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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-Q**

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

**COMMISSION FILE NUMBER 000-29786**

**MINES MANAGEMENT, INC.**

(Exact Name of Registrant as Specified in its Charter)

**IDAHO**

(State or Other Jurisdiction of Incorporation or Organization)

**91-0538859**

(I.R.S. Employer Identification No.)

**905 W. Riverside Avenue, Suite 311  
Spokane, Washington**

(Address Of Principal Executive Offices)

**99201**

(Zip Code)

**(509) 838-6050**

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, par value \$0.01 – 11,258,486 shares outstanding at August 9, 2005.

MINES MANAGEMENT, INC.  
FORM 10-Q  
QUARTER ENDED June 30, 2005

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**Mines Management, Inc. and Subsidiary**

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**Consolidated Balance Sheets**

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	June 30, 2005 <hr/> (Unaudited)	December 31, 2004 <hr/>
<i>Assets</i>		
<i>CURRENT ASSETS:</i>		
Cash and cash equivalents	\$ 1,498,318	\$ 2,424,995
Accounts receivable	3,000	-
Interest receivable	118,330	51,688
Prepaid expenses and deposits	61,729	27,989
Total current assets	<hr/> 1,681,377	<hr/> 2,504,672
 <i>MINERAL PROPERTIES</i>	 <hr/> 504,492	 <hr/> 504,492
 <i>PROPERTY AND EQUIPMENT:</i>		
Mine buildings	12,926	12,926
Equipment	75,788	75,788
Office equipment	86,796	56,212
	<hr/> 175,510	<hr/> 144,926
Less accumulated depreciation	87,698	78,815
	<hr/> 87,812	<hr/> 66,111
 <i>INVESTMENTS:</i>		
Certificates of deposit	4,049,631	4,035,760
Available-for-sale securities	23,915	23,982
	<hr/> 4,073,546	<hr/> 4,059,742
	 <hr/> \$ 6,347,227	 <hr/> \$ 7,135,017

See accompanying notes to consolidated financial statements.

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## Consolidated Balance Sheets

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	June 30, <u>2005</u> (Unaudited)	December 31, <u>2004</u>
<b><i>Liabilities and Stockholders' Equity</i></b>		
<i>CURRENT LIABILITIES:</i>		
Accounts payable	\$ 128,843	\$ 18,172
State income taxes payable	345	345
Due to officer	2,398	2,398
Severance currently payable	25,000	60,000
Payroll taxes payable	14,512	14,069
Total current liabilities	<u>171,098</u>	<u>94,984</u>
<i>OTHER LIABILITIES:</i>		
Severance payable, long term	<u>20,000</u>	<u>20,000</u>
Total liabilities	<u>191,098</u>	<u>114,984</u>
<i>COMMITMENTS</i>		
<i>STOCKHOLDERS' EQUITY:</i>		
Common stock – 100,000,000 shares, \$0.01 par value, authorized; 11,128,486 and 10,630,590 shares issued and outstanding	111,285	106,306
Preferred stock – 10,000,000 shares, no par value, authorized; no shares outstanding	-	-
Additional paid-in capital	13,430,487	12,032,739
Deficit accumulated during the development stage	(7,398,393)	(5,131,829)
Accumulated other comprehensive income	12,750	12,817
Total stockholders' equity	<u>6,156,129</u>	<u>7,020,033</u>
	<u>\$ 6,347,227</u>	<u>\$ 7,135,017</u>

See accompanying notes to consolidated financial statements.

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# Mines Management, Inc. and Subsidiary

## Consolidated Statements of Income (unaudited)

	Three Months Ended		Six Months Ended		From Inception
	June 30,		June 30,		August 12, 2002
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	Through June 30, <u>2005</u>
<i>REVENUE:</i>					
Royalties	\$ 2,931	\$ 1,602	\$ 5,709	\$ 5,493	\$ 22,796
<i>OPERATING EXPENSES:</i>					
Depreciation	5,045	2,959	8,882	5,350	23,683
Administrative	91,410	84,221	394,917	143,961	809,362
Legal, accounting, and consulting	43,271	37,650	66,677	142,771	282,509
Miscellaneous	1,418	2,584	3,147	2,839	14,378
Exploration	-	-	718	-	4,696
Oil and gas operating	-	4,366	-	5,393	12,173
Rent and office	30,786	15,996	59,447	31,797	175,509
Compensation, directors, officers and staff	131,227	58,164	269,797	112,477	974,565
Taxes and licenses	9,070	4,596	19,605	9,162	66,997
Telephone	4,066	1,003	6,218	1,855	21,122
Fees, filing, and licenses	25,011	1,912	45,461	80,669	239,659
Environmental	49,584	20,656	83,233	55,392	216,042
Engineering	176,366	11,418	212,729	29,314	303,687
Permitting	286,688	-	351,536	-	358,020
Commissions	-	-	-	-	68,440
Stock options granted to officers and employees	-	34,079	321,030	1,233,079	2,449,121
Stock options granted for services	317,335	-	528,179	-	530,179
Total operating expenses	<u>1,171,277</u>	<u>279,604</u>	<u>2,371,576</u>	<u>1,854,059</u>	<u>6,550,142</u>
<i>LOSS FROM OPERATIONS</i>	<u>(1,168,346)</u>	<u>(278,002)</u>	<u>(2,365,867)</u>	<u>(1,848,566)</u>	<u>(6,527,346)</u>
<i>OTHER INCOME:</i>					
Interest	49,552	38,519	99,303	47,279	242,801
Miscellaneous	-	-	-	-	3,458
	<u>49,552</u>	<u>38,519</u>	<u>99,303</u>	<u>47,279</u>	<u>246,259</u>
<i>NET LOSS</i>	<u><u>\$(1,118,794)</u></u>	<u><u>\$(239,483)</u></u>	<u><u>\$(2,266,564)</u></u>	<u><u>\$(1,801,287)</u></u>	<u><u>\$ (6,281,087)</u></u>
<i>NET LOSS PER SHARE</i>	<u><u>\$ (0.10)</u></u>	<u><u>\$ (0.02)</u></u>	<u><u>\$ (0.21)</u></u>	<u><u>\$ (0.19)</u></u>	
<i>WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING</i>	<u><u>10,929,002</u></u>	<u><u>10,479,941</u></u>	<u><u>10,738,261</u></u>	<u><u>9,243,734</u></u>	

See accompanying notes to consolidated financial statements.

# Mines Management, Inc. and Subsidiary

## Consolidated Statements of Cash Flows (unaudited)

	Three Months Ended		Six Months Ended		From Inception
	June 30,		June 30,		August 12, 2002
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	Through
					June 30,
					<u>2005</u>
<i>Increase (Decrease) in Cash and Cash Equivalents</i>					
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>					
Net loss	\$(1,118,794)	\$ (239,483)	\$(2,266,564)	\$(1,801,287)	\$(6,281,087)
Adjustments to reconcile net loss to net cash used in operating activities:					
Issuance of stock options	317,335	34,079	849,209	1,233,079	2,979,300
Stock received for services	-	-	-	-	(11,165)
Depreciation	5,046	2,958	8,883	5,349	23,684
Changes in assets and liabilities:					
Interest receivable	(29,518)	5,202	(69,642)	(3,558)	(118,330)
Accounts receivable	500	-	-	-	(3,000)
Prepaid expenses	(45,379)	(52,668)	(33,740)	(60,168)	(61,229)
Accounts payable	118,867	(173,840)	110,671	(2,189)	131,241
Severance payable	(20,000)	(20,000)	(35,000)	(35,000)	45,000
State income taxes payable	-	-	-	-	181
Payroll taxes payable	(4,317)	1,022	443	(1,465)	11,332
Net cash used in operating activities	<u>(776,260)</u>	<u>(442,730)</u>	<u>(1,435,740)</u>	<u>(665,239)</u>	<u>(3,284,073)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>					
Purchase of office equipment	(22,543)	(10,533)	(30,584)	(21,070)	(109,658)
Purchase of certificates of deposit	(13,871)	(13,457)	(13,871)	(13,457)	(4,049,631)
Increase in mineral properties	-	-	-	-	(144,312)
Net cash used in investing activities	<u>(36,414)</u>	<u>(23,990)</u>	<u>(44,455)</u>	<u>(34,527)</u>	<u>(4,303,601)</u>
<i>CASH FLOWS FROM FINANCING ACTIVITIES:</i>					
Proceeds from sales of common stock	511,518	448,353	553,518	6,379,555	9,038,657
<i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i>	<u>(301,156)</u>	<u>(18,367)</u>	<u>(926,677)</u>	<u>5,679,789</u>	<u>1,450,983</u>
<i>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</i>	<u>1,799,474</u>	<u>5,980,793</u>	<u>2,424,995</u>	<u>282,637</u>	<u>47,335</u>
<i>CASH AND CASH EQUIVALENTS, END OF PERIOD</i>	<u>\$ 1,498,318</u>	<u>\$5,962,426</u>	<u>\$ 1,498,318</u>	<u>\$ 5,962,426</u>	<u>\$ 1,498,318</u>

See accompanying notes to consolidated financial statements.

# Mines Management, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### **NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### *Organization:*

Mines Management, Inc. (the “Company”) is a publicly held Idaho corporation incorporated in 1947. The Company acquires, explores, and develops mineral properties principally in North America. The Company performed exploration activities in South America in 2002.

#### *Summary of Significant Accounting Policies:*

- a. The accompanying consolidated financial statements include the accounts of Mines Management, Inc. and its wholly-owned subsidiary, Newhi, Inc. Intercompany balances and transactions have been eliminated. Newhi, Inc. was formed by the Company for the purpose of merger with Heidelberg Silver Mining Company, Inc. In the merger, completed on April 15, 1988, Heidelberg Silver Mining Company, Inc., was merged into Newhi, Inc. To effect the merger, the Company issued 367,844 shares of its previously unissued common stock. Also in connection with this merger, the Company issued 11,117 shares of common stock and paid \$4,446 as a finder’s fee.
- b. All exploration expenditures are expensed as incurred. Significant property acquisition payments for active exploration properties are capitalized. If no minable ore body is discovered, previously capitalized costs are expensed in the period the property is abandoned. Once a feasibility study has been completed, approved by management, and a decision is made to put the ore body into production, expenditures to develop new mines, to define further mineralization in existing ore bodies and to expand the capacity of operating mines are capitalized and amortized on a units of production basis over proven and probable reserves. Should a property be abandoned, its capitalized costs are charged to operations. The Company charges to operations the allocable portion of capitalized costs attributable to properties sold. Capitalized costs are allocated to properties sold based on the proportion of claims sold to the claims remaining within the project area.
- c. The Company evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable. If the sum of estimated future net cash flows on an undiscounted basis is less than the carrying amount of the related asset grouping, an asset impairment is considered to exist. The related impairment loss is measured by comparing estimated future net cash flows on a discounted basis to the carrying amount of the asset. Changes in significant assumptions underlying future cash flow estimates may have a material effect on the Company’s financial position and results of operations. To date no such impairments have been identified.
- d. Property and equipment are stated at cost. Buildings and leasehold improvements are depreciated on the straight-line basis over an estimated useful life of 39 years. Machinery and furniture are generally being depreciated using accelerated methods over estimated useful lives ranging from 5 to 10 years.
- e. Basic and diluted loss per share are computed using the weighted average number of shares outstanding during the periods (10,929,002 and 10,479,941 in the quarter ended June 30, 2005 and 2004, respectively). Stock options and warrants outstanding are antidilutive and are not considered in the computation.

## Mines Management, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

#### NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

##### *Summary of Significant Accounting Policies (continued):*

- f. Cash and cash equivalents include cash on hand, cash in banks, investments in certificates of deposit with original maturities of 90 days or less, and money market funds.
- g. The Company's financial instruments as defined by Statement of Financial Accounting Standards ("SFAS") No. 107, *Disclosures about Fair Value of Financial Instruments*, include cash. All instruments are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at June 30, 2005.
- h. Deferred income tax is provided for differences between the bases of assets and liabilities for financial and income tax reporting. A deferred tax asset, subject to a valuation allowance, is recognized for estimated future tax benefits of tax-basis operating losses being carried forward.
- i. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.
- j. The Company has adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, which establishes a uniform methodology for accounting for estimated reclamation and abandonment costs. According to SFAS No. 143, the fair value of a liability for an asset retirement obligation (ARO) will be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The ARO is capitalized as part of the carrying value of the assets to which it is related, and depreciated over the useful life of the asset.

In March 2005, the Financial Accounting Standards Board ("FASB") issued Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations*, which clarifies that the term *conditional asset retirement obligation*, as used in SFAS No. 143 refers to a legal obligation to perform an asset retirement activity where the timing or method of settlement are conditional on a future event. Where the obligation to perform the asset retirement activity is unconditional, even though uncertainty exists about the timing or method of settlement, the entity is required to recognize a liability for the fair value of the conditional retirement obligation if reasonably estimable. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate fair value. At June 30, 2005, no asset retirement liabilities have been recorded by the Company.

- k. Certain amounts in the prior-period financial statements have been reclassified for comparative purposes to conform with current period presentation with no effect on previously reported net income (loss).



# Mines Management, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### Summary of Significant Accounting Policies (continued):

- k. In December 2004, FASB issued SFAS No. 123R, *Share-Based Payment*, which revised SFAS No. 123 and superseded APB No. 25 and its related implementation guidance. SFAS No. 123R requires measurement and recording to the financial statements of the costs of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, recognized over the period during which an employee is required to provide services in exchange for such award. The SEC has approved a new rule that for public companies delays the effective date of SFAS No. 123R for annual periods that begin after June 15, 2005. Effective January 1, 2003, the Company adopted SFAS No. 123R, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*. The Company recognized stock-based compensation of approximately \$253,400 (of which \$253,400 was for services performed by outside parties) and \$34,100 (of which \$0- was for services performed by outside parties) for the quarters ended June 30, 2005 and 2004, respectively.

For purposes of calculating the fair value of options, volatility for the two years presented is based on the historical volatility of the Company's common stock over its public trading life. The Company currently does not foresee the payment of dividends in the near term. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Quarter Ended June 30,	
	<u>2005</u>	<u>2004</u>
Weighted average risk-free interest rate	3.61%	1.27%
Weighted average volatility	72.87%	72.50%
Expected dividend yield	-	-
Weighted average expected life (in years)	2.00	1.00

At June 30, 2005, the Company has four stock option plans, which are described more fully in note 6.

# Mines Management, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### NOTE 2 — STOCKHOLDERS' EQUITY:

#### Common Stock:

In connection with stock sales in 2003 the Company granted warrants to purchase up to 1,152,007 common shares at \$1.20 per share for two years from the original date of issue. During the quarters ended June 30, 2005 and 2004, respectively, warrants for 393,367 and 373,638 shares were exercised. Cumulative warrants exercised relating to this issue at June 30, 2005, and December 31, 2004, were for 1,002,007 and 573,640 shares, respectively.

In 2004, the Company sold 1,285,000 common shares for \$6,425,000 (\$5.00 per share). In connection with the stock sales, the Company granted warrants to the participants in the offering to purchase up to 511,000 common stock shares at \$7.25 per share through five years from the initial exercise date. To date no warrants have been exercised. The Company paid a cash finder's fee of 7% of the gross offering funds received in the offering. The finder also received 3% warrant compensation, or warrants to purchase 192,750 common shares at \$7.25 per share through February 18, 2009.

#### Preferred Stock:

The Company has authorized 10,000,000 shares of no-par-value preferred stock. Through June 30, 2005, the Company had not issued any of the authorized preferred stock.

### NOTE 3 — MINING PROPERTIES:

Mining properties are comprised of acquisition, exploration, and development costs related to the Advance and Iroquois properties in the Northport region of northeastern Washington State and the Montanore property in northwestern Montana, as shown below:

	June 30, 2005	December 31, 2004
Montanore	\$ 278,519	\$278,519
Advance	2,139	2,139
Iroquois	<u>223,834</u>	<u>223,834</u>
	<u>\$ 504,492</u>	<u>\$504,492</u>

# Mines Management, Inc. and Subsidiary

## Notes to Consolidated Financial Statements

### NOTE 4 — INVESTMENTS:

The Company owns four \$106,832 certificates of deposit and six \$103,717 certificates of deposit for a total of \$1,049,630. These investments mature in 2008 and earn rates from 3.3% to 3.64%. The Company purchased ten \$200,000 certificates of deposit and ten \$100,000 certificates of deposit for a total of \$3,000,000. These investments mature in 2009 and earn rates of 4.21% and 4%, respectively.

The Company owns 45,000 free-trading shares of Bitterroot Resources, Ltd. (BTT), a public Canadian corporation traded on the Toronto Venture Exchange. The shares are held as “available for sale.” This investment is being recorded at fair market value with a corresponding adjustment to stockholders’ equity. The 45,000 free-trading shares at June 30, 2005 and December 31, 2004, have an approximate market value of \$14,320 and \$14,210 U.S. funds, respectively. The Company also owns 196,000 free-trading shares of Centram Exploration Ltd., a public Canadian corporation traded on the Toronto Venture Exchange. The shares are held as “available for sale.” The shares were received in year 2002 in exchange for administrative services provided by the Company. The 196,000 free-trading shares at June 30, 2005 and December 31, 2004, have an approximate market value of \$9,595 and \$9,772 U.S. funds, respectively.

### NOTE 5 — SEVERANCE AGREEMENT:

During 2003, the Company entered into a severance agreement with a former officer. The agreement provides for annual severance payments, payable in equal monthly installments, through April 30, 2006. As of June 30, 2005, the Company had the following obligations under the agreement:

2005	\$ 25,000
2006	<u>20,000</u>
	<u>\$ 45,000</u>

### NOTE 6 — STOCK OPTIONS:

During the year ended December 31, 1998, the stockholders of the Company approved two stock-based compensation plans: a fixed employee stock-based compensation plan and a performance-based plan. Under the fixed plan, the Company may grant options to purchase up to 460,000 shares of common stock. The option price shall not be less than the fair market value on the date of grant of the shares. Stock options shall be exercisable within ten years from the date of the grant of the option. Options under the fixed plan vest immediately.

At June 30, 2005, the following 1998 nonqualified plan options were outstanding:

<u>Exercise Prices</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Life (in years)</u>	<u>Number Exercisable</u>
\$0.40	100,000	\$0.40	2.21	100,000

## Mines Management, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

#### NOTE 6 — STOCK OPTIONS (continued):

Under the performance based plan, the Company may grant options to purchase up to 460,000 shares of common stock. The option price shall not be less than the fair market value on the date of grant of the shares. Stock options shall be exercisable within ten years from the date of the grant of the option. Options under the performance based plan vest immediately.

At June 30, 2005, no performance based plan options were outstanding.

During the year ended December 31, 2003, the stockholders of the Company approved two new stock-based compensation plans – the 2003 Stock Option Plan (which includes both qualified and nonqualified options) and the 2003 Consultant Stock Compensation Plan. Under the 2003 Stock Option Plan, the Company may grant options to purchase up to 1,200,000 shares of common stock. Under the 2003 Consultant Stock Compensation Plan the Company may grant options to purchase up to 400,000 shares of common stock. During 2004, the Company increased the maximum number of common shares available under the 2003 Stock Option Plan and the 2003 Consultant Stock Compensation Plan to 3,000,000 and 700,000 shares, respectively.

Under both 2003 plans the option price shall be no less than 100% of the fair market value per share on the date of grant. Stock options shall be exercisable within ten years from the date of the grant of the option. Vesting of the options granted under both plans as determined by the Board of Directors. Options granted under the plans in 2003 vest immediately except for options issued to Glenn Dobbs, President and Chairman of the Board of Directors. Options issued to Dobbs were 50% vested at year end December 31, 2003 and become fully vested upon completion of certain financing arrangements. The options to Dobbs were fully vested at year end December 31, 2004.

At June 30, 2005, the following 2003 plan options were outstanding:

<u>Exercise Prices</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Life (in years)</u>	<u>Number Exercisable</u>
\$ 1.60	500,000	\$ 1.60	2.68	500,000
1.85	210,000	1.85	3.16	210,000
3.95	20,000	3.95	3.98	20,000
4.65	650,000	4.65	3.84	650,000
3.75	150,000	3.75	4.51	150,000
3.93	205,000	3.93	4.59	205,000
4.01	214,000	4.01	4.91	214,000
5.99	25,000	5.99	4.94	10,000
	<u>1,974,000</u>	<u>\$ 3.51</u>		<u>1,959,000</u>

During January 2005, the Company issued 214,000 stock options to an individual to perform marketing services. The options have an exercise price of \$4.01 and vest 25% at the time of issuance, 25% in 60 days from issuance, and the remaining balance on May 28, 2005. The options expire five years from issuance.

## Mines Management, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

During June 2005, the Company issued 25,000 stock options to an individual to perform consulting services. The options have an exercise price of \$5.99 and vest 40% at the time of issuance (June 6, 2005), and 20% each on June 6 of 2006, 2007, and 2008.

#### **NOTE 6 — STOCK OPTIONS (continued):**

For purposes of calculating the fair value of options, volatility for the two years presented is based on the historical volatility of the Company's Ordinary Shares over its public trading life. The Company currently does not foresee the payment of dividends in the near term. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Quarter Ended June 30,	
	2005	2004
Weighted average risk-free interest rate	3.61%	1.27%
Weighted average volatility	72.87%	72.50%
Expected dividend yield	-	-
Expected lives (in years)	2.00	1.00
Weighted fair value (in dollars)	\$2.23	\$3.01

The following summarizes option activity for the quarter ended June 30, 2005:

	Shares Under Option	Weighted- Average Exercise Price Per Share
Outstanding at March 31, 2005	1,977,000	\$ 3.16
Prior quarter revision	122,000	4.50
Granted	25,000	5.99
Exercised	43,800	2.33
Forfeited	16,200	1.85
Expired	-	-
Balance at June 30, 2005	<u>2,074,000</u>	<u>\$ 3.36</u>

Options outstanding at June 30, 2005, have a remaining contractual life of approximately four years.

#### **NOTE 7 — CONCENTRATION OF CREDIT RISK:**

The Company maintains its cash and cash equivalents in two financial institutions. Balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution.

## Mines Management, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

#### NOTE 8 — DEFERRED INCOME TAX:

At June 30, 2005, and December 31, 2004, the Company had deferred tax assets that were fully reserved by valuation allowances. Following are the components of such assets and allowances:

	June 30, 2005	Dec. 31. 2004
Deferred tax assets arising from:		
Net operating loss carryforwards	\$ 597,000	\$ 373,000
Stock option compensation	436,000	310,000
Accrued severance compensation	<u>7,000</u>	<u>12,000</u>
	1,040,000	695,000
Less valuation allowance	<u>1,040,000</u>	<u>695,000</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

For the periods presented, the effective income tax rate differed from the expected rate because of the effects of annual changes in the deferred tax asset valuation allowance. Changes in the deferred tax asset valuation allowance for the second quarter ended June 30, 2005, and year ended December 31, 2004, relate only to corresponding changes in deferred tax assets for those periods.

At June 30, 2005, the Company had federal tax-basis net operating loss carryforwards totaling approximately \$2,000,000, which will expire in various amounts from 2005 through 2024.

## **Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations**

We continue to focus in on our Montanore Project in Montana including review of the deposit by Mine Development Associates ("MDA"), development of an underground drilling plan; initiation of engineering cost studies; development and optimization of an underground mining plan; strong emphasis on the re-permitting applications and program to facilitate a coordinated review process; and development and commencement of a financing plan for the Montanore Project.

### **Overview**

In the second quarter of 2005, we

- Maintained strong cash and investment position
- Progressed the engineering cost studies towards a feasibility study
- Continued re-permitting efforts with state and federal permitting agencies, including updating and collecting baseline data to support the agency review effort
- Selected the contractor to complete the environmental impact statement
- Favorable progress on review of the deposit and underground mine planning

The Company ended the second quarter with \$5.6 million cash and certificates of deposit. The net cash expenditures for operating activities for the quarter ending June 30, 2005 was \$0.8 million which was offset by investment income of \$0.5 million received from the exercise of warrants and stock options during the quarter. The Company believes that it has sufficient working capital for the next 18 months of operations.

### **Re-Permitting and Environmental**

Mines Management continued working with the federal and state regulators on the Montanore re-permitting effort during the second quarter of 2005. As part of that effort, Mines Management has initiated efforts to update and/or collect baseline data necessary to support the agency review effort.

During this time, Mines Management also submitted an application for the 230 kilowatt power line proposed for the project. The agencies are in the process of completing a review of the application. Results of that review are expected by the end of the third quarter.

Selection of the contractor to complete the environmental impact statement was completed. Under the selection process, four qualified consultant proposals were reviewed and ranked by the agencies. This list of rankings were provided to Mines Management personnel for consideration. Corporate staff reviewed and provided the agencies with a short list. The agencies selected ERO based on the agency review and scoring process. ERO will also assist the state agency in reviewing and issuing the certification for the 230 kv power line.

Mines Management initiated additional baseline data updates and/or collection based on agency comments and review. The extensive database collected while Noranda held the property will serve as the basis for updating. Plans for studies have been submitted to the agencies that outline the baseline work.

Public scoping meetings are expected to occur in the third quarter that will provide the general public the opportunity to comment on the proposed actions under consideration by the agencies.

The Memorandum of Agreement(MOA) signed April 15, 2005 with the Montana Department of Environmental Quality(DEQ) provides a target schedule indicating that the environmental impact statement(EIS) is estimated to be completed mid-year 2006. The Company expects the re-permitting process to extend for at least several months after completion of the environmental impact statement. The re-permitting

process could be complicated, delayed or prevented by various environmental issues outside the Company's control.

Mines Management continues to develop technical reports and applications to support the re-permitting effort.

## **Geology**

Mine Development Associates (MDA) continues to review the Montanore deposit. As part of the overall review process, MDA inspected the deposit outcrop near Rock Lake. They continue to review technical data and assist in mine planning work.

Geological data available for the project, including drill logs, geologic cross sections, and other important data is currently being reviewed and input to a computer block model that will assist McIntosh and Mines Management in mine planning and deposit estimates. Mines Management and MDA are collaborating to assist in deposit reviews and estimates.

## **Engineering**

The company hired Paul Martin as Engineering Manager in early June 2005. He brings over 25 years of mining and engineering experience working recently for TXI Industrial Minerals and Couer d'Alene Mining Corporation.

McIntosh Engineering (McIntosh) and Hatch Ltd. (Hatch) continue to work on project engineering, which includes optimization, trade-off, design revisions, and other key evaluations for the Montanore project. The review and updating effort on mine planning, equipment selection, mill design, tailings disposal and other key areas are based on Noranda's designs from its feasibility study.

A computer block model incorporating geology, drill hole assays, topography, original mine design (Noranda's) and other pertinent information is being developed. The model will be created with the most current data available and used for the overall engineering cost study and future mine planning and design work. . The model work will be audited by MDA as part of its project review and will also be used by McIntosh for all mine planning and designs.

Mines Management continues to evaluate trade-off studies and provide support, direction, and oversight of the engineering work being completed by McIntosh and Hatch.

## **Financial and Operating Results**

Mines Management, Inc. reported a net loss for the quarter ended June 30, 2005 of \$1,118,794 or \$0.10 per share versus a loss of \$239,483 or \$0.02 per share for the prior year quarter ending June 30, 2004. The increase in net loss for 2005 of \$879,311 was mainly due to an increase in activity on the Montanore Project for environmental, engineering, and permitting expenses of \$480,564; an increase in non-cash stock option expense of \$283,256; an increase in fees and licenses of \$23,099; an increase in administrative of \$7,189; a increase compensation of \$73,063; an increase in office rent and expense of \$14,170 and other miscellaneous expenses of \$4503; offset in part by increased interest income of \$11,033.

For the six months ended June 30, 2005 the Company had a net loss of \$2.3 million or \$0.21 per share compared to a net loss of \$1.8 million or \$0.19 per share for the same 2004 period. The increased loss for the year is attributable to the increased activity and expenses for the Montanore Project of \$562,792. There were fewer options granted in the 2005 period than in the 2004 period and there was no financing activity in 2005 offsetting 2004 fees. Administrative cost increased as a result of an investor relations program targeted at increasing retail sales. Compensation increased as a result of hiring two additional employees, the Chief Financial Officer and the Vice President of Operations, in mid-year 2004 and hiring a Manager of Engineering



in early June 2005. The Company added additional office space in January 2005 to facilitate increased project and engineering efforts in 2005.

### **Liquidity**

For the quarter ending June 30, 2005 the net cash used for operating activities was \$776,260, which amount was largely permitting and engineering expenses for the Montanore project. This amount was offset by proceeds from the exercise of warrants for the period of \$511,518. The net decrease in cash for the second quarter was \$301,156.

Year to date, net cash used was \$916,677 attributable to the increased Montanore project activity in the permitting, engineering, and environmental areas.

It is anticipated that expenditures will continue to increase in 2005 as we move through the re-permitting, feasibility, and development of the Montanore Project. The Company expects to spend approximately \$1.0 million per quarter for the remainder of the year 2005, which we expect to fund from cash and investments.

## **Forward Looking Statements**

Some information contained in or incorporated by reference into this report may contain forward looking statements. These statements include comments regarding Montanore Project development, re-permitting, financing needs, and the markets for silver and copper. The use of any of the words “development”, “anticipate”, “continues”, “estimate”, “expect”, “may”, “project”, “should”, “believe”, and similar expressions are intended to identify uncertainties. We believe the expectations reflected in those forward looking statements are reasonable. However, we cannot assure that the expectations will prove to be correct. Actual results could differ materially from those anticipated in these forward looking statements as a result of the factors set forth below and other factors set forth and incorporated by reference into this report:

- Worldwide economic and political events affecting the supply of and demand for silver and copper
- Volatility in the market price for silver and copper
- Financial market conditions and the availability of financing on terms acceptable to Mines Management, Inc.
- Uncertainties associated with developing new mines
- Variations in ore grade and other characteristics affecting mining, crushing, milling and smelting and mineral recoveries
- Geological, technical, permitting, mining and processing problems
- The availability, terms, conditions and timing of required governmental permits and approvals
- Uncertainty regarding future changes in applicable law or implementation of existing law
- The availability of experienced employees
- The factors discussed under “Risk Factors” in our Form 10-KSB for the period ending December 31, 2004.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk and Hedging Activities**

All of our cash balances are held in U.S. dollars and our long term investment CDs are denominated in U.S. dollars in local and national banking institutions. We manage the timing of cash required for the re-permitting, review of the Montanore deposit, and engineering of the Montanore Project and for general corporate purposes utilizing our money market account and invest funds not immediately required in investments, currently in certificates of deposit with varying maturities and fixed early retirement costs of three months interest. Our policy is to invest only in government and corporate grade securities rated “investment grade” or better.

The market prices of base and precious metals such as copper and silver fluctuate widely and are affected by numerous factors beyond the control of any mining company. These factors included expectations with regard to the rate of inflation, the exchange rates of the dollar and other currencies, interest rates, global or regional political, economic or banking crises, and a number of other factors. If the market price of silver or copper should drop dramatically, the value of the Company’s Montanore Project could drop and the Company might not be able to recover its investment in that project. The determination to develop or construct a mine would be made long before the first revenues from production would be received. Price fluctuations between the time that such decisions are made and the commencement of production could affect the economics of the mine.

## **Item 4. Controls and Procedures**

Glenn M. Dobbs, the Company’s President and CEO, and James H. Moore, the Company’s Chief Financial Officer/Treasurer and Principal Financial Officer, have evaluated the Company’s disclosure controls and procedures as of June 30, 2005. Based upon this evaluation, the President and Principal Financial Officer concluded that the Company’s disclosure controls and procedures are designed, and were effective as of June 30, 2005, to give reasonable assurances that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms, and that such information

is also accumulated and communicated to the Company's management, including its President and Principal Accounting Officer.

There were no changes in the Company's internal controls or, to the knowledge of the management of the Registrant, any other changes that materially affect, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company plans to engage an outside firm during 2005 to augment its own internal accounting resources and providing expertise in applying GAAP to new or complex accounting issues as an integral part of its ongoing system of internal controls over financial reporting.

## PART II: OTHER INFORMATION

### Item 1. Legal Proceedings

None

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended June 30, 2005 there were 393,367 common stock purchase warrants exercised at a price of \$1.20 per share of common stock for a total of \$472,018 that will be used as working capital for ongoing activities. The year to date warrants exercised for 2005 are 431,367 at \$1.20 per share of common stock for a total of \$514,018. The warrants were issued in a private placement of common stock and common stock purchase warrants that were exempt from registration pursuant to Section 4(2) and Rule 506 of Regulation D under the Securities Act of 1933.

### Item 3. Defaults Upon Senior Securities

None

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

The following matters were voted upon at the annual meeting of shareholders, held June 16, 2005:

- (a) Amendment of the Articles of Incorporation to adopt a classified board of directors; and
- (b) Election of five directors to serve until the 2006 annual meeting of shareholders.

All matters voted upon at the meeting were approved. The voting results were as follows:

<u>Adoption of a Classified Board</u>	<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
	1,863,763	78,179	24,333	5,151,809
<u>Election of Directors</u>	<u>For</u>	<u>Withheld</u>		
Glenn M. Dobbs	7,089,773	34,311		
Roy G. Franklin	7,096,081	28,003		
Robert L. Russell	7,060,286	63,798		
Jerry G. Pogus	7,094,281	29,803		
Russell G. Babcock	7,096,073	28,011		

## **Item 5. Other Information**

On August 10, 2005, the Company entered into an Employment Agreement with James H. Moore, the Company's Chief Financial Officer (the "Employment Agreement"), effective as of April 1, 2005.

Under the terms of the Employment Agreement, Mr. Moore will receive an annual base salary of \$120,000 and will be eligible to receive incentive stock options in such amounts as may be recommended from time to time by the compensation committee of the board of directors and approved by the board of directors. Mr. Moore will also be eligible to participate in the Company's employee benefit plans.

If Mr. Moore's employment is terminated without cause or in the event of a change of control, he will be entitled to receive a lump sum payment equaling two (2) times his annual base salary and two (2) years of continued health benefits. In addition, all unvested options owned by Mr. Moore as of the date of such termination shall vest immediately.

The foregoing description of the material terms of the Employment Agreement is qualified in its entirety by reference to the Employment Agreement, a copy of which is attached hereto as Exhibit 10.1 and incorporated herein by reference.

## **Item 6. Exhibits**

(a) Exhibits:

- 3.1 Articles of Amendment to the Articles of Incorporation of Mines Management, Inc.
- 10.1 Employment Agreement, dated August 10, 2005, between Mines Management, Inc. and James H. Moore
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act, Dobbs
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act, Moore
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C., 1350 (Section 906 of the Sarbanes-Oxley Act), Dobbs and Moore

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf of the undersigned thereunto duly authorized.

Date: August 11, 2005

/s/ Glenn M. Dobbs  
By: \_\_\_\_\_  
Glenn M. Dobbs  
President and Chief Executive Officer

Date: August 11 , 2005

/s/ James H. Moore  
By: \_\_\_\_\_  
James H. Moore  
Chief Financial Officer

**Exhibit 3.1**

**ARTICLES OF AMENDMENT  
TO THE  
ARTICLES OF INCORPORATION  
OF  
MINES MANAGEMENT, INC.**

Pursuant to Title 30, Chapter 1, Idaho Code, the undersigned corporation amends its articles of incorporation as follows:

1. The name of the corporation is Mines Management, Inc.
2. The first two sentences of Article VI of the articles of incorporation are deleted in their entirety and replaced with the following:

**ARTICLE VI  
Board of Directors**

The affairs of the corporation shall be conducted by the Board of Directors. The number of directors of the corporation shall be fixed from time to time in the manner provided in the Bylaws of the corporation and may be increased or decreased from time to time in the manner provided in the Bylaws; provided, however, that the number of directors shall not be less than two (2) or more than eleven (11). The directors shall be divided into three classes designated as Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the number of directors constituting the entire Board of Directors. The term of office of the initial Class I directors will expire in 2006, the term of office of the initial Class II directors will expire in 2007 and the term of office of the initial Class III directors will expire in 2008. Initial class assignments shall be determined by the Board of Directors. At each annual meeting of shareholders, successors to the directors whose terms expired at that annual meeting shall be elected for a three-year term. If the number of directors changes, any increase or decrease shall be apportioned among the classes such that the number of directors in each class shall remain as nearly equal as possible, but in no case will a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his term expires and until his successor shall be elected and qualified, subject, however, to such director's prior death, resignation, retirement, disqualification or removal from office.

3. The date of adoption of this amendment was June 16, 2005.
4. This amendment was duly approved by the shareholders of the corporation as required by Title 30, Idaho Code.

Dated as of August 3, 2005

/s/ James H. Moore  
Name: James H. Moore  
Title: Chief Financial Officer

**Exhibit 10.1**

**EMPLOYMENT AGREEMENT**

THIS EMPLOYMENT AGREEMENT (the "Agreement"), is dated as of August 10, 2005, between Mines Management, Inc, an Idaho corporation (the "Company"), and James H. Moore ("Executive"), residing at 13924 E. Arrowleaf Lane, Spokane, WA 99206 and is effective as of April 1, 2005 (the "Effective Date").

**WITNESSETH THAT:**

WHEREAS, the Company desires to hire Executive as the Chief Financial Officer and Treasurer for the Company upon and subject to the terms herein provided; and

WHEREAS, Executive has represented that he has the requisite experience and competence to perform and supervise financial, accounting, and administrative services for the Company; and

WHEREAS, Executive is willing to agree to be employed by the Company for the period and upon and subject to the terms herein provided;

NOW, THEREFORE, in consideration of the premises, the parties hereto covenant and agree as follows:

Section 1. Term of Employment; Compensation. The Company agrees to employ James H. Moore from the Effective Date, in the full time capacity of Chief Financial Officer and Treasurer of the Company, with the responsibilities normally associated with such position, and employment shall continue until terminated as hereafter provided. The Company will pay Executive for his services at an annual rate of one hundred thousand twenty dollars (\$120,000), payable in arrears, in equal installments, in accordance with standard Company practice, but in any event not less often than monthly, subject only to such payroll and withholding deductions as are required by law. Executive's performance will be evaluated annually. Executive shall also be entitled to participate in all employee benefit plans of the Company on the same terms and conditions as other employees similarly situated, subject to the Company's right, in any event, to modify or terminate such plans. The Company shall pay Executive's individual medical and dental insurance premiums and shall provide paid monthly parking. In addition, Executive shall be eligible to receive such stock options as may be recommended by the Compensation Committee of the Board of Directors (the "Board") and approved by the Board.

Section 2. Office and Duties. Executive shall have the usual duties of a corporate officer and shall have responsibility to provide financial and accounting services, to supervise the finance and administrative functions for the Company, to participate in the management and direction of the Company's financial and business operation and shall perform such specific other tasks consistent with Executive's position as a member of senior management, as may from time to time be assigned to Executive by the Chief Executive Officer of the Company. Executive's primary duties initially will focus on Securities and Exchange Commission ("SEC") reporting and compliance, establishment and oversight of corporate governance programs as mandated by the Sarbanes-Oxley Act of 2002, as amended, and the SEC rules and regulations relating thereto, treasury function, asset management and preservation, and capital financing.. Executive shall devote substantially all of his business time, labor, skill, undivided attention, and best ability to the performance of his duties hereunder in a manner that will faithfully and diligently further the business and interests of the Company on a full

time basis. Executive shall not directly or indirectly pursue any other business activity, without the Company's prior written consent. Executive agrees that he will travel to whatever extent is reasonably necessary in the conduct of the Company's business.

Section 3. Expenses. Executive shall be entitled to reimbursement for expenses incurred by him in connection with the performance of his duties hereunder upon receipt of vouchers therefor in accordance with such procedures as the Company has heretofore or may hereafter establish.

Section 4. Vacation During Employment. Executive shall be entitled to such reasonable vacations as may be allowed by the Company in accordance with general practices established or to be established, but in any event not less than fifteen (15) days of vacation during each twelve(12) month period plus usual statutory and other public holidays, the timing of such vacation to be mutually agreed upon between Executive and the Company. The Company recommends that all employees take vacation, but if duties of Executive prevent him from taking said vacation, Executive shall be paid for any unused vacation at the end of each year. Unused vacation time will not be accrued and carried from year to year.

Section 5. Additional Benefits. Nothing herein contained shall preclude Executive, to the extent he is otherwise eligible, from participation in all group insurance programs or other fringe benefit plans that the Company may hereafter in its sole and absolute discretion make available generally to its employees.

Section 6. Termination of Employment. Notwithstanding any other provision of this Agreement, Executive's employment may be terminated:

(a) At any time, without cause, by the Chief Executive Officer of the Company. In the event the Executive's employment is so terminated, or is deemed to have been so terminated pursuant to Section 6(e), any stock options granted but not vested shall vest immediately. In addition, following any such termination or deemed termination without cause, the Company shall provide health benefits substantially similar to those provided by the Company prior to termination for a period of twenty-four (24) months following the date of termination.

(b) By the Company upon thirty (30) days' notice to Executive if he should be prevented by illness, accident, or other disability (mental or physical) from discharging his duties hereunder for one or more periods totaling three (3) months during any consecutive twelve (12) month period. Executive's stock options shall vest immediately and shall be exercisable by Executive in accordance with the terms of applicable Company stock option plan.

(c) In the event of Executive's death during the term of his employment, the Company's obligation to pay further compensation hereunder shall cease forthwith, except that Executive's legal representative shall be entitled to receive his fixed compensation for the period of three (3) months after the month in which Executive's death shall have occurred. Executive's stock options shall vest immediately and shall be exercisable by Executive's heirs, trust, executors, administrators or personal representatives in accordance with the terms of the applicable Company stock option plan.



(d) By the Company, at any time for Cause, as defined herein. In the event of termination for Cause Executive shall not be entitled to receive any salary or benefits from and after the date of termination for Cause. Any monies owed by the Company to Executive up to the date of termination for Cause shall be paid to Executive.

For purposes of this Agreement, the term “Cause” shall mean termination by the Company of Executive due to: (i) engaging in illegal conduct, including but not limited to fraud or embezzlement; (ii) being convicted of a felony; (iii) engaging in substance abuse which impairs Executive’s ability to perform the duties and obligations of his employment or causes harm to the reputation of the Company; (iv) the willful breach of Executive’s duties to the Company; or (v) engaging in conduct which in the sole opinion of management of the Company is deemed to be detrimental to the Company.

(e) In the event of a Change of Control, as defined below, Executive’s employment shall be deemed to have been terminated without cause and the Company shall be obligated to pay the Executive a lump sum amount equal to twenty four (24) months of Executive’s then-current salary, within ten (10) days of such termination.

(f) As used in this Agreement, “Change in Control” shall mean an Ownership Change Event. An “Ownership Change Event” shall be deemed to have occurred if any of the following occurs with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the shareholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company; or (iv) a liquidation or dissolution of the Company or a series of related Ownership Change Events (collectively, a “Transaction”) wherein the shareholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company’s voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a Transaction involving the sale, exchange, or transfer of all or substantially all of the assets of the Company, the corporation or other business entity to which the assets of the Company were transferred (the “Transferee”), as the case may be. For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Board shall have the right to determine whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive. Notwithstanding the preceding sentence, a Change in Control shall not include a distribution or transaction in which the voting stock of the Company or a Parent or Subsidiary is distributed to the shareholders of a Parent of such entity. Any change in ownership resulting from an underwritten public offering of the Common Stock or the stock of any Parent or Subsidiary shall not be deemed a change in control for any purpose hereunder.

Section 7. Proprietary Information. Executive hereby grants to the Company all right, title, and interest in and to any information concerning discoveries; methods; business plans and practices; enterprises; explorations; mining information; plant design, location, or operation; or any other

information affecting the business operations of the Company and any invention, discovery, or improvement conceived or reduced to practice in connection with the services performed hereunder (“Proprietary Information”). Executive will keep signed, witnessed, and dated written records of all such inventions, discoveries, or improvements; will furnish the Company promptly with complete information in respect thereof, and will do all things necessary to protect the interests of the Company therein.

Section 8. Confidentiality. Executive shall not, either during the period of his employment with the Company or for a period of two years thereafter, reveal or disclose to any person outside the Company or use for his own benefit, without the Company’s specific written authorization, whether by private communication or by public address or publication or otherwise, any information not already lawfully available to the public concerning any Proprietary Information, whether or not supplied by the Company, and whether or not made, developed, and/or conceived by Executive or by others in the employ of the Company. All originals and copies of any of the foregoing, relating to the business of the Company, however and whenever produced, shall be the sole property of the Company, not to be removed from the premises or custody of the Company without in each instance first obtaining written consent or authorization of the Company. Upon the termination of Executive’s employment in any manner or for any reason, Executive shall promptly surrender to the Company all copies of any of the foregoing, together with any other documents, materials, data, information, and equipment belonging to or relating to the Company’s business and in his possession, custody, or control, and Executive shall not thereafter retain or deliver to any other person, any of the foregoing or any summary or memorandum thereof.

Section 9. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been given when delivered or three (3) days after mailing if mailed by first-class, registered, or certified mail, postage prepaid, addressed (a) if to Executive, James H. Moore, 13924 E. Arrowleaf Lane, Spokane, WA 99206, and (b) if to the Company, Glenn Dobbs, President, Mines Management, Inc. 905 W. Riverside Ave. Suite 311, Spokane, WA 99201, or to such other person(s) or address(es) as the Company shall have furnished to Employee in writing.

Section 10. Assignability. If the Company shall be merged with, or consolidated into, any other corporation, or in the event that it shall sell and transfer substantially all of its assets to another corporation, the terms of this Agreement shall inure to the benefit of, and be assumed by, the corporation resulting from such merger or consolidation, or to which the Company’s assets shall be sold and transferred. This Agreement shall not be assignable by Executive, but it shall be binding upon and to the extent provided in Section 6 shall inure to the benefit of, his heirs, executors, administrators, and legal representatives.

Section 11. Entire Agreement. This Agreement contains the entire agreement between the Company and Executive with respect to the subject matter thereof and there have been no oral or other agreements of any kind whatsoever as a condition precedent or inducement to the signing of this Agreement or otherwise concerning this Agreement or the subject matter hereof.

Section 12. Expenses. Each party shall pay its own expenses incident to the performance or enforcement of this Agreement, including all fees and expenses of its counsel for all activities of such counsel undertaken pursuant to this Agreement, except as otherwise herein specifically provided.

Section 13. Equitable Relief. Executive recognizes and agrees that the Company’s remedy at law for any breach of the provisions of Sections 7 or 8 hereof would be inadequate, and he agrees that

for breach of such provisions, the Company shall, in addition to such other remedies as may be available to it at law or in equity or as provided in this Agreement, be entitled to injunctive relief and to enforce its rights by an action for specific performance to the extent permitted by law. If Executive engages in any activities prohibited by this Agreement, he agrees to pay over to the Company all compensation, remunerations, or moneys or property of any sort received in connection with such activities; such payment shall not impair any rights or remedies of the Company or obligations or liabilities of Executive that such parties may have under this Agreement or applicable law.

Section 14. Waivers and Further Agreements. Any waiver of any terms or conditions of this Agreement shall not operate as a waiver of any other breach of such terms or conditions or any other term or condition, nor shall any failure to enforce any provision hereof operate as a waiver of such provision or of any other provision hereof, unless it, by its own terms, explicitly provides to the contrary, shall be construed to effect a continuing waiver of the provision being waived and no such waiver in any instance shall constitute a waiver in any other instance or for any other purpose or impair the right of the party against whom such waiver is claimed in all other instances or for all other purposes to require full compliance with such provision. Each of the parties hereto agrees to execute all such further instruments and documents and to take all such further action as the other party may reasonably require in order to effectuate the terms and purposes of this Agreement.

Section 15. Amendments. This Agreement may not be amended, nor shall any waiver, change, modification, consent, or discharge be effected except by an instrument in writing executed by or on behalf of the party against whom enforcement of any waiver, change, modification, consent, or discharge is sought.

Section 16. Severability. If any provision of this Agreement shall be held or deemed to be, or shall in fact be, invalid, inoperative, or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases, because of the conflict of any provision with any constitution or statute or rule of public policy or for any other reason, such circumstance shall not have the effect of rendering the provision or provisions in question, invalid, inoperative, or unenforceable in any other jurisdiction or in any other case or circumstance or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute, or rule of public policy, but this Agreement shall be reformed and construed in any such jurisdiction or case as if such invalid, inoperative, or unenforceable provision had never been contained herein and such provision reformed so that it would be valid, operative, and enforceable to the maximum extent permitted in such jurisdiction or in such case.

Section 17. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument, and in pleading or proving any provision of this Agreement, it shall not be necessary to produce more than one of such counterparts.

Section 18. Section Headings. The headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

Section 19. General Provisions.

(a) Executive further agrees that his obligations under Sections 7, 8, and 9 of this Agreement shall be binding upon him irrespective of the duration of his employment by the

Company, the reasons for any cessation of his employment by the Company, or the amount of his compensation and shall survive the termination of this Agreement (whether such termination is by the Company, by Executive, upon expiration of this Agreement or otherwise).

(b) Executive represents and warrants to the Company that he is not now under any obligations to any person, firm, or corporation, and has no other interest that is inconsistent or in conflict with this Agreement, or that would prevent, limit or impair, in any way, the performance by him of any of the covenants or his duties in his employment.

Section 20. Gender. Whenever used herein, the singular number shall include the plural, the plural shall include the singular, and the use of any gender shall include all genders.

Section 21. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the law of Washington. Venue for any action arising from or in connection with this Agreement shall be in Spokane County, Washington.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

Mines Management, Inc.

By: \_\_\_\_\_  
Name: Glenn M. Dobbs  
Title: President and CEO

Executive:

\_\_\_\_\_  
James H. Moore

## EXHIBIT 31.1

### CERTIFICATION

I, Glenn M. Dobbs, certify that:

1. I have reviewed this Form 10-Q of Mines Management, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 11, 2005

/s/ Glenn M. Dobbs

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Glenn M. Dobbs  
Chief Executive Officer

## EXHIBIT 31.2

### CERTIFICATION

I, James H. Moore, certify that:

1. I have reviewed this Form 10-Q of Mines Management, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 11, 2005

/s/ James H. Moore

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James H. Moore  
Chief Financial Officer

**EXHIBIT 32**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Mines Management, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Glenn M. Dobbs

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Glenn M. Dobbs  
Chief Executive Officer  
August 11, 2005

/s/ James H. Moore

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James H. Moore  
Chief Financial Officer  
August 11 , 2005

A signed original of this written statement required by Section 906 has been provided to Mines Management, Inc. and will be retained by Mines Management, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.