

SOLITARIO EXPLORATION & ROYALTY CORP.
Form 10-Q
July 30, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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, 2014

OR

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. 001-39278

SOLITARIO EXPLORATION & ROYALTY CORP.

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of incorporation or organization)
4251 Kipling St. Suite 390, Wheat Ridge, CO
(Address of principal executive offices)
(303) 534-1030

84-1285791
(I.R.S. Employer Identification No.)
80033
(Zip Code)

(Registrant's telephone number, including area code)

Indicate by checkmark 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 has submitted electronically and posted on its corporate Web site, if any, every

Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

		Non-accelerated filer	
Large accelerated filer	Accelerated filer	(do not check if a smaller reporting company)	Smaller reporting company

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

YES NO

There were 39,247,689 shares of \$0.01 par value common stock outstanding as of July 29, 2014.

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PART I - FINANCIAL INFORMATIONItem 1. Financial Statements

SOLITARIO EXPLORATION & ROYALTY CORP.

CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars, except share and per share amounts)	June 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,226	\$ 2,092
Investments in marketable equity securities, at fair value	1,076	1,577
Prepaid expenses and other	31	115
Total current assets	2,333	3,784
Mineral properties	13,336	12,098
Investments in marketable equity securities, at fair value	2,643	2,396
Equity method investment	—	153
Other assets	938	1,069
Total assets	\$ 19,250	\$ 19,500
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 360	\$ 367
Short-term margin loan	—	802
Other	—	84
Total current liabilities	360	1,253
Long-term debt, net of discount	3,252	3,144
Deferred gain on sale of mineral property	7,000	7,000
Warrant liability	359	140
Commitments and contingencies		
Equity:		
Solitario shareholders' equity:		
Preferred stock, \$0.01 par value, authorized 10,000,000 shares (none issued and outstanding at June 30, 2014 and December 31, 2013)	—	—
Common stock, \$0.01 par value, authorized 100,000,000 shares (39,247,689 and 37,512,127, respectively, shares issued and outstanding at June 30, 2014 and December 31, 2013)	393	375
Additional paid-in capital	53,845	51,963

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Accumulated deficit	(45,801)	(44,730)
Accumulated other comprehensive income	278	460
Total Solitario shareholders' equity	8,715	8,068
Noncontrolling interest	(436)	(105)
Total shareholders' equity	8,279	7,963
Total liabilities and shareholders' equity	\$ 19,250	\$ 19,500

See Notes to Unaudited Condensed Consolidated Financial Statements

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SOLITARIO EXPLORATION & ROYALTY CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands of U.S. dollars)	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2014	2013	2014	2013
Costs, expenses and other:				
Exploration expense	\$ 136	\$ 336	\$ 184	\$ 698
Depreciation and amortization	5	9	8	16
General and administrative	404	517	935	1,144
Gain on derivative instruments	(7)	—	(39)	(3)
Property abandonment and impairment	20	3	20	13
Interest and dividend income	(1)	(2)	(1)	(56)
Gain on sale of assets	—	(11)	—	(11)
Total costs, expenses and other	557	852	1,107	1,801
Other income (expense)				
Gain on sale of marketable equity securities	103	270	403	270
Gain (loss) on warrant liability	41	758	(219)	857
Net loss of equity method investment	(28)	(425)	(153)	(738)
Total other income (expense)	116	603	31	389
Loss before income tax	(441)	(249)	(1,076)	(1,412)
Income tax expense	(100)	(193)	—	(24)
Net loss	(541)	(442)	(1,076)	(1,436)
Less net loss attributable to noncontrolling interest	2	4	5	7
Net loss attributable to Solitario shareholders	\$(539)	\$(438)	\$(1,071)	\$(1,429)
Loss per common share attributable to Solitario shareholders:				
Basic and diluted	\$(0.01)	\$(0.01)	\$(0.03)	\$(0.04)
Weighted average shares outstanding:				
Basic and diluted	39,228	34,659	38,616	34,561

See Notes to Unaudited Condensed Consolidated Financial Statements

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SOLITARIO EXPLORATION & ROYALTY CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands of U.S. dollars)	Three months ended		Six months ended	
	June 30		June 30	
	2014	2013	2014	2013
Net loss for the period, before other comprehensive loss	\$ (541)	\$ (442)	\$ (1,076)	\$ (1,436)
Other comprehensive income (loss)				
Unrealized loss on marketable equity securities, net of deferred taxes	(368)	(1,669)	(182)	(2,553)
Comprehensive loss	\$ (909)	\$ (2,111)	\$ (1,258)	\$ (3,989)
Loss attributable to noncontrolling interests	2	4	5	7
Comprehensive loss attributable to Solitario shareholders	\$ (907)	\$ (2,107)	\$ (1,253)	\$ (3,982)

See Notes to Unaudited Condensed Consolidated Financial Statements

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SOLITARIO EXPLORATION & ROYALTY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands of U.S. dollars)	Six months ended June 30,	
	2014	2013
Operating activities:		
Net loss	\$(1,076)	\$(1,436)
Adjustments to reconcile net loss to net cash used in operating activities:		
Unrealized gain on derivative instruments	(39)	(3)
Depreciation and amortization	8	16
Loss on equity method investment	153	738
Loss (gain) on warrant liability	219	(857)
Employee stock option expense	111	192
Deferred income tax expense	—	24
Property abandonment and impairment	20	13
Gain on asset and equity security sales	(403)	(281)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	85	25
Accounts payable and other current liabilities	(42)	(108)
Net cash used in operating activities	(964)	(1,677)
Investing activities:		
Additions to mineral properties	(999)	(914)
Sale of derivative instruments	36	—
Proceeds from mineral property sale receivable	—	4,000
Proceeds from sale of marketable equity securities	473	313
Other assets, net	10	12
Net cash (used in) provided by investing activities	(480)	3,411
Financing activities:		
Proceeds from issuance of common stock	1,630	—
Short-term borrowing (net)	(802)	(382)
Repayment of long-term debt	—	(750)
Contribution from noncontrolling interest	—	250
Proceeds from exercise of options	—	183
Proceeds from long-term debt	—	2,000
Distribution to noncontrolling interest	—	(50)
Payment to noncontrolling interest	(250)	(250)
Net cash provided by financing activities	578	1,001
Net (decrease) increase in cash and cash equivalents	(866)	2,735
Cash and cash equivalents, beginning of period	2,092	616
Cash and cash equivalents, end of period	\$1,226	\$3,351
Supplemental disclosure of cash flow information:		
Cash paid for interest, capitalized to mineral property	\$96	\$86

Supplemental disclosure of non-cash activities:

Capitalized non-cash interest	\$206	\$287
Issuance of stock to noncontrolling interest	\$76	\$77
Issuance of stock for mineral property	\$38	\$41
Issuance of stock to settle severance liability	\$45	\$—

See Notes to Unaudited Condensed Consolidated Financial Statements

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business and Significant Accounting Policies

Business

Solitario Exploration & Royalty Corp. (“Solitario”) is a development stage company (but not a company in the “Development Stage”) under Industry Guide 7, as issued by the United States Securities and Exchange Commission, with a focus on developing the Mt. Hamilton project located in Nevada. Although Solitario intends to develop the Mt. Hamilton project, Solitario has never developed a mineral property. In addition to the Mt. Hamilton project, Solitario owns the Bongará zinc project in Brazil, which is subject to a joint venture with Votorantim Matais Cajamarquilla, S.A. (“Votorantim”), whereby Votorantim is earning a 70% interest in the Bongará zinc project, subject to certain conditions. In addition, Solitario acquires and holds a portfolio of precious and base metal exploration properties for future sale, joint venture or to create a royalty prior to the establishment of proven and probable reserves and at June 30, 2014 has four mineral exploration properties in Peru and Mexico and its Yanacocha and Mercurio royalty properties in Peru and Brazil, respectively. Solitario is conducting limited exploration activities in these countries.

The accompanying interim condensed consolidated financial statements of Solitario for the three and six months ended June 30, 2014 and 2013 are unaudited and are prepared in accordance with accounting principles generally accepted in the United States of America. They do not include all disclosures required by generally accepted accounting principles for annual financial statements, but in the opinion of management, include all adjustments, consisting only of normal recurring items, necessary for a fair presentation. Interim results are not necessarily indicative of results, which may be achieved in the future or for the full year ending December 31, 2014.

These financial statements should be read in conjunction with the financial statements and notes thereto which are included in Solitario’s Annual Report on Form 10-K for the year ended December 31, 2013. The accounting policies set forth in those annual financial statements are the same as the accounting policies utilized in the preparation of these financial statements, except as modified for appropriate interim financial statement presentation.

Investment in Kinross

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Solitario has a significant investment in Kinross Gold Corporation (“Kinross”) at June 30, 2014 and December 31, 2013, which consists of the following:

(in thousands)	June 30, 2014	December 31, 2013
Shares	500	600
Fair value		
Current assets	\$ 1,076	\$ 1,577
Long term assets	\$ 994	\$ 1,051

During the three and six months ended June 30, 2014 and 2013, Solitario sold the following shares of Kinross:

(in thousands)	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Shares sold	30	60	100	60
Proceeds	\$ 123	\$ 313	\$ 473	\$ 313
Gain on sale	\$ 103	\$ 270	\$ 403	\$ 270

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At December 31, 2013, Solitario had borrowed \$802,000 in short-term margin loans against its holdings of Kinross shares, which was paid during the six months ended June 30, 2014. The short-term margin loans are discussed below under, "Short-term debt." Subsequent to June 30, 2014 Solitario sold 20,000 shares of Kinross for proceeds of \$82,000 and as of July 29, 2014 we own 480,000 shares of Kinross common stock which have a value of approximately \$1.99 million based upon the market price of \$4.14 per Kinross share. Solitario's investment in Kinross common stock represents a significant concentration of assets, with the inherent risk that entails. Any significant decline in the market value of Kinross common shares could have a material negative impact on our liquidity and capital resources.

Equity method investments

Solitario accounts for its investment in Pedra Branca do Mineracao, Ltd. ("PBM") under the equity method as of July 21, 2010, when Anglo Platinum Limited ("Anglo") earned a 51% interest in PBM. Solitario elected not to record its investment in PBM at fair value after July 21, 2010 and during the three and six months ended June 30, 2014 recorded a loss of \$28,000 and \$153,000, respectively, in its equity method investment for Solitario's share of the loss of PBM. During the six months ended June 30, 2014, Solitario's equity investment in PBM was reduced to zero and Solitario is no longer recognizing its share of losses in PBM in the statement of operations. Solitario's unrecognized losses related to its 49% interest in PBM were \$181,000 as of June 30, 2014.

Employee stock compensation plans

Solitario's outstanding options on the date of grant have a five year term, and vest 25% on date of grant and 25% on each of the next three anniversary dates. Solitario recognizes stock option compensation expense on the date of grant for 25% of the grant date fair value, and subsequently, based upon a straight line amortization of the unvested grant date fair value of each of its outstanding options. During the three and six months ended June 30, 2014, Solitario recorded \$55,000 and \$111,000, respectively, of stock option expense for the amortization of grant date fair value with a credit to additional paid-in-capital. During the three and six months ended June 30, 2013, Solitario recorded \$68,000 and \$192,000, respectively, of stock option expense for the amortization of grant date fair value with a credit to additional paid-in-capital.

The 2006 Plan

On June 27, 2006 Solitario's shareholders approved the 2006 Stock Option Incentive Plan (the "2006 Plan"). Under the terms of the 2006 Plan, the Board of Directors may grant up to 2,800,000 options to Directors, officers and employees with exercise prices equal to the market price of Solitario's common stock at the date of grant.

On January 28, 2014, holders of option awards from the 2006 Plan voluntarily cancelled awards for 1,797,000 options with an option price of Cdn\$2.40 with an expiration date of May 5, 2015 to allow Solitario to have additional financial

flexibility. No consideration was given or received by the holders of the options to cancel the awards. On May 19, 2014, previously granted options for 264,000 shares expired unexercised and are available for grant under the 2006 Plan.

There were no new options granted during the three and six months ended June 30, 2014 under the 2006 plan. No options were exercised during the three and six months ended June 30, 2014. During the three and six months ended June 30, 2013 options for 112,500 shares were exercised at a price of Cdn\$1.55 per share for proceeds of \$176,000 and 5,000 options were exercised at a price of Cdn\$1.49 per share for proceeds of \$7,000.

The 2013 Plan

On June 18, 2013 Solitario's shareholders approved the 2013 Solitario Exploration & Royalty Corp. Omnibus Stock and Incentive Plan (the "2013 Plan"). Under the terms of the 2013 Plan, the Board of Directors may grant awards for up to 1,750,000 shares to Directors, officers, employees and consultants. Such awards may take the form of stock options, stock appreciation rights, restricted stock, and restricted stock units. The terms and conditions of the awards are pursuant to the 2013 Plan and are granted by the Board of Directors or a committee appointed by the Board of Directors. Solitario classifies its awards from the 2013 Plan as equity awards under the provisions of ASC 718 "Compensation – Stock Compensation."

During the six months ended June 30, 2014, Solitario granted restricted stock units from the 2013 Plan for a total of 50,562 shares, which were vested upon grant to two employees as part of their severance pay upon the employees' termination from the Company. During the three and six months ended June 30, 2013, Solitario granted options for 120,000 shares with an exercise price of \$1.14 per share, the closing price of a share of Solitario common stock as quoted on the NYSE-MKT on the

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date of grant. The option has a term of five years, vested 25% on the date of grant and 25% on each subsequent anniversary date and a grant date fair value of \$78,000 based upon a Black Scholes model with a 68% expected volatility, an expected life of five years and a risk free interest rate of 1.24%.

Earnings per share

The calculation of basic and diluted earnings and loss per share is based on the weighted average number of common shares outstanding during the three and six months ended June 30, 2014 and 2013. During the three and six months ended June 30, 2014 and 2013, Solitario excluded 1,758,000 and 2,600,900, respectively, potentially dilutive shares related to outstanding common stock options from the calculation because the effects were anti-dilutive. In addition, during the three and six months ended June 30, 2014 and 2013, Solitario excluded an additional 1,624,748 shares related to warrants from the calculation because the effects were anti-dilutive.

Marketable equity securities

Solitario's investments in marketable equity securities are classified as available-for-sale and are carried at fair value, which is based upon quoted prices of the securities owned. The cost of marketable equity securities sold is determined by the specific identification method. Changes in market value are recorded in accumulated other comprehensive income within shareholders' equity, unless a decline in market value is considered other than temporary, in which case the decline is recognized as a loss in the consolidated statement of operations.

The following tables summarize Solitario's marketable equity securities and accumulated other comprehensive income related to its marketable equity securities:

(in thousands)	June 30, 2014	December 31, 2013
Marketable equity securities at fair value	\$3,720	\$ 3,973
Cost	1,884	1,954
Accumulated other comprehensive income for unrealized holding gains	1,836	2,019
Deferred taxes on accumulated other comprehensive income for unrealized holding gains	(639)	(688)
Valuation allowance on deferred taxes on unrealized holding losses included in other comprehensive loss	(919)	(871)
Accumulated other comprehensive income	\$278	\$ 460

The following table represents changes in marketable equity securities.

(in thousands)	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Gross cash proceeds	\$123	\$313	\$473	\$313
Cost	20	43	70	43
Gross gain on sale included in earnings during the period	103	270	403	270
Deferred taxes on gross gain on sale included in earnings	(35)	(101)	(140)	(101)