

HECLA MINING CO/DE/
Form 10-Q
November 04, 2015
Table Of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

Commission file number 1-8491

HECLA MINING COMPANY

(Exact name of registrant as specified in its charter)

Delaware	77-0664171
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6500 Mineral Drive, Suite 200	
Coeur d'Alene, Idaho	83815-9408
(Address of principal executive offices)	(Zip Code)

208-769-4100

(Registrant's telephone number, including area code)

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

Yes XX . No __ .

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

Yes XX . No __ .

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

Large Accelerated Filer XX.

Accelerated Filer __ .

Non-Accelerated Filer __ .

Smaller reporting company _ .

(Do not check if a smaller reporting company)

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

Yes __ . No XX.

Table Of Contents

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

Class	Shares Outstanding November 2, 2015
Common stock, par value \$0.25 per share	378,112,840

Table Of Contents

Hecla Mining Company and Subsidiaries

Form 10-Q

For the Quarter Ended September 30, 2015

INDEX*

	Page
<u>PART I - Financial Information</u>	
<u>Item 1 – Condensed Consolidated Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets - September 30, 2015 and December 31, 2014</u>	3
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss - Three Months Ended and Nine Months Ended September 30, 2015 and 2014</u>	4
<u>Condensed Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2015 and 2014</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	53
<u>Item 4. Controls and Procedures</u>	55
<u>PART II - Other Information</u>	

Edgar Filing: HECLA MINING CO/DE/ - Form 10-Q

<u>Item 1 – Legal Proceedings</u>	55
<u>Item 1A – Risk Factors</u>	55
<u>Item 4 – Mine Safety Disclosures</u>	55
<u>Item 6 – Exhibits</u>	55
<u>Signatures</u>	56
<u>Exhibits</u>	57

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

Table Of Contents

Part I - Financial Information

Item 1. Financial Statements

Hecla Mining Company and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except shares)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 174,454	\$ 209,665
Accounts receivable:		
Trade	10,384	17,696
Taxes	14,219	10,392
Other, net	12,970	6,792
Inventories:		
Concentrates, doré, and stockpiled ore	20,281	25,999
Materials and supplies	23,325	21,474
Current deferred income taxes	19,573	12,029
Other current assets	15,957	12,312
Total current assets	291,163	316,359
Non-current investments	2,003	4,920
Non-current restricted cash and investments	999	883
Properties, plants, equipment and mineral interests, net	1,878,177	1,831,564
Non-current deferred income taxes	93,037	98,923
Reclamation insurance asset	16,800	—
Other non-current assets and deferred charges	3,034	9,415
Total assets	\$ 2,285,213	\$ 2,262,064
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 47,724	\$ 41,869
Accrued payroll and related benefits	23,497	27,956
Accrued taxes	7,078	4,241

Edgar Filing: HECLA MINING CO/DE/ - Form 10-Q

Current portion of capital leases	9,492	9,491
Current portion of debt	1,981	—
Current portion of accrued reclamation and closure costs	20,788	1,631
Other current liabilities	15,056	5,797
Total current liabilities	125,616	90,985
Capital leases	9,485	13,650
Accrued reclamation and closure costs	70,822	55,619
Long-term debt	501,281	498,479
Non-current deferred tax liability	125,753	153,300
Other noncurrent liabilities	50,485	53,057
Total liabilities	883,442	865,090
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, 5,000,000 shares authorized:		
Series B preferred stock, \$0.25 par value, 157,816 shares issued and outstanding, liquidation preference — \$7,891	39	39
Common stock, \$0.25 par value, authorized 500,000,000 shares; issued and outstanding 2015 — 377,697,406 shares and 2014 — 367,376,863 shares	95,114	92,382
Capital surplus	1,517,514	1,486,750
Accumulated deficit	(168,522)	(141,306)
Accumulated other comprehensive loss	(31,640)	(32,031)
Less treasury stock, at cost; 2015 — 2,764,973 and 2014 — 2,151,482 shares issued and held in treasury	(10,734)	(8,860)
Total shareholders' equity	1,401,771	1,396,974
Total liabilities and shareholders' equity	\$2,285,213	\$2,262,064

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

Table Of Contents

Hecla Mining Company and Subsidiaries

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

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

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30,	30,	30,	30,
	2015	2014	2015	2014
Sales of products	\$ 104,941	\$ 135,507	\$ 328,230	\$ 378,796
Cost of sales and other direct production costs	79,273	86,680	220,805	235,460
Depreciation, depletion and amortization	28,229	26,804	80,649	80,342
	107,502	113,484	301,454	315,802
Gross profit (loss)	(2,561)	22,023	26,776	62,994
Other operating expenses:				
General and administrative	9,461	7,884	26,477	23,984
Exploration	5,540	5,797	14,748	13,086
Pre-development	1,696	391	3,834	1,247
Other operating expense	743	442	2,137	1,853
Provision for closed operations and reclamation	1,181	1,238	10,983	3,609
Acquisition costs	15	—	2,162	—
	18,636	15,752	60,341	43,779
Income (loss) from operations	(21,197)	6,271	(33,565)	19,215
Other income (expense):				
Gain (loss) on derivative contracts	3,347	(411)	8,252	(2,560)
Loss on disposition of investments	—	—	—	—
Unrealized loss on investments	(100)	(2,830)	(3,226)	(2,750)
Foreign exchange gain	9,077	7,299	19,518	6,051
Interest and other income	100	32	173	208
Interest expense, net of amount capitalized	(6,617)	(6,505)	(19,350)	(20,307)
	5,807	(2,415)	5,367	(19,358)
Income (loss) before income taxes	(15,390)	3,856	(28,198)	(143)
Income tax benefit (provision)	5,500	(180)	4,193	1,062
Net income (loss)	(9,890)	3,676	(24,005)	919
Preferred stock dividends	(138)	(138)	(414)	(414)
Income (loss) applicable to common shareholders	\$(10,028)	\$ 3,538	\$(24,419)	\$ 505
Comprehensive income (loss):				
Net income (loss)	\$(9,890)	\$ 3,676	\$(24,005)	\$ 919
Reclassification of loss on disposition or impairment of marketable securities included in net income (loss)	—	2,425	2,993	2,425
Defined benefit pension plan costs	—	—	—	(1,192)

Edgar Filing: HECLA MINING CO/DE/ - Form 10-Q

Unrealized holding gains (losses) on investments	(391)	(149)	(2,603)	205
Comprehensive income (loss)	\$(10,281)	\$5,952	\$(23,615)	\$2,357
Basic income (loss) per common share after preferred dividends	\$(0.03)	\$0.01	\$(0.07)	\$—
Diluted income (loss) per common share after preferred dividends	\$(0.03)	\$0.01	\$(0.07)	\$—
Weighted average number of common shares outstanding - basic	377,508	359,472	372,555	348,801
Weighted average number of common shares outstanding - diluted	377,508	362,262	372,555	354,673
Cash dividends declared per common share	\$0.0025	\$0.0025	\$0.0075	\$0.0075

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

Table Of Contents

Hecla Mining Company and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine Months Ended September 30, 2015	September 30, 2014
Operating activities:		
Net income (loss)	\$ (24,005)	\$ 919
Non-cash elements included in net income (loss):		
Depreciation, depletion and amortization	81,475	81,116
Unrealized loss on investments	3,060	2,750
Loss (gain) on disposition of properties, plants, equipment, and mineral interests	175	(49)
Provision for reclamation and closure costs	11,028	3,646
Stock compensation	4,036	3,826
Deferred income taxes	(1,781)	(5,859)
Amortization of loan origination fees	1,365	1,703
Loss on derivative contracts	9,561	6,458
Foreign exchange gain	(17,566)	(5,932)
Other non-cash items, net	45	(914)
Change in assets and liabilities, net of business acquisitions:		
Accounts receivable	(2,951)	10,952

Edgar Filing: HECLA MINING CO/DE/ - Form 10-Q

Inventories	4,382		7,125	
Other current and non-current assets	(6,779)	)	(1,097))
Accounts payable and accrued liabilities	3,986		(4,446))
Accrued payroll and related benefits	2,221		10,205	
Accrued taxes	2,782		(1,541))
Accrued reclamation and closure costs and other non-current liabilities	7,934		(50,094))
Cash provided by operating activities	78,968		58,768	
Investing activities:				
Additions to properties, plants, equipment and mineral interests	(95,399)	)	(90,697))
Acquisition of Revett, net of cash acquired	(809))	—	
Proceeds from disposition of properties, plants, equipment and mineral interests	277		447	
Purchases of investments	(947)	)	(580))
Changes in restricted cash and investment balances	—		4,334	
Net cash used in investing activities	(96,878)	)	(86,496))
Financing activities:				
Proceeds from exercise of warrants	—		54,418	
Acquisition of treasury shares	(1,875)	)	(3,740))
Dividends paid to common shareholders	(2,796)	)	(2,629))
Dividends paid to preferred shareholders	(414)	)	(414))
Credit facility and debt issuance fees paid	(123)	)	(705))
Payments on debt	(216))	—	
Payments on capital leases	(7,833)	)	(6,893))
Net cash provided by (used in) financing	(13,257)	)	40,037	

activities				
Effect of exchange rates on cash	(4,044	)	(2,124)
Net increase (decrease) in cash and cash equivalents	(35,211	)	10,185	
Cash and cash equivalents at beginning of period	209,665		212,175	
Cash and cash equivalents at end of period	\$	174,454	\$	222,360
Significant non-cash investing and financing activities:				
Addition of capital lease obligations	\$	4,346	\$	3,450
Common stock issued for the acquisition of Revett	\$	19,133	\$	—
Payment of accrued compensation in restricted stock units	\$	3,016	\$	4,600
Senior Notes contributed to pension plan, par value	\$	—	\$	6,500

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

Table Of Contents

Note 1. Basis of Preparation of Financial Statements

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements and notes to the unaudited interim condensed consolidated financial statements contain all adjustments, consisting of normal recurring items and items which are nonrecurring, necessary to present fairly, in all material respects, the financial position of Hecla Mining Company and its consolidated subsidiaries ("we" or "our" or "us"). See *Note 4* and *Note 13* for information on adjustments which are nonrecurring contained in the accompanying unaudited interim condensed consolidated financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related footnotes as set forth in our annual report filed on Form 10-K for the year ended December 31, 2014, as it may be amended from time to time.

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

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

On June 15, 2015, we completed the acquisition of Revett Mining Company, Inc. ("Revett"), giving us ownership of the Rock Creek project and various other interests in Northwest Montana. The unaudited interim condensed consolidated financial statements included herein reflect our ownership of the assets previously held by Revett as of the June 15, 2015 acquisition date. See *Note 13* for more information.

Note 2. Investments and Restricted Cash

Investments

At September 30, 2015 and December 31, 2014, the fair value of our non-current investments was \$2.0 million and \$4.9 million, respectively. Our non-current investments consist of marketable equity securities, which are carried at fair value as they are classified as “available-for-sale.” The cost bases of our non-current investments were approximately \$4.2 million and \$7.3 million, respectively, at September 30, 2015 and December 31, 2014. During the first quarter of 2015, we recognized a \$2.8 million impairment charge against earnings, as we determined the impairment to be other-than-temporary. We also acquired equity in another mining company for a total cost of \$0.9 million during the first quarter of 2015. Due to the acquisition of Revett in June 2015, the basis in previously held stock was eliminated, reducing the cost basis of our non-current investments by \$0.5 million, with a \$0.2 million unrealized loss included in current earnings.

At September 30, 2015, total unrealized loss positions of \$2.2 million, net of unrealized gains of \$6 thousand, for our non-current investments were included in accumulated other comprehensive loss.

Restricted Cash and Investments

Various laws, permits, and covenants require that we have financial assurances in place for certain environmental and reclamation obligations and other potential liabilities. These restricted investments are used primarily for reclamation funding or for funding surety bonds, and were \$1.0 million at September 30, 2015 and \$0.9 million at December 31, 2014.

Table Of Contents

Note 3. Income Taxes

Major components of our income tax provision (benefit) for the three and nine months ended September 30, 2015 and 2014 are as follows (in thousands):

Three
Months
Ended