

HECLA MINING CO/DE/
Form 10-K
February 19, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

**Annual report pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934 For the fiscal year ended
December 31, 2013**

Commission file No. 1-8491

HECLA MINING COMPANY

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	77-0664171 (I.R.S. Employer Identification No.)
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6500 N. Mineral Drive, Suite 200

83815-9408

Coeur d'Alene, Idaho
(Address of principal executive offices) (Zip Code)
208-769-4100

(Registrant's telephone number, including area code)

Securities 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	New York Stock Exchange
Series B Cumulative Convertible Preferred Stock, par value \$0.25 per share	New York Stock Exchange

Securities 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 ☐ No ☒

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 ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark 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.

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's voting Common Stock held by non-affiliates was \$1,015,760,330 as of June 30, 2013. There were 342,638,214 shares of the registrant's Common Stock outstanding as of June 30, 2013, and 342,667,114 shares as of February 14, 2014.

Documents incorporated by reference herein:

To the extent herein specifically referenced in Part III, the information contained in the Proxy Statement for the 2014 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 2013 fiscal year, is incorporated herein by reference. See Part III.

TABLE OF CONTENTS

Special Note on Forward-Looking Statements	1
PART I	1
Item 1. Business	1
Introduction	1
Products and Segments	4
Employees	6
Available Information	6
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	25
Item 2. Properties	25
The Greens Creek Unit	25
The Lucky Friday Unit	29
The Casa Berardi Unit	34
Item 3. Legal Proceedings	38
Item 4. Mine Safety Disclosures	38
PART II	38
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	38
Item 6. Selected Financial Data	41
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	42
Overview	42
Results of Operations	45
The Greens Creek Segment	46
The Lucky Friday Segment	50
The Casa Berardi Segment	52
Corporate Matters	54
Reconciliation of Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) to Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP)	55
Reconciliation of Earnings Before Interest, Taxes, Depreciation, and Amortization (non-GAAP) to Net Income (Loss) (GAAP)	59
Financial Liquidity and Capital Resources	59
Contractual Obligations and Contingent Liabilities and Commitments	62
Off-Balance Sheet Arrangements	64
Critical Accounting Estimates	64
New Accounting Pronouncements	66
Forward-Looking Statements	66
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	66
Commodity-Price Risk Management	66
Provisional Sales	66
Foreign Currency	67
Item 8. Financial Statements and Supplementary Data	67
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	68
Item 9A. Controls and Procedures	68
Disclosure Controls and Procedures	68

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Management's Annual Report on Internal Control over Financial Reporting	68
Attestation Report of Independent Registered Public Accounting Firm	70
PART III	70
Item 10. Directors, Executive Officers and Corporate Governance	71

Item 11. Executive Compensation	73
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	73
Item 13. Certain Relationships and Related Transactions, and Director Independence	73
Item 14. Principal Accountant Fees and Services	73
PART IV	74
Item 15. Exhibits and Financial Statement Schedules	74
Signatures	75
Index to Consolidated Financial Statements	F-1
Index to Exhibits	F-50

Special Note on Forward-Looking Statements

Certain statements contained in this report (including information incorporated by reference) are “forward-looking statements” and 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 production, results, performance, prospects and opportunities, including reserves and other mineralization. We have tried to identify these forward-looking statements by using words such as “may,” “might,” “will,” “expect,” “anticipate,” “believe,” “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 production, results, performance, prospects or opportunities, including reserves and mineralization, 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. Risk Factors* and Part II, *Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations*. Given these risks and uncertainties, readers are cautioned not to place undue reliance on our forward-looking statements. Projections and other forward-looking statements included in this report 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 may vary, perhaps materially. You are strongly cautioned not to place undue reliance on such projections and other forward-looking statements. 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 disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

For information regarding the organization of our business segments and our significant customers, see *Note 11 of Notes to Consolidated Financial Statements*.

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

Introduction

Hecla Mining Company and our subsidiaries have provided precious and base metals to the U.S. and worldwide since 1891 (in this report, “we” or “our” or “us” refers to Hecla Mining Company and our affiliates and subsidiaries). We discover, acquire, develop, and produce silver, gold, lead and zinc. In doing so, we intend to manage our business activities in a safe, environmentally responsible and cost-effective manner.

We produce lead, zinc and bulk concentrates, which we sell to custom smelters, and unrefined bullion bars (doré) containing gold and silver, which are further refined before sale to precious metals traders. We are organized and managed into three segments that encompass our operating units: the Greens Creek, Lucky Friday, and Casa Berardi units.

The map below shows the locations of our operating units and our exploration and pre-development projects, as well as our corporate offices located in Coeur d'Alene, Idaho and Vancouver, British Columbia.

Our current business strategy is to focus our financial and human resources in the following areas:

- Operating our properties safely, in an environmentally responsible manner, and cost-effectively.

- Optimizing and improving operations at our Casa Berardi unit, which, along with other mineral interests, was obtained as a result of our acquisition of Aurizon Mines, Ltd. ("Aurizon").

- Expanding our proven and probable reserves and production capacity at our operating properties.

Maintaining and investing in exploration and pre-development projects in the vicinities of five mining districts we believe to be under-explored and under-invested: North Idaho's Silver Valley in the historic Coeur d'Alene Mining District; our Greens Creek unit on Alaska's Admiralty Island located near Juneau; the silver-producing district near Durango, Mexico; the Abitibi region of north-western Quebec, Canada; and the Creede district of Southwestern Colorado.

Continuing to seek opportunities to acquire and invest in mining properties and companies. Examples include our acquisition of the Monte Cristo property in Nevada, investments in Dolly Varden Silver Corporation, Canamex Resources Corp., Brixton Metals Corporation, and Typhoon Exploration Inc. in 2012 and 2013, and the acquisition of Aurizon discussed further below.

Below is a summary of net income (loss) for each of the last five years (in thousands):

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Net income (loss)	\$(25,130)	\$14,954	\$151,164	\$48,983	\$67,826

Our financial results over the last five years have been impacted by:

- Fluctuations in prices of the metals we produce. The average, high and low daily closing market prices for silver, gold, lead and zinc for each of the last five years are as follows:

	2013	2012	2011	2010	2009
Silver (per oz.):					
Average	\$23.83	\$31.15	\$35.11	\$20.16	\$14.65
High	\$32.23	\$37.23	\$48.70	\$30.70	\$19.18
Low	\$18.61	\$26.67	\$26.16	\$15.14	\$10.51
Gold (per oz.):					
Average	\$1,411	\$1,669	\$1,569	\$1,225	\$973
High	\$1,694	\$1,792	\$1,895	\$1,421	\$1,213
Low	\$1,192	\$1,540	\$1,319	\$1,058	\$810
Lead (per lb.):					
Average	\$0.97	\$0.94	\$1.09	\$0.97	\$0.78
High	\$1.11	\$1.06	\$1.33	\$1.18	\$1.11
Low	\$0.88	\$0.79	\$0.81	\$0.71	\$0.45
Zinc (per lb.):					
Average	\$0.87	\$0.88	\$1.00	\$0.98	\$0.75
High	\$0.99	\$0.99	\$1.15	\$1.20	\$1.17
Low	\$0.81	\$0.80	\$0.79	\$0.72	\$0.48

See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations* for a summary of average market and realized prices for each of the three years ended December 31, 2013, 2012 and 2011. Our results of operations are significantly impacted by fluctuations in the prices of silver, gold, lead and zinc, which are affected by numerous factors beyond our control. See *Item 1A. Risk Factors – Financial Risks – A substantial or extended decline in metals prices would have a material adverse effect on us* for information on a number of the various factors that can impact prices of the metals we produce. Hecla's average realized prices for silver, gold, and zinc were lower in 2013 compared to 2012, while the average realized price for lead increased. Average realized prices for silver, lead, and zinc decreased in 2012 compared to 2011, while gold prices increased. We believe that market metal price trends are a significant factor in our operating and financial performance. We are unable to predict fluctuations in prices for metals and have limited control over the timing of our concentrate shipments. However, in April 2010, we began utilizing financially-settled forward contracts for lead and zinc with the objective of managing the exposure to changes in prices of lead and zinc contained in our

concentrate shipments between the time of sale and final settlement. In addition, in July 2013, we initiated a similar program for silver and gold with the objective of managing exposure to changes in prices for those metals contained in our concentrate shipments. See *Note 10 of Notes to Consolidated Financial Statements* for more information on our base and precious metal forward contract programs.

Cost of sales and other direct production costs of \$235.3 million in 2013, \$134.1 million in 2012 and \$165.6 million in 2011. During 2012 and 2013, costs of sales and other direct production costs were impacted by the temporary •suspension of production at the Lucky Friday mine during most of 2012 and by the acquisition of the Casa Berardi mine during 2013. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations* for more information.

- \$25.3 million in suspension-related costs at our Lucky Friday unit in 2012, including \$6.3 million in depreciation, depletion, and amortization. We recognized suspension-related income of \$1.4 million in 2013 due to the receipt of business interruption insurance proceeds related to the suspension period. Limited production recommenced at the Lucky Friday unit in the first quarter of 2013, and the mine resumed full production in September 2013. See *The Lucky Friday Segment* section for more information on the temporary suspension of production.

Exploration and pre-development expenditures totaling \$37.7 million, \$49.7 million, \$31.4 million, \$21.6 million and \$9.2 million for the years ended December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

Provision for closed operations and environmental matters of \$5.4 million, \$4.7 million, \$9.7 million, \$201.1 million and \$7.7 million, respectively, for the years ended December 31, 2013, 2012, 2011, 2010, and 2009. The \$201.1 million provision in 2010 included \$193.2 million accrued for environmental obligations in Idaho's Coeur d'Alene Basin as a result of an agreement with the United States, the Coeur d'Alene Indian Tribe, and the State of Idaho on financial terms that would be incorporated into a comprehensive settlement of the Coeur d'Alene Basin environmental litigation and related claims. The settlement was finalized upon entry of the Consent Decree by the Court in September 2011.

Net gain on base metal forward contracts of \$18.0 million in 2013, a net loss of \$10.5 million in 2012, a net gain of \$38.0 million in 2011, and a net loss of \$20.8 million in 2010. These gains and losses are related to financially-settled forward contracts on forecasted zinc and lead production as part of a risk management program initiated in 2010. See *Note 10 of Notes to Consolidated Financial Statements* for more information on our derivatives contracts.

Our acquisition of Aurizon for \$714.5 million in June 2013, which was partially funded by the issuance of 6.875% Senior Notes due 2021 ("Senior Notes") in April 2013 for net proceeds of \$490.0 million. We recognized expenses relating to the Aurizon acquisition of \$26.4 million in 2013. In addition, in 2013 we recorded interest expense related to the Senior Notes, including amortization of issuance costs, of \$19.1 million, net of \$6.5 million in capitalized interest. See *Note 16 of Notes to Consolidated Financial Statements* for more information on the acquisition.

Our acquisition of the remaining 70.3% of the Greens Creek mine for \$758.5 million in April 2008, a portion of which was funded by a \$140.0 million term loan and \$220.0 million bridge loan. We recorded interest expense related to these loans, including amortization of loan fees and interest rate swap adjustments, of \$10.1 million in 2009, net of \$1.9 million in capitalized interest. We also recorded approximately \$6.0 million in expense in 2009 for additional debt-related fees. We completed repayment of the bridge loan balance in February 2009 and repayment of the term loan balance in October 2009.

An increase in the number of shares of our common stock outstanding, which impacts our income (loss) per common share.

A comprehensive discussion of our financial results for the years ended December 31, 2013, 2012 and 2011, 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.

Products and Segments

Our segments are differentiated by geographic region. We produce zinc, lead and bulk concentrates at our Greens Creek unit and lead and zinc concentrates at our Lucky Friday unit, each of which we sell to custom smelters on contract, and unrefined gold and silver bullion bars (doré) at Greens Creek and Casa Berardi, which are shipped directly to customers or further refined before sale of the metals to precious metals traders. Casa Berardi also sells gold and silver extracted from carbon fines, which represented less than 2% of gold revenue for the segment. The concentrates produced at our Greens Creek and Lucky Friday units contain payable silver, zinc and lead, and the concentrates produced at Greens Creek also contain payable gold. Payable metals are those included in our products that can be recovered and sold by smelters and refiners. Our segments as of December 31, 2013 included:

The Greens Creek unit is located on Admiralty Island, near Juneau, Alaska. Greens Creek is 100% owned and has been in production since 1989, with a temporary care and maintenance period from April 1993 through July 1996.

The Lucky Friday unit located in northern Idaho. Lucky Friday is 100%-owned and has been a producing mine for us since 1958. Production at the Lucky Friday unit began ramping up during February 2013 following a period of temporary care and maintenance and no production in 2012 (see *Item 2. Property Description, Operating Properties, The Lucky Friday Unit*). Production reached the historical full throughput rate of 900 tons per day in mid-September, finishing the year averaging 827 tons per day in the fourth quarter.

The Casa Berardi unit located in the Abitibi region of north-western Quebec, Canada. Casa Berardi is 100% owned and was acquired on June 1, 2013 with the purchase of all issued and outstanding common shares of Aurizon Mines Ltd. ("Aurizon", see *Note 16 of Notes to Consolidated Financial Statements*). Aurizon had operated and produced from the Casa Berardi mine since late 2006 and began various mine enhancements, including a shaft deepening project which is expected to be completed in 2014 and a new paste fill facility completed in 2013 in an effort to improve operational efficiency.

The following chart illustrates the contributions to our consolidated sales by our operating units:

The table below summarizes our production for the years ended December 31, 2013, 2012 and 2011. Zinc and lead production quantities are presented in short tons ("tons").

	Year		
	2013	2012	2011
Silver (ounces)	8,919,728	6,394,235	9,483,676
Gold (ounces)	119,989	55,496	56,818
Lead (tons)	30,374	21,074	39,150
Zinc (tons)	61,406	64,249	73,355

Licenses, Permits and Concessions

We are required to obtain various licenses and permits to operate our mines and conduct exploration and reclamation activities. The suspension in production at the Lucky Friday unit during 2012 was pursuant to an order from the Federal Mine Safety and Health Administration. See *Item 1A. Risk Factors - Legal, Market and Regulatory Risks - We are required to obtain governmental and lessor approvals and permits in order to conduct mining operations.* The operations and exploration activities at our Casa Berardi unit are subject to claims renewal and minimum work commitment requirements under the Quebec Mining Act. In addition, we conduct our exploration activities in Mexico pursuant to concessions granted by the Mexican government, which are subject to certain political risks associated with foreign operations. See *Item 1A. Risk Factors - Operation, Development, Exploration and Acquisition Risks - Our foreign activities are subject to additional inherent risks.*

Physical Assets

Our business is capital intensive and requires ongoing capital investment for the replacement, modernization or expansion of equipment and facilities and to develop new ore reserves. At December 31, 2013, the book value of our property, plant, equipment and mineral interests, net of accumulated depreciation, was approximately \$1.8 billion. We maintain insurance policies against property loss and business interruption. However, such insurance contains exclusions and limitations on coverage, and there can be no assurance that claims would be paid under such insurance policies in connection with a particular event. See *Item 1A. Risk Factors - Operation, Development, Exploration and Acquisition Risks - Our operations may be adversely affected by risks and hazards associated with the mining industry that may not be fully covered by insurance.*

Employees

As of December 31, 2013, we employed 1,312 people, and we believe relations with our employees are generally good.

Many of the employees at our Lucky Friday unit are represented by a union. The current collective bargaining agreement with workers at our Lucky Friday unit expires on April 30, 2016. As a result of the requirement to remove built-up cementitious material from the Silver Shaft, underground access was limited and production temporarily suspended at the Lucky Friday, forcing Hecla Limited to lay off 121 employees in January 2012 (approximately 25 of those employees accepted temporary positions at other Hecla operations). With the resumption of production in early 2013, employment at the Lucky Friday returned to roughly its level prior to the suspension of production. See *Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - The Lucky Friday Segment* section for more information.

In March 2012, Hecla Limited received notice of a complaint filed against it by the United Steel Workers, Local 5114, with the Federal Mine Safety Health Review Commission for compensation for bargaining unit workers at the Lucky Friday mine who were idled as a result of the temporary suspension of production at the mine (see the *Other Contingencies* section of *Note 7 of Notes to Consolidated Financial Statements* for more information).

Available Information

Hecla Mining Company is a Delaware corporation. Our current holding company structure dates from the incorporation of Hecla Mining Company in 2006 and the renaming of our subsidiary (previously Hecla Mining

Company) as Hecla Limited. Our principal executive offices are 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 any 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, 100 F Street, N.E., Washington, D.C. 20549). Charters of our audit, compensation, and corporate governance and directors' nominating committees, as well as our Code of Ethics for the Chief Executive Officer and Senior Financial Officers and our Code of Business Conduct and Ethics for Directors, Officers and Employees, are also available on our website. We will provide copies of these materials to stockholders upon request using the above-listed contact information, directed to the attention of Investor Relations, or via e-mail request sent to hmc-info@hecla-mining.com.

We have included the Chief Executive Officer (CEO) and Chief Financial Officer (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 June 5, 2013, 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

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

Our revenue is derived from the sale of concentrates and doré containing 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:

- speculative activities;
- relative exchange rates of the U.S. dollar;
- global and regional demand and production;
- political instability;
- inflation, recession or increased or reduced economic activity; and
- other political, regulatory 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. See *Item 1. Business – Introduction* for information on the average, high, and low daily closing prices for silver, gold, lead and zinc for the last five years. On February 14, 2014, the closing prices for silver, gold, lead and zinc were \$21.09 per ounce, \$1,320 per ounce, \$0.96 per pound and \$0.93 per pound, respectively.

The acquisition of Aurizon increased our exposure to gold price volatility.

The financial results of our Casa Berardi unit, obtained through the acquisition of Aurizon, are highly sensitive to changes in the price of gold, and the acquisition of Aurizon increased the sensitivity of our results to such changes. Gold prices fluctuate and are affected by numerous factors, including expectations with respect to the rate of inflation,

exchange rates, interest rates, global and regional political and economic crises and governmental policies with respect to gold holdings by central banks. The demand for and supply of gold affects gold prices but not necessarily in the same manner as demand and supply affect the prices of other commodities. The supply of gold consists of a combination of mine production and existing stocks of bullion and fabricated gold held by governments, public and private financial institutions, industrial organizations and private individuals. The demand for gold consists primarily of jewelry and investment demand. We do not use forward sale contracts, or other derivative products, to protect the price level of future gold sales at the Casa Berardi unit, thereby exposing those sales to commodity price risk.

An extended decline in metals prices, an increase in operating or capital costs, mine accidents or closures, increasing environmental obligations, or our inability to convert exploration potential to reserves may cause us to record write-downs, which could negatively impact our results of operations.

When events or changes in circumstances indicate that the carrying value of our long-lived assets may not be recoverable, we review the recoverability of the carrying value by estimating the future undiscounted cash flows expected to result from the use and eventual disposition of the asset. Impairment must be recognized when the carrying value of the asset exceeds these cash flows, and recognizing impairment write-downs could negatively impact our results of operations. Metal price estimates are a key component used in the analysis of the carrying values of our assets, as the evaluation approach involves comparing carrying values to the average estimated undiscounted cash flows resulting from operating plans using various metals price scenarios. Our estimates of undiscounted cash flows for our long-lived assets also include an estimate of the market value of the exploration potential beyond the current operating plans. Because the average estimated undiscounted cash flows exceeded the carrying values of our long-lived assets, we did not record impairments as of December 31, 2013. However, if the prices of silver, gold, zinc and lead decline for an extended period of time, if we fail to control production costs, if regulatory issues increase costs or decrease production, or if we do not realize the mineable ore reserves or exploration potential at our mining properties, we may be required to evaluate the carrying values of our long-lived assets and recognize asset write-downs in the future. In addition, the perceived market value of the exploration potential of our properties is dependent upon prevailing metals prices as well as our ability to discover economic ore. A decline in metals prices for an extended period of time or our inability to convert exploration potential to reserves could significantly reduce our estimations of the value of the exploration potential at our properties and result in asset write-downs.

We have had losses that could reoccur in the future.

We reported a net loss for the year ended December 31, 2013 of \$25.1 million. However, we reported net income for each of the years ended December 31, 2012, 2011, 2010 and 2009 of \$15.0 million, \$151.2 million, \$49.0 million, and \$67.8 million, respectively. A comparison of operating results over the past three years can be found in *Results of Operations* in *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Many of the factors affecting our operating results are beyond our control, including, but not limited to, the volatility of metals prices; smelter terms; rock and soil conditions; seismic events; availability of hydroelectric power; diesel fuel prices; interest rates; foreign exchange rates; global or regional political or economic policies; inflation; availability and cost of labor; economic developments and crises; governmental regulations; continuity of orebodies; ore grades; recoveries; and price speculation by certain investors, purchases 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 experience net losses in the future.

Commodity risk management activities could expose us to losses.

We periodically enter into risk management activities, such as financially-settled forward sales contracts and commodity put and call option contracts, to manage the prices received on the metals we produce. Such activities are utilized to attempt to insulate our operating results from changes in prices for those metals. However, such activities 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.

We utilize financially settled forward contract programs to manage the exposure to changes in silver, gold, lead and zinc prices contained in our concentrate shipments between the time of sale and final settlement, and to manage the exposure to changes in the prices of lead and zinc contained in our forecasted future concentrate shipments. See *Note 10 of Notes to Consolidated Financial Statements* for more information on these base metals forward contract programs.

The financial terms of settlement of the Coeur d'Alene Basin environmental litigation and other claims may materially impact our cash resources and our access to additional financing.

On September 8, 2011, a Consent Decree (the “Consent Decree”) settling environmental litigation and related claims involving Hecla Limited pertaining to historic releases of mining wastes in the Coeur d'Alene Basin was approved and entered by the U.S. District Court in Idaho. The Consent Decree resolved all existing claims of the United States, the Coeur d'Alene Indian Tribe, and the State of Idaho (“Plaintiffs”) against Hecla Limited and its affiliates under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and certain other statutes for past response costs, future environmental remediation costs, and natural resource damages related to historic releases of mining wastes in the Coeur d'Alene River Basin, as well as all remaining obligations of Hecla Limited with respect to the Bunker Hill Superfund Site. In addition to the approximately \$208 million already paid under the Consent Decree in 2011, 2012, and 2013, Hecla Limited remains obligated under the Consent Decree to pay approximately \$55.5 million by August 2014, as quarterly payments of the proceeds from the exercise of any outstanding Series 1 and Series 3 warrants (which have an exercise price of between \$2.40 and \$2.51 per share) during the quarter, with the remaining balance, if any, due in August 2014.

If additional warrants are not exercised, the requirement to pay \$55.5 million in August 2014 would cause us to use a significant portion of either our cash currently on hand or future cash resources, or utilize our undrawn revolving credit facility or other sources of financing. Our cash on hand at December 31, 2013 was \$212.2 million; however, there can be no assurance that we will have the cash on hand to meet these obligations.

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

Our business activities are highly dependent on the costs of commodities and services such as fuel, steel, cement and electricity. The recent prices for such commodities have been volatile and may increase 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 *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

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, mineralized material, and other resources that are the basis for future income and cash flow estimates and units-of-production depreciation, depletion and amortization calculations;

- future metals prices;

- environmental, reclamation and closure obligations;

- asset impairments;

- valuation of business combinations;

- reserves for contingencies and litigation; and

- deferred tax asset valuation allowance.

Actual results may differ materially from these estimates using different assumptions or conditions. For additional information, see *Critical Accounting Estimates* in *Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Note 1 of Notes to Consolidated Financial Statements* and the risk factors: "Our development of new orebodies and other capital costs may be higher and provide less return than we estimated," "Our ore reserve estimates may be imprecise," "Our environmental obligations may exceed the provisions we have made," and "We are currently involved in ongoing legal disputes that may materially adversely affect us."

Our ability to recognize the benefits of deferred tax assets is dependent on future cash flows and taxable income.

We recognize the expected future tax benefit from deferred tax assets when the tax benefit is considered to be more likely than not of being realized. Otherwise, a valuation allowance is applied against deferred tax assets, reducing the

value of such assets. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted income from operations and the application of existing tax laws in each jurisdiction. Metal price and production estimates are key components used in the determination of our ability to realize the expected future benefit of our deferred tax assets. To the extent that future taxable income differs significantly from estimates as a result of a decline in metals prices or other factors, our ability to realize the deferred tax assets could be impacted. Additionally, significant future issuances of common stock or common stock equivalents, or changes in the direct or indirect ownership of our common stock or common stock equivalents could limit our ability to utilize our net operating loss carryforwards pursuant to Section 382 of the Internal Revenue Code. Future changes in tax law or changes in ownership structure could limit our ability to utilize our recorded tax assets. We currently have no deferred tax valuation allowances, with the exception of certain amounts related to foreign net operating loss carryforwards, and our current and non-current deferred tax asset balances as of December 31, 2013 were \$35.7 million and \$78.8 million, respectively. See *Note 5 of Notes to Consolidated Financial Statements* for further discussion of our deferred tax assets.

Global financial events may have an impact on our business and financial condition in ways that we currently cannot predict.

The 2008 credit crisis and related turmoil in the global financial system and ensuing recession had an impact on our business and financial position, and similar events in the future could also impact us. The continuation or re-emergence of the financial crisis or recession may limit our ability to raise capital through credit and equity markets. The prices of the metals that we produce are affected by a number of factors, and it is unknown how these factors may be impacted by a global financial event.

Returns for investments in pension plans and pension plan funding requirements are uncertain.

We maintain defined benefit pension plans for U.S. employees, which provide for specified payments after retirement for most U.S. employees. Canadian employees participate in Canada's public retirement system, and are not eligible to participate in the defined benefit pension plans that we maintain for U.S. employees. The ability of the pension plans maintained for U.S. employees to provide the specified benefits depends on our funding of the plans and returns on investments made by the plans. Returns, if any, on investments are subject to fluctuations based on investment choices and market conditions. A sustained period of low returns or losses on investments could require us to fund the pension plans to a greater extent than anticipated. See *Note 8 of Notes to Consolidated Financial Statements* for more information on our pension plans.

Our level of debt could impair our financial health and prevent us from fulfilling our obligations, including our Senior Notes and other indebtedness.

As of December 31, 2013, we had total outstanding indebtedness of approximately \$513.5 million. Our level of debt and debt service obligations could:

- make it more difficult for us to satisfy our obligations, including our Senior Notes;
 - reduce the amount of funds available to finance our operations, capital expenditures and other activities;
- increase our vulnerability to economic downturns and industry conditions;
- limit our flexibility in responding to changing business and economic conditions, including increased competition and demand for new products and services;
- place us at a disadvantage when compared to our competitors that have lower leverage;
- increase our cost of borrowing; and
- limit our ability to borrow additional funds.

We may be able to incur substantial additional indebtedness in the future; however, the indenture governing the Senior Notes contains restrictions on the incurrence of additional indebtedness. These restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. We have \$100 million in available capacity to be drawn from our revolving credit facility.

If new debt is added to our existing debt levels, the risks associated with such debt that we currently face would increase. The indenture governing the Senior Notes does not prevent us from incurring obligations that constitute indebtedness under that agreement.

The terms of our debt impose restrictions on our operations.

The indenture governing our Senior Notes includes a number of significant restrictive covenants. These covenants could adversely affect us by limiting our ability to plan for or react to market conditions or to meet our capital needs. Among other things, these covenants:

- make it more difficult for us to satisfy our obligations with respect to the Senior Notes and our other debt;

- limit our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements, or require us to make divestitures;

- require a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;

- increase our vulnerability to general adverse economic and industry conditions;

- limit our flexibility in planning for and reacting to changes in the industry in which we compete;

- place us at a disadvantage compared to other, less leveraged competitors; and

- increase our cost of borrowing additional funds.

In addition, our revolving credit facility requires us to comply with various covenants. A breach of any of these covenants could result in an event of default under the agreement governing our credit facility that, if not cured or waived, could give the lenders the right to terminate commitments to lend and cause all amounts outstanding with respect to the debt to be due and payable immediately. Acceleration of any of our debt could result in cross-defaults under our other debt instruments, including the indenture governing the Senior Notes. Our assets and cash flow may be insufficient to repay borrowings fully under all of our outstanding debt instruments if any of our debt instruments are accelerated upon an event of default, which could force us into bankruptcy or liquidation. In such an event, we may be unable to repay our obligations under the Senior Notes. In addition, in some instances, this would create an event of default under the indenture governing the Senior Notes.

We may be unable to generate sufficient cash to service all of our indebtedness and meet our other ongoing liquidity needs and may be forced to take other actions to satisfy our obligations under our indebtedness, which may be unsuccessful.

Our ability to make scheduled payments or to refinance our debt obligations and to fund our planned capital expenditures and other ongoing liquidity needs depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that borrowings will be available to us to pay the principal, premium, if any, and interest on our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our debt on or before maturity. We may be unable to refinance any of our debt on commercially reasonable terms or at all.

In addition, we conduct substantially all of our operations through our subsidiaries, certain of which are not guarantors of our indebtedness. Accordingly, repayment of our indebtedness is dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Unless they are guarantors of our indebtedness, our subsidiaries do not have any obligation to pay amounts due on our indebtedness or to make funds available for that purpose. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness. Each subsidiary is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While the credit agreement governing our revolving credit facility and the indenture governing our Senior Notes limit the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to qualifications and exceptions. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures or to sell assets, seek additional capital or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of

existing or future debt instruments and the indenture governing our Senior Notes may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

Indebtedness under our variable rate revolving credit agreement would subject us to interest rate risk, which could cause our indebtedness service obligations to increase significantly.

We have a \$100 million revolving credit facility, under which no amounts were drawn as of the filing date of this report. However, borrowings under the credit facility would be at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the

amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease. Assuming the revolving loan was fully drawn, each one percentage point change in interest rates would result in a \$1.0 million change in annual cash interest expense on our credit facility.

Regulatory investigations could adversely affect metal prices.

According to recent news reports, the U.S. Commodity Futures Trading Commission is examining the setting of gold and silver prices in London. If that examination leads to a formal investigation, or if other regulatory action is taken with respect to the setting of gold and silver prices, it could have an adverse effect on those prices or the volatility of such prices and the market for precious metals.

Our existing stockholders are effectively subordinated to the holders of our debt.

In the event of our liquidation or dissolution, stockholders' entitlement to share ratably in any distribution of our assets would be subordinated to the holders of the indebtedness outstanding under our Senior Notes. Any rights that a stockholder may have in the event of bankruptcy, liquidation or a reorganization of us or any of our subsidiaries, and any consequent rights of stockholders to realize on the proceeds from the sale of any of our or our subsidiaries' assets, will be effectively subordinated to the claims of the holders of such indebtedness.

Our Senior Notes and the guarantees thereof will be effectively subordinated to any of our and our guarantors' secured indebtedness to the extent of the value of the collateral securing that indebtedness.

The Senior Notes and the guarantees thereof are not secured by any of our assets or the assets of our subsidiaries. The indenture governing the Senior Notes permits us to incur secured debt up to specified limits. As a result, the Senior Notes and the guarantees are effectively subordinated to our and our guarantors' future secured indebtedness with respect to the collateral that secures such indebtedness, including any borrowings under our revolving credit facility. Upon a default in payment on, or the acceleration of, any of our secured indebtedness, or in the event of bankruptcy, insolvency, liquidation, dissolution, reorganization or other insolvency proceeding involving us or such guarantor, the proceeds from the sale of collateral securing any secured indebtedness will be available to pay obligations on the Senior Notes only after such secured indebtedness has been paid in full. As a result, the holders of the Senior Notes may receive less, ratably, than the holders of secured debt in the event of a bankruptcy, insolvency, liquidation, dissolution, reorganization or other insolvency proceeding involving us or such guarantor.

Our current credit facility allows us to draw up to \$100 million on a revolving basis, all of which would be secured debt.

Our Senior Notes are structurally subordinated to all liabilities of our non-guarantor subsidiaries.

The Senior Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries that do not guarantee the Senior Notes, which include all of our non-domestic subsidiaries and certain other subsidiaries. These non-guarantor subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the notes, or to make any funds available therefor, whether by dividends, loans, distributions or other payments. Any right that we or the guarantors have to receive any assets of any of the non-guarantor subsidiaries upon the liquidation or reorganization of those subsidiaries, and the consequent rights of holders of Senior Notes to realize proceeds from the sale of any of those subsidiaries' assets, will be effectively subordinated to the claims of those subsidiaries' creditors, including trade creditors and holders of preferred equity interests of those subsidiaries. Accordingly, in the event of a bankruptcy, liquidation or reorganization of any of our

non-guarantor subsidiaries, these non-guarantor subsidiaries will pay the holders of their debts, holders of preferred equity interests and their trade creditors before they will be able to distribute any of their assets to us or any guarantor. Unless they are guarantors of the Senior Notes or our other indebtedness, our subsidiaries do not have any obligation to pay amounts due on the Senior Notes or our other indebtedness or to make funds available for that purpose.

For the year ended December 31, 2013, our non-guarantor subsidiaries represented 20% of our sales of metals and 26% of our other operating expenses. As of December 31, 2013, our non-guarantor subsidiaries represented 16% of our total assets and 22% of our total liabilities, including trade payables, deferred tax liabilities and royalty obligations but excluding intercompany liabilities.

Key terms of the Senior Notes will be suspended if the Senior Notes achieve investment grade ratings and no default or event of default has occurred and is continuing.

Many of the covenants in the indenture governing the Senior Notes will be suspended if the Senior Notes are rated investment grade by Standard & Poor's and Moody's provided at such time no default or event of default has occurred and is continuing, including those covenants that restrict, among other things, our ability to pay dividends, incur debt and to enter into certain other transactions. There can be no assurance that the Senior Notes will ever be rated investment grade. However, suspension of these covenants would allow us to engage in certain transactions that would not be permitted while these covenants were in force, and the effects of any such transactions will be permitted to remain in place even if the Senior Notes are subsequently downgraded below investment grade.

We may be unable to repurchase Senior Notes and any outstanding loans under our revolving credit facility could be accelerated in the event of a change of control as required by the indenture.

Upon the occurrence of certain kinds of change of control events specified in the indenture governing the Senior Notes, holders of the Senior Notes will have the right to require us to repurchase all of the Senior Notes at a repurchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. Any change of control also would constitute a default under our revolving credit facility. Therefore, upon the occurrence of a change of control, the lenders under our revolving credit facility would have the right to accelerate any outstanding loans and, if so accelerated, we would be required to repay all of our outstanding obligations under such facility. We may not be able to pay the Senior Note holders the required price for their notes at that time because we may not have available funds to pay the repurchase price. In addition, the terms of other existing or future debt may prevent us from paying the Senior Note holders. There can be no assurance that we would be able to repay such other debt or obtain consents from the holders of such other debt to repurchase the Senior Notes. Any requirement to offer to purchase any Senior Notes may result in us having to refinance our outstanding indebtedness, which we may not be able to do. In addition, even if we were able to refinance our outstanding indebtedness, such financing may be on terms unfavorable to us.

Holders of the Senior Notes may not be able to determine when a change of control giving rise to their right to have the Senior Notes repurchased has occurred following a sale of "substantially all" of our assets.

The definition of change of control in the indenture governing the Senior Notes includes a phrase relating to the sale of "all or substantially all" of our assets. There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, the ability of a holder of Senior Notes to require us to repurchase its notes as a result of a sale of less than all our assets to another person may be uncertain.

Federal and state fraudulent transfer laws may permit a court to void the Senior Notes or any of the guarantees thereof, and if that occurs, holders of the Senior Notes may not receive any payments.

Federal and state fraudulent transfer and conveyance statutes may apply to the issuance of the Senior Notes and the inurrence of any guarantees of the Senior Notes. Under federal bankruptcy law and comparable provisions of state fraudulent transfer or conveyance laws, which may vary from state to state, the Senior Notes or any guarantees thereof could be voided as a fraudulent transfer or conveyance if we or any existing or future subsidiary guarantors, as applicable, (a) issued the Senior Notes or incurred such guarantee with the intent of hindering, delaying or defrauding creditors or (b) received less than reasonably equivalent value or fair consideration in return for either issuing the Senior Notes or incurring the guarantee and, in the case of (b) only, one of the following is also true at the time thereof:

we or the subsidiary guarantor, as applicable, were insolvent or rendered insolvent by reason of the issuance of the Senior Notes or the incurrence of the guarantee;

the issuance of the Senior Notes or the incurrence of the guarantee left us or the subsidiary guarantor, as applicable, with an unreasonably small amount of capital or assets to carry on the business; or

we or the subsidiary guarantor intended to, or believed that we or such subsidiary guarantor would, incur debts beyond our or such subsidiary guarantor's ability to pay as they mature.

As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or a valid antecedent debt is satisfied. A court would likely find that any subsidiary guarantor did not receive reasonably equivalent value or fair consideration for its guarantee to the extent such subsidiary guarantor did not obtain a reasonably equivalent benefit from the issuance of the Senior Notes.

We cannot be certain as to the standards a court would use to determine whether or not we or any subsidiary guarantor was insolvent at the relevant time or, regardless of the standard that a court uses, whether the Senior Notes or any guarantees would be subordinated to our or any subsidiary guarantor's other debt. In general, however, a court would deem an entity insolvent if:

the sum of its debts, including contingent and unliquidated liabilities, was greater than the fair saleable value of all of its assets;

the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

it could not pay its debts as they became due.

The subsidiary guarantees contain a "savings clause" intended to limit the subsidiary guarantor's liability to the maximum amount that it could incur without causing the incurrence of obligations under its subsidiary guarantee to be a fraudulent transfer. This provision may not be effective to protect any subsidiary guarantees from being avoided under fraudulent transfer law. Furthermore, in *Official Committee of Unsecured Creditors of TOUSA, Inc. v Citicorp North America, Inc.*, the U.S. Bankruptcy Court in the Southern District of Florida held that a savings clause similar to the savings clause used in the indenture was unenforceable. As a result, the subsidiary guarantees were found to be fraudulent conveyances. The United States Court of Appeals for the Eleventh Circuit recently affirmed the liability findings of the Bankruptcy Court without ruling directly on the enforceability of savings clauses generally. If the TOUSA decision were followed by other courts, the risk that the guarantees would be deemed fraudulent conveyances would be significantly increased.

To the extent that any subsidiary guarantee is avoided, then, as to that subsidiary, the guaranty would not be enforceable.

If a court were to find that the issuance of the Senior Notes or the incurrence of any guarantee was a fraudulent transfer or conveyance, the court could void the payment obligations under the Senior Notes or such guarantee, could subordinate the Senior Notes or such guarantee to presently existing and future indebtedness of ours or of the related subsidiary guarantor or could require the holders of the Senior Notes to repay any amounts received with respect to such guarantee. In the event of a finding that a fraudulent transfer or conveyance occurred, holders of the Senior Notes may not receive any repayment. Further, the avoidance of the Senior Notes could result in an event of default with respect to our and our subsidiaries' other debt that could result in acceleration of that debt.

Finally, as a court of equity, the bankruptcy court may subordinate the claims in respect of the Senior Notes to other claims against us under the principle of equitable subordination if the court determines that (1) the holders of the Senior Notes engaged in some type of inequitable conduct, (2) the inequitable conduct resulted in injury to our other creditors or conferred an unfair advantage upon the holders of Senior Notes and (3) equitable subordination is not inconsistent with the provisions of the Bankruptcy Code.

Our credit ratings may not reflect all risks associated with an investment in our Senior Notes.

Credit rating agencies rate our debt securities on factors that include our results of operations, actions that we take, their view of the general outlook for our industry and their view of the general outlook for the economy. Actions taken by the rating agencies can include maintaining, upgrading, or downgrading the current rating or placing us on a watch list for possible future downgrading. Downgrading the credit rating of our debt securities or placing us on a watch list for possible future downgrading would likely increase our cost of financing, limit our access to the capital markets and have an adverse effect on the market price of our securities, including our Senior Notes.

OPERATION, DEVELOPMENT, EXPLORATION AND ACQUISITION RISKS

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; lower than expected ore grades; unexpected regulatory actions; if the metallurgical characteristics of ore are less economic than anticipated; or because our equipment or facilities fail to operate properly or as expected. For example, in the second quarter of 2010, mining activities at the Lucky Friday mine stopped for approximately two weeks due to some deterioration of shaft infrastructure at the #2 Shaft, which is the mine's secondary escape way. Upon completion of repairs to the #2 Shaft, the mine returned to normal production. In April 2011, a fatal accident occurred at the Lucky Friday mine resulting in a cessation of operations at the mine for approximately ten days. In November 2011, an accident occurred as part of the construction of the #4 Shaft at the Lucky Friday mine, resulting in the fatality of one contractor employee. In an unrelated incident, in December 2011, a rock burst occurred in a primary access way at the Lucky Friday mine and injured seven employees. Each of these events temporarily suspended operations at the Lucky Friday mine and adversely impacted production. Other closures or impacts on operations or production may occur at any of our mines at any time, whether related to accidents, changes in conditions, changes to regulatory policy, or as precautionary measures.

At the end of 2011, MSHA began a special impact inspection at the Lucky Friday mine, which resulted in an order closing down the Silver Shaft, the primary access way from surface at the Lucky Friday mine, until we removed built-up cementitious material from the Silver Shaft. This occurred despite the fact that the Silver Shaft was not involved in any of the accidents at the mine in 2011. Underground access was limited as the work was performed, and production at the Lucky Friday was suspended until early 2013 as a result. We resumed limited production at the Lucky Friday mine in the first quarter of 2013 after completing work on the Silver Shaft and a bypass of the area impacted by the December 2011 rock burst, and returned to historical full production levels in the third quarter of 2013.

On March 25, 2013, prior to Hecla's ownership, an accident at Aurizon's Casa Berardi mine resulted in a fatality, and operations there were halted temporarily. While operations resumed the following day, any similar incidents in the future could also result in suspensions of operations and other consequences.

Accidents and other events at our Lucky Friday mine could have additional adverse consequences to us.

Hecla Limited may face additional enforcement actions, as well as additional orders from MSHA, as a result of MSHA's inspections and investigations of events at our Lucky Friday mine, including the April 2011 fatal ground fall accident, the rock burst incident in December 2011, and the order closing the Silver Shaft for the removal of built-up cementitious material. Hecla Limited could also face additional penalties (including monetary penalties) from MSHA or other governmental agencies relating to these incidents and any other orders or citations received by Hecla Limited.

It is possible that Hecla Limited could face litigation relating to the 2011 incidents at the Lucky Friday mine in addition to the various lawsuits currently pending against us. We may not resolve the existing or any new claims favorably, and each one of the foregoing possibilities could have a material adverse impact on our cash flows, results of operations or financial condition. See *Note 7 of Notes to Consolidated Financial Statements*.

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 capital intensive, requiring ongoing capital investment for the replacement, modernization or expansion of equipment and facilities. Our mining and milling operations are subject to risks of process upsets and equipment malfunctions. Equipment and supplies may from time to time be unavailable on a timely basis. Our business is subject to a number of other risks and hazards including:

• environmental hazards;

• unusual or unexpected geologic formations;

• rock bursts and ground falls;

• seismic activity;

• underground fires or floods;

• unanticipated hydrologic conditions, including flooding and periodic interruptions due to inclement or hazardous weather conditions;

• political and country risks;

• civil unrest or terrorism;

• industrial accidents;

• labor disputes or strikes; and

• our operating mines have tailing ponds which could fail or leak as a result of seismic activity, unusual weather or for other reasons.

Such risks could result in:

• personal injury or fatalities;

• damage to or destruction of mineral properties or producing facilities;

• environmental damage and financial penalties;

• delays in exploration, development or mining;

• monetary losses;

• legal liability; and

• temporary or permanent closure of facilities.

We maintain insurance to protect against losses that may result from some of these risks, such as property loss and business interruption, in amounts we believe to be reasonably consistent with our historical experience, industry practice and circumstances surrounding each identified risk. Such insurance, however, contains exclusions and limitations on coverage, particularly with respect to environmental liability and political risk. We have received some payment for business interruption insurance claims related to the temporary suspension of operations at the Lucky Friday mine and continue to seek further reimbursement (see *Mining accidents or other adverse events at an operation could decrease our anticipated production*). There can be no assurance that claims would be paid under such insurance policies in connection with a particular event. Insurance specific to environmental risks is generally either unavailable or, we believe, too expensive for us, and we therefore do not maintain environmental insurance. Occurrence of events for which we are not insured may have an adverse effect on our business.

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

Capitalized development projects may cost more and provide less return than we estimate. 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 metals production 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 adequate staffing;

availability of affordable 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);

applicable tax rates;

foreign currency fluctuation and inflation rates; and

availability of financing.

These estimates are based on geological and other interpretive data, which may be imprecise. As a result, actual operating and capital costs and returns from a development project may differ substantially from our estimates, and, as such, 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 (or mineralized material or other resource estimates). Reserves are estimates made by our professional 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 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 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;

- reduced metal recovery; and

- changes in regulatory requirements.

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. 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;
- write-downs of asset values; and
- mine closure.

Efforts to expand the finite lives of our mines may not be successful or could result in significant demands on our liquidity, which could hinder our growth and decrease the value of our stock.

One of the risks we face is that mines are depleting assets. Thus, we must continually replace depleted ore reserves by locating and developing additional ore. Our ability to expand or replace ore reserves primarily depends on the success of our exploration programs. Mineral exploration, particularly for silver and gold, is highly speculative and expensive. It involves many risks and is often non-productive. Even if we believe we have found a valuable mineral deposit, it may be several years before production from that deposit 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.

The #4 Shaft project, an internal shaft at the Lucky Friday mine, is expected, upon its completion, to provide deeper access in order to increase the mine's production and operational life. We commenced engineering and construction activities on #4 Shaft in late 2008, and our Board of Directors gave its final approval of the project in August 2011. The #4 Shaft project, as currently designed, is expected to involve development down to the 8800 foot level and capital expenditures of approximately \$215 million, which includes approximately \$130 million that has been spent on the project as of December 31, 2013. We believe that our current capital resources will allow us to complete the project by its estimated completion target of 2016. However, there are a number of factors that could affect completion of the project as currently designed, including: (i) a significant decline in metals prices, (ii) a reduction in available cash or credit, whether arising from decreased cash flow or other uses of available cash, (iii) increased regulatory burdens, or (iv) a significant increase in operating or capital costs. One or more of these factors could potentially require us to suspend the project, defer some of the planned development, or access additional capital through debt financing, the sale of securities, or other external sources. This additional financing could be costly or unavailable.

Our joint development and operating arrangements may not be successful.

We have in the past entered into, and may in the future enter into, joint venture arrangements in order to share the risks and costs of developing and operating properties. In a typical joint venture arrangement, the partners own proportionate shares of the assets, are entitled to indemnification from each other and are only responsible for any future liabilities in proportion to their 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 make investments in exploration and development projects that may have to be written off in the event we do not proceed to a commercially viable mining operation. See *Note 16 of Notes to Consolidated Financial Statements*.

Our ability to market our metals production may be affected by disruptions or closures of custom smelters and/or refining facilities.

We sell substantially all of our metallic concentrates to custom smelters. Our doré bars are sent to refiners for further processing before being sold to metal traders. If we are unable to sell concentrates to our contracted smelters, our operations could be adversely affected. See *Note 11 of Notes to Consolidated Financial Statements* for more information on the distribution of our sales and our significant customers.

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

We are actively seeking to expand our mineral reserves by acquiring other mining companies or properties. For example, on June 1, 2013, we acquired all of the outstanding common stock of Aurizon Mines, Ltd., giving us 100% ownership of the Casa Berardi mine and other mineral interests. Although we are pursuing opportunities that we feel are in the best interest of our stockholders, 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 properties 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 limited mine 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, failure to achieve anticipated synergies, 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 companies and properties from other mining companies, some of which have greater financial resources than we do, and we may be

unable to acquire attractive companies and mining properties on terms that we consider acceptable.

Our business depends on finding skilled miners and maintaining good relations with our employees.

We are dependent upon the ability and experience of our executive officers, managers, employees and other personnel, and there can be no assurance that we will be able to retain such employees. We compete with other companies both in and outside the mining industry in recruiting and retaining qualified employees knowledgeable of the mining business. From time to time, we have encountered, and may in the future encounter, difficulty recruiting skilled mining personnel at acceptable wage and benefit levels in a competitive labor market, and may be required to utilize contractors, which can be more costly. Temporary or extended lay-offs due to mine closures may exacerbate such issues and result in vacancies or the need to hire less skilled or efficient employees. 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. The Lucky Friday mine is our only operation subject to a collective bargaining agreement, which expires on April 30, 2016.

In March 2012, Hecla Limited received notice of a complaint filed against it by the United Steel Workers, Local 5114, with the U.S. Mine Safety Health Review Commission for compensation for bargaining unit workers at the Lucky Friday mine who were idled as a result of the temporary suspension of production at the mine (see the *Other Contingencies* section of *Note 7 of Notes to Consolidated Financial Statements* for more information).

Competition from other mining companies may harm our business.

We compete with other mining companies to attract and retain key executives, skilled labor, contractors and other employees. We compete with other mining companies for the services of skilled personnel and contractors and their specialized equipment, components and supplies, such as drill rigs, necessary for exploration and development. We also compete with other mining companies for rights to mine properties. We may be unable to continue to obtain the services of skilled personnel and contractors or specialized equipment or supplies, or to acquire additional rights to mine properties.

We may be subject to a number of unanticipated risks related to inadequate infrastructure.

Mining, processing, development and exploration activities depend on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, other interference in the maintenance or provision of such infrastructure, or government intervention, could adversely affect our mining operations.

Our foreign activities are subject to additional inherent risks.

On June 1, 2013, we completed the acquisition of Aurizon Mines Ltd., giving us 100% ownership of the producing Casa Berardi mine, along with interests in various other properties, in Quebec, Canada. See *Note 16 of Notes to Consolidated Financial Statements* for more information. In addition, we currently conduct exploration and pre-development projects in Mexico and continue to own assets, including real estate and mineral interests there. We anticipate that we will continue to conduct operations in Canada, Mexico, 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 restrictions;

• expropriation or nationalization of assets with inadequate compensation;

- currency fluctuations, particularly in the exchange rate between the Canadian dollar and U.S. dollar;

• repatriation restrictions;

• invalidation and unavailability of governmental orders, permits or agreements;

• property ownership disputes;

• renegotiation or nullification of existing concessions, licenses, permits and contracts;

• criminal activity, 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. Fluctuations in exchange rates may impact our earnings, the value of assets held abroad and our operating and capital costs in foreign jurisdictions.

We may be unable to successfully integrate the operations of the properties we acquire, including the Aurizon properties.

Integration of the operations of the properties we acquire with our existing business will be a complex, time-consuming and costly process. Failure to successfully integrate the acquired properties and operations in a timely manner may have a material adverse effect on our business, financial condition, results of operations and cash flows. The difficulties of combining the acquired operations include, among other things:

- operating a larger organization;
- operating in multiple legal jurisdictions;
- coordinating geographically and linguistically disparate organizations, systems and facilities;
- adapting to additional regulatory and other legal requirements;
- integrating corporate, technological and administrative functions; and
- diverting management's attention from other business concerns.

The process of integrating our operations could cause an interruption of, or a slowdown in, the activities of our business. Members of our senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage our business. If our senior management is not able to effectively manage the integration process, or if any business activities are interrupted as a result of the integration process, our business could suffer.

We may not realize all of the anticipated benefits from our acquisitions, including the acquisition of Aurizon.

We may not realize all of the anticipated benefits from the acquisition of Aurizon or any future acquisitions, such as increased earnings, cost savings and revenue enhancements, for various reasons, including difficulties integrating operations and personnel, hig