INFOSYS TECHNOLOGIES LTD
Form 6-K
October 26, 2010

Form 6-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 under the Securities Exchange Act of 1934

For the quarter ended September 30, 2010

Commission File Number 000-25383

Infosys Technologies Limited
(Exact name of Registrant as specified in its charter)

Not Applicable.
(Translation of Registrant's name into English)

Electronics City, Hosur Road, Bangalore-560 100, Karnataka, India. +91-80-2852-0261
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F :

Form 20-F þ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1) : o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7) : o

Currency of presentation and certain defined terms

In this Quarterly Report, references to "U.S." or "United States" are to the United States of America, its territories and its possessions. References to "India" are to the Republic of India. References to "$" or "dollars" or "U.S. dollars" are to the legal currency of the United States and references to "Rs." or "rupees" or "Indian rupees" are to the legal currency of India. Our financial statements are presented in U.S. dollars and are prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board, or IFRS. References to "Indian GAAP" are to Indian Generally Accepted Accounting Principles. References to a particular "fiscal" year are to our fiscal year ended March 31 of such year.

All references to "we", "us", "our", "Infosys" or the "Company" shall mean Infosys Technologies Limited, and, unless specifically indicated otherwise or the context indicates otherwise, our consolidated subsidiaries. "Infosys" is a registered trademark of Infosys Technologies Limited in the United States and India. All other trademarks or trade names used in this Quarterly Report are the property of their respective owners.

Except as otherwise stated in this Quarterly Report, all translations from Indian rupees to U.S. dollars effected are based on the fixing rate in the City of Mumbai on September 30, 2010 for cable transfers in Indian rupees as published by the Foreign Exchange Dealers' Association of India, or FEDAI, which was Rs. 44.94 per $1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

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Part I - Financial Information

Item I. Financial Statements

Infosys Technologies Limited and subsidiaries

Unaudited Consolidated Balance Sheets as of
(Dollars in millions except share data)

	Note	September 30, 2010	March 31, 2010
ASSETS			
Current assets			
Cash and cash equivalents	2.1	$3,427	$2,698
Available-for-sale financial assets	2.2	8	569
Investment in certificates of deposit		434	265
Trade receivables		928	778
Unbilled revenue		235	187
Derivative financial instruments	2.7	4	21
Prepayments and other current assets	2.4	175	143
Total current assets		5,211	4,661
Non-current assets			
Property, plant and equipment	2.5	1,008	989
Goodwill	2.6	183	183
Intangible assets	2.6	12	12
Deferred income tax assets	2.17	69	78
Income tax assets	2.17	143	148
Other non-current assets	2.4	116	77
Total non-current assets		1,531	1,487
Total assets		$6,742	$6,148
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables		$8	$2
Current income tax liabilities	2.17	201	161
Client deposits		2	2
Unearned revenue		133	118
Employee benefit obligations	2.8	33	29
Provisions	2.9	18	18
Other current liabilities	2.10	430	380
Total current liabilities		825	710
Non-current liabilities			
Deferred income tax liabilities	2.17	1	26
Employee benefit obligations	2.8	44	38
Other non-current liabilities	2.10	13	13
Total liabilities		883	787
Equity			
Share capital-Rs. 5 ($0.16) par value 600,000,000 equity shares authorized, issued and outstanding 571,201,074 and 570,991,592, net of 2,833,600 treasury shares each as of September 30, 2010 and March 31, 2010, respectively		64	64
Share premium		697	694
Retained earnings		5,096	4,611
Other components of equity		2	(8)
Total equity attributable to equity holders of the company		5,859	5,361
Total liabilities and equity		$6,742	$6,148

The accompanying notes form an integral part of the unaudited consolidated interim financial statements

Infosys Technologies Limited and subsidiaries

Unaudited Consolidated Statements of Comprehensive Income
(Dollars in millions except share data)

	Note	Three months ended September 30,		Six months ended September 30,	
		2010	2009	2010	2009
Revenues		$1,496	$1,154	$2,854	$2,276
Cost of sales		855	662	1,655	1,305
Gross profit		641	492	1,199	971
Operating expenses:					
Selling and marketing expenses		82	57	156	110
Administrative expenses		107	85	207	173
Total operating expenses		189	142	363	283
Operating profit		452	350	836	688
Other income, net	2.14	57	49	110	104
Profit before income taxes		509	399	946	792
Income tax expense	2.17	135	82	246	162
Net profit		$374	$317	$700	$630
Other comprehensive income					
Fair value changes on available-for-sale financial assets, net of tax effect (Refer note 2.2 and 2.17)		–	–	(1)	–
Exchange differences on translating foreign operations		$199	$(10)	$11	$226
Total other comprehensive income		$199	$(10)	$10	$226
Total comprehensive income		$573	$307	$710	$856
Profit attributable to:					
Owners of the company		$374	$317	$700	$630
Non-controlling interest		–	–	–	–
		$374	$317	$700	$630
Total comprehensive income attributable to:					
Owners of the company		$573	$307	$710	$856
Non-controlling interest		–	–	–	–
		$573	$307	$710	$856
Earnings per equity share					
Basic ($)		0.65	0.56	1.23	1.10
Diluted ($)		0.65	0.56	1.23	1.10
Weighted average equity shares used in computing earnings per equity share	2.18				
Basic		571,131,367	570,343,178	571,083,717	570,229,204
Diluted		571,358,817	571,046,545	571,345,695	570,948,478

The accompanying notes form an integral part of the unaudited consolidated interim financial statements

Infosys Technologies Limited and subsidiaries

Unaudited Consolidated Statements of Changes in Equity

(Dollars in millions except share data)

	Shares	Share capital	Share premium	Retained earnings	Other components	Total equity attributable to

						of equityequity holders of the company
Balance as of April 1, 2009	572,830,043	$64	$672	$3,618	$(570)	$3,784
Changes in equity for the six months ended September 30, 2009						
Shares issued on exercise of employee stock options	481,650	–	9	–	–	9
Treasury Shares*	(2,833,600)	–	–	–	–	–
Reserves on consolidation of trusts	–	–	–	10	–	10
Dividends (including corporate dividend tax)	–	–	–	(188)	–	(188)
Net profit	–	–	–	630	–	630
Exchange differences on translating foreign operations	–	–	–	–	226	226
Balance as of September 30, 2009	570,478,093	$64	$681	$4,070	$(344)	$4,471
Balance as of April 1, 2010	570,991,592	$64	$694	$4,611	$(8)	$5,361
Changes in equity for the six months ended September 30, 2010						
Shares issued on exercise of employee stock options	209,482	–	3	–	–	3
Dividends (including corporate dividend tax)	–	–	–	(215)	–	(215)
Fair value changes on available-for-sale financial assets, net of tax effect (Refer Note 2.2 and 2.17)	–	–	–	–	(1)	(1)
Net profit	–	–	–	700	–	700
Exchange differences on translating foreign operations	–	–	–	–	11	11
Balance as of September 30, 2010	571,201,074	$64	$697	$5,096	$2	$5,859

The accompanying notes form an integral part of the unaudited consolidated interim financial statements
*Effective fiscal 2010 treasury shares held by controlled trusts were consolidated

Infosys Technologies Limited and subsidiaries

Unaudited Consolidated Statements of Cash Flows
(Dollars in millions)

		Six months ended September 30,	
	Note	2010	2009
Operating activities:			
Net profit		$700	$630
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortization	2.5 and 2.6	92	94
Income on investments		(16)	(7)

Income tax expense	2.17	246	162
Changes in working capital			
Trade receivables		(147)	63
Prepayments and other assets		(18)	(31)
Unbilled revenue		(46)	(8)
Trade payables		6	(3)
Unearned revenue		14	47
Other liabilities and provisions		65	31
Cash generated from operations		896	978
Income taxes paid	2.17	(217)	(164)
Net cash provided by operating activities		$679	$814
Investing activities:			
Expenditure on property, plant and equipment, including changes in retention money	2.5 and 2.10	(118)	(71)
Loans to employees		(1)	1
Non-current deposits placed with corporation		(33)	(12)
Income on investments		5	7
Investment in certificates of deposit		(157)	–
Redemption of certificates of deposit		2	–
Investment in available-for-sale financial assets		(331)	(988)
Redemption of available-for-sale financial assets		877	325
Net cash provided by/(used in) investing activities		$244	$(738)
Financing activities:			
Proceeds from issuance of common stock on exercise of employee stock options		$3	$9
Payment of dividends		(184)	(161)
Payment of corporate dividend tax		(31)	(27)
Net cash used in financing activities		$(212)	$(179)
Effect of exchange rate changes on cash and cash equivalents		$18	$144
Net increase/(decrease) in cash and cash equivalents		711	(103)
Cash and cash equivalents at the beginning	2.1	2,698	2,167
Cash and cash equivalents at the end	2.1	$3,427	$2,208
Supplementary information:			
Restricted cash balance	2.1	$24	$11

The accompanying notes form an integral part of the unaudited consolidated interim financial statements

Notes to the Unaudited Consolidated Interim Financial Statements

1. Company Overview and Significant Accounting Policies

1.1 Company overview

Infosys Technologies Limited (Infosys or the company) along with its controlled trusts, majority owned and controlled subsidiary, Infosys BPO Limited (Infosys BPO) and wholly owned and controlled subsidiaries, Infosys Technologies (Australia) Pty. Limited (Infosys Australia), Infosys Technologies (China) Co. Limited (Infosys China), Infosys Consulting, Inc. (Infosys Consulting), Infosys Technologies S. DE R.L. de C.V. (Infosys Mexico), Infosys Technologies (Sweden) AB (Infosys Sweden), Infosys Tecnologia DO Brasil LTDA (Infosys Brasil), and Infosys Public Services, Inc. (Infosys Public Services), is a leading global technology services company. The Infosys group of companies (the Group) provides end-to-end business solutions that leverage technology thereby enabling its clients to

enhance business performance. The Group's operations are to provide solutions that span the entire software life cycle encompassing technical consulting, design, development, re-engineering, maintenance, systems integration, package evaluation and implementation, testing and infrastructure management services. In addition, the Group offers software products for the banking industry and business process management services.

The company is a public limited company incorporated and domiciled in India and has its registered office at Bangalore, Karnataka, India. The company has its primary listing on the Bombay Stock Exchange and National Stock Exchange in India. The company's American Depositary Shares representing equity shares are also listed on the NASDAQ Global Select Market. The company's consolidated interim financial statements were authorized for issue by the company's Board of Directors on October 26, 2010.

1.2 Basis of preparation of financial statements

These consolidated interim financial statements as at and for the three months and six months ended September 30, 2010, have been prepared in compliance with IAS 34, Interim Financial Reporting, under the historical cost convention on the accrual basis except for certain financial instruments and prepaid gratuity benefits which have been measured at fair values. These consolidated interim financial statements should be read in conjunction with the consolidated financial statements and related notes included in the company's Annual Report on Form 20-F for the fiscal year ended March 31, 2010. Accounting policies have been applied consistently to all periods presented in these financial statements.

1.3 Basis of consolidation

Infosys consolidates entities which it owns or controls. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are also taken into account. Subsidiaries are consolidated from the date control commences until the date control ceases.

The financial statements of the Group companies are consolidated on a line-by-line basis and intra-group balances and transactions including unrealized gain / loss from such transactions are eliminated upon consolidation. These financial statements are prepared by applying uniform accounting policies in use at the Group. Non-controlling interests which represent part of the net profit or loss and net assets of subsidiaries that are not, directly or indirectly, owned or controlled by the company, are excluded.

1.4 Use of estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions. These estimates, judgments and assumptions affect the application of accounting policies and the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Application of accounting policies that require critical accounting estimates involving complex and subjective judgments and the use of assumptions in these financial statements have been disclosed in Note 1.5. Accounting estimates could change from period to period. Actual results could differ from those estimates. Appropriate changes in estimates are made as management becomes aware of changes in circumstances surrounding the estimates. Changes in estimates are reflected in the financial statements in the period in which changes are made and, if material, their effects are disclosed in the notes to the unaudited consolidated interim financial statements.

1.5 Critical accounting estimates

a. Revenue recognition

The company uses the percentage-of-completion method in accounting for its fixed-price contracts. Use of the percentage-of-completion method requires the company to estimate the efforts expended to date as a proportion of the total efforts to be expended. Efforts expended have been used to measure progress towards completion as there is a direct relationship between input and productivity. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the expected contract estimates at the reporting date.

b. Income taxes

The company's two major tax jurisdictions are India and the U.S., though the company also files tax returns in other foreign jurisdictions. Significant judgments are involved in determining the provision for income taxes, including the amount expected to be paid or recovered in connection with uncertain tax positions. Also refer to Note 2.17.

c . Business combinations and Intangible assets

Business combinations are accounted for using IFRS 3 (Revised), Business Combinations. IFRS 3 requires the identifiable intangible assets and contingent consideration to be fair valued in order to ascertain the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. Significant estimates are required to be made in determining the value of contingent consideration and intangible assets. These valuations are conducted by independent valuation experts.

1.6 Revenue recognition

The company derives revenues primarily from software development and related services, from business process management services and from the licensing of software products. Arrangements with customers for software development and related services and business process management services are either on a fixed-price, fixed-timeframe or on a time-and-material basis.

Revenue on time-and-material contracts are recognized as the related services are performed and revenue from the end of the last billing to the balance sheet date is recognized as unbilled revenues. Revenue from fixed-price, fixed-timeframe contracts, where there is no uncertainty as to measurement or collectability of consideration, is recognized as per the percentage-of-completion method. When there is uncertainty as to measurement or ultimate collectability, revenue recognition is postponed until such uncertainty is resolved. Efforts expended have been used to measure progress towards completion as there is a direct relationship between input and productivity. Provisions for estimated losses, if any, on uncompleted contracts are recorded in the period in which such losses become probable based on the current contract estimates. Costs and earnings in excess of billings are classified as unbilled revenue while billings in excess of costs and earnings are classified as unearned revenue. Maintenance revenue is recognized ratably over the term of the underlying maintenance arrangement.

In arrangements for software development and related services and maintenance services, the company has applied the guidance in IAS 18, Revenue, by applying the revenue recognition criteria for each separately identifiable component of a single transaction. The arrangements generally meet the criteria for considering software development and related services as separately identifiable components. For allocating the consideration, the company has measured the revenue in respect of each separable component of a transaction at its fair value, in accordance with principles given in IAS 18. The price that is regularly charged for an item when sold separately is the best evidence of its fair value. In cases where the company is unable to establish objective and reliable evidence of fair value for the software development and related services, the company has used a residual method to allocate the arrangement consideration. In these cases the balance of the consideration, after allocating the fair values of undelivered components of a transaction has been allocated to the delivered components for which specific fair values do not exist.

License fee revenues are recognized when the general revenue recognition criteria given in IAS 18 are met. Arrangements to deliver software products generally have three elements: license, implementation and Annual Technical Services (ATS). The company has applied the principles given in IAS 18 to account for revenues from these multiple element arrangements. Objective and reliable evidence of fair value has been established for ATS. Objective and reliable evidence of fair value is the price charged when the element is sold separately. When other services are provided in conjunction with the licensing arrangement and objective and reliable evidence of their fair values have been established, the revenue from such contracts are allocated to each component of the contract in a manner, whereby revenue is deferred for the undelivered services and the residual amounts are recognized as revenue for delivered elements. In the absence of objective and reliable evidence of fair value for implementation, the entire arrangement fee for license and implementation is recognized using the percentage-of-completion method as the implementation is performed. Revenue from client training, support and other services arising due to the sale of software products is recognized as the services are performed. ATS revenue is recognized ratably over the period in which the services are rendered.

Advances received for services and products are reported as client deposits until all conditions for revenue recognition are met.

The company accounts for volume discounts and pricing incentives to customers as a reduction of revenue based on the ratable allocation of the discounts/ incentives amount to each of the underlying revenue transaction that results in progress by the customer towards earning the discount/ incentive. Also, when the level of discount varies with increases in levels of revenue transactions, the company recognizes the liability based on its estimate of the customer's future purchases. If it is probable that the criteria for the discount will not be met, or if the amount thereof cannot be estimated reliably, then discount is not recognized until the payment is probable and the amount can be estimated reliably. The company recognizes changes in the estimated amount of obligations for discounts in the period in which the change occurs. The discounts are passed on to the customer either as direct payments or as a reduction of payments due from the customer.

The company presents revenues net of value-added taxes in its statement of comprehensive income.

1.7 Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairments, if any. The direct costs are capitalized until the property, plant and equipment are ready for use, as intended by management. The company depreciates property, plant and equipment over their estimated useful lives using the straight-line method. The estimated useful lives of assets for current and comparative periods are as follows:

Buildings	15 years
Plant and machinery	5 years
Computer equipment	2-5 years
Furniture and fixtures	5 years
Vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Advances paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of assets not put to use before such date are disclosed under ‘Capital work-in-progress’. Subsequent expenditures relating to property, plant and equipment is capitalized only when it is probable that future economic benefits associated with these will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance costs are recognized in net profit in the statement of comprehensive income when incurred. The cost and related accumulated depreciation are eliminated from the financial statements upon sale or retirement of the asset and the resultant gains or losses are recognized in net profit in the statement of comprehensive income. Assets to be

disposed off are reported at the lower of the carrying value or the fair value less cost to sell.

1.8 Business combination

Business combinations have been accounted for using the acquisition method under the provisions of IFRS 3 (Revised), Business Combinations.

The cost of an acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The cost of acquisition also includes the fair value of any contingent consideration. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition.

Transaction costs that the Group incurs in connection with a business combination such as finders' fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

1.9 Goodwill

Goodwill represents the cost of business acquisition in excess of the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. When the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the cost of business acquisition, a gain is recognized immediately in net profit in the statement of comprehensive income. Goodwill is measured at cost less accumulated impairment losses.

1.10 Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairments. Intangible assets are amortized over their respective individual estimated useful lives on a straight-line basis, from the date that they are available for use. The estimated useful life of an identifiable intangible asset is based on a number of factors including the effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, and known technological advances), and the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

Research costs are expensed as incurred. Software product development costs are expensed as incurred unless technical and commercial feasibility of the project is demonstrated, future economic benefits are probable, the company has an intention and ability to complete and use or sell the software and the costs can be measured reliably. The costs which can be capitalized include the cost of material, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use. Research and development costs and software development costs incurred under contractual arrangements with customers are accounted as cost of sales.

1.11 Financial instruments

Financial instruments of the Group are classified in the following categories: non-derivative financial instruments comprising of loans and receivables, available-for-sale financial assets and trade and other payables; derivative financial instruments under the category of financial assets or financial liabilities at fair value through profit or loss; share capital and treasury shares. The classification of financial instruments depends on the purpose for which those were acquired. Management determines the classification of its financial instruments at initial recognition.

a. Non-derivative financial instruments

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are measured initially at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment loss or provisions for doubtful accounts. Loans and receivables are represented by trade receivables, net of allowances for impairment, unbilled revenue, cash and cash equivalents, prepayments, certificates of deposit and other assets. Cash and cash equivalents comprise cash and bank deposits and deposits with corporations. The company considers all highly liquid investments with a remaining maturity at the date of purchase of three months or less and that are readily convertible to known amounts of cash to be cash equivalents. Certificates of deposit is a negotiable money market instrument for funds deposited at a bank or other eligible financial institution for a specified time period.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or are not classified in any of the other categories. Available-for-sale financial assets are recognized initially at fair value plus transactions costs. Subsequent to initial recognition these are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognized directly in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net profit in the statement of comprehensive income. These are presented as current assets unless management intends to dispose off the assets after 12 months from the balance sheet date.

(iii) Trade and other payables

Trade and other payables are initially recognized at fair value, and subsequently carried at amortized cost using the effective interest method.

b. Derivative financial instruments

Financial assets or financial liabilities, at fair value through profit or loss.

This category has two sub-categories wherein, financial assets or financial liabilities are held for trading or are designated as such upon initial recognition. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Derivatives are categorized as held for trading unless they are designated as hedges.

The company holds derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in foreign exchange rates on trade receivables and forecasted cash flows denominated in certain foreign currencies. The counterparty for these contracts is generally a bank or a financial institution. Although the company believes that these financial instruments constitute hedges from an economic perspective, they do not qualify for hedge accounting under IAS 39, Financial Instruments: Recognition and Measurement. Any derivative that is either not designated a hedge, or is so designated but is ineffective per IAS 39, is categorized as a financial asset, at fair value through profit or loss.

Derivatives are recognized initially at fair value and attributable transaction costs are recognized in net profit in the statement of comprehensive income when incurred. Subsequent to initial recognition, derivatives are measured at fair value through profit or loss and the resulting exchange gains or losses are included in other income in the statement of comprehensive income. Assets/liabilities in this category are presented as current assets/current liabilities if they are either held for trading or are expected to be realized within 12 months after the balance sheet date.

c. Share capital and treasury shares

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Treasury Shares

When any entity within the Group purchases the company's ordinary shares, the consideration paid including any directly attributable incremental cost is presented as a deduction from total equity, until they are cancelled, sold or reissued. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/ from retained earnings.

1.12 Impairment

a. Financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

(i) Loans and receivables

Impairment loss in respect of loans and receivables measured at amortized cost are calculated as the difference between their carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Such impairment loss is recognized in net profit in the statement of comprehensive income.

(ii) Available-for-sale financial assets

Significant or prolonged decline in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value and is recognized in net profit in the statement of comprehensive income. The cumulative loss that was recognized in other comprehensive income is transferred to net profit in the statement of comprehensive income upon impairment.

b. Non-financial assets

(i) Goodwill

Goodwill is tested for impairment on an annual basis and whenever there is an indication that goodwill may be impaired, relying on a number of factors including operating results, business plans and future cash flows. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the Group's cash generating units (CGU) expected to benefit from the synergies arising from the business combination. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Impairment occurs when the carrying amount of a CGU including the goodwill, exceeds the estimated recoverable amount of the CGU. The recoverable amount of a CGU is the higher of its fair value less cost to sell and its value-in-use. Value-in-use is the present value of future cash flows expected to be derived from the CGU.

Total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An

impairment loss on goodwill is recognized in net profit in the statement of comprehensive income and is not reversed in the subsequent period.

(ii) Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are evaluated for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. In such cases, the recoverable amount is determined for the CGU to which the asset belongs.

If such assets are considered to be impaired, the impairment to be recognized in net profit in the statement of comprehensive income is measured by the amount by which the carrying value of the assets exceeds the estimated recoverable amount of the asset.

c. Reversal of impairment loss

An impairment loss for financial assets is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortization or depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of impairment loss for an asset other than goodwill and available-for-sale financial assets that are equity securities is recognized in net profit in the statement of comprehensive income. For available-for-sale financial assets that are equity securities, the reversal is recognized in other comprehensive income.

1.13 Fair value of financial instruments

In determining the fair value of its financial instruments, the company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. The methods used to determine fair value include discounted cash flow analysis, available quoted market prices and dealer quotes. All methods of assessing fair value result in general approximation of value, and such value may never actually be realized.

For all other financial instruments the carrying amounts approximate fair value due to the short maturity of those instruments. The fair value of securities, which do not have an active market and where it is not practicable to determine the fair values with sufficient reliability, are carried at cost less impairment.

1.14 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

a. Post sales client support

The company provides its clients with a fixed-period post sales support for corrections of errors and telephone support on all its fixed-price, fixed-timeframe contracts. Costs associated with such support services are accrued at the time related revenues are recorded and included in cost of sales. The company estimates such costs based on historical experience and estimates are reviewed on a periodic basis for any material changes in assumptions and likelihood of

occurrence.

b.Onerous contracts

Provisions for onerous contracts are recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting the future obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established the Group recognizes any impairment loss on the assets associated with that contract.

1.15 Foreign currency

Functional and presentation currency

The functional currency of Infosys and Infosys BPO is the Indian rupee. The functional currencies for Infosys Australia, Infosys China, Infosys Consulting, Infosys Mexico, Infosys Sweden, Infosys Brasil and Infosys Public Services are the respective local currencies. These financial statements are presented in U.S. dollars (rounded off to the nearest million) to facilitate global comparability.

Transactions and translations

Foreign-currency denominated monetary assets and liabilities are translated into the relevant functional currency at exchange rates in effect at the balance sheet date. The gains or losses resulting from such translations are included in net profit in the statement of comprehensive income. Non-monetary assets and non-monetary liabilities denominated in a foreign currency and measured at fair value are translated at the exchange rate prevalent at the date when the fair value was determined. Non-monetary assets and non-monetary liabilities denominated in a foreign currency and measured at historical cost are translated at the exchange rate prevalent at the date of transaction.

Transaction gains or losses realized upon settlement of foreign currency transactions are included in determining net profit for the period in which the transaction is settled. Revenue, expense and cash-flow items denominated in foreign currencies are translated into the relevant functional currencies using the exchange rate in effect on the date of the transaction.

The translation of financial statements of the foreign subsidiaries to the functional currency of the company is performed for assets and liabilities using the exchange rate in effect at the balance sheet date and for revenue, expense and cash-flow items using the average exchange rate for the respective periods. The gains or losses resulting from such translation are included in currency translation reserves under other components of equity. When a subsidiary is disposed off, in part or in full, the relevant amount is transferred to net profit in the statement of comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate in effect at the balance sheet date.

1.16 Earnings per equity share

Basic earnings per equity share is computed by dividing the net profit attributable to the equity holders of the company by the weighted average number of equity shares outstanding during the period. Diluted earnings per equity share is computed by dividing the net profit attributable to the equity holders of the company by the weighted average number of equity shares considered for deriving basic earnings per equity share and also the weighted average number of equity shares that could have been issued upon conversion of all dilutive potential equity shares. The diluted potential equity shares are adjusted for the proceeds receivable had the equity shares been actually issued at fair value

(i.e. the average market value of the outstanding equity shares). Dilutive potential equity shares are deemed converted as of the beginning of the period, unless issued at a later date. Dilutive potential equity shares are determined independently for each period presented.

The number of equity shares and potentially dilutive equity shares are adjusted retrospectively for all periods presented for any share splits and bonus shares issues including for changes effected prior to the approval of the financial statements by the Board of Directors.

1.17 Income taxes

Income tax expense comprises current and deferred income tax. Income tax expense is recognized in net profit in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in other comprehensive income. Current income tax for current and prior periods is recognized at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred income tax assets and liabilities are recognized for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of changes in tax rates on deferred income tax assets and liabilities is recognized as income or expense in the period that includes the enactment or the substantive enactment date. A deferred income tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized. Deferred income taxes are not provided on the undistributed earnings of subsidiaries and branches where it is expected that the earnings of the subsidiary or branch will not be distributed in the foreseeable future. The income tax provision for the interim period is made based on the best estimate of the annual average tax rate expected to be applicable for the full fiscal year. The company offsets current tax assets and current tax liabilities, where it has a legally enforceable right to set off the recognized amounts and where it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax assets and deferred tax liabilities have been offset wherever the company has a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority. Tax benefits of deductions earned on exercise of employee share options in excess of compensation charged to income are credited to share premium.

1.18 Employee benefits

1.18.1 Gratuity

In accordance with the Payment of Gratuity Act, 1972, Infosys provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering eligible employees. The Gratuity Plan provides a lump-sum payment to vested employees at retirement, death, incapacitation or termination of employment, of an amount based on the respective employee's salary and the tenure of employment.

Liabilities with regard to the Gratuity Plan are determined by actuarial valuation, performed by an independent actuary, at each balance sheet date using the projected unit credit method. The company fully contributes all ascertained liabilities to the Infosys Technologies Limited Employees' Gratuity Fund Trust (the Trust). In case of Infosys BPO, contributions are made to the Infosys BPO's Employees' Gratuity Fund Trust. Trustees administer

contributions made to the Trusts and contributions are invested in specific designated instruments as permitted by law and investments are also made in mutual funds that invest in the specific designated instruments.

The Group recognizes the net obligation of a defined benefit plan in its balance sheet as an asset or liability, respectively in accordance with IAS 19, Employee benefits. The discount rate is based on the Government securities yield. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to net profit in the statement of comprehensive income in the period in which they arise. When the computation results in a benefit to the Group, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

1.18.2 Superannuation

Certain employees of Infosys are also participants in a defined contribution plan. A portion of the monthly contribution amount is being paid directly to the employees as an allowance and the balance amount is contributed to the Infosys Technologies Limited Employees' Superannuation Fund Trust. The company has no further obligations to the Plan beyond its monthly contributions.

Certain employees of Infosys BPO are also eligible for superannuation benefit. Infosys BPO has no further obligations to the superannuation plan beyond its monthly contribution which are periodically contributed to a trust fund, the corpus of which is invested with the Life Insurance Corporation of India.

Certain employees of Infosys Australia are also eligible for superannuation benefit. Infosys Australia has no further obligations to the superannuation plan beyond its monthly contribution.

1.18.3 Provident fund

Eligible employees of Infosys receive benefits from a provident fund, which is a defined benefit plan. Both the employee and the company make monthly contributions to the provident fund plan equal to a specified percentage of the covered employee's salary. The company contributes a part of the contributions to the Infosys Technologies Limited Employees' Provident Fund Trust. The remaining portion is contributed to the government administered pension fund. The rate at which the annual interest is payable to the beneficiaries by the trust is being administered by the government. The company has an obligation to make good the shortfall, if any, between the return from the investments of the Trust and the notified interest rate.

In respect of Infosys BPO, eligible employees receive benefits from a provident fund, which is a defined contribution plan. Both the employee and Infosys BPO make monthly contributions to this provident fund plan equal to a specified percentage of the covered employee's salary. Amounts collected under the provident fund plan are deposited in a government administered provident fund. The company has no further obligation to the plan beyond its monthly contributions.

1.18.4 Compensated absences

The Group has a policy on compensated absences which are both accumulating and non-accumulating in nature. The expected cost of accumulating compensated absences is measured based on the additional amount expected to be paid/availed as a result of the unused entitlement that has accumulated at the balance sheet date. Expense on non-accumulating compensated absences is recognized in the period in which the absences occur.

1.19 Share-based compensation

The Group recognizes compensation expense relating to share-based payments in net profit using a fair-value measurement method in accordance with IFRS 2, Share-Based Payment. Under the fair value method, the estimated

fair value of awards is charged to income on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was in-substance, multiple awards. The Group includes a forfeiture estimate in the amount of compensation expense being recognized.

The fair value of each option is estimated on the date of grant using the Black-Scholes-Merton valuation model. The expected term of an option is estimated based on the vesting term and contractual term of the option, as well as expected exercise behaviour of the employee who receives the option. Expected volatility during the expected term of the option is based on historical volatility, during a period equivalent to the expected term of the option, of the observed market prices of the company's publicly traded equity shares. Expected dividends during the expected term of the option are based on recent dividend activity. Risk-free interest rates are based on the government securities yield in effect at the time of the grant over the expected term.

1.20 Dividends

Final dividends on shares are recorded as a liability on the date of approval by the shareholders and interim dividends are recorded as a liability on the date of declaration by the company's Board of Directors.

1.21 Operating profit

Operating profit for the Group is computed considering the revenues, net of cost of sales, selling and marketing expenses and administrative expenses.

1.22 Other income

Other income is comprised primarily of interest income and dividend income. Interest income is recognized using the effective interest method. Dividend income is recognized when the right to receive payment is established.

1.23 Leases

Leases under which the company assumes substantially all the risks and rewards of ownership are classified as finance leases. When acquired, such assets are capitalized at fair value or present value of the minimum lease payments at the inception of the lease, whichever is lower. Lease payments under operating leases are recognised as an expense on a straight line basis in net profit in the statement of comprehensive income over the lease term.

1.24 Government grants

The Group recognizes government grants only when there is reasonable assurance that the conditions attached to them shall be complied with, and the grants will be received. Government grants related to depreciable fixed assets are treated as deferred income and are recognized in net profit in the statement of comprehensive income on a systematic and rational basis over the useful life of the asset. Government grants related to revenue are recognized on a systematic basis in net profit in the statement of comprehensive income over the periods necessary to match them with the related costs which they are intended to compensate.

1.25 Recent accounting pronouncements

1.25.1 Standards issued but not yet effective

IFRS 9 Financial Instruments: In November 2009, International Accounting Standards Board issued IFRS 9, Financial Instruments: Recognition and Measurement, to reduce the complexity of the current rules on financial instruments as mandated in IAS 39. The effective date for IFRS 9 is annual periods beginning on or after January 1, 2013 with early adoption permitted. IFRS 9 has fewer classification and measurement categories as compared to IAS 39 and has

eliminated the categories of held to maturity, available for sale and loans and receivables. Further it eliminates the rule-based requirement of segregating embedded derivatives and tainting rules pertaining to held to maturity investments. For an investment in an equity instrument which is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss. The company is required to adopt IFRS 9 by accounting year commencing April 1, 2014. The company is currently evaluating the requirements of IFRS 9, and has not yet determined the impact on the consolidated financial statements.

2. Notes to the unaudited consolidated interim financial statements

2.1 Cash and cash equivalents

Cash and cash equivalents consist of the following:

(Dollars in millions)

	As of	
	September 30, 2010	March 31, 2010
Cash and bank deposits	$3,083	$2,351
Deposits with corporations	344	347
	$3,427	$2,698

Cash and cash equivalents as of September 30, 2010 and March 31, 2010 include restricted cash and bank balances of $24 million and $16 million, respectively. The restrictions are primarily on account of cash and bank balances held by irrevocable trusts controlled by the company and unclaimed dividends.

The deposits maintained by the Group with corporations comprise of time deposits, which can be withdrawn by the Group at any point without prior notice or penalty on the principal.

The table below provides details of cash and cash equivalents:

(Dollars in millions)

	As of	
	September 30, 2010	March 31, 2010
Current accounts		
ABN Amro Bank, China	$8	$7
ABN Amro Bank, China (U.S. dollar account)	10	3
Bank of America, USA	88	153
Bank of America, Mexico	2	4
Citibank N.A., Australia	27	6
Citibank N.A., Brazil	1	2
Citibank N.A., Czech Republic	1	–
Citibank N.A., Japan	1	1
Citibank N.A., India	–	1
Citibank N.A., New Zealand	1	–
Deutsche Bank, Belgium	4	4
Deutsche Bank, France	1	–
Deutsche Bank, Germany	6	3
Deutsche Bank, India	4	3
Deutsche Bank, Netherlands	1	2
Deutsche Bank, Switzerland	21	2

Deutsche Bank, Thailand	1	1
Deutsche Bank, Philippines (U.S. dollar account)	–	1
Deutsche Bank, Poland	–	1
Deutsche Bank, United Kingdom	15	7
Deutsche Bank-EEFC, India (Euro account)	6	1
Deutsche Bank-EEFC, India (U.S. dollar account)	1	2
HSBC Bank, United Kingdom	1	1
ICICI Bank, India	14	30
ICICI Bank-EEFC, India (U.S. dollar account)	5	2
National Australia Bank Limited, Australia	5	5
National Australia Bank Limited, Australia (U.S. dollar account)	7	3
Royal Bank of Canada, Canada	3	4
Wachovia Bank, USA	1	2
	$235	$251
Deposit accounts		
Andhra Bank, India	$47	$22
Allahabad Bank	87	33
Axis Bank	110	–
Bank of America	4	–
Bank of Baroda, India	184	67
Bank of India	266	196
Bank of Maharashtra, India	113	111
Barclays Bank, Plc. India	21	22
Canara Bank, India	241	214
Central Bank of India	98	22
Citibank N.A., Czech Republic	4	2
Citibank (Euro account)	1	1
Citibank (U.S. dollar account)	1	1
Corporation Bank, India	39	62
DBS Bank, India	7	11
Deutsche Bank, Poland	2	2
HDFC Bank	104	–
HSBC Bank, India	–	108
ICICI Bank, India	360	320
IDBI Bank, India	201	202
ING Vysya Bank, India	5	6
Indian Overseas Bank	118	31
Jammu and Kashmir Bank	4	2
Kotak Mahindra Bank	17	14
National Australia Bank Limited, Australia	73	69
Oriental Bank of Commerce	120	22
Punjab National Bank, India	196	221
State Bank of Hyderabad, India	48	52
State Bank of India, India	16	28
State Bank of Mysore, India	110	111
South Indian Bank	4	–
Syndicate Bank, India	101	106
Union Bank of India, India	123	21
Vijaya Bank, India	21	21
Yes Bank, India	2	–
	$2,848	$2,100

Deposits with corporations		
HDFC Limited	$344	$346
Sundaram BNP Paribas Home Finance Limited	–	1
	$344	$347
Total	$3,427	$2,698

2.2 Available-for-sale financial assets

Investments in liquid mutual fund units and unlisted equity securities are classified as available-for-sale financial assets.

Cost and fair value of investment in liquid mutual fund units and unlisted equity securities are as follows:

(Dollars in millions)

	As of	
	September 30, 2010	March 31, 2010
Liquid mutual fund units:		
Cost and fair value	$1	$561
Unlisted equity securities:		
Cost	–	–
Gross unrealised holding gains	7	8
Fair value	7	8
Total available-for-sale financial assets	$8	$569

During fiscal 2010, Infosys sold 3,231,151 shares of OnMobile Systems Inc, U.S.A, at a price of $3.64 per share (Rs.166.58 per share), derived from quoted prices of the underlying marketable equity securities. The total consideration amounted to $12 million, net of taxes and transaction costs. The resultant income of $11 million was included under other income for the fiscal year ended March 31, 2010. Additionally, the remaining 2,154,100 shares had a fair value of $8 million as at March 31, 2010.

As of September 30, 2010, these 2,154,100 shares were fair valued at $7 million and the resultant unrealized loss of $1 million, net of taxes of Nil has been recognized in other comprehensive income. The fair value of $7 million has been derived based on an agreed upon exchange ratio between these unlisted equity securities and quoted prices of the underlying marketable equity securities.

2.3 Business combinations

During fiscal 2010, Infosys BPO acquired 100% of the voting interests in McCamish Systems LLC (McCamish), a business process solutions provider based in Atlanta, Georgia, in the United States. The business acquisition was conducted by entering into a Membership Interest Purchase Agreement for a cash consideration of $37 million and a contingent consideration of up to $20 million. The fair values of the contingent consideration and its undiscounted value on the date of acquisition were $9 million and $15 million, respectively.

This business acquisition is expected to enable Infosys BPO to deliver growth in platform-based services in the insurance and financial services industry and is also expected to enable McCamish to service larger portfolios of transactions for clients and expand into global markets. Consequently, the excess of the purchase consideration paid over the fair value of assets acquired has been accounted for as goodwill.

The purchase price has been allocated based on management’s estimates and an independent appraisal of fair values as follows:

(Dollars in millions)

Component	Acquiree's carrying amount	Fair value adjustments	Purchase price allocated
Property, plant and equipment	$1	–	$1
Net current assets	2	–	2
Intangible assets-Customer contracts and relationships	–	10	10
Intangible assets-Computer software platform	–	3	3
	$3	$13	$16
Goodwill			30
Total purchase price			$46

The entire goodwill is deductible for tax purposes.

The amount of trade receivables acquired from the above business acquisition was $4 million. The entire amount has been collected subsequently.

The identified intangible customer contracts and relationships are being amortized over a period of nine years whereas the identified intangible computer software platform has been amortized over a period of four months, based on management's estimate of the useful life of the assets.

The acquisition date fair value of each major class of consideration as of the acquisition date is as follows:
(Dollars in millions)

Particulars	Consideration settled
Fair value of total consideration	
Cash paid	$34
Liabilities settled in cash	3
Contingent consideration	9
Total	$46

The payment of the contingent consideration is dependent upon the achievement of certain revenue targets and net margin targets by McCamish over a period of 4 years ending March 31, 2014. Further, in the event that McCamish signs a deal with a customer with total revenues of $100 million or more, the aforesaid period will be extended by 2 years. The total contingent consideration can range between $14 million and $20 million.

The fair value of the contingent consideration is determined by discounting the estimated amount payable to the previous owners of McCamish on achievement of certain financial targets. The key inputs used for the determination of fair value of contingent consideration are the discount rate of 13.9% and the probabilities of achievement of the net margin and the revenue targets ranging from 50% to 100%.

2.4 Prepayments and other assets

Prepayments and other assets consist of the following:
(Dollars in millions)

	As of	
	September 30, 2010	March 31, 2010
Current		
Rental deposits	$9	$8
Security deposits with service providers	16	14
Loans to employees	25	23
Prepaid expenses (1)	11	9
Interest accrued and not due	5	2

Withholding taxes (1)	100	77
Advance payments to vendors for supply of goods (1)	4	4
Other assets	5	6
	$175	$143
Non-current		
Loans to employees	$1	$1
Deposit with corporation	109	75
Prepaid gratuity and other benefits (1)	1	1
Prepaid expenses (1)	5	–
	$116	$77
	$291	$220
Financial assets in prepayments and other assets	$170	$123

(1) Non financial assets

Withholding taxes primarily consist of input tax credits. Other assets primarily represent travel advances and other recoverable from customers. Security deposits with service providers relate principally to leased telephone lines and electricity supplies.

Deposit with corporation represents amounts deposited to settle certain employee-related obligations as and when they arise during the normal course of business.

2.5 Property, plant and equipment

Following are the changes in the carrying value of property, plant and equipment for the three months ended September 30, 2010:

(Dollars in millions)

	Land	Buildings	Plant and machinery	Computer equipment	Furniture and fixtures	Vehicles	Capital work-in-progress	Total
Gross carrying value as of July 1, 2010	$89	$732	$281	$277	$174	$1	$64	$1,618
Additions	–	24	11	15	5	–	11	66
Deletions	–	–	–	–	(2)	–	–	(2)
Translation difference	3	25	9	10	6	–	2	55
Gross carrying value as of September 30, 2010	92	781	301	302	183	1	77	1,737
Accumulated depreciation as of July 1, 2010	–	(172)	(153)	(236)	(102)	–	–	(663)
Depreciation	–	(13)	(13)	(13)	(7)	–	–	(46)
Accumulated depreciation on deletions	–	–	–	–	2	–	–	2
Translation difference	–	(5)	(4)	(8)	(5)	–	–	(22)
Accumulated depreciation as of September 30, 2010	–	(190)	(170)	(257)	(112)	–	–	(729)
Carrying value as of July 1, 2010	89	560	128	41	72	1	64	955
Carrying value as of September 30, 2010	$92	$591	$131	$45	$71	$1	$77	$1,008

During fiscal 2010 certain assets which were old and not in use having gross book value of $82 million (carrying value Nil) were retired.

Following are the changes in the carrying value of property, plant and equipment for the three months ended September 30, 2009:

(Dollars in millions)

	Land	Buildings	Plant and machinery	Computer equipment	Furniture and fixtures	Vehicles	Capital work-in-progress	Total
Gross carrying value as of July 1, 2009	$59	$633	$263	$264	$170	$1	$116	$1,506
Additions	8	24	16	14	7	–	(28)	41
Deletions	–	–	–	(2)	–	–	–	(2)
Translation difference	1	(2)	(2)	(2)	(1)	–	(1)	(7)
Gross carrying value as of September 30, 2009	68	655	277	274	176	1	87	1,538
Accumulated depreciation as of July 1, 2009	–	(122)	(122)	(215)	(89)	–	–	(548)
Depreciation	–	(11)	(13)	(15)	(8)	–	–	(47)
Accumulated depreciation on deletions	–	–	–	2	–	–	–	2
Translation difference	–	1	(1)	2	(1)	–	–	1
Accumulated depreciation as of September 30, 2009	–	(132)	(136)	(226)	(98)	–	–	(592)
Carrying value as of July 1, 2009	59	511	141	49	81	1	116	958
Carrying value as of September 30, 2009	$68	$523	$141	$48	$78	$1	$87	$946

Following are the changes in the carrying value of property, plant and equipment for the six months ended September 30, 2010:

(Dollars in millions)

	Land	Buildings	Plant and machinery	Computer equipment	Furniture and fixtures	Vehicles	Capital work-in-progress	Total
Gross carrying value as of April 1, 2010	$73	$735	$281	$279	$170	$1	$91	$1,630
Additions	19	46	20	24	15	–	(14)	110
Deletions	–	–	–	(2)	(2)	–	–	(4)
Translation difference	–	–	–	1	–	–	–	1
Gross carrying value as of September 30, 2010	92	781	301	302	183	1	77	1,737
Accumulated depreciation as of April 1, 2010	–	(166)	(144)	(233)	(98)	–	–	(641)
Depreciation	–	(25)	(26)	(25)	(15)	–	–	(91)
Accumulated depreciation on deletions	–	–	–	2	2	–	–	4
Translation difference	–	1	–	(1)	(1)	–	–	(1)
	–	(190)	(170)	(257)	(112)	–	–	(729)

Accumulated depreciation as of September 30, 2010								
Carrying value as of April 1, 2010	73	569	137	46	72	1	91	989
Carrying value as of September 30, 2010	$92	$591	$131	$45	$71	$1	$77	$1,008

Following are the changes in the carrying value of property, plant and equipment for the six months ended September 30, 2009:

(Dollars in millions)

	Land	Buildings	Plant and machinery	Computer equipment	Furniture and fixtures	Vehicles	Capital work-in-progress	Total
Gross carrying value as of April 1, 2009	$56	$574	$233	$243	$153	$1	$134	$1,394
Additions	8	49	31	21	15	–	(53)	71
Deletions	–	–	–	(3)	–	–	–	(3)
Translation difference	4	32	13	13	8	–	6	76
Gross carrying value as of September 30, 2009	68	655	277	274	176	1	87	1,538
Accumulated depreciation as of April 1, 2009	–	(106)	(103)	(189)	(76)	–	–	(474)
Depreciation	–	(21)	(26)	(29)	(17)	–	–	(93)
Accumulated depreciation on deletions	–	–	–	3	–	–	–	3
Translation difference	–	(5)	(7)	(11)	(5)	–	–	(28)
Accumulated depreciation as of September 30, 2009	–	(132)	(136)	(226)	(98)	–	–	(592)
Carrying value as of April 1, 2009	56	468	130	54	77	1	134	920
Carrying value as of September 30, 2009	$68	$523	$141	$48	$78	$1	$87	$946

The depreciation expense for the three months and six months ended September 30, 2010 and September 30, 2009 is included in cost of sales in the statement of comprehensive income.

Carrying value of land includes $32 million and $33 million as of September 30, 2010 and March 31, 2010, respectively, towards deposits paid under certain lease-cum-sale agreements to acquire land, including agreements where the company has an option to purchase the properties on expiry of the lease period. The company has already paid 99% of the market value of the properties prevailing at the time of entering into the lease-cum-sale agreements with the balance payable at the time of purchase.

The contractual commitments for capital expenditure were $123 million and $67 million as of September 30, 2010 and March 31, 2010, respectively.

2.6 Goodwill and intangible assets

Following is a summary of changes in the carrying amount of goodwill:

(Dollars in millions)

	As of	
	September 30, 2010	March 31, 2010
Carrying value at the beginning	$183	$135
Goodwill recognized on acquisition (Refer Note 2.3)	–	30
Translation differences	–	18
Carrying value at the end	$183	$183

Goodwill has been allocated to the cash generating units (CGU), identified to be the operating segments as follows:

(Dollars in millions)

Segment	As of	
	September 30, 2010	March 31, 2010
Financial services	$89	$89
Manufacturing	21	21
Telecom	3	3
Retail	50	50
Others	20	20
Total	$183	$183

The entire goodwill relating to Infosys BPO's acquisition of McCamish has been allocated to the 'Financial Services' segment.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the CGU which are operating segments regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance.

The recoverable amount of a CGU is the higher of its fair value less cost to sell and its value-in-use. The fair value of a CGU is determined based on the market capitalization. The value-in-use is determined based on specific calculations. These calculations use pre-tax cash flow projections over a period of five years, based on financial budgets approved by management and an average of the range of each assumption mentioned below. As of March 31, 2010, the estimated recoverable amount of the CGU exceeded its carrying amount. The recoverable amount was computed based on the fair value being higher than value-in-use and the carrying amount of the CGU was computed by allocating the net assets to operating segments for the purpose of impairment testing. The key assumptions used for the calculations are as follows:

	In%
Long term growth rate	8-10
Operating margins	17-20
Discount rate	12.2

The above discount rate is based on the Weighted Average Cost of Capital (WACC) of the company. These estimates are likely to differ from future actual results of operations and cash flows.

Following is a summary of changes in the carrying amount of acquired intangible assets:

(Dollars in millions)

	As of	
	September 30, 2010	March 31, 2010
Gross carrying value at the beginning	$24	$11
Customer contracts and relationships (Refer Note 2.3)	–	10
Computer software platform (Refer Note 2.3)	–	3
Translation differences	1	–

Gross carrying value at the end	$25	$24
Accumulated amortization at the beginning	$12	$4
Amortization expense	1	8
Accumulated amortization at the end	$13	$12
Net carrying value	$12	$12

The intangible customer contracts recognized at the time of Philips acquisition are being amortized over a period of seven years, being management's estimate of the useful life of the respective assets, based on the life over which economic benefits are expected to be realized. However, during fiscal 2010 the amortization of this intangible asset has been accelerated based on the usage pattern of the asset. As of September 30, 2010, the customer contracts have a remaining amortization period of approximately four years.

The intangible customer contracts and relationships recognized at the time of the McCamish acquisition are being amortized over a period of nine years, being management’s estimate of the useful life of the respective assets, based on the life over which economic benefits are expected to be realized. As of September 30, 2010, the customer contracts and relationships have a remaining amortization period of approximately eight years.

The intangible computer software platform recognized at the time of the McCamish acquisition having a useful life of four months, being management’s estimate of the useful life of the respective asset, based on the life over which economic benefits were expected to be realized, was fully amortized in fiscal 2010.

The aggregate amortization expense included in cost of sales, for each of the three months and six months ended September 30, 2010 and September 30, 2009 was $1 million.

Research and development expense recognized in net profit in the statement of comprehensive income, for the three months and six months ended September 30, 2010 was $30 million and $56 million respectively as compared to $18 million and $42 million for the three months and six months ended September 30, 2009.

2.7 Financial instruments

Financial instruments by category

The carrying value and fair value of financial instruments by categories as of September 30, 2010 were as follows:
(Dollars in millions)

	Loans and receivables	Financial assets/liabilities at fair value through profit and loss	Available for sale	Trade and other payables	Total carrying value/fair value
Assets:					
Cash and cash equivalents (Refer Note 2.1)	$3,427	–	–	–	$3,427
Available-for-sale financial assets (Refer Note 2.2)	–	–	8	–	8
Investment in certificates of deposit	434	–	–	–	434
Trade receivables	928	–	–	–	928
Unbilled revenue	235	–	–	–	235
Derivative financial instruments	–	4	–	–	4
Prepayments and other assets (Refer Note 2.4)	170	–	–	–	170

Total	$5,194	$4	$8	–	$5,206
Liabilities:					
Trade payables	–	–	–	$8	$8
Client deposits	–	–	–	2	2
Employee benefit obligations (Refer Note 2.8)	–	–	–	77	77
Other liabilities (Refer Note 2.10)	–	–	–	349	349
Liability towards acquisition of business on a discounted basis (Refer Note 2.10)	–	–	–	9	9
Total	–	–	–	$445	$445

The carrying value and fair value of financial instruments by categories as of March 31, 2010 were as follows:

(Dollars in millions)

	Loans and receivables	Financial assets/liabilities at fair value through profit and loss	Available for sale	Trade and other payables	Total carrying value/fair value
Assets:					
Cash and cash equivalents (Refer Note 2.1)	$2,698	–	–	–	$2,698
Available-for-sale financial assets (Refer Note 2.2)	–	–	569	–	569
Investment in certificates of deposit	265	–	–	–	265
Trade receivables	778	–	–	–	778
Unbilled revenue	187	–	–	–	187
Derivative financial instruments	–	21	–	–	21
Prepayments and other assets (Refer Note 2.4)	123	–	–	–	123
Total	$4,051	$21	$569	–	$4,641
Liabilities:					
Trade payables	–	–	–	$2	$2
Client deposits	–	–	–	2	2
Employee benefit obligations (Refer Note 2.8)	–	–	–	67	67
Other liabilities (Refer Note 2.10)	–	–	–	322	322
Liability towards acquisition of business on a discounted basis (Refer Note 2.10)	–	–	–	9	9
Total	–	–	–	$402	$402

Fair value hierarchy

Level 1-Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2-Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3-Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The following table presents fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of September 30, 2010:

(Dollars in millions)

	As of September 30, 2010	Fair value measurement at end of the reporting period using		
		Level 1	Level 2	Level 3
Assets				
Available-for-sale financial asset-Investments in liquid mutual fund units (Refer Note 2.2)	$1	$1	–	–
Available-for-sale financial asset-Investments in unlisted equity securities (Refer Note 2.2)	$7	–	$7	–
Derivative financial instruments-gains on outstanding foreign exchange forward and option contracts	$4	–	$4	–

The following table presents fair value hierarchy of assets and liabilities measured at fair value on a recurring basis as of March 31, 2010:

(Dollars in millions)

	As of March 31, 2010			
		Level 1	Level 2	Level 3
Assets				
Available-for-sale financial asset-Investments in liquid mutual fund units (Refer Note 2.2)	$561	$561	–	–
Available-for-sale financial asset-Investments in unlisted equity securities (Refer Note 2.2)	$8	–	$8	–
Derivative financial instruments-gains on outstanding foreign exchange forward and option contracts	$21	–	$21	–

Income from financial assets or liabilities that are not at fair value through profit or loss is as follows:

(Dollars in millions)

	Three months ended September 30,		Six months ended September 30,	
	2010	2009	2010	2009
Interest income on deposits and certificates of deposit	$55	$41	$107	$87
Income from available-for-sale financial assets	–	5	5	7
	$55	$46	$112	$94

Derivative financial instruments

The company uses derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in foreign exchange rates on trade receivables and forecasted cash flows denominated in certain foreign currencies. The counterparty for these contracts is generally a bank or a financial institution. These derivative financial instruments are valued based on quoted prices for similar assets and liabilities in active markets or inputs that are directly or indirectly observable in the marketplace. The following table gives details in respect of outstanding

foreign exchange forward and option contracts:

(In millions)

	As of	
	September 30, 2010	March 31, 2010
Forward contracts		
In U.S. dollars	412	267
In Euro	14	22
In United Kingdom Pound Sterling	4	11
In Australian dollars	10	3
Option contracts		
In U.S. dollars	85	200
In Euro	5	–
In United Kingdom Pound Sterling	5	–
In Australian dollars	10	–

The company recognized a gain on derivative financial instruments of $11 million and a loss on derivative financial instruments of $6 million for the three months and six months ended September 30, 2010, respectively, and a net loss on derivative financial instruments of $1 million and a net gain on derivative financial instruments of $19 million during the three months and six months ended September 30, 2009, respectively, which are included under other income.

The foreign exchange forward and option contracts mature between 1 to 12 months. The table below analyzes the derivative financial instruments into relevant maturity groupings based on the remaining period as of the balance sheet date:

(Dollars in millions)

	As of	
	September 30, 2010	March 31, 2010
Not later than one month	$84	$62
Later than one month and not later than three months	128	184
Later than three months and not later than one year	344	268
	$556	$514

Financial risk management

Financial risk factors

The company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The company's primary focus is to foresee the unpredictability of financial markets and seek to minimize potential adverse effects on its financial performance. The primary market risk to the company is foreign exchange risk. The company uses derivative financial instruments to mitigate foreign exchange related risk exposures. The company's exposure to credit risk is influenced mainly by the individual characteristic of each customer and the concentration of risk from the top few customers. The demographics of the customer including the default risk of the industry and country in which the customer operates also has an influence on credit risk assessment.

Market risk

The company operates internationally and a major portion of the business is transacted in several currencies and consequently the company is exposed to foreign exchange risk through its sales and services in the United States and elsewhere, and purchases from overseas suppliers in various foreign currencies. The company uses derivative financial instruments such as foreign exchange forward and option contracts to mitigate the risk of changes in foreign exchange rates on trade receivables and forecasted cash flows denominated in certain foreign currencies. The exchange rate

between the rupee and foreign currencies has changed substantially in recent years and may fluctuate substantially in the future. Consequently, the results of the company's operations are adversely affected as the rupee appreciates/ depreciates against these currencies.

The following table gives details in respect of the outstanding foreign exchange forward and option contracts:

(Dollars in millions)

	As of	
	September 30, 2010	March 31, 2010
Aggregate amount of outstanding forward and option contracts	$556	$514
Gains / (losses) on outstanding forward and option contracts	$4	$21

The outstanding foreign exchange forward and option contracts as of September 30, 2010 and March 31, 2010, mature between one to twelve months.

The following table analyzes foreign currency risk from financial instruments as of September 30, 2010:
(Dollars in millions)

	U.S. dollars	Euro	United Kingdom Pound Sterling	Australian dollars	Other currencies	Total
Cash and cash equivalents	$119	$21	$15	$93	$43	$291
Trade receivables	629	68	97	58	49	901
Unbilled revenue	156	26	24	8	12	226
Other assets	137	2	4	–	13	156
Trade payables	(3)	–	–	–	(3)	(6)
Client deposits	(2)	–	–	–	–	(2)
Accrued expenses	(46)	(3)	–	–	(7)	(56)
Accrued compensation to employees	(22)	–	(6)	–	(9)	(37)
Other liabilities	(331)	(36)	(9)	–	(14)	(390)
Net assets / (liabilities)	$637	$78	$125	$159	$84	$1,083

The following table analyzes foreign currency risk from financial instruments as of March 31, 2010:
(Dollars in millions)

	U.S. dollars	Euro	United Kingdom Pound Sterling	Australian dollars	Other currencies	Total
Cash and cash equivalents	$170	$10	$7	$70	$27	$284
Trade receivables	545	57	82	45	39	768
Unbilled revenue	126	16	25	7	9	183
Other assets	107	3	2	–	10	122
Trade payables	–	–	–	–	(2)	(2)
Client deposits	(2)	–	–	–	–	(2)
Accrued expenses	(57)	(3)	–	–	(6)	(66)
Accrued compensation to employees	(33)	–	–	–	(11)	(44)
Other liabilities	(251)	(31)	(12)	–	(8)	(302)
Net assets / (liabilities)	$605	$52	$104	$122	$58	$941

For the three months ended September 30, 2010 and September 30, 2009, every percentage point depreciation / appreciation in the exchange rate between the Indian rupee and the U.S. dollar, has affected the company's operating margins by approximately 0.5% and 0.5%, respectively.

For the six months ended September 30, 2010 and September 30, 2009, every percentage point depreciation / appreciation in the exchange rate between the Indian rupee and the U.S. dollar, has affected the company's operating margins by approximately 0.5% and 0.4%, respectively.

Sensitivity analysis is computed based on the changes in the income and expenses in foreign currency upon conversion into functional currency, due to exchange rate fluctuations between the previous reporting period and the current reporting period.

Credit risk

Credit risk refers to the risk of default on its obligation by the counterparty resulting in a financial loss. The maximum exposure to the credit risk at the reporting date is primarily from trade receivables amounting to $928 million and $778 million as of September 30, 2010 and March 31, 2010, respectively. Trade receivables are typically unsecured and are derived from revenue earned from customers primarily located in the United States. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the company grants credit terms in the normal course of business.

The following table gives details in respect of percentage of revenues generated from top customer and top five customers:
(In %)

	Three months ended September 30,		Six months ended September 30,	
	2010	2009	2010	2009
Revenue from top customer	4.7	4.6	4.8	4.5
Revenue from top five customers	15.8	16.5	15.5	16.4

Financial assets that are neither past due nor impaired

Cash and cash equivalents, available-for-sale financial assets and investment in certificates of deposit are neither past due nor impaired. Cash and cash equivalents include deposits with banks and corporations with high credit-ratings assigned by international and domestic credit-rating agencies. Available-for-sale financial assets include investment in liquid mutual fund units and unlisted equity instruments. Certificates of deposit represent funds deposited at a bank or other eligible financial institution for a specified time period. Of the total trade receivables, $724 million and $487 million as of September 30, 2010 and March 31, 2010, respectively, were neither past due nor impaired.

Financial assets that are past due but not impaired

There is no other class of financial assets that is not past due but impaired except for trade receivables of Nil and $1 million as of September 30, 2010 and March 31, 2010, respectively.

The company’s credit period generally ranges from 30-45 days. The age analysis of the trade receivables have been considered from the date of the invoice. The age wise break up of trade receivables, net of allowances of $26 million and $22 million as of September 30, 2010 and March 31, 2010, respectively, that are past due, is given below:

(Dollars in millions)

	As of	
Period (in days)	September 30, 2010	March 31, 2010
31-60	$75	$258

61-90	$76	$26
More than 90	$53	$6

The allowance for impairment of trade receivables for the three months ended September 30, 2010 and September 30, 2009 was $3 million and $6 million, respectively.

The allowance for impairment of trade receivables for the six months ended September 30, 2010 and September 30, 2009 was $6 million and $10 million, respectively.

The movement in the allowance for impairment of trade receivables is as follows:

(Dollars in millions)

	Six months ended September 30,	Year ended March 31,
	2010	2010
Balance at the beginning	$23	$21
Translation differences	(1)	3
Impairment loss recognized	6	–
Trade receivables written off	(2)	(1)
Balance at the end	$26	$23

Liquidity risk

As of September 30, 2010, the company had a working capital of $4,386 million including cash and cash equivalents of $3,427 million, available-for-sale financial assets of $8 million and investments in certificates of deposit of $434 million. As of March 31, 2010, the company had a working capital of $3,951 million including cash and cash equivalents of $2,698 million, available-for-sale financial assets of $569 million and investments in certificates of deposit of $265 million.

As of September 30, 2010 and March 31, 2010, the outstanding employee benefit obligations were $77 million and $67 million, respectively, which have been fully funded. Further, as of September 30, 2010 and March 31, 2010, the company had no outstanding bank borrowings. Accordingly, no liquidity risk is perceived.

The table below provides details regarding the contractual maturities of significant financial liabilities as of September 30, 2010:

(Dollars in millions)

Particulars	Less than 1 year	1-2 years	2-4 years	4-7 years	Total
Trade payables	$8	–	–	–	$8
Client deposits	$2	–	–	–	$2
Other liabilities (Refer Note 2.10)	$344	$5	–	–	$349
Liability towards acquisition of business on an undiscounted basis (Refer Note 2.10)	$2	$2	$6	$5	$15

The table below provides details regarding the contractual maturities of significant financial liabilities as of March 31, 2010:

(Dollars in millions)

Particulars	Less than 1 year	1-2 years	2-4 years	4-7 years	Total
Trade payables	$2	–	–	–	$2
Client deposits	$2	–	–	–	$2

Other liabilities (Refer Note 2.10)	$318	–	$4	–	$322
Liability towards acquisition of business on an undiscounted basis (Refer Note 2.10)	–	$2	$6	$7	$15

As of September 30, 2010 and March 31, 2010, the company had outstanding financial guarantees of $4 million each, towards leased premises. These financial guarantees can be invoked upon breach of any term of the lease agreement. To the company's knowledge there has been no breach of any term of the lease agreement as of September 30, 2010 and March 31, 2010.

2.8 Employee benefit obligations

Employee benefit obligations comprise the following:

(Dollars in millions)

	As of	
	September 30, 2010	March 31, 2010
Current		
Compensated absence	$33	$29
	$33	$29
Non-current		
Compensated absence	$44	$38
	$44	$38
	$77	$67

2.9 Provisions

Provisions comprise the following:

(Dollars in millions)

	As of	
	September 30, 2010	March 31, 2010
Provision for post sales client support	$18	$18

Provision for post sales client support represent cost associated with providing sales support services which are accrued at the time of recognition of revenues and are expected to be utilized over a period of 6 months to 1 year. The movement in the provision for post sales client support is as follows:

(Dollars in millions)

	Six months ended September 30,	Year ended March 31,
	2010	2010
Balance at the beginning	$18	$18
Translation differences	1	–
Provision recognized/(reversed)	(1)	–
Provision utilized	–	–
Balance at the end	$18	$18

Provision for post sales client support for the three months and six months ended September 30, 2010 and September 30, 2009 is included in cost of sales in the statement of comprehensive income.

2.10 Other liabilities

Other liabilities comprise the following:

(Dollars in millions)

	As of	
	September 30, 2010	March 31, 2010
Current		
Accrued compensation to employees	$144	$148
Accrued expenses	163	135
Withholding taxes payable (1)	80	56
Retainage	8	16
Unamortized negative past service cost (Refer Note 2.12.1) (1)	5	6
Liabilities of controlled trusts	26	16
Liability towards acquisition of business (Refer Note 2.3)	1	–
Others	3	3
	$430	$380
Non-current		
Liability towards acquisition of business (Refer Note 2.3)	$8	$9
Incentive accruals	5	4
	13	13
	$443	$393
Financial liabilities included in other liabilities (excluding liability towards acquisition of business)	$349	$322
Financial liability towards acquisition of business on a discounted basis	$9	$9
Financial liability towards acquisition of business on an undiscounted basis (Refer Note 2.3)	$15	$15

(1) Non financial Liabilities

Accrued expenses primarily relates to cost of technical sub-contractors, telecommunication charges, legal and professional charges, brand building expenses, overseas travel expenses and office maintenance. Others include unclaimed dividend balances.

2.11 Expenses by nature

(Dollars in millions)

	Three months ended September 30,		Six months ended September 30,	
	2010	2009	2010	2009
Employee benefit costs (Refer Note 2.12.4)	$791	$617	$1,534	$1,207
Depreciation and amortization charges (Refer Note 2.5 and 2.6)	47	48	92	94
Travelling costs	56	32	112	64
Consultancy and professional charges	17	12	32	28
Rates and taxes	2	–	4	–
Cost of software packages	25	16	45	37
Communication costs	13	11	26	24
Cost of technical sub-contractors	38	15	65	32
Consumables	2	–	3	–
Power and fuel	10	8	19	15
Repairs and maintenance	18	15	35	28
Commission	1	2	1	2
Branding and marketing expenses	5	5	10	8
	(1)	3	(1)	3

Provision for post-sales client support (Refer Note 2.9)				
Allowance for impairment of trade receivables (Refer Note 2.7)	3	6	6	10
Operating lease payments (Refer Note 2.15)	8	6	15	13
Postage and courier	–	–	1	–
Printing and stationery	–	–	1	–
Insurance charges	2	–	4	–
Others	7	8	14	23
Total cost of sales, selling and marketing expenses and administrative expenses	$1,044	$804	$2,018	$1,588

2.12 Employee benefits

2.12.1 Gratuity

The following tables set out the funded status of the gratuity plans and the amounts recognized in the company's financial statements as of September 30, 2010, March 31, 2010, March 31, 2009 and March 31, 2008:

(Dollars in millions)

	As of			
	September 30, 2010	March 31, 2010	March 31, 2009	March 31, 2008
Change in benefit obligations				
Benefit obligations at the beginning	$72	$52	$56	$51
Actuarial losses/(gains)	3	(1)	–	(2)
Service cost	17	17	11	14
Interest cost	1	4	3	4
Benefits paid	(7)	(8)	(5)	(6)
Plan amendments	–	–	–	(9)
Translation differences	–	8	(13)	4
Benefit obligations at the end	$86	$72	$52	$56
Change in plan assets				
Fair value of plan assets at the beginning	$73	$52	$59	$51
Expected return on plan assets	3	5	4	4
Actuarial (losses)/gains	–	–	–	1
Employer contributions	17	14	7	4
Benefits paid	(7)	(8)	(5)	(6)
Translation differences	–	10	(13)	5
Fair value of plan assets at the end	$86	$73	$52	$59
Funded status	–	$1	–	$3
Prepaid benefit	–	$1	–	$3

Net gratuity cost for the three months and six months ended September 30, 2010 and September 30, 2009 comprises the following components:

(Dollars in millions)

	Three months ended September 30,		Six months ended September 30	
	2010	2009	2010	2009
Service cost	$12	$5	$17	$9
Interest cost	–	1	1	2

Expected return on plan assets	(1)	(2)	(3)	(3)
Actuarial gains	3	1	3	–
Plan amendments	–	–	–	–
Net gratuity cost	$14	$5	$18	$8

The net gratuity cost has been apportioned between cost of sales, selling and marketing expenses and administrative expenses on the basis of direct employee cost as follows:

	Three months ended September 30,		Six months ended September 30	
	2010	2009	2010	2009
Cost of sales	$12	$4	$16	$7
Selling and marketing expenses	1	1	1	1
Administrative expenses	1	–	1	–
	$14	$5	$18	$8

Effective July 1, 2007, the company amended its Gratuity Plan, to suspend the voluntary defined death benefit component of the Gratuity Plan. This amendment resulted in a negative past service cost amounting to $9 million, which is being amortized on a straight-line basis over the average remaining service period of employees which is 10 years. The unamortized negative past service cost of $5 million and $6 million as of September 30, 2010 and March 31, 2010, has been included under other current liabilities.

The weighted-average assumptions used to determine benefit obligations as of September 30, 2010, March 31, 2010, March 31, 2009 and March 31, 2008 are set out below:

	As of			
	September 30, 2010	March 31, 2010	March 31, 2009	March 31, 2008
Discount rate	7.8%	7.8%	7.0%	7.9%
Weighted average rate of increase in compensation levels	7.3%	7.3%	5.1%	5.1%

The weighted-average assumptions used to determine net periodic benefit cost for the three months and six months ended September 30, 2010 and September 30, 2009 are set out below:

	Three months ended September 30,		Six months ended September 30,	
	2010	2009	2010	2009
Discount rate	7.8%	7.0%	7.8%	7.0%
Weighted average rate of increase in compensation levels	7.3%	7.3%	7.3%	7.3%
Rate of return on plan assets	9.4%	9.0%-9.4%	9.4%	9.0%-9.4%

The company contributes all ascertained liabilities towards gratuity to the Infosys Technologies Limited Employees' Gratuity Fund Trust. In case of Infosys BPO, contributions are made to the Infosys BPO Employees' Gratuity Fund Trust. Trustees administer contributions made to the trust and contributions are invested in specific designated instruments as permitted by Indian law and investments are also made in mutual funds that invest in the specific designated instruments. As of September 30, 2010 and March 31, 2010, the plan assets have been primarily invested in government securities.

Actual return on assets for the three months ended September 30, 2010 and September 30, 2009 was $1 million and $2 million respectively and actual return on assets for the six months ended September 30, 2010 and September 30, 2009 was $3 million each.

The company assesses these assumptions with its projected long-term plans of growth and prevalent industry standards. The company's overall expected long-term rate-of-return on assets has been determined based on consideration of available market information, current provisions of Indian law specifying the instruments in which investments can be made, and historical returns. Historical returns during the three months and six months ended September 30, 2010 and September 30, 2009 have not been lower than the expected rate of return on plan assets estimated for those years. The discount rate is based on the government securities yield.

Assumptions regarding future mortality experience are set in accordance with the published statistics by the Life Insurance Corporation of India.

The company expects to contribute $23 million to the gratuity trusts during the remainder of fiscal 2011.

2.12.2 Superannuation

The company contributed $5 million to the superannuation plan during each of the three months ended September 30, 2010 and September 30, 2009 and contributed $11 million and $9 million to the superannuation plan during the six months ended September 30, 2010 and September 30, 2009, respectively. A portion of the monthly contribution amount is being paid directly to the employees as an allowance and the remaining amount has been contributed to the plan.

Superannuation contributions have been apportioned between cost of sales, selling and marketing expenses and administrative expenses on the basis of direct employee cost as follows:

(Dollars in millions)

	Three months ended September 30,		Six months ended September 30,	
	2010	2009	2010	2009
Cost of sales	$5	$4	$10	$8
Selling and marketing expenses	–	1	1	1
Administrative expenses	–	–	–	–
	$5	$5	$11	$9

2.12.3 Provident fund

The company has an obligation to fund any shortfall on the yield of the trust's investments over the administered interest rates on an annual basis. These administered rates are determined annually predominantly considering the social rather than economic factors and in most cases the actual return earned by the company has been higher in the past years. In the absence of reliable measures for future administered rates and due to the lack of measurement guidance, the company's actuary has expressed its inability to determine the actuarial valuation for such provident fund liabilities. Accordingly, the company is unable to exhibit the related information.

The company contributed $11 million and $9 million to the provident fund during the three months ended September 30, 2010 and September 30, 2009, respectively, and contributed $21 million and $17 million to the provident fund during the six months ended September 30, 2010 and September 30, 2009.

Provident fund contributions have been apportioned between cost of sales, selling and marketing expenses and administrative expenses on the basis of direct employee cost as follows:

(Dollars in millions)

	Three months ended September 30,		Six months ended September 30,	
	2010	2009	2010	2009
Cost of sales	$9	$8	$18	$15
Selling and marketing expenses	1	–	2	1

Administrative expenses	1	1	1	1
	$11	$9	$21	$17

2.12.4 Employee benefit costs include:

(Dollars in millions)

	Three months ended September 30,		Six months ended September 30,	
	2010	2009	2010	2009
Salaries and bonus	$761	$598	$1,484	$1,173
Defined contribution plans	6	6	13	11
Defined benefit plans	24	13	37	23
	$791	$617	$1,534	$1,207

The employee benefit cost is recognized in the following line items in the statement of comprehensive income:

(Dollars in millions)

	Three months ended September 30,		Six months ended September 30,	
	2010	2009	2010	2009
Cost of sales	$688	$544	$1,338	$1,066
Selling and marketing expenses	66	45	125	88
Administrative expenses	37	28	71	53
	$791	$617	$1,534	$1,207

2.13 Equity

Share capital and share premium

The company has only one class of shares referred to as equity shares having a par value of $0.16. The amount received in excess of the par value has been classified as share premium. Additionally, share-based compensation recognized in net profit in the statement of comprehensive income is credited to share premium. 2,833,600 shares were held by controlled trusts, each as of September 30, 2010 and March 31, 2010.

Retained earnings

Retained earnings represent the amount of accumulated earnings of the company.

Other components of equity

Other components of equity consist of currency translation and fair value changes on available-for-sale financial assets.

The company’s objective when managing capital is to safeguard its ability to continue as a going concern and to maintain an optimal capital structure so as to maximize shareholder value. In order to maintain or achieve an optimal capital structure, the company may adjust the amount of dividend payment, return capital to shareholders, issue new shares or buy back issued shares. As of September 30, 2010, the company had only one class of equity shares and had no debt. Consequent to the above capital structure there are no externally imposed capital requirements.

The rights of equity shareholders are set out below.

2.13.1 Voting

Each holder of equity shares is entitled to one vote per share. The equity shares represented by American Depositary Shares (ADS) carry similar rights to voting and dividends as the other equity shares. Each ADS represents one

underlying equity share.

2.13.2 Dividends

The company declares and pays dividends in Indian rupees. Indian law mandates that any dividend be declared out of accumulated distributable profits only after the transfer to a general reserve of a specified percentage of net profit computed in accordance with current regulations. The remittance of dividends outside India is governed by Indian law on foreign exchange and is subject to applicable taxes.

The amount of per share dividend recognized as distributions to equity shareholders for the six months ended September 30, 2010 and September 30, 2009 was $0.33 and $0.27, respectively.

2.13.3 Liquidation

In the event of liquidation of the company, the holders of shares shall be entitled to receive any of the remaining assets of the company, after distribution of all preferential amounts. However, no such preferential amounts exist currently, other than the amounts held by irrevocable controlled trusts. The amount that would be distributed to the shareholders in the event of liquidation of the company would be in proportion to the number of equity shares held by the shareholders. For irrevocable controlled trusts, the corpus would be settled in favour of the beneficiaries.

2.13.4 Share options

There are no voting, dividend or liquidation rights to the holders of options issued under the company's share option plans.

2.14 Other income

Other income consists of the following:

(Dollars in millions)

	Three months ended September 30,		Six months ended September 30,		
	2010	2009	2010	2009	
Interest income on deposits and certificates of deposit	$55	$41	$107	$87	
Exchange gains/ (losses) on forward and options contracts	11	(1)	(6)	19	
Exchange gains/ (losses) on translation of other assets and liabilities	(10)	3	3	(10)	
Income from available-for-sale financial assets/ investments	–	5	5	7	
Others	1	1	1	1	
	$57	$49	-88.6%	12	0.0%

Stock Options. The ability to grant stock options under the 1995 Stock Incentive Plan expired in May 2010. All outstanding stock options granted under this plan are still exercisable until their expiration date (the last expiration date is May 5, 2015). In June 2010, our shareholders approved the 2010 Stock Incentive Plan. Stock options granted under this plan, if any, will be issued with an exercise price based on the fair market value (the closing sales price of our common stock on the NYSE on the date of grant).

For several years prior to the last three years, we granted stock options to key employees during the second quarter of the calendar year. In addition to these annual grants, we occasionally granted options to new employees upon hire. For the past three years, we did not make any annual stock option awards to our NEOs due to the cost of the options compared to the expected

compensation to be realized by the executive.

Other

Guidelines and Timing of Equity Awards. We have no program, plan or practice to time the grant of stock-based awards relative to the release of material non-public

information or other corporate events. All equity grants to executive officers are approved by the committee or the independent directors at regularly scheduled meetings or,

*Continues on next page*4

in limited cases involving key recruits or promotions, by a special meeting or unanimous written consent. The grant date is the meeting date or a fixed, future date specified at the time of the grant. Under the terms of our 2010 Stock Incentive Plan, the fair market value is the closing stock price of our common stock on the NYSE on the date of grant. In addition, the committee typically recommends to the Board awards of stock options and/or RSUs to NEOs in the first half of the year.

Stock Ownership Policy. We believe that it is important to encourage our executive officers to hold a material amount of our common stock and to link their long-term economic interest directly to that of our shareholders. To achieve this goal, in June 2012, the committee adopted stock ownership guidelines for the NEOs. The stock ownership guidelines established for the NEOs (except the President and CEO)

is two times annual base salary, which should be achieved within five years of the adoption of the guidelines. The stock ownership guidelines established for the President and CEO is six times annual base salary, to be achieved within five years of adoption of the guidelines.

The following table summarizes the NEOs stock ownership guidelines, number of shares, and number of shares owned. As of December 31, 2013, Messrs. Baker, Sabala, McDonald and Poirier, met the guidelines based on the closing market price of our common stock on the NYSE as of December 31, 2013 ($3.08). It is anticipated that with the vesting of RSUs on March 14, 2014, Messrs. Radford and Sienko will meet the stock ownership guidelines. In our calculations, we include both shares directly held and unvested RSUs. We do not include unexercised stock options or performance-based shares.

Executive Stock Ownership as of December 31, 2013

NEO	Annual Base Salary ($)	X Annual Base Salary	Total Value of Shares to be Held ($)	Shares Held Directly (#)	Unvested RSUs (#)	Deferred Shares[1] (#)	Total Shares (#)	Total Value of Share Held by NEO at 12/31/13 ($3.08) ($)
Baker	605,000	6x	3,630,000	961,432	297,358	90,789	1,349,579	4,156,703
Sabala	355,000	2x	710,000	100,394	185,306	0	285,700	879,956
Radford	355,000	2x	710,000	32,315	186,286	0	218,601	673,291
McDonald	275,000	2x	550,000	115,091	163,150	0	278,241	856,982
Sienko	250,000	2x	500,000	41,160	84,701	0	125,861	387,651
Poirier	226,000	2x	452,000	104,769	107,649	0	212,418	654,247

1. Restricted stock units that have vested, but are deferred into the Key Employee Deferred Compensation Plan until a distributable event, which was elected by our CEO.

Nonqualified Deferred Compensation Plan. We maintain the Key Employee Deferred Compensation Plan (the KEDCP), a nonqualified deferred compensation plan under which participants may defer up to 100% of their annual base salary and up to 100% of their short- and long-term performance-based or incentive compensation. Participants may elect to have these amounts valued based upon Hecla common stock and credited to a stock account. Alternatively, participants may elect to have these amounts valued in dollars and credited to an investment account. The KEDCP provides for matching and discretionary contributions by us when deferral amounts are valued based upon our common stock. Participants may also elect to defer any RSUs that have vested. This feature promotes alignment of the interests of participants with those of our shareholders. Investment accounts of deferral amounts valued in dollars are credited monthly with an amount based on the annual prime rate for corporate borrowers. In general, participants may receive distributions from their deferred compensation balances only upon separation from service with us or according to a fixed date or schedule selected by the participants. The amounts deferred are unfunded and unsecured obligations of Hecla, receive no preferential standing, and are subject to the same

risks as any of our other general obligations. Additional details about the KEDCP are described in the narrative accompanying the Nonqualified Deferred Compensation for 2013 table on page 68.

Benefits. We provide our employees with a benefits package that is designed to attract and retain the talent needed to manage Hecla. Therefore, all U.S. salaried employees, including the NEOs, are eligible to participate in the Hecla Mining Company Qualified Retirement Plan (the Retirement Plan), the Capital Accumulation Plan (a 401(k) plan, which includes matching contributions by Hecla up to 6%), health, vision and dental coverage, various company-paid insurance plans, and paid time off, including vacations and holidays. All Canadian salaried employees including NEOs are eligible to participate in a similar benefits package. NEOs are eligible to receive certain additional benefits, as described below. The committee intends for the type and value of such benefits offered to be competitive with general market practices.

Nonqualified Defined Benefit Plan. Under the Retirement Plan, upon normal retirement each participant is eligible to receive a monthly benefit equal to a certain percentage of final average annual earnings for each year of credited

service. Additional details about the Retirement Plan are described in the narrative accompanying the Pension Benefits table that is included in this Proxy Statement on page 76. Under Hecla s unfunded Supplemental Excess Retirement Plan, the amount of any benefits not payable under the Retirement Plan by reason of the limitations imposed by the Internal Revenue Code and/or the Employee Retirement Income Security Act, and the reduction of benefits, if any, due to a deferral of salary made under our KEDCP, will be paid out of our general

funds to any employee who may be adversely affected. The Retirement Plan and Supplemental Excess Retirement Plan define earnings for purposes of the plans to include salary plus any other cash incentives.

Personal Benefits. We do not provide company-paid cars, country club memberships, or other similar perquisites to our executives. The only material personal benefit provided by Hecla is a relocation benefit, which is offered as needed to meet specific recruitment needs.

Clawback Policy

At its February 2013 meeting, the Compensation Committee adopted a clawback policy with respect to incentive awards to executive officers. The policy provides that in the event of a restatement of the Company s financial results as a result of material non-compliance with financial reporting requirements, the members of the Board will review incentive compensation that was paid to the Company s current or former executive officers under the Company s Annual Incentive Plan and Long-term Incentive Plan (or any successor plans) based solely on the achievement of specific corporate financial goals (Incentive Award) during the period of the restatement. If any Incentive Award would have been lower had

it been calculated based on the Company s restated financial results, the Board will, as it deems appropriate, seek to recover from any executive whose conduct is determined by the Board to be the cause or partial cause for the restatement, any portion of an Incentive Award paid in excess of what would have been paid based on the restated financial results. The policy does not apply in any situation where a restatement is not the result of material non-compliance with financial reporting requirements, such as any restatement due to a change in applicable accounting rules, standards or interpretations, a change in segment designations or the discontinuance of an operation.

Insider Trading Policy

Our insider trading policy prohibits all directors, executive officers (as defined under Section 16 of the Exchange Act) and certain other employees designated as insiders from purchasing or selling any Company securities three weeks before through two days after the release of any Form 10-Q or Form 10-K, or at any other time during

the year, while in possession of material non-public information about the Company. In addition, directors and officers are prohibited from short-term trading, short sales, options trading, trading on margin, hedging or pledging any securities of the Company.

Change of Control Agreements

In February 2014, the committee and the Board of Directors of the Company approved amendments to the employment agreement with each of our NEOs. The agreements are now referred to as Change of Control Agreements (CIC Agreements) and contain provisions regarding the results of a change of control of the Company in certain circumstances. The committee believes that these agreements are important for a number of reasons, including providing reasonable compensation opportunities in the unique circumstances of a change of control that are not provided by other elements of our compensation program. The committee

believes that change of control benefits, if structured appropriately, serve to minimize the distraction caused by a potential transaction and reduce the risk that key executives will leave Hecla before a transaction closes. The committee also believes that these agreements motivate the executives to make decisions that are in the best interests of our shareholders should a change of control take place. These agreements do this by providing executives with the necessary job stability and financial security during a change of control transaction and the subsequent period of uncertainty to help them stay focused on managing Hecla rather than on their own

*Continues on next page*4

personal employment situation. The committee believes that all of these objectives serve the shareholders interests. The committee also believes that change of control provisions are an essential component of the executive compensation program and are necessary to attract and retain senior talent in the highly competitive talent market in which we compete.

The change of control provisions were developed by the Company and the committee based on market and industry competitive practice. The Company and the committee periodically review the benefits provided under the agreements to ensure that they serve our interests in retaining our key executives, are consistent with market and industry practice, and are reasonable. For example, the Company recently amended the CIC Agreements with its NEOs to provide for double trigger equity vesting rather than single trigger in the event of change of control.

Under the terms of our CIC Agreements, the CEO and the other NEOs are entitled to payments and benefits upon

the occurrence of specified events, including termination of employment (with and without cause) following a change of control of the Company. The specific terms of these arrangements, as well as an estimate of the compensation that would have been payable had they been triggered as of fiscal year-end, are described in detail in the section entitled Change of Control and Termination on page 69.

The termination of employment provisions of the CIC Agreements were entered into to address competitive concerns when the NEOs were recruited to Hecla by providing these individuals with a fixed amount of compensation that would offset the risk of leaving their prior employer or foregoing other opportunities to join the Company. At the time of entering into these arrangements, the committee considered the aggregate potential obligations of the Company in the context of the desirability of hiring the individual and the expected compensation upon joining Hecla.

Tax and Accounting Considerations

Our compensation programs are affected by each of the following:

Accounting for Stock-Based Compensation. We account for stock-based compensation in accordance with the requirements of FASB ASC Topic 718. We also take into consideration other generally accepted accounting principles in determining changes to policies and practices for our stock-based compensation programs.

Section 162(m) of the Internal Revenue Code. Section 162(m) of the Internal Revenue Code of 1986, as amended (Code Section 162(m)) provides that compensation in excess of $1 million paid to the CEO or to any other NEO (other than the chief financial officer) of a public company will not be deductible for federal income tax purposes unless such compensation is paid pursuant to one of the enumerated exceptions set forth in Code Section 162(m). We also believe that it is important to preserve flexibility in administering compensation programs in a manner designed to promote varying corporate goals. Accordingly, we have not adopted a policy that all compensation must qualify as deductible under Section 162(m). Amounts awarded or paid under any of our compensation programs, including salaries, annual incentive awards, performance awards, stock options and RSUs, may not qualify as performance-based compensation that is excluded from the limitation on deductibility.

Our primary objective in designing and administering our compensation policies is to support and encourage the achievement of our strategic goals and to enhance long-term shareholder value. For these and other reasons, the committee has determined that it will not necessarily seek to limit executive compensation to the amount that will be fully deductible under Code Section 162(m). The committee will continue to monitor developments and assess alternatives for preserving the deductibility of compensation payments and benefits to the extent reasonably practicable, as determined by the committee to be consistent with our compensation policies and in the best interests of the Company and our shareholders.

In 2013, Mr. Baker, our President and Chief Executive Officer, earned amounts subject to Section 162(m) in excess of $1 million, therefore a portion of his total compensation is not deductible by Hecla.

Section 409A of the Internal Revenue Code. Section 409A imposes additional significant taxes in the event that an executive officer or director receives deferred compensation that does not satisfy the requirements of Section 409A. We believe that we have designed and operated our plans to appropriately comply with Section 409A.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with Hecla s management and its independent compensation consultant. Based on its review and discussions, the committee recommended to the Board, and the Board has approved, the Compensation Discussion and Analysis included in this Proxy Statement and incorporated by reference in Hecla s Annual Report on Form 10-K for the year ended December 31, 2013.

Respectfully submitted by
The Compensation Committee of the
Board of Directors

George R. Nethercutt, Jr., Chairman
Ted Crumley
Terry V. Rogers
Dr. Anthony P. Taylor

Compensation Tables

Summary Compensation Table for 2013

The following compensation tables provide information regarding the compensation of our CEO, CFO, and four other NEOs who were the most highly compensated in the calendar year ended December 31, 2013 (NEOs).

Name and Principal Position	Year	Salary[1] ($)	Bonus[2] ($)	Stock Awards[3] ($)	Option Awards[3] ($)	Non-Equity Incentive Plan Compensation[4] ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings[5] ($)	All Other Compensation ($)	Total ($)
Phillips S. Baker, Jr.	2013	575,208		1,073,874[8]	0	1,497,375	692,922	15,300[6]	3,854
President and Chief	2012	522,917		979,305	0	1,355,000	1,059,514	15,000	3,931
Executive Officer	2011	472,500		800,004	0	1,745,000	592,579	12,792	3,622
James A. Sabala	2013	341,458		344,999	0	825,750	268,474	15,300[6]	1,795
Senior Vice President	2012	313,750		327,000	0	552,050	254,701	15,000	1,462
and CFO	2011	290,000		299,998	0	653,750	148,278	12,317	1,404
Lawrence P. Radford	2013	341,458		300,000	0	589,950	91,197	15,300[6]	1,337
Senior Vice	2012	313,750		222,000	0	360,980	38,823	15,000	950
President Operations	2011	47,884		414,180	0	82,208	2,817	11,243	558
Dr. Dean W. A. McDonald[9]	2013	279,443		300,000	0	455,400	183,417	16,210[7]	1,234
Senior Vice President -	2012	242,444		294,000	0	337,840	200,307	15,000	1,089
Exploration	2011	212,500		270,008	0	442,250	118,525	15,213	1,058
David C. Sienko	2013	241,875		154,001	0	387,900	60,693	15,300[6]	859
Vice President and General Counsel	2012	224,167		154,000	0	279,460	47,176	15,000	719
	2011	207,500		146,004	0	327,450	24,713	14,700	720
Don Poirier[9]	2013	233,080		199,999	0	370,620	130,940	16,210[7]	950
Vice President	2012	210,411		193,000	0	292,000	149,824	15,000	860
Corporate Development	2011	200,000		170,002	0	378,000	89,925	15,213	853

1. Salary amounts include both base salary earned and paid in cash during the fiscal year listed.
2. In accordance with SEC rules, the Bonus column will only disclose discretionary cash bonus awards. In each of 2011, 2012 and 2013, there were no discretionary cash bonuses awarded to any NEO.
3. The amounts shown in the Stock Awards column and the Option Awards column represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. For a description of the assumptions used in valuing the awards, please see Note 9 to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2013. Please see the Grants of Plan-Based Awards for 2013 table on page 66 for more information about the awards granted in 2013.

4. This column represents the cash performance payments awarded and earned by the NEOs in the calendar years 2011 and 2012 under our AIP and plan periods 2009-2011 and 2010-2012 under our LTIP. The 2013 AIP and the 2011-2013 LTIP awards were paid 50% in cash and 50% in equity up to target level payout, with any portion above target also paid in equity in the form of restricted stock units that vest on August 26, 2014. The awards for each of the plan years are as follows:

Name	Year	AIP Award ($)	LTIP Plan Period	LTIP Units (#)	Unit Value ($)	LTIP Award ($)	Total AIP and LTIP ($)	Total AIP and LTIP Paid in Cash ($)	Total AIP and LTIP Paid in Shares* (#)
	2013	544,500	2011-2013	8,250	115.50	952,875	1,497,375	684,750	237,610
Baker	2012	605,000	2010-2012	7,500	100.00	750,000	1,355,000	1,355,000	0
	2011	625,000	2009-2011	5,600	200.00	1,120,000	1,745,000	1,745,000	0
	2013	479,250	2011-2013	3,000	115.50	346,500	825,750	283,125	158,662
Sabala	2012	292,050	2010-2012	2,600	100.00	260,000	552,050	552,050	0
	2011	303,750	2009-2011	1,750	200.00	350,000	653,750	653,750	0
	2013	399,375	2011-2013	1,650	115.50	190,575	589,950	215,625	109,452
Radford	2012	269,280	2010-2012	917	100.00	91,700	360,980	360,980	0
	2011	45,608	2009-2011	183	200.00	36,600	82,208	82,208	0
	2013	247,500	2011-2013	1,800	115.50	207,900	455,400	193,125	76,689
McDonald	2012	177,840	2010-2012	1,600	100.00	160,000	337,840	337,840	0
	2011	182,250	2009-2011	1,300	200.00	260,000	442,250	442,250	0
	2013	180,000	2011-2013	1,800	115.50	207,900	387,900	165,000	65,175
Sienko	2012	149,460	2010-2012	1,300	100.00	130,000	279,460	279,460	0
	2011	161,250	2009-2011	831	200.00	166,200	327,450	327,450	0
	2013	162,720	2011-2013	1,800	115.50	207,900	370,620	157,800	62,228
Poirier	2012	132,000	2010-2012	1,600	100.00	160,000	292,000	292,000	0
	2011	138,000	2009-2011	1,200	200.00	240,000	378,000	378,000	0

* Shares were valued based on the closing price of Hecla s common stock on the NYSE on March 3, 2014 ($3.42).

5. The amounts reported in this column are changes between December 31, 2012 and December 31, 2013 in the actuarial present value of the accumulated pension benefits. None of the amounts reported in this column are above-market nonqualified deferred compensation earnings.
6. These amounts are Hecla s matching contributions made under Hecla s Capital Accumulation Plan for the NEOs.
7. These amounts are for retirement contributions made on behalf of Dr. McDonald and Mr. Poirier. Canadian employees are excluded from participation in the Hecla Capital Accumulation Plan. Dr. McDonald and Mr. Poirier are paid in Canadian funds. The amounts reported are in U.S. dollars based on the applicable exchange rates as reported in *The Wall Street Journal* from time-to-time.
8. Includes: (i) restricted stock units (170,648) granted to Mr. Baker on June 21, 2013; and (ii) performance-based shares (170,648) awarded to Mr. Baker on June 21, 2013. See Performance-based Shares on page 58 for a description of the performance-based shares.
9. Dr. McDonald and Mr. Poirier receive their compensation in Canadian funds. The amounts reported for Dr. McDonald and Mr. Poirier are in U.S. dollars based on the applicable exchange rates as reported in *The Wall Street Journal* from time-to-time during this time period.

*Continues on next page*4

The following table shows all plan-based awards granted to the NEOs during 2013.

Grants of Plan-Based Awards for 2013

Name	Grant Date	Long-Term Performance Plan Units (#)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)	Other Stock Awards: Number of Shares of Stock or Units (#)[1]	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Closing Market Price on Date of Grant ($)
Phillips S. Baker, Jr.									
Restricted Stock[2]	6/21/13					170,648			2.93
Performance Shares[3]	6/21/13					170,648			2.93
LTIP[4]		8,250	0	1,031,250	2,475,000				
AIP[5]			0	605,000	1,210,000				
James A. Sabala									
Restricted Stock[2]	6/21/13					117,747			2.93
LTIP[4]		3,400	0	425,000	1,020,000				
AIP[5]			0	266,250	532,500				
Lawrence P. Radford									
Restricted Stock[2]	6/21/13					102,389			2.93
LTIP[4]		3,000	0	375,000	900,000				
AIP[5]			0	266,250	532,500				
Dr. Dean W.A. McDonald									
Restricted Stock[2]	6/21/13					102,389			2.93
LTIP[4]		2,600	0	325,000	780,000				
AIP[5]			0	206,250	412,500				
David C. Sienko									
Restricted Stock[2]	6/21/13					52,560			2.93
LTIP[4]		1,900	0	237,500	570,000				
AIP[5]			0	150,000	300,000				
Don Poirier									
Restricted Stock[2]	6/21/13					68,259			2.93
LTIP[4]		2,050	0	256,250	615,000				
AIP[5]			0	135,600	271,200				

1. We account for equity-based awards in accordance with the requirements of FASB ASC Topic 718, pursuant to which we recognize compensation expense of performance-based share awards to an employee based on the fair value of the award on the grant date. Compensation expense of restricted stock and RSU awards to an employee is based on the stock price at grant date. The compensation expense for restricted stock and RSUs is recognized over the vesting period.
2. Represents the number of RSUs granted on June 21, 2013, to the NEOs under the terms of the KEDCP. The restrictions lapse for one-third of the RSUs on June 21, 2014, one-third on June 21, 2015, and one-third on June 21, 2016, at which time the units are converted into shares of our common stock. The grant date fair value of the RSUs is the number of restricted shares multiplied by the closing price of the Company common stock on the grant date of $2.93.
3. Represents the number of performance-based shares of Hecla common stock, having a target value of $500,000 with the potential of up to 200% of this target value (subject to specific performance terms and conditions established for these shares) to Mr. Baker under the KEDCP. Award of these performance-based shares will be on the basis of TSR of Hecla common stock for the three-year period from January 1, 2013 through December 31, 2015, based on the following percentile rank within peer group companies:

- 100th percentile rank among peers = maximum award at 200% of target
- 50th percentile rank among peers = target award at grant value
- 25th percentile rank among peers = threshold award at 50% of target
- Hecla s TSR performance versus that of peer group companies will be based on average share price over the last 60 calendar days prior to January 1, 2013, as the base price, and average share price the last 60 calendar days of the three-year performance period to determine relative share value performance and ranking among peers

4. Represents the potential value of the payout for each NEO under the 2013-2015 LTIP period if the threshold, target or maximum goals are satisfied for all performance measures. The potential payouts are performance-driven and therefore completely at risk. The business

measurements and performance goals for determining the payout are described in the Compensation Discussion and Analysis beginning on page 42. Dollar amounts shown in this column are valued as follows: Threshold, $0; Target, $125; and Maximum, $300. As reflected in the Summary Compensation Table, awards were paid out in March 2014 for the three-year period 2011-2013. Awards were paid 50% in cash and 50% in equity up to target level payout, with any portion above target also paid in equity in the form of RSUs that vest on August 26, 2014.

5. Represents the potential value of the payout for each NEO under the 2013 AIP described on page 54. The total payout to each NEO under the 2013 AIP is described in footnote 4 to the Summary Compensation Table . Awards were paid 50% in cash and 50% in equity up to target level payout, with any portion above target also paid in equity in the form of restricted stock units that vest on August 26, 2014.

The following table provides information on the current holdings of stock option and stock awards by the NEOs. This table includes unexercised and unvested stock option awards, and unvested RSUs. Each equity grant is shown separately for each NEO. The stock option prices shown were determined by using the mean between the highest and lowest reported sales prices of our common stock on the NYSE on the date of grant. The market value of the RSUs is based on the closing market price of our common stock on the NYSE as of December 31, 2013, which was $3.08.

Outstanding Equity Awards at Calendar Year-End for 2013

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Grant Date	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested as of 12/31/13 ($)
Phillips S. Baker, Jr.	235,602		3.42	5/28/09	5/28/14		
	137,615		5.52	5/5/10	5/5/15		
						54,870[1]	169,000
						71,840[2]	221,267
						170,648[3]	525,596
						107,759[4]	479,304
						170,648[5]	573,875
James A. Sabala						20,576[1]	63,374
						46,983[2]	144,707
						117,747[3]	362,660
Lawrence P. Radford						26,001[1]	80,080
						31,897[2]	98,243
						102,389[3]	315,358
						26,000[6]	80,080
Dr. Dean W. A. McDonald	65,445		3.42	5/28/09	5/28/14		
	38,226		5.52	5/5/10	5/5/15		
						18,519[1]	57,039
						42,242[2]	130,105
						102,389[3]	315,358
David C. Sienko	15,000		4.735	1/29/10	1/29/15		
	30,581		5.52	5/5/10	5/5/15		
						10,014[1]	30,843
						22,127[2]	68,151
						52,560[3]	161,885
Don Poirier	52,356		3.42	5/28/09	5/28/14		
	30,581		5.52	5/5/10	5/5/15		
						11,660[1]	35,913
						27,730[2]	85,408
						68,259[3]	210,237

1. RSU awards made on June 24, 2011, under the terms of the 2010 Stock Incentive Plan. The restrictions lapsed on March 14, 2014.
2. RSU awards made on June 25, 2012, under the terms of the KEDCP. The restrictions lapsed on one-third of the shares on June 25, 2013. The remaining restrictions lapse one-third on June 25, 2014 and one-third on June 25, 2015. If any NEO leaves the Company before the restrictions lapse, the NEO forfeits these RSUs. The RSUs earn dividend equivalents once they vest.
3. RSU awards made on June 21, 2013, under the terms of the KEDCP for Mr. Baker, and under the 2010 Stock Incentive Plan for the other NEOs. The restrictions lapse for one-third of the shares on June 21, 2014, one-third on June 21, 2015, and one-third on June 21, 2016. If any NEO leaves the Company before the restrictions lapse, the NEO forfeits these RSUs. The RSUs earn dividend equivalents once they vest.
4. Award of performance-based shares that will be earned on the basis of TSR of Hecla common stock for the three-year period from January 2, 2012 to December 31, 2014. The value of performance-based shares is determined using a Monte Carlo analysis of future stock prices. The number of shares will be determined at the end of the three-year performance period.

5. Award of performance-based shares that will be earned on the basis of TSR of Hecla common stock for the three-year period from January 1, 2013 through December 31, 2015. The value of performance-based shares is determined using a Monte Carlo analysis of future stock prices. The number of shares will be determined at the end of the three-year performance period.
6. RSU awards made on October 19, 2011. The 26,000 RSUs vest on August 5, 2016. The RSUs earn dividend equivalents once they vest.

*Continues on next page*4

The following table shows information concerning the exercise of stock options and the number of stock awards that vested during calendar year 2013 for each of the NEOs, and the value realized on the exercise of options and vesting of stock awards during calendar year 2013.

Option Exercises and Stock Vested for 2013

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting[1] (#)	Value Realized on Vesting ($)
Phillips S. Baker, Jr.			35,919[2]	
James A. Sabala			23,820	68,125
Lawrence P. Radford			16,171	46,249
Dr. Dean W.A. McDonald			21,415	61,247
David C. Sienko			11,218	32,083
Don Poirier			14,059	40,209

1. The NEOs were granted these RSUs on June 25, 2012. On June 25, 2013, the restrictions lapsed and each NEO received his units in the form of shares of our common stock. The shares vested at the price of $2.86, which was the closing sales price of our common stock on the NYSE on June 25, 2013. The vested shares earned dividend equivalent shares as follows:

Name	# of Shares Vested	# of Dividend Equivalent Shares Earned
Baker	35,919	
Sabala	23,491	329
Radford	15,948	223
McDonald	21,120	295
Sienko	11,063	155
Poirier	13,865	194

2. Mr. Baker deferred the shares into his stock account under the terms of the KEDCP. He may not receive the shares until a Distributable Event, as defined under the KEDCP, and will not realize value until the shares are distributed to him.

The table below provides information on the nonqualified deferred compensation of the NEOs in 2013.

Nonqualified Deferred Compensation for 2013[1]

Name	Executive Stock Contributions in Last FYE[2] (#)	Registrant Contributions in Last FYE ($)	Aggregate Earnings in Last FYE ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance of Stock at Last FYE (#)
Phillips S. Baker, Jr.	35,919				90,789[3]
James A. Sabala					
Lawrence P. Radford					
Dr. Dean W. A. McDonald[4]					
David C. Sienko					
Don Poirier[4]					

1. No cash compensation was deferred by NEOs in 2013.
2. Only vested stock was deferred into the KEDCP in 2012 and 2013.
3. Mr. Baker deferred 35,919 shares of restricted stock that vested in June 2013 into the KEDCP. In June 2012, he deferred 54,870 shares of restricted stock that vested.
4. Canadian employees are not eligible to participate in our deferred compensation plan.

Pursuant to the Company s KEDCP, executives and key employees, including the NEOs, may defer awards earned under the LTIP, AIP and any RSUs granted under the terms of the KEDCP and 2010 Stock Incentive Plan. Deferral elections are made by eligible executives in the prior year for amounts to be earned (or granted with regard to long-term stock grants) in the following year. An

executive may defer all or a portion of their annual non-equity incentive compensation, long-term stock unit

grants, awards under the KEDCP, up to 100% of their base compensation and up to 100% of their performance-based or bonus compensation. The KEDCP also provides for corporate matching amounts where the participants elect to have their deferred compensation value based on our common stock in order to promote alignment of the participants with our common shareholders. It also provides for corporate discretionary allocations of amounts valued by our common stock.

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Amounts deferred under the KEDCP are initially credited to either an investment account or a stock account. Amounts credited to the investment account of a participant under the KEDCP are valued in dollars and are delivered to the participant in cash upon a distributable event. Amounts credited to the stock account of a participant are valued based upon our common stock and are delivered to the participant in shares of our common stock upon a distributable event.

As of the end of the last day of each calendar month, an additional amount is credited to the investment account of the participant equal to the product of (i) the average daily balance of the investment account for the month, multiplied by (ii) the annual prime rate for corporate borrowers quoted at the beginning of the quarter by *The Wall Street Journal* (or such other comparable interest rate as the Compensation Committee may designate from time-to-time).

The amounts credited to the investment or stock account of a participant under the KEDCP are distributable or payable, in general, upon the earliest to occur of one or more of the following distribution events: (i) the date on which the participant separates from service with us, with the right to a distribution delayed for six months for certain specified employees ; (ii) the date on which the participant separates from service with us due to disability which is defined in Section 409A of the Internal Revenue Code; (iii) the date on which

the participant dies; (iv) a fixed date or fixed schedule selected by the participant; (v) the date on which occurs an unforeseeable emergency, which is defined in Section 409A of the Internal Revenue Code; (vi) the date on which occurs a change of control of the Company, which is defined in regulations issued by the Internal Revenue Service; and (vii) the date on which the KEDCP terminates.

The KEDCP is at all times considered to be entirely unfunded both for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended, and no provision will at any time be made with respect to segregating our assets for the payment of any amounts under the KEDCP. Any funds that may be invested for purposes of fulfilling our promises under the KEDCP are for all purposes to be part of our general assets and available to general creditors in the event of a bankruptcy or insolvency of the Company. Nothing contained in the KEDCP will constitute a guarantee by us that any funds or assets will be sufficient to pay any benefit under the KEDCP.

Prior to November 6, 2006, in accordance with the terms of the KEDCP, the Compensation Committee could permit participants to purchase discounted stock option units. The KEDCP was amended on November 6, 2006, and as a result, discounted stock option units can no longer be purchased.

Change of Control and Termination

We have Change of Control Agreements (collectively, the CIC Agreements) with our NEOs (Messrs. Baker, Sabala, McDonald, Poirier, Radford and Sienko).

The CIC Agreements were entered into on February 21, 2014 upon the recommendation to the Board by the Compensation Committee and were approved by the Board on the basis of such recommendation. The CIC Agreements provide that each of the NEOs shall serve in such executive position as the Board may direct. The CIC Agreements become effective only upon a change of control of the Company (the date of such change of control is referred to as the Effective Date). The term of employment under the CIC Agreements is three years from the Effective Date (except for Mr. Radford who has a term of two years from the Effective Date). Any CIC Agreements entered into with newly hired executives will contain an employment term of two years from the Effective Date. The CIC Agreements have a change of control period of three years (except

for Mr. Radford who has a term of one year), and this period is automatically renewed for an additional year from the anniversary date of each year unless we give notice of nonrenewal 60 days prior to the renewal date. Under the CIC Agreements, a change of control is, with certain limitations, deemed to occur if: (i) an individual or entity (including a group under Section 13d-3 of the Exchange Act) becomes the beneficial owner of 20% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; (ii) as the result of a tender offer, merger, proxy fight or similar transaction, the persons who were previously directors of the Company cease to constitute a majority of the Board; (iii) consummation of the sale of all, or substantially all, of the

assets of the Company (with certain limitations); or (iv) the approval of a plan of dissolution or liquidation.

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The CIC Agreements are intended to ensure, among other things that, in the event of a change of control, each NEO will continue to focus on adding shareholder value. We seek to accomplish this by assuring that each NEO continues to receive payments and other benefits equivalent to those he was receiving at the time of a change of control for the duration of the term of the CIC Agreement. The CIC Agreements also provide that should a NEO s employment be terminated either (i) by the NEO for good reason, or (ii) by the Company (other than for cause or disability) after the Effective Date of the CIC Agreement, he would receive from us a lump-sum defined amount generally equivalent to three times the aggregate of his then annual base salary rate and his highest annual incentive prior to the Effective Date. For Mr. Radford and any other CIC Agreements entered into after February 21, 2014, the lump-sum defined amount is generally equivalent to two times.

The NEOs would also be entitled to lump-sum payments representing the difference in pension and supplemental retirement benefits to which they would be entitled on (i) the date of actual termination, and (ii) the end of the three-year (or two-year where applicable) employment period under the CIC Agreements. We would also maintain such NEO s participation in all benefit plans and programs (or provide equivalent benefits if such continued participation was not possible under the terms of such plans and programs).

A NEO whose employment has terminated would not be required to seek other employment in order to receive the defined benefits.

The table starting on page 72 reflects the amount of compensation to each of the NEOs in the event of termination of such NEO s employment under the terms of the NEO s CIC Agreement. That table also shows the amount of compensation payable to each NEO upon voluntary termination; involuntary not for cause termination; for cause termination; termination following a change of control; and in the event of disability or death of the NEO. The amounts shown assume that such termination was effective as of December 31, 2013, and thus includes amounts earned through such time, and are estimates of the amounts which would be paid out to the NEOs upon their termination. The actual amounts to be paid out can only be determined at the time of such NEO s separation from Hecla.

Payments Made Upon Termination. For voluntary and involuntary not for cause terminations, NEOs may receive: (i) a prorated portion of short-term performance compensation; (ii) any amounts due under matured long-term performance compensation plans; (iii) one month of health and welfare benefits; and (iv) any earned, but unused vacation. Neither of these terminations would impact their vested retirement plans and the 401(k) match would be deposited in their accounts.

Payments Made Upon Retirement. The NEOs could receive a prorated portion of any short-term performance compensation and a prorated portion of any long-term compensation in effect at the time of their retirement. They would also receive one month of health and welfare benefits and any earned but unused vacation, and the 401(k) match would be deposited in their accounts. As of December 31, 2013, none of the NEOs are eligible for early or regular retirement.

Payments Made Upon Death or Disability. Upon death or disability, the NEOs would receive a prorated portion of any short-term performance compensation, as well as a prorated portion of any long-term compensation plans in which the NEO was a participant. In both cases, retirement would be reduced in accordance with the terms of the plans and, in the case of death, the surviving spouse or other beneficiary would receive the payments. They would also receive one month of health and welfare benefits and any accrued, but unused vacation and the 401(k) match would be deposited in their accounts.

Payments Made Upon a Change of Control. If a change of control occurs as defined in the NEOs CIC Agreements, they would be eligible for a prorated portion of any short-term performance compensation and a prorated portion of any long-term performance compensation as though they had been employed for an additional three years. They would also receive three years of health and welfare benefits and disability and life insurance premiums would be paid. In addition to any earned, but unused vacation, they would be eligible for up to $20,000 in outplacement assistance and the 401(k) match would be deposited in their accounts. Payment would be as if they had been employed for an additional two years for the CIC Agreement with Mr. Radford and any other CIC Agreements entered into after February 21, 2014.

The CIC Agreements provide for specified payments and other benefits if the NEO s employment is terminated either (i) by the NEO for good reason, or (ii) by Hecla or its successor other than for cause, death or disability, within the three years (two years for Mr. Radford) following a change of control, or prior to a change of control if it can be demonstrated that the termination was related to a potential change of control. These payments and benefits include the following:

- all accrued obligations;
- a lump-sum payment equal to three times the sum of the NEO s then annual base salary and the NEO s highest annual and long-term incentive payment for the three years prior to the change of control, with a multiple of two times for the CIC Agreement with Mr. Radford and any other CIC Agreement entered into after February 21, 2014;
- a lump-sum payment equal to the difference in the Retirement Plan and Supplemental Plan benefits to which the NEO would be entitled on (i) the date of actual termination, and (ii) three years later, with two years later for the CIC Agreement with Mr. Radford and any other CIC Agreement entered into after February 21, 2014; and
- for Messrs. Baker, Sabala, McDonald, Sienko and Poirier, the continued participation for three years in all of Hecla s benefits plans and programs to which the NEO would be entitled on the date of the change of control (or provision of equivalent benefits if such continued participation was not possible under the terms of such plans and programs) with a term of two years for the CIC Agreement with Mr. Radford and any other CIC Agreement entered into after February 21, 2014.

In addition, the CIC Agreements, in conjunction with our equity compensation plans, provide for immediate vesting of all stock options and restricted stock awards in the event of a change of control and the NEO is terminated without cause or leaves for good reason (i.e., a double trigger). In such a situation the Long-term Incentive Plan would also pay out a prorated award based on target performance, regardless of actual performance. However, this payment directly offsets the cash severance payment by the same amount. These provisions are intended to recognize the value of the NEO s long-term contribution to Hecla and ensure, among other things that, in the event of a change of control, each NEO will continue to focus on adding shareholder value.

The CIC Agreements provide that in the event that (i) a payment qualifies as an excess parachute payment under Section 280G of the Internal Revenue Code and is therefore subject to an excise tax, and (ii) the value of the excess parachute payment exceeds 110% of the safe harbor amount, then we will make an additional gross-up payment to place the NEO in the same after-tax position as if no excise tax were imposed. If the value of the excess parachute payment does not exceed 110% of the safe harbor amount, then no gross-up payment will be made to the NEO. The intent of this provision is to limit the exposure of Hecla and the NEOs to the excess parachute payment rules. The CIC Agreement for Mr. Radford, and any CIC Agreement entered into with newly hired executives after February 21, 2014, apply a Best Net After Tax Payment, which reduces the amount received by the NEO upon a change of control if the NEO would receive a greater after-tax benefit than he would receive if full severance benefits were paid, taking into account all applicable taxes including any excise tax.

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Potential Payments Upon Termination or Change-in-Control

Executive Benefits and Payments Upon Termination	Voluntary Termination on 12/31/13 ($)	Involuntary Not For Cause Termination on 12/31/13 ($)	For Cause Termination on 12/31/13 ($)	Termination Following a Change of Control on 12/31/13 ($)	Disability on 12/31/13 ($)	Death on 12/31/13 ($)
Phillips S. Baker, Jr.						
Short-term Performance Compensation	544,500	544,500		1,875,000[1]	544,500	544,500
Stock Options						
Restricted Stock				1,969,042		
Long-term Performance Compensation	952,875	952,875	952,875	3,360,000[2]	1,777,875	1,777,875
Benefits & Perquisites:						
Retirement Plans[3]	3,367,865	3,367,865	3,367,865	4,928,982	6,081,973	3,895,681
Deferred Compensation[4]						
Health and Welfare Benefits[5]	1,922	1,922	1,922	69,192	1,922	1,922
Disability Income[6]					1,138,803	
Life Insurance Benefits[7]				11,103		325,000
Change of Control Payment[8]				1,815,000		
Earned Vacation Pay[9]	46,536	46,536	46,536	46,536	46,536	46,536
Outplacement				20,000		
Total	**4,913,698**	**4,913,698**	**4,369,198**	**14,094,855**	**9,591,609**	**6,591,514**
James A. Sabala						
Short-term Performance Compensation	479,250	479,250		1,437,750[1]	479,250	479,250
Stock Options						
Restricted Stock				570,741		
Long-term Performance Compensation	346,500	346,500	346,500	1,050,000[2]	673,166	673,166
Benefits & Perquisites:						
Retirement Plans[3]	796,767	796,767	796,767	1,212,084	978,257	664,686
Deferred Compensation[4]						
Health and Welfare Benefits[5]	1,922	1,922	1,922	69,192	1,922	1,922
Disability Income[6]					766,911	
Life Insurance Benefits[7]				11,103		325,000
Change of Control Payment[8]				1,065,000		
Earned Vacation Pay[9]	20,480	20,480	20,480	20,480	20,480	20,480
Outplacement				20,000		
Total	**1,644,919**	**1,644,919**	**1,165,669**	**5,456,350**	**2,919,986**	**2,164,504**
Lawrence P. Radford						
Short-term Performance Compensation	399,375	399,375		798,750[1]	399,375	399,375
Stock Options						
Restricted Stock				573,761		
Long-term Performance Compensation	190,575	190,575	190,575	381,150[2]	457,240	457,240
Benefits & Perquisites:						
Retirement Plans[3]	132,837	132,837	132,837	320,563	258,041	163,484
Deferred Compensation[4]						
Health and Welfare Benefits[5]	1,922	1,922	1,922	46,128	1,922	1,922
Disability Income[6]					1,195,367	
Life Insurance Benefits[7]				11,103		325,000
Change of Control Payment[8]				710,000		
Earned Vacation Pay[9]	20,480	20,480	20,480	20,480	20,480	20,480
Outplacement				20,000		
Total	**745,189**	**745,189**	**345,814**	**2,881,935**	**2,332,425**	**1,367,501**

Executive Benefits and Payments Upon Termination	Voluntary Termination on 12/31/13 ($)	Involuntary Not For Cause Termination on 12/31/13 ($)	For Cause Termination on 12/31/13 ($)	Termination Following a Change of Control on 12/31/13 ($)	Disability on 12/31/13 ($)	Death on 12/31/13 ($)
Dr. Dean W.A. McDonald						
Short-term Performance Compensation	247,500	247,500		742,500[1]	247,500	247,500
Stock Options						
Restricted Stock				502,502		
Long-term Performance Compensation	207,900	207,900	207,900	780,000[2]	461,233	461,233
Benefits & Perquisites:						
Retirement Plans[3]	665,144	665,144	665,144	1,171,126	957,456	634,706
Deferred Compensation[4]						
Health and Welfare Benefits[5]	260	260	260	9,360	260	260
Disability Income[6]					581,301	
Life Insurance Benefits[7]				8,151		189,000
Change of Control Payment[8]				825,000		
Earned Vacation Pay[9]	15,865	15,865	15,865	15,865	15,865	15,865
Outplacement				20,000		
Total	**1,136,669**	**1,136,669**	**889,169**	**4,074,504**	**2,263,615**	**1,548,564**
David C. Sienko						
Short-term Performance Compensation	180,000	180,000		540,000[1]	180,000	180,000
Stock Options						
Restricted Stock				260,879		
Long-term Performance Compensation	207,900	207,900	207,900	623,700[2]	397,900	397,900
Benefits & Perquisites:						
Retirement Plans[3]	138,115	138,115	138,115	265,602	463,633	271,825
Deferred Compensation[4]						
Health and Welfare Benefits[5]	586	586	586	21,096	586	586
Disability Income[6]					1,512,617	
Life Insurance Benefits[7]				9,510		250,000
Change of Control Payment[8]				750,000		
Earned Vacation Pay[9]	14,423	14,423	14,423	14,423	14,423	14,423
Outplacement				20,000		
Total	**541,024**	**541,024**	**361,024**	**2,505,210**	**2,569,159**	**1,114,734**
Don Poirier						
Short-term Performance Compensation	162,720	162,720		488,160[1]	162,720	162,720
Stock Options						
Restricted Stock				331,558		
Long-term Performance Compensation	207,900	207,900	207,900	720,000[2]	409,567	409,567
Benefits & Perquisites:						
Retirement Plans[3]	462,182	462,182	462,182	804,144	774,958	501,985
Deferred Compensation[4]						
Health and Welfare Benefits[5]	260	260	260	9,360	260	260
Disability Income[6]					657,470	
Life Insurance Benefits[7]				8,921		220,000
Change of Control Payment[8]				678,000		
Earned Vacation Pay[9]	13,038	13,038	13,038	13,038	13,038	13,038
Outplacement				20,000		
Total	**846,100**	**846,100**	**683,380**	**3,073,181**	**2,018,013**	**1,307,570**

1. Represents three times the highest annual incentive payment paid in the last three years for Messrs. Baker, Sabala, McDonald, Sienko and Poirier. Represents two times the highest annual incentive payment paid in the last three years for Mr. Radford.
2. Represents three times the highest long-term incentive payment paid in the last three years for Messrs. Baker, Sabala, McDonald, Sienko and Poirier. Represents two times the highest long-term incentive payment paid in the last three years for Mr. Radford.
3. Reflects the estimated lump-sum present value of qualified and nonqualified retirement plans to which the NEO would be entitled. None of the NEOs qualify for early or regular retirement on December 31, 2013, under our retirement plan.
4. Reflects the lump-sum present value held in the NEO s account under our KEDCP as of December 31, 2013.
5. Reflects the estimated lump-sum value of all future premiums, which will continue to be paid by the Company on behalf of Messrs. Baker, Sabala, McDonald, Sienko and Poirier under our health and welfare benefit plans for three years upon change of control and for one month

otherwise. Reflects the estimated lump-sum value of all future premiums, which will continue to be paid by the Company on behalf of Mr. Radford under our health and welfare benefit plans for two years upon change of control and for one month otherwise.

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6. Reflects the estimated lump-sum present value of all future payments, which the NEO would be entitled to receive under our disability program.
7. Reflects the estimated lump-sum value of the cost of coverage for life insurance provided by us to the NEO; provided, however, that the amount reflected under the heading Death reflects the estimated present value of the proceeds payable to the NEO s beneficiaries upon his death.
8. Represents three times annual base salary for Messrs. Baker, Sabala, McDonald, Sienko and Poirier. Represents two times annual base salary for Mr. Radford.
9. Represents lump-sum payment of earned vacation time accrued.

Equity Compensation Plan Information

As of December 31, 2013, the Company has three equity incentive compensation plans that have been approved by the shareholders under which shares of the Company s

common stock have been authorized for issuance to directors, officers, employees, and consultants. All outstanding awards relate to our Common Stock.

	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders:			
2010 Stock Incentive Plan		N/A	18,065,847
1995 Stock Incentive Plan[1]	612,745	4.29	
Stock Plan for Nonemployee Directors		N/A	594,635
Key Employee Deferred Compensation Plan		N/A	1,019,948
Equity Compensation Plans Not Approved by Security Holders			
Total	612,745	4.29	19,680,430

1. The 1995 Stock Incentive Plan expired on May 5, 2010. No additional stock options or restricted stock can be granted under this plan. However all outstanding stock options and restricted stock granted under this plan will continue to be governed by the provisions of the plan.

Other Benefits

Retirement Plan

Our NEOs participate in the Hecla Mining Company Qualified Retirement Plan (the Retirement Plan), which covers substantially all of our employees, except for certain hourly employees who are covered by separate plans and non U.S. residents with no U.S. sourced income. As non U.S. residents with no U.S. sourced income, Dr. McDonald and Mr. Poirier are not eligible participants in the Retirement Plan, or in the unfunded Supplemental Excess Retirement Plan. In lieu of participation in these plans, Dr. McDonald and Mr. Poirier are provided a benefit that would have been accrued were they eligible to participate in these plans.

Contributions to the Retirement Plan, and the related expense or income, are based on general actuarial calculations and, accordingly, no portion of our contributions, and related expenses or income, is

specifically attributable to our officers. We also have an unfunded Supplemental Excess Retirement Plan adopted in November 1985 (the SERP) under which the amount of any benefits not payable under the Retirement Plan by reason of the limitations imposed by the Internal Revenue Code and/or the Employee Retirement Income Security Act, as amended (the Acts), and the loss, if any, due to a deferral of salary made under our KEDCP and/or our 401(k) Plan will be paid out of our general funds to any employee who may be adversely affected. Under the Acts, the current maximum annual pension benefit payable by the Retirement Plan to any employee is $205,000 subject to specified adjustments and is calculated using earnings not in excess of $255,000. Upon reaching the normal retirement age of 65, each participant is eligible to receive annual retirement benefits in monthly installments for life equal to, for each

year of credited service, 1% of final average annual earnings (defined as the highest average earnings of such employee for any 36 consecutive calendar months during the final 120 calendar months of service) up to the applicable covered compensation level (which level is based on the Social Security maximum taxable wage base) and 1.75% of the difference, if any, between final average annual earnings and the applicable covered compensation level. The Retirement Plan and SERP define earnings for purposes of the plans to be a wage or salary for services of employees inclusive of any bonus or special pay including gain sharing programs, contract miners bonus pay and the equivalent, except that on or after July 1, 2013, earnings are defined as base salary or wages for personal services and elective deferrals plus (i) elective deferrals not includable in the gross income of the Employee under Code Sections 125, 132(f)(4), 402(e)(3), 402(h), 403(b) and 457, (ii) one-half (1/2)

of any performance based or annual incentive bonus, (iii) one-half (1/2) of any safety incentive award, (iv) paid time off, other than pay while on disability leave, (v) any post-employment payment for services performed during the course of employment that would have been paid to the Employee prior to the severance from employment if the Employee had continued in employment with and Employer, and (vi) compensation for overtime at the Employee s regular rate of pay.

The following table shows estimated aggregate annual benefits under our Retirement Plan and the SERP payable upon retirement to a participant who retires in 2013 at age 65 having the years of service and final average annual earnings as specified. The table assumes Social Security covered compensation levels as in effect on January 1, 2013.

Estimated Annual Retirement Benefits

Final Average Annual Earnings	Years of Credited Service						
	5	10	15	20	25	30	35
$ 100,000	$ 6,129	$ 12,258	$ 18,386	$ 24,515	$ 30,644	$ 36,773	$ 42,901
150,000	10,504	21,008	31,511	42,015	52,519	63,023	73,526
200,000	14,879	29,758	44,636	59,515	74,394	89,273	104,151
250,000	19,254	38,508	57,761	77,015	96,269	115,523	134,776
300,000	23,629	47,258	70,886	94,515	118,144	141,773	165,401
350,000	28,004	56,008	84,011	112,015	140,019	168,023	196,026
400,000	32,379	64,758	97,136	129,515	161,894	194,273	226,651
450,000	36,754	73,508	110,261	147,015	183,769	220,523	257,276
500,000	41,129	82,258	123,386	164,515	205,644	246,773	287,901
550,000	45,504	91,008	136,511	182,015	227,519	273,023	318,526
600,000	49,879	99,758	149,636	199,515	249,394	299,273	349,151
650,000	54,254	108,508	162,761	217,015	271,269	325,523	379,776
700,000	58,629	117,258	175,886	234,515	293,144	351,773	410,401
750,000	63,004	126,008	189,011	252,015	315,019	378,023	441,026
800,000	67,379	134,758	202,136	269,515	336,894	404,273	471,651
850,000	71,754	143,508	215,261	287,015	358,769	430,523	502,276
900,000	76,129	152,258	228,386	304,515	380,644	456,773	532,901
950,000	80,504	161,008	241,511	322,015	402,519	483,023	563,526
1,000,000	84,879	169,758	254,636	339,515	424,394	509,273	594,151

Benefits listed in the pension table are not subject to any deduction for Social Security or other offset amounts. As of December 31, 2013, the following executive officers have completed the indicated number of full years of

credited service: P. Baker, 12 years; J. Sabala, 5 years; L. Radford, 2 years; D. McDonald, 7 years; D. Sienko, 3 years; and D. Poirier, 6 years.

*Continues on next page*4

Pension Benefits

The following table shows pension information under the Hecla Mining Company Retirement Plan and the SERP for the NEOs as of December 31, 2013. The terms and conditions for participation in, and payments from these plans are described above under Other Benefits. The actuarial present value of accumulated benefit is

determined using the same assumptions used for financial reporting purposes except that retirement age is assumed to be the normal retirement age of 65. These assumptions are described in the pension footnotes to our financial statements included in our Annual Report to shareholders and on Form 10-K.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Calendar Year ($)
Phillips S. Baker, Jr.	Hecla Mining Company Retirement Plan	12	324,161	
	Hecla Mining Company Supplemental Excess Retirement Plan		3,043,704	
James A. Sabala	Hecla Mining Company Retirement Plan	5	193,032	
	Hecla Mining Company Supplemental Excess Retirement Plan		603,735	
Lawrence P. Radford	Hecla Mining Company Retirement Plan	2	52,644	
	Hecla Mining Company Supplemental Excess Retirement Plan		80,193	
Dr. Dean W.A. McDonald[1]	Retirement Plan	7	219,098	
	Supplemental Excess Retirement Plan		446,046	
David C. Sienko	Hecla Mining Company Retirement Plan	3	63,295	
	Hecla Mining Company Supplemental Excess Retirement Plan		74,820	
Don Poirier[1]	Retirement Plan	6	174,669	
	Supplemental Excess Retirement Plan		287,513	

1. As non U.S. residents with no U.S. sourced income, Dr. McDonald and Mr. Poirier are not eligible participants in the Retirement Plan, or the unfunded SERP. In lieu of participation in these plans, Dr. McDonald and Mr. Poirier are provided a benefit that would have been accrued where they able to participate in these plans.

Other Business

As of the date of this Proxy Statement, the Board is not aware of any matters that will be presented for action at the Annual Meeting other than those described above.

However, should other business properly be brought before the Annual Meeting, the proxies will be voted thereon at the discretion of the persons acting thereunder.

By Order of the Board of Directors

Michael B. White
Corporate Secretary

April 8, 2014

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Appendix A

CERTIFICATE OF INCORPORATION

ARTICLE VII.

Actions by Shareholders

Any action required or permitted to be taken by the shareholders of the Corporation must be effected at a duly called annual or special meeting of shareholders of the Corporation and may not be effected by any consent in writing by such shareholders. Special meetings of shareholders of the Corporation may be called only by the Board pursuant to a resolution approved by a majority of the entire Board, except as otherwise permitted by the Bylaws of the Corporation. Notwithstanding anything contained in this Certificate of Incorporate to the contrary, the affirmative vote of the holders of at least 80% of the voting power of the then outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend or repeal this Article VII.

Appendix B

BYLAWS

ARTICLE II.

Meetings of Shareholders

Section 1. Annual Meetings. Annual meetings of shareholders for the election of directors and for such other business as may be stated in the notice of the meeting, shall be held at such place, either within or without the State of Delaware, and at such time and date as the Board of Directors by resolution, shall determine and as set forth in the notice of the meeting. In the event the Board of Directors fails so to determine the time, date and place of meeting, the annual meeting of shareholders shall be held at the principal executive office of the Corporation at 10:00 a.m. on the first Wednesday in May. If the date of the annual meeting shall fall upon a legal holiday, the meeting shall be held on the next succeeding business day. The annual meeting may be adjourned by the chairman of the meeting from time to time and place to place. At any adjourned annual meeting the Corporation may transact any business which might have been transacted at the original annual meeting. The Board of Directors acting by resolution may postpone and reschedule any previously scheduled annual meeting of shareholders upon public notice or disclosure given prior to the date previously scheduled for such meeting of shareholders.

Section 2. Voting. Each shareholder who is entitled to vote pursuant to the terms of the Certificate of Incorporation and these Bylaws, or who is entitled to vote pursuant to the laws of the State of Delaware, shall be entitled to vote in person or by proxy, but no proxy shall be voted after three years from its date unless such proxy provides for a longer period. All elections for directors and all other questions shall be decided by majority vote except as otherwise provided by the Certificate of Incorporation, these Bylaws or the laws of the State of Delaware.

A complete list of the shareholders entitled to vote at any meeting of shareholders at which directors are to be elected, arranged in alphabetical order, with the address of each, and the number of shares held by each, shall be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder who is present.

The Chief Executive Officer shall appoint three Inspectors of Election prior to each meeting of shareholders. Upon his appointment, each such Inspector shall take and sign an oath faithfully to execute the duties of Inspector at such meeting with strict impartiality and to the best of his ability. Such Inspectors shall determine the number of shares outstanding, the voting power of each such share, the number of shares present at the meeting and whether a quorum is present at such meeting. The Inspectors shall receive votes and ballots and shall determine all challenges and questions as to the right to vote and shall thereafter count and tabulate all votes and ballots and determine the result. Such Inspectors shall do such further acts as are proper to conduct the elections of directors and the vote on other matters with fairness to all shareholders. The Inspectors shall make a certificate of the results of the elections of directors and the vote on other matters. No Inspector shall be a candidate for election as a director of the Corporation nor shall any such candidate be appointed an Inspector.

Section 3. Quorum. Except as otherwise required by law, by the Certificate of Incorporation or by these Bylaws, the presence, in person or by proxy, of shareholders holding a majority of the voting power of the outstanding stock of the Corporation shall constitute a quorum at all meetings of the shareholders. In case a quorum shall not be present at any meeting, a majority in interest of the shareholders entitled to vote thereat, present in person or by proxy or the chairman of the meeting, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of stock entitled to vote shall be present; provided, however, that if such adjournment is for more than thirty days, or if after such adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at such adjourned meeting. At any such adjourned meeting at which the requisite amount of stock entitled to vote shall be represented, any business may be transacted which might have been transacted at the meeting as originally noticed; but

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only those shareholders entitled to vote at the meeting as originally noticed shall be entitled to vote at any adjournment or adjournments thereof unless the Board of Directors shall have fixed a new record date for such adjournment or adjournments pursuant to Section 4 of Article V of these Bylaws.

Section 4. Special Meetings.

(A) General. Special meetings of shareholders may be called only by (i) the Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors, or (ii) solely to the extent required by Section 4(B), the Secretary of the Corporation. Special meetings of shareholders may be held at such place, either within or without the State of Delaware, and at such time and date as shall be stated in the notice of the meeting. The special meeting may be adjourned by the chairman of the special meeting from time to tie and place to place. At any adjourned special meeting the Corporation may transact any business which might have been transacted at the original special meeting. The Board of Directors acting by resolution approved by a majority of the entire Board of Directors may postpone and reschedule any previously scheduled special meeting of shareholders upon public notice or disclosure given prior to the date previously scheduled for such meeting of shareholders.

(B) Shareholder Requested Special Meetings.

(1) Special meetings of the shareholders (each a Shareholder Requested Special Meeting) shall be called by the Secretary upon the written request of a shareholder (or a group of shareholders formed for the purpose of making such request) who or which has held at least 25% Net Long Beneficial Ownership (as defined below) of the outstanding common stock of the Corporation continuously for at least 120 days as of the date of submission of the request (the Requisite Percent). Compliance by the requesting shareholder or group of shareholders with the requirements of this section and related provisions of these bylaws shall be determined in good faith by the Board of Directors, which determination shall be conclusive and binding on the Corporation and the shareholders.

Net Long Beneficial Ownership (and its correlative terms), when used to describe the nature of a shareholder s ownership of common stock of the Corporation, shall mean those shares of common stock of the Corporation as to which the shareholder in question possesses (x) the sole power to vote or direct the voting, (y) the sole economic incidents of ownership (including the sole right to profits and the sole risk of loss), and (z) the sole power to dispose of or direct the disposition. The number of shares calculated in accordance with clauses (x), (y) and (z) shall not include any shares (1) sold by such shareholder in any transaction that has not been settled or closed, (2) borrowed by such shareholder for any purposes or purchased by such shareholder pursuant to an agreement to resell or (3) subject to any option, warrant, derivative or other agreement or understanding, whether any such arrangement is to be settled with shares of common stock of the Corporation or with cash based on the notional amount of shares subject thereto, in any such case which has, or is intended to have, the purpose or effect of (A) reducing in any manner, to any extent or at any time in the future, such shareholder s rights to vote or direct the voting and full rights to dispose or direct the disposition of any of such shares or (B) offsetting to any degree gain or loss arising from the sole economic ownership of such shares by such shareholder.

(2) A request for a Shareholder Requested Special Meeting must be signed by the Requisite Percent of the record holders (or their duly authorized agents) and be delivered to the Secretary at the principal executive offices of the Corporation by registered mail, return receipt requested.

Such request shall (A) set forth a statement of the specific purpose or purposes of the meeting and the matters proposed to be acted on at such special

meeting, (B) bear the date of signature of each shareholder (or duly authorized agent) signing the request, (C) include (w) the name and address, as they appear in the Corporation s stock ledger, of each shareholder signing such request (or on whose behalf the Shareholder Special Meeting Request is signed), (x) the class, if applicable, and the number of shares of common stock of the Corporation that are owned of record and beneficially by each such shareholders, (y) documentary evidence of such shareholder s record and beneficial ownership of such stock and (z) a certification from each such shareholder that the shareholders signing the request in the aggregate satisfy the Net Long Beneficial Ownership requirement of these Bylaws, (D) set forth all information relating to each such shareholder (and if the matter proposed to be acted on at such special meeting involves the election of directors, each person

*Continues on next page*4

whom the shareholder proposes to nominate for election) that must be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the Exchange Act), (E) describe any material interest of each such shareholder in the specific purpose or purposes of the meeting, and (F) include an acknowledgement by each shareholder and any duly authorized agent that any disposition of shares of common stock of the Corporation as to which such shareholder has Net Long Beneficial Ownership as of the date of delivery of the special meeting request and prior to the record date for the proposed meeting requested by such shareholder shall constitute a revocation of such request with respect to such shares. In addition, the shareholder and any duly authorized agent shall promptly provide any other information reasonably requested by the Corporation to allow it to satisfy its obligations under applicable law.

Any requesting shareholder may revoke a request for a special meeting at any time by written revocation delivered to the Secretary at the principal executive offices of the Corporation. If, following such revocation at any time before the date of the Shareholder Requested Special Meeting, the remaining requests are from shareholders holding in the aggregate less than the Requisite Percent, the Board of Directors, in its discretion, may cancel the Shareholder Requested Special Meeting.

(3) Notwithstanding the foregoing, the Secretary shall not be required to call a special meeting of shareholders if (A) the request for such special meeting does not comply with this Section 4(B), (B) the Board of Directors has called or calls an annual or special meeting of shareholders to be held not later than ninety (90) days after the date on which a valid request has been delivered to the Secretary (the Delivery Date), (C) the request is received by the Secretary during the period commencing ninety (90) days prior to the first anniversary of the date of the immediately preceding annual meeting and ending on the date of the next annual meeting, (D) the request contains an identical or substantially similar item (a Similar Item) to an item that was presented at any meeting of shareholders held within one hundred and twenty (120) days prior to the Delivery Date (and, for purposes of this clause (D) the election of directors shall be deemed a Similar Item with respect to all items of business involving the election or removal of directors), (E) the request relates to an item of business that is not a proper subject for action by the shareholders of the Corporation under applicable law, or (F) the request was made in a manner that involved or would involve a violation of Regulation 14A under the Exchange Act or other applicable law.

(4) Any Shareholder Requested Special Meeting shall be held at such date, time and place within or without the state of Delaware as may be fixed by the Board of Directors; provided, however, that the date of any Shareholder Requested Special Meeting shall be not more than sixty (60) days after the record date for such meeting (the Meeting Record Date), which shall be fixed in accordance with Article V, Section 4 of these Bylaws, provided that, in no event shall the Meeting Record Date be more than twenty (20) days after the date on which a valid request for a Shareholder Requested Special Meeting, which complies with the requirements of this section and related provisions of these Bylaws, is delivered to the Secretary of the Corporation. In fixing a date and time for any Shareholder Requested Special Meeting, the Board of Directors may consider such factors as it deems relevant within the good faith exercise of business judgment, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for the special meeting and any plan of the Board of Directors to

call an annual meeting or a special meeting.

(5)	__	Business transacted at any Shareholder Requested Special Meeting shall be limited to the purpose(s) stated in the request; provided, however, that nothing herein shall prohibit the Corporation from submitting additional matters to a vote of the shareholders at any Shareholder Requested Special Meeting.

Section 5. Notice of Meetings. Written notice, stating the place, date and time of any annual or special meeting of shareholders, and the general nature of the business to be considered thereat, shall be given to each shareholder entitled to vote at such meeting at his address as it appears on the records of the Corporation, not less than ten nor more than sixty days before the date of the meeting.

Section 6. Shareholder Action. Any action required or permitted to be taken by the shareholders of the Corporation must be effected at a duly called annual or special meeting of shareholders of the Corporation and may not be effected by any consent in writing by such shareholders.

Section 7. Chairman of a Meeting. At each meeting of the shareholders the Chairman of the Board, or if he shall be absent therefrom, the President, or if he shall be absent therefrom, another officer of the Corporation chosen by the Board of Directors, shall act as chairman of the meeting or preside thereat.

Section 8.

(A) Annual Meetings of Shareholders.

(1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the shareholders may be made at an annual meeting of shareholders (a) pursuant to the Corporation s notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any shareholder of the Corporation who was a shareholder of record at the time of giving of notice provided for in this By-Law, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this By-Law.

(2) For nominations or other business to be properly brought before an annual meeting by a shareholder pursuant to clause (c) of paragraph (A)(1) of this By-Law, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder s notice shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year s annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a shareholder s notice as described above. Such shareholder s notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the ~~Securities~~ Exchange Act ~~of 1934, as amended (the Exchange Act~~) and Rule 14a-11 thereunder (including such person s written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; (c) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf of the nomination or proposal is made (i) the name and address of such shareholder, as they appear on the Corporation s books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this By-Law to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board of Directors made by the Corporation at least 100 days prior to the first anniversary of the preceding year s annual meeting, a shareholder s notice required by this By-Law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(B) Special Meetings of Shareholders. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Corporation s notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the Corporation s notice of meeting (1) by or at the direction of the Board of Directors or (2) ~~provided that the Board of Directors has determined that directors shall be elected at such special meeting,~~ by any shareholder of the Corporation who is a shareholder of record at the time of giving of notice provided for in this By-Law, who shall be entitled to vote at the meeting and who (y) in the case of a special meeting of

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shareholders called pursuant to clause (i) of the first sentence of Section (4)(A) of Article II of these Bylaws, complies with the notice procedures set forth in this By-Law, or (z) in the case of a Shareholder Requested Special Meeting, complies with the requirements set forth in section 4(B) of Article II of these Bylaws. In the event the Corporation calls a special meeting of shareholders for the purpose of electing one or more directors, any such shareholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation s notice of meeting, if (i) in the case of a special meeting of shareholders called pursuant to clause (i) of the first sentence of Section (4)(A) of Article II of these Bylaws, the shareholder s notice required by paragraph (A)(2) of this By-Law shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting, or (ii) in the case of a Shareholder Requested Special Meeting, the shareholder complies with the requirements set forth in Section 4(b) of Article II of these Bylaws. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a shareholder s notice as described above.

(C) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this By-Law shall be eligible to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this By-Law. The Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this By-Law and, if any proposed nomination or business is not in compliance with this By-Law, to declare that such defective proposal shall be disregarded.

(2) For purposes of this By-Law, public announcement shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provision of this By-Law, a shareholder shall also comply with all applicable requirements of the Exchange Act with respect to the matters set forth in this By-Law. Nothing in this By-Law shall be deemed to affect any rights of (i) shareholders to request inclusion of the proposals in the Corporation s proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) the holders of any series of Preferred Stock to elect directors under specified circumstances.

Appendix C

Reconciliation of Net Loss (GAAP) to Adjusted EBITDA
(dollars and ounces in thousands, except per share amounts - unaudited)

This Proxy Statement refers to a non-GAAP measure of adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA), which is a measure of our operating performance. Adjusted EBITDA is calculated as net income before the following items: interest expense, income tax benefit, depreciation, depletion, and amortization expense, Aurizon acquisition costs, Lucky Friday suspension-related income, interest and other income, gains on derivative contracts, and provisional price losses. Management believes that, when presented in conjunction with comparable GAAP measures, Adjusted EBITDA is useful to investors in evaluating our operating performance. The following table reconciles net loss to Adjusted EBITDA:

Dollars are in thousands	Twelve Months Ended December 31, 2013
Net loss	$(25,130)
Plus: Interest expense, net of amount capitalized	21,689
Less: Income taxes	(9,795)
Plus: Depreciation, depletion and amortization	82,366
Plus: Aurizon acquisition costs	26,397
Plus: Aurizon product inventory fair value adjustment	550
Less: Lucky Friday suspension-related income	(1,401)
Less: Interest and other income	(662)
Less: Foreign exchange gain	(2,959)
Less: Gains on derivative contracts	(17,979)
Plus: Loss on impairment of investments	2,639
Plus: Provisional price losses	16,955
Adjusted EBITDA	$ 92,670

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)

The tables below present reconciliations between the non-GAAP measures of Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits to the GAAP measure of cost of sales and other direct production costs and depreciation, depletion and amortization for our operations for the year ended December 31, 2013 (in thousands, except costs per ounce).

Cash Cost, After By-product Credits is an important operating statistic that we utilize to measure each mine s operating performance. It also allows us to benchmark the performance of each of our mines versus those of our competitors. As a primary silver mining company, we also use the statistic on an aggregate basis - aggregating the Greens Creek and Lucky Friday mines, but not Casa Berardi, which is a primary gold mine - to compare our performance with that of other primary silver mining companies. Similarly, the statistic is useful in identifying acquisition and investment opportunities as it provides a common tool for measuring the financial performance of other mines with varying geologic, metallurgical and operating characteristics.

Cash Cost, Before By-product Credits include all direct and indirect operating cash costs related directly to the physical activities of producing metals, including mining, processing and other plant costs, third-party refining expense, on-site general and administrative costs, royalties and mining production taxes. By-product credits include revenues earned from all metals other than the primary metal produced at each unit. Cash Cost, After By-product Credits, per Ounce, provides management and investors an indication of operating cash flow, after consideration of the average price, received from production. Management also uses this measurement for the comparative monitoring of performance of our mining operations period-to-period from a cash flow perspective. Cash Cost, After By-product Credits, per Ounce is a measure developed by precious metals companies (including the Silver Institute) in an effort to provide a uniform standard for comparison purposes. There can be no assurance, however, that our reporting of this non-GAAP measure is the same as that reported by other mining companies.

The Casa Berardi section below reports Cash Cost, After By-product Credits, per Gold Ounce for the production of gold, its primary product, and by-product revenues earned from silver, which is a by-product at Casa Berardi. Only costs and ounces produced relating to units with the same primary product are combined to represent Cash Cost, After By-product Credits, per Ounce. Thus, the gold produced at our Casa Berardi unit is not included as a by-product credit when calculating Cash Cost, After By-product Credits, per Silver Ounce for the total of Greens Creek and Lucky Friday, our combined silver properties.

As depicted in the Total, Greens Creek and Lucky Friday Unit tables below, by-product credits comprise an essential element of our silver unit cost structure distinguishing our silver operations due to the polymetallic nature of their ore bodies. By-product credits included in our presentation of Cash Cost, After By-product Credits, per Silver Ounce include:

	Total, Greens Creek and Lucky Friday Units Year ended December 31, 2013
By-product value, all silver properties:	
Zinc	$ 77,616
Gold	66,907
Lead	48,973
Total by-product credits	$ 193,496
By-product credits per silver ounce, all silver properties	
Zinc	$ 8.71
Gold	7.51
Lead	5.50
Total by-product credits	$ 21.72

By-product credits included in our presentation of Cash Cost, After By-product Credits, per Gold Ounce for our Casa Berardi Unit include:

	Casa Berardi Unit [2] Year ended December 31, 2013
Silver by-product value	$ 262
Silver by-product credits per gold ounce	$4.19

Cost of sales and other direct production costs and depreciation, depletion and amortization is the most comparable financial measure calculated in accordance with GAAP to Cash Cost, After By-product Credits. The sum of the cost of sales and other direct production costs and depreciation, depletion and amortization for our operating units in the tables below is presented in our Consolidated Statement of Operations and Comprehensive Income (Loss) (in thousands) included in our audited financial statements which are included in our Annual Report on Form 10-K for the calendar year ended December 31, 2013.

	Total, Greens Creek and Lucky Friday Units Year ended December 31, 2013
Cash Cost, Before By-product Credits[1]	$ 254,460
By-product credits	(193,496)
Cash Cost, After By-product Credits	60,964
Divided by silver ounces produced	8,907
Cash Cost, Before By-product Credits, per Silver Ounce	28.56
By-product credits per silver ounce	(21.72)
Cash Cost, After By-product Credits, per Silver Ounce	$ 6.84
Reconciliation to GAAP:	
Cash Cost, After By-product Credits	$ 60,964
Depreciation, depletion and amortization	63,098
Treatment costs	(76,824)
By-product credits	193,496
Change in product inventory	(246)
Reclamation and other costs	2,100
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$ 242,588

	Casa Berardi Unit[2] Year ended December 31, 2013
Cash Cost, Before By-product Credits[1]	$ 59,717
By-product credits	(262)
Cash Cost, After by-product credits	59,455
Divided by gold ounces produced	62.53
Cash Cost, Before By-product Credits, per Gold Ounce	954.98
By-product credits per gold ounce	(4.19)
Cash Cost, After By-product Credits, per Gold Ounce	$ 950.79
Reconciliation to GAAP:	
Cash Cost, After By-product Credits	$ 59,455
Depreciation, depletion and amortization	18,030
Treatment costs	(268)
By-product credits	262
Change in product inventory	(3,766)
Reclamation and other costs	142
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$ 73,855

Continues on next page

	Total, All Locations Year ended December 31, 2013
Reconciliation to GAAP:	
Cash Cost, After By-product Credits	$120,419
Depreciation, depletion and amortization	81,128
Treatment costs	(77,092)
By-product credits	193,758
Change in product inventory	(4,012)
Reclamation and other costs	2,242
Cost of sales and other direct production costs and depreciation, depletion and amortization (GAAP)	$316,443

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

(2) On June 1, 2013, we completed the acquisition of Aurizon Mines Ltd., which gave us 100% ownership of the Casa Berardi mine in Quebec, Canada. The information presented reflects our ownership of Casa Berardi commencing as of that date. The primary metal produced at Casa Berardi is gold, with a by- product credit for the value of silver production.

Meeting to be held at:

The Hotel Capital Cook
939 W. 5th Ave.
Anchorage, Alaska

The Hotel Capital Cook is located at the corner of 4th Avenue and K Street in downtown Anchorage

Driving Directions

- **From Anchorage International Airport**

- Head East on Postmark Drive toward Heliport Place
- Turn left at W International Airport Road
- Take the Minnesota Drive Ramp and continue straight onto Minnesota Drive
- Continue on I Street and turn left at West 5th Avenue

- **From the North**

- Head Southwest on Glenn Highway S
- Continue on East 5th Avenue

- **From the South**

- Head Northwest on Seward Highway N
- Turn left at East Northern Lights Blvd.
- Turn right at A Street
- Turn left at West 5th Avenue

For other directions, please contact The Hotel Capital Cook at 907-276-6000.

HECLA MINING COMPANY
6500 N. MINERAL DRIVE SUITE 200
COEUR D' ALENE, ID 83815

VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS
If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

The Board of Directors recommends you vote FOR the following:	**For All**	**Withhold All**	**For All Except**
1. Election of Directors **Nominees**	c	c	c

01 Phillips S. Baker, Jr. 02 Dr. Anthony P. Taylor

To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.

The Board of Directors recommends you vote FOR proposals 2., 3. and 4.		**For**	**Against**	**Abstain**
2.	Proposal to ratify and approve the selection of BDO USA, LLP as independent auditors of the company for the calendar year.	c	c	c
3.	Advisory resolution to approve executive compensation.	c	c	c
4.	Approval of amendments to the Company's Certificate of Incorporation and Bylaws to permit shareholders to call a special shareholders meeting.	c	c	c

NOTE: With discretionary authority upon such other matters that may properly come before the meeting including any adjournment or postponement.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners) Date

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Notice & Proxy Statement, Annual Report is/are available at www.proxyvote.com.

HECLA MINING COMPANY
6500 N. Mineral Drive, Suite 200
Coeur d Alene, Idaho 83815-9408

ANNUAL MEETING OF SHAREHOLDERS, MAY 22, 2014

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF THE NOMINEES FOR DIRECTOR LISTED IN ITEM 1 AND "FOR" PROPOSALS 2, 3, AND 4.

The undersigned, revoking any previous proxies, hereby appoints PHILLIPS S. BAKER, JR. and MICHAEL B. WHITE, and each of them, proxies of the undersigned, with full power of substitution, to attend the Company's Annual Meeting of

Shareholders on May 22, 2014, and any adjournments or postponements thereof, and there to vote the undersigned's shares of Common Stock of the Company on the following matters as described in the Board of Directors Proxy Statement for such meeting, a copy of which has been received by the undersigned.

Continued and to be signed on reverse side