2003. Mr. Taylor has also served as President and Director of Caughlin Preschool Corp. (a private Nevada corporation that operates preschools) since October 2001 and has also been a director of Greencastle Resources Corporation since December 2003. Prior to that, Mr. Taylor was President, Chief Executive Officer and Director of Millennium Mining Corporation (a private Nevada minerals exploration company) from January 2000 to October 2003; Vice President - Exploration of First Point US Minerals from May 1997 to December 1999; President and Director of Great Basin Exploration & Mining Co., Inc. from June 1990 to January 1996. Mr. Taylor also held various exploration, management and geologist positions in the mining industry from 1964 to 1990.

Information with respect to our directors is set forth under the caption Election of Directors in our proxy statement to be filed pursuant to Regulation 14A for the annual meeting scheduled to be held on May 5, 2006 (the Proxy Statement), which information is incorporated herein by reference.

Reference is made to the information set forth in the first paragraph under the caption Audit Committee Report - Membership and Role of the Audit Committee, and under the caption Corporate Governance in the Proxy Statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

Reference is made to the information set forth under the caption Section 16(A) Beneficial Ownership Reporting Compliance in the Proxy Statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

Reference is made to the information set forth under the caption Available Information in Item 1 for information about the Company s Code of Business Conduct and Ethics, which information is incorporated herein by reference.

Item 11. Executive Compensation

Reference is made to the information set forth under the caption Compensation of Nonemployee Directors, the caption Executive Compensation, the caption Compensation Committee Interlocks and Insider Participation, the caption Compensation Tables, the first paragraph under the caption Certain Information About the Board of Directors and Committees of the Board and under the caption Other Benefits in the Proxy Statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Reference is made to the information set forth under the caption Security Ownership of Certain Beneficial Owners and Management and the caption Equity Compensation Plan Information in the Proxy Statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Reference is made to the information set forth in the Proxy Statement to be filed pursuant to Regulation 14A, which information is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Reference is made to the information set forth under the caption Audit Fees - Audit and Non-Audit Fees in the Proxy Statement to be filed pursuant to Regulation 14