Golden Minerals Co
Form 10-Q
November 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014.

OR

o 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 1-13627

GOLDEN MINERALS COMPANY

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**26-4413382**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
350 INDIANA STREET, SUITE 800 GOLDEN, COLORADO	**80401**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(303) 839-5060

(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 x NO o

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS SUBMITTED ELECTRONICALLY AND POSTED ON ITS CORPORATE WEB SITE, IF ANY, EVERY INTERACTIVE DATA FILE REQUIRED TO BE SUBMITTED AND POSTED PURSUANT TO RULE 405 OF REGULATION S-T (§232.405 OF THIS CHAPTER) DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO SUBMIT AND POST SUCH FILES). YES x NO o

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, A NON-ACCELERATED FILER, OR A SMALLER REPORTING COMPANY:

LARGE ACCELERATED FILER o	ACCELERATED FILER o
NON-ACCELERATED FILER o	SMALLER REPORTING COMPANY x

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT): YES o NO x

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS FILED ALL DOCUMENTS AND REPORTS REQUIRED TO BE FILED BY SECTIONS 12, 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 SUBSEQUENT TO THE DISTRIBUTION OF SECURITIES UNDER A PLAN CONFIRMED BY A COURT: YES x NO o

AT NOVEMBER 6, 2014, 53,022,833 SHARES OF COMMON STOCK, $0.01 PAR VALUE PER SHARE, WERE ISSUED AND OUTSTANDING.

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GOLDEN MINERALS COMPANY

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GOLDEN MINERALS COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

(Unaudited)

	September 30, 2014	December 31, 2013
	(in thousands, except share data)	
Assets		
Current assets		
Cash and cash equivalents (Note 3)	$ 14,955	$ 19,146
Trade receivables		25
Inventories (Note 5)	662	449
Value added tax receivable, net (Note 6)	1,394	1,765
Prepaid expenses and other assets (Note 4)	614	1,091
Total current assets	17,625	22,476
Property, plant and equipment, net (Note 7)	30,006	32,375
Prepaid expenses and other assets, non-current (Note 4)		30
Total assets	$ 47,631	$ 54,881
Liabilities and Equity		
Current liabilities		
Accounts payable and other accrued liabilities (Note 8)	$ 1,875	$ 1,365
Other current liabilities (Note 10)	2,755	4,405
Total current liabilities	4,630	5,770
Asset retirement obligation (Note 9)	2,635	2,602
Other long term liabilities	74	53
Total liabilities	7,339	8,425
Commitments and contingencies (Note 16)		
Equity (Note 13)		
Common stock, $.01 par value, 100,000,000 shares authorized; 53,022,833 and 43,530,833 shares issued and outstanding for the respective periods	530	435
Additional paid in capital	502,701	494,647
Accumulated deficit	(462,939)	(448,626)
Shareholder s equity	40,292	46,456
Total liabilities and equity	$ 47,631	$ 54,881

The accompanying notes form an integral part of these condensed consolidated financial statements.

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GOLDEN MINERALS COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in United States dollars)

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(in thousands, except share data)			
Revenue:				
Sale of metals (Note 14)	$	$ 500	$	$ 10,797
Costs and expenses:				
Costs applicable to sale of metals (exclusive of depreciation shown below) (Note 14)		(517)		(17,534)
Exploration expense	(1,009)	(1,024)	(4,262)	(3,788)
El Quevar project expense	(489)	(486)	(1,244)	(2,159)
Velardeña project expense	(2,034)	(85)	(2,034)	(3,006)
Velardeña shutdown and care & maintenance costs		(2,218)	(2,457)	(4,547)
Administrative expense	(782)	(1,078)	(3,587)	(4,608)
Stock based compensation	(181)	(305)	(768)	(1,284)
Reclamation and accretion expense	(50)	(47)	(148)	(135)
Impairment of long lived assets				(237,838)
Impairment of goodwill				(11,180)
Other operating income, net	687	(31)	691	3,615
Depreciation, depletion and amortization	(751)	(1,083)	(2,375)	(6,180)
Total costs and expenses	(4,609)	(6,874)	(16,184)	(288,644)
Loss from operations	(4,609)	(6,374)	(16,184)	(277,847)
Other income and (expense):				
Interest and other income, net	882	186	1,763	509
Gain (loss) on foreign currency	115	(127)	108	(537)
Total other income (expense)	997	59	1,871	(28)
Loss from operations before income taxes	(3,612)	(6,315)	(14,313)	(277,875)
Income tax benefit		104		47,599
Net loss	$ (3,612)	$ (6,211)	$ (14,313)	$ (230,276)
Comprehensive loss, net of tax:				
Unrealized gain on securities				90
Comprehensive loss	$ (3,612)	$ (6,211)	$ (14,313)	$ (230,186)
Net loss per common share basic				
Loss	$ (0.08)	$ (0.14)	$ (0.33)	$ (5.38)
Weighted average common stock outstanding - basic (1)	45,029,388	42,857,347	43,621,634	42,827,891

(1) Potentially dilutive shares have not been included because to do so would be anti-dilutive.

The accompanying notes form an integral part of these condensed consolidated financial statements.

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GOLDEN MINERALS COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in United States dollars)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
	(in thousands)	
Cash flows from operating activities:		
Net cash used in operating activities (Note 15)	$ (12,147)	$ (23,435)
Cash flows from investing activities:		
Sale of available for sale investments		198
Proceeds from sale of assets	973	4,125
Capitalized costs and acquisitions of property, plant and equipment	(427)	(1,471)
Net cash provided by investing activities	$ 546	$ 2,852
Cash flows from financing activities:		
Proceeds from issuance of stock units, net of issue costs	7,410	
Net cash provided by financing activities	$ 7,410	$
Net decrease in cash and cash equivalents	(4,191)	(20,583)
Cash and cash equivalents - beginning of period	19,146	44,406
Cash and cash equivalents - end of period	$ 14,955	$ 23,823

See Note 15 for supplemental cash flow information.

The accompanying notes form an integral part of these condensed consolidated financial statements.

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GOLDEN MINERALS COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in United States dollars)

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive income (loss)	Total Equity (Deficit)
			(in thousands except share data)			
Balance, December 31, 2012	**43,265,833**	**$ 433**	**$ 493,175**	**$ (208,246)**	**$ (90)**	**$ 285,272**
Stock compensation accrued	265,000	2	1,472			1,474
Realized gain on marketable equity securities, net of tax					90	90
Net loss				(240,380)		(240,380)
Balance, December 31, 2013	**43,530,833**	**$ 435**	**$ 494,647**	**$ (448,626)**	**$**	**$ 46,456**
Stock compensation accrued			768			768
KELTIP mark-to-market			(29)			(29)
Registered offering stock units, net (Note 13)	3,692,000	37	2,702			2,739
Private placement stock units, net (Note 13)	5,800,000	58	4,613			4,671
Net loss				(14,313)		(14,313)
Balance, September 30, 2014	**53,022,833**	**$ 530**	**$ 502,701**	**$ (462,939)**	**$**	**$ 40,292**

The accompanying notes form an integral part of these condensed consolidated financial statements.

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GOLDEN MINERALS COMPANY

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

(Expressed in United States dollars)

1. Basis of Preparation of Financial Statements and Nature of Operations

Golden Minerals Company (the Company), a Delaware corporation, has prepared these unaudited interim condensed consolidated financial statements in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). Such rules and regulations allow the omission of certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP), so long as such omissions do not render the financial statements misleading. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures normally required by GAAP.

In the opinion of management, these financial statements reflect all adjustments that are necessary for a fair presentation of the financial results for the periods presented. These interim financial statements should be read in conjunction with the annual financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, and filed with the SEC on February 28, 2014.

In June 2013 the Company suspended mining and processing at its Velardeña and Chicago precious metals mining properties (the Velardeña Properties) in Mexico in order to conserve the asset until the Company was able to create new mining and processing plans that, at then current prices for silver and gold, indicated a sustainable cash margin. On July 14, 2014 the Company announced that it had restarted mining at its Velardeña Properties on July 1, 2014, and on November 3, 2014 the Company began processing material from the mine. The Company is primarily focused on the mining and the restart of processing at the Velardeña Properties and continued exploration of properties in Mexico. The Company also continues to review strategic opportunities, focusing primarily on development or operating properties in North America, including Mexico.

The Company is considered an exploration stage company under the criteria set forth by the SEC as the Company has not yet demonstrated the existence of proven or probable reserves, as defined by the SEC Industry Guide 7, at any of the Company s properties. As a result, and in accordance with GAAP for exploration stage companies, all expenditures for exploration and evaluation of the Company s properties are expensed as incurred. As such the Company s financial statements may not be comparable to the financial statements of mining companies that do have proven and probable reserves.

The financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the normal course of business. However, the continuing operations of the Company are dependent upon its ability to secure sufficient funding and to generate future profitable operations. The underlying value and recoverability of the amounts shown as mineral properties in Note 7 are dependent on the ability of the Company to generate positive cash flows from operations and to continue to fund exploration and development activities that would lead to profitable mining activities or to generate proceeds from the disposition of the mineral properties. There can be no assurance that the Company will be successful in generating future profitable operations or securing additional funding in the future on terms acceptable to the Company or at all.

2. **New Accounting Pronouncements**

On August 27, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern (ASU No. 2014-15). ASU No. 2014-15 will require management to evaluate whether there are conditions and events that raise substantial doubt about the Company s ability to continue as a going concern within one year after the financial statements are issued on both an interim and annual basis. Management will be required to provide certain footnote disclosures if it concludes that substantial doubt exists or when its plans alleviate substantial doubt about the Company s ability to continue as a going concern. ASU No. 2014-15 becomes effective for annual periods beginning in 2016 and for interim reporting periods starting in the first quarter of 2017. The Company does not expect the adoption of this amendment to have a material impact on its consolidated financial position or results of operations.

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On May 28, 2014, FASB and the International Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In addition, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized and the related cash flows. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016; early application is not permitted. The Company is evaluating the financial statement implications of adopting ASU 2014-09 but does not believe adoption of ASU 2014-09 will have a material impact on its consolidated financial position or results of operations.

In April 2014 the FASB issued Accounting Standards Update No. 2014-08 Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08) . ASU 2014-08 changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under ASU 2014-08, only disposals representing a strategic shift in operations will be presented as discontinued operations. Additionally, ASU 2014-08 requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. ASU 2014-08 will become effective for the Company January 1, 2015. The Company does not believe the adoption of ASU 2014-08 will have a material impact on the Company s consolidated financial position or results of operations.

In July 2013 the FASB issued Accounting Standards Update No. 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (ASU 2013-11), which requires an unrecognized tax benefit to be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward that the entity intends to use and is available for settlement at the reporting date. ASU 2013-11 became effective for the Company January 1, 2014. The adoption of ASU 2013-11 has not had a material impact on the Company s consolidated financial position or results of operations.

3. Cash and Cash Equivalents and Short-Term Investments

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Short-term investments include investments with maturities greater than three months, but not exceeding 12 months, or highly liquid investments with maturities greater than 12 months that the Company intends to liquidate during the next 12 months for working capital needs.

The Company determines the appropriate classification of its investments in equity securities at the time of purchase and re-evaluates those classifications at each balance sheet date. Available for sale investments are marked to market at each reporting period with changes in fair value recorded as a component of other comprehensive income (loss). If declines in fair value are deemed other than temporary, a charge is made to net income (loss) for the period.

The Company had no short-term investments or investments in equity securities as of September 30, 2014 or December 31, 2013.

4. Prepaid Expenses and Other Assets

Prepaid expenses and other current assets consist of the following:

	September 30, 2014	December 31, 2013
	(in thousands)	
Prepaid insurance	$ 250	$ 687
Prepaid contractor fees and vendor advances	104	193
Taxes receivable	70	96
Recoupable deposits and other	190	115
	$ 614	$ 1,091

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The prepaid contractor fees and vendor advances consist of advance payments made to equipment manufacturers, contractors and suppliers primarily at the Company s Velardeña Properties in Mexico.

In addition, included in non-current assets at December 31, 2013 is approximately $30,000 of prepaid insurance, which was fully amortized at September 30, 2014.

5. Inventories

Inventories at the Velardeña Properties at September 30, 2014 and December 31, 2013 consist of the following:

	September 30, 2014	December 31, 2013
	(in thousands)	
Material and supplies	$ 662	$ 449
	$ 662	$ 449

The Company had no metals or in process inventories at either period as the result of the suspension of mining and processing at the Velardeña Properties in June 2013.

6. Value Added Tax Receivable, Net

The Company has recorded value added tax (VAT) paid in Mexico and related to the Velardeña Properties as a recoverable asset. Mexican tax law allows for certain VAT payments to be recovered through ongoing applications for refunds. The Company expects that the current amounts will be recovered within a one year period.

The Company has also paid VAT related to exploration activities in Mexico and other countries which has been charged to expense as incurred because of the uncertainty of recovery.

7. Property, Plant and Equipment, Net

The components of property, plant and equipment are as follows:

		September 30, 2014		December 31, 2013
		(in thousands)		
Mineral properties	$	22,397	$	22,397
Exploration properties		2,743		2,993
Royalty properties		200		200
Buildings		2,357		2,349
Mining equipment and machinery		19,683		19,441
Other furniture and equipment		841		1,054
Asset retirement cost		2,002		2,087
		50,223		50,521
Less: Accumulated depreciation and amortization		(20,217)		(18,146)
		30,006		32,375

During the quarter ended September 30, 2014 the Company sold 45 mining concessions totaling 770 hectares located in the Zacatecas District, Zacatecas State, Mexico, to Capstone Mining Group for $700,000 and recorded a $0.5 million gain on the sale. Also in the quarter, the Company entered into an option agreement with a private party to sell its 1,100 hectare Otuzco property in Peru for $450,000. At September 30, 2014 the Company had received $150,000 under the option agreement, with the remainder payable in 2015 if the option is maintained and exercised. In addition, the Company sold miscellaneous surplus equipment located in Argentina during the quarter for $130,000 and recorded a nominal gain. The net gains for the above sales are reflected in other operating income, net on the accompanying Condensed Consolidated Statement of Operations.

The asset retirement cost (ARC) is all related to the Company s Velardeña Properties. The decrease in the ARC during the period is related to an adjustment to the asset retirement obligation (ARO) (see Note 9).

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8. Accounts Payable and Other Accrued Liabilities

The Company s accounts payable and other accrued liabilities consist of the following:

		September 30, 2014		December 31, 2013
		(in thousands)		
Accounts payable and accruals	$	1,159	$	717
Accrued employee compensation and benefits		716		648
	$	1,875	$	1,365

September 30, 2014

Accounts payable and accruals at September 30, 2014 are primarily related to amounts due to contractors and suppliers in the amounts of approximately $0.7 million and $0.5 million related to the Company s Velardeña Properties and corporate administrative activities, respectively.

Accrued employee compensation and benefits at September 30, 2014 consist of $0.2 million of accrued vacation and $0.5 million related to withholding taxes and benefits payable, of which $0.2 million is related to the Velardeña Properties.

December 31, 2013

Accounts payable and accruals at December 31, 2013 are primarily related to amounts due to contractors and suppliers in the amounts of $0.4 million, $0.2 million and $0.1 million related to the Company s Velardeña Properties, corporate administrative activities and exploration, respectively.

Accrued employee compensation and benefits at December 31, 2013 consist of $0.1 million of accrued vacation payable and $0.5 million related to withholding taxes and benefits payable, of which $0.3 million is related to activities at the Velardeña Properties.

Key Employee Long-Term Incentive Plan

On December 13, 2013, the board of directors of the Company approved and the Company adopted the 2013 Key Employee Long-Term Incentive Plan (the KELTIP), which became effective immediately. The KELTIP provides for the grant of units (KELTIP Units) to certain officers and key employees of the Company, which units will, once vested, entitle such officers and employees to receive an amount, in cash or in Company common stock issued pursuant to the Company s Amended and Restated 2009 Equity Incentive Plan, measured generally by the price of the Company s common stock on the settlement date. KELTIP Units are not an actual equity interest in the Company and are solely unfunded and unsecured obligations of the Company that are not transferable and do not provide the holder with any stockholder rights. Payment of the settlement amount of vested KELTIP Units is deferred generally until the earlier of a change of control of the Company or the date the grantee ceases to serve as an officer or employee of the Company.

The KELTIP Units are marked to market at each reporting period. At September 30, 2014 and December 31, 2013 the Company had recorded liabilities of $110,000 and $81,000, respectively related to KELTIP Unit grants which are included in accrued employee compensation and benefits in the table above.

9. Asset Retirement Obligations

The Company retained the services of a mining engineering firm to prepare a detailed closure plan for the Velardeña Properties. The plan was completed during the second quarter 2012 and indicated that the Company had an ARO and offsetting ARC of approximately $1.9 million. The estimated $3.5 million ARO and ARC that was recorded at the time of the acquisition of the Velardeña Properties was adjusted accordingly.

The Company will continue to accrue additional estimated ARO amounts based on an asset retirement plan as activities requiring future reclamation and remediation occur. During the first nine months of 2014 the Company recognized

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approximately $0.2 million of accretion expense and approximately $0.2 million of amortization expense related to the ARC.

The following table summarizes activity in the Velardeña Properties ARO:

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013
	(in thousands)		
Beginning balance	$	2,467	$	2,080
Changes in estimates, and other		(85)		203
Accretion expense		149		135
Ending balance	$	2,531	$	2,418

The decrease in the ARO recorded during the nine months ended September 30, 2014 is the result of changes in assumptions related to inflation factors and discount rates used in the determination of future cash flows.

The increase in ARO recorded during the nine months ended September 30, 2013 relates to a change in assumption related to inflation factors used in the determination of future cash flows. The corresponding increase in ARO was discounted using the Company s current credit-adjusted risk-free interest rate.

The ARO set forth on the accompanying Condensed Consolidated Balance Sheets at September 30, 2014 and December 31, 2013 include approximately $0.1 million of reclamation liabilities related to activities at the El Quevar project in Argentina.

10. Other Current Liabilities

The Company recorded other current liabilities of approximately $2.8 million and $4.4 million at September 30, 2014 and December 31, 2013, respectively. The amounts are primarily related to a loss contingency on foreign withholding taxes that the government could assert are owed by the Company, acting as withholding agent, on certain interest payments made to a third party. The amounts include estimated interest, penalties and other adjustments.

The September 30, 2014 amount also includes a net liability of approximately $0.2 million related to the Argentina tax on equity due for years 2009 through 2012 stemming from a tax audit of those years. The amount includes interest and penalties and is net of certain VAT credits due the Company. The tax authorities have agreed in principle to offset a portion of the $0.9 million in tax, interest and penalties with approximately $0.7 million of VAT credits due the Company. Should the Argentina tax authorities ultimately not allow a portion or all of the VAT credits as an offset the liability could increase by as much as $0.7 million (see Note 16).

11. Fair Value Measurements

The Company follows the guidance of Accounting Standards Codification (ASC) Topic 820 Fair Value Measurements and Disclosures (ASC 820) for financial assets and liabilities and nonfinancial assets and liabilities which are measured at fair value on a recurring basis. ASC 820 establishes a framework for measuring fair value in the form of a fair value hierarchy which prioritizes the inputs into valuation techniques used to measure fair value into three broad levels. This hierarchy gives the highest priority to quoted prices (unadjusted) in active markets and the lowest priority to unobservable inputs. Further, financial assets and liabilities should be classified by level in their entirety based upon the lowest level of input that was significant to the fair value measurement. The three levels of the fair value hierarchy per ASC 820 are as follows:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Quoted prices in inactive markets for identical assets or liabilities, quoted prices for similar assets or liabilities in active markets, or other observable inputs either directly related to the asset or liability or derived principally from corroborated observable market data.

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Level 3: Unobservable inputs due to the fact that there is little or no market activity. This entails using assumptions in models which estimate what market participants would use in pricing the asset or liability.

The following table summarizes the Company s financial assets and liabilities at fair value at September 30, 2014 and December 31, 2013, by respective level of the fair value hierarchy:

		Level 1		Level 2		Level 3		Total
				(in thousands)				
At September 30, 2014								
Assets:								
Cash equivalents	$	14,955	$		$		$	14,955
Liabilities:								
KELTIP payable		110						110
	$	14,845	$		$		$	14,845
At December 31, 2013								
Assets:								
Cash equivalents	$	19,146	$		$		$	19,146
Trade Accounts Receivable		25						25
Liabilities:								
KELTIP payable		81						81
	$	19,090	$		$		$	19,090

The Company s cash equivalents, comprised principally of U.S. treasury securities, are classified within Level 1 of the fair value hierarchy.

The KELTIP payable is related to employee and officer compensation as discussed in Note 8 and are marked to market at the end of each period based on the closing price of the Company s common stock resulting in a classification of Level 1 within the fair value hierarchy.

During the nine months ended September 30, 2014 and for the year ended December 31, 2013 there were no amounts transferred between levels and there were no changes in fair value measurement techniques. The Company did not have any Level 2 or Level 3 financial assets or liabilities at September 30, 2014 or December 31, 2013.

Credit Risk

Credit risk is the risk that a third party might fail to fulfill its performance obligations under the terms of a financial instrument. For cash and cash equivalents and investments, the Company s maximum exposure to credit risk represents the carrying amount on the balance sheet. The Company attempts to mitigate credit risk for cash and cash equivalents by placing its funds with high credit-quality financial institutions, limiting the amount of exposure to each financial institution, monitoring the financial condition of the financial institutions and investing only in government and corporate securities rated investment grade or better. The Company invests with financial institutions that maintain a net worth of not less than $1.0 billion and are members in good standing of the Securities Investor Protection Corporation.

12. Income Taxes

The Company accounts for income taxes in accordance with the provisions of ASC 740, Income Taxes (ASC 740), on a tax jurisdictional basis. For the nine months ended September 30, 2014, the Company had no income tax benefit or expense. The Company operates in jurisdictions that have generated ordinary losses on a year-to-date basis and no benefit can be recognized on those losses, thus an estimated effective tax rate is not used to report the year-to-date results. For the nine months ended September 30, 2013, the Company recorded a $47.6 million income tax benefit related primarily to the impairment of long lived assets of the Velardeña Properties and Mexico net operating losses, resulting in an elimination of the net deferred tax liability in existence at that time.

In accordance with ASC 740, the Company presents deferred tax assets net of its deferred tax liabilities on a tax jurisdictional basis on its Consolidated Balance Sheets. As of September 30, 2014 and as of December 31, 2013, the Company had no net deferred tax assets or net deferred tax liabilities reported on its balance sheet.

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The Company, a Delaware corporation, and its subsidiaries file tax returns in the United States and in various foreign jurisdictions. The tax rules and regulations in these countries are highly complex and subject to interpretation. The Company s income tax returns are subject to examination by the relevant taxing authorities and in connection with such examinations, disputes can arise with the taxing authorities over the interpretation or application of certain tax rules within the country involved. In accordance with ASC 740, the Company identifies and evaluates uncertain tax positions, and recognizes the impact of uncertain tax positions for which there is less than a more-likely-than-not probability of the position being upheld upon review by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits which require additional disclosure and recognition of a liability within the financial statements. The Company had no unrecognized tax benefits as of September 30, 2014 and as of December 31, 2013.

13. Equity

Registered offering

On September 10, 2014, the Company completed a registered public offering (the Offering) of 3,692,000 shares (the Shares) of the Company s common stock, par value $0.01 per share, and warrants (the Warrants) to purchase 1,846,000 shares of the Company s common stock. The Shares and Warrants were sold in units (Units) at a price of $0.86 per Unit, before discount to the underwriters, with each Unit consisting of one Share of the Company s common stock and a Warrant to purchase 0.50 of a share of the Company s common stock. The Warrants become exercisable on March 11, 2015 at an exercise price of $1.21 per share and will expire on September 10, 2019, five years from the date of issuance. The Shares and the Warrants are immediately separable and were issued separately. The Company received net proceeds from the Offering of approximately $2.7 million after the underwriter commissions and expenses of approximately $0.5 million. In arriving at the relative value of the Shares and Warrants the Company used the Black-Scholes option pricing model with a risk-free interest rate of 1.79%; a stock price of $1.01, the closing price of the Company s common stock the day prior to the announcement of the offering; volatility of 83%; and terms equal to the terms of the Warrants. The fair value of the Shares was approximately $2.1 million and the fair value of the Warrants was approximately $0.6 million both of which were recorded to additional paid in capital net of the $0.01 par value of the Shares.

Private placement

On September 10, 2014 the Company also completed a private placement (the Private Placement) with The Sentient Group (Sentient), the Company s largest stockholder, pursuant to which Sentient purchased, pursuant to Regulation S under the U.S. Securities Act of 1933, a total of 5,800,000 Units, with each Unit consisting of one share of the Company s common stock and a warrant to purchase 0.50 of a share of the Company s common stock. The warrants become exercisable on March 11, 2015 at an exercise price of $1.21 per share and will expire on September 10, 2019, five years from the date of issuance. Each Unit was priced at $0.817 the same discounted price paid by the underwriters in the Offering. The Company received net proceeds from the Private Placement of approximately $4.7 million after the discount and expenses of approximately $0.3 million. In arriving at the relative value of the Shares and Warrants the Company used the Black-Scholes option pricing model with a risk-free interest rate of 1.79%; a stock price of $1.01, the closing price of the Company s common stock the day prior to the announcement of the offering; volatility of 83%; and terms equal to the terms of the Warrants. The fair value of the Shares was approximately $3.6 million and the fair value of the Warrants was approximately $1.1 million both of which were recorded to additional paid in capital net of the $0.01 par value of the Shares. Following the completion of the Private Placement and the Offering, Sentient holds approximately 27.2% of the Company s outstanding common stock (excluding restricted common stock held by the Company s employees).

Equity Incentive Plans

In May 2014, the Company s stockholders approved amendments to the Company s 2009 Equity Incentive Plan, adopting the Amended and Restated 2009 Equity Incentive Plan (the Equity Plan), pursuant to which awards of the Company s common stock may be made to officers, directors, employees, consultants and agents of the Company and its subsidiaries. The Company recognizes stock-based compensation costs using a graded vesting attribution method whereby costs are recognized over the requisite service period for each separately vesting portion of the award.

The following table summarizes the status of the Company s restricted stock grants issued under the Equity Plan at September 30, 2014 and changes during the nine months then ended:

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Restricted Stock Grants	**Number of Shares**		**Weighted Average Grant Date Fair Value Per Share**
Outstanding at December 31, 2013	915,971	$	2.47
Granted during the period			
Restrictions lifted during the period	(165,634)		4.72
Forfeited during the period			
Outstanding at September 30, 2014	750,337	$	1.97

Restrictions were lifted on 155,134 shares during the period on the anniversaries of grants made to officers and employees in prior years. The restrictions were lifted on an additional 10,500 shares in connection with to the termination of employment of two employees.

For the nine months ended September 30, 2014 the Company recognized approximately $0.4 million of compensation expense related to outstanding restricted stock grants. The Company expects to recognize additional compensation expense related to these awards of approximately $0.3 million over the next 21 months.

The following table summarizes the status of the Company s stock option grants issued under the Equity Plan at September 30, 2014 and changes during the nine months then ended:

Equity Plan Options	**Number of Shares**		**Weighted Average Exercise Price Per Share**
Outstanding at December 31, 2013	110,810	$	8.02
Granted during period			
Forfeited or expired during period	(15,000)		8.02
Exercised during period			
Outstanding at September 30, 2014	95,810		8.02
Exercisable at end of period	95,810		8.02
Granted and vested	95,810		8.02

At September 30, 2014, in addition to the Equity Plan options outstanding, the Company had outstanding 126,000 options to purchase shares of the Company s common stock at an exercise price of $16.00. The options were related to the merger with ECU Silver Mining Inc. (ECU) on September 2, 2011 and were issued to former ECU stock option holders to replace options previously issued to them by ECU. The options expired on October 22, 2014.

Also, pursuant to the Equity Plan, the Company s board of directors adopted the Non-Employee Director s Deferred Compensation and Equity Award Plan (the Deferred Compensation Plan). Pursuant to the Deferred Compensation Plan the non-employee directors receive a portion of their compensation in the form of Restricted Stock Units (RSUs) issued under the Equity Plan. The RSUs vest on the first anniversary of the grant date and each vested RSU entitles the director to receive one unrestricted share of common stock upon the termination of the director s board service.

The following table summarizes the status of the RSU grants issued under the Deferred Compensation Plan at September 30, 2014 and changes during the nine months then ended:

Restricted Stock Units	Number of Shares		Weighted Average Grant Date Fair Value Per Share
Outstanding at December 31, 2013	585,285	$	2.97
Granted during the period	350,000		0.58
Restrictions lifted during the period			
Forfeited during the period			
Outstanding at September 30, 2014	935,285	$	2.08

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For the nine months ended September 30, 2014 the Company recognized approximately $0.3 million of compensation expense related to the RSU grants. The Company expects to recognize additional compensation expense related to these awards of approximately $0.1 million over the next nine months.

Pursuant to the KELTIP (see Note 8) KELTIP Units may be granted to certain officers and key employees of the Company, which units will, once vested, entitle such officers and employees to receive an amount in cash or in Company common stock measured generally by the price of the Company s common stock on the settlement date. The KELTIP Units are recorded as a liability as discussed in detail in Note 8.

Common stock warrants

The following table summarizes the status of the Company s common stock warrants at September 30, 2014 and changes during the nine months then ended:

Common Stock Warrants	**Number of Underlying Shares**		**Weighted Average Exercise Price Per Share**
Outstanding at December 31, 2013	5,263,578	$	12.10
Granted during period	4,746,000		1.21
Dilution adjustment	599,760		7.17
Expired during period	(1,831,929)		19.00
Exercised during period			
Outstanding at September 30, 2014	8,777,409	$	3.95

The warrants granted during the period are related to the Offering and Private Placement of the Company s securities completed on September 10, 2014 as discussed above.

In September 2012, the Company closed on a registered offering and concurrent private placement with Sentient in which it sold units, consisting of one share of common stock and a five-year warrant to acquire one half of a share of common stock at an exercise price of $8.42 per share (the September 2012 Warrants). Pursuant to certain dilution adjustment provisions in the warrant agreement governing the September 2012 Warrants, the number of shares of common stock issuable upon exercise of the September 2012 Warrants was increased from 3,431,649 shares to 4,031,409 shares (599,760 share increase) and the exercise price was reduced from $8.42 per share to $7.17 per share pursuant to a weighted average dilution calculation based on the pricing of the Offering and the Private Placement.

The warrants that expired were warrants related to the merger with ECU on September 2, 2011 and were issued to former ECU warrant holders to replace warrants previously issued to them by ECU. The warrants expired on February 20, 2014.

14. Sale of Metals and Related Costs

Prior to the suspension of mining and processing in June 2013 (see Note 1) the Company sold marketable products including concentrates and precipitates at its Velardeña Properties. During the nine months ended September 30, 2014 the Company did not sell any product or incur any related costs as the result of the suspension of mining and processing.

During the nine months ended September 30, 2013 the Company sold marketable products to five customers. Under the terms of the Company s agreements with one precipitate customer, title did not pass to the purchaser until the product was received by the refinery, at which point revenue was recognized. For the Company s other customers, title generally passed when a provisional payment was made, which occurred after the product was shipped and customary sales documents were completed. Costs related to the sale of metals products include direct and indirect costs incurred to mine, process and market the products. At September 30, 2013 the Company had written down its metals inventory to net realizable value including a charge to the cost of metals sold of approximately $2.0 million and a charge to depreciation expense of approximately $0.6 million. Also included in cost of metals sold at September 30, 2013 was a $0.6 million charge related to workforce reduction severance costs.

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15. Supplemental Cash Flow Information

The following table reconciles net loss for the period to cash used in operations:

	Nine Months Ended September 30, 2014	2013
	(in thousands)	
Cash flows from operating activities:		
Net loss	$ (14,313)	$ (230,276)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization and depreciation	2,375	6,180
Accretion of asset retirement obligation	149	135
Foreign currency gain on loss contingency	(74)	(383)
Foreign currency loss on deferred tax liability		527
Impairment of goodwill		11,180
Impairment of long lived assets		