

Golden Minerals Co
Form 10-Q
May 09, 2012
[Table of Contents](#)

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 MARCH 31, 2012

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 1-13627

GOLDEN MINERALS COMPANY

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

26-4413382
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

350 INDIANA STREET, SUITE 800
GOLDEN, COLORADO
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

80401
(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 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:

LARGE ACCELERATED FILER

ACCELERATED FILER

NON-ACCELERATED FILER

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

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 NO

Edgar Filing: Golden Minerals Co - Form 10-Q

AT MAY 9, 2012, 35,714,035 SHARES OF COMMON STOCK, \$0.01 PAR VALUE PER SHARE, WERE ISSUED AND OUTSTANDING.

Table of Contents

GOLDEN MINERALS COMPANY
FORM 10-Q
QUARTER ENDED MARCH 31, 2012

INDEX

| | PAGE |
|--|---|
| <u>PART I FINANCIAL INFORMATION</u> | |
| <u>ITEM 1.</u> | <u>FINANCIAL STATEMENTS (Unaudited)</u> 3 |
| <u>ITEM 2.</u> | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> 18 |
| <u>ITEM 3.</u> | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> 22 |
| <u>ITEM 4.</u> | <u>CONTROLS AND PROCEDURES</u> 22 |
| <u>PART II OTHER INFORMATION</u> | |
| <u>ITEM 1.</u> | <u>LEGAL PROCEEDINGS</u> 23 |
| <u>ITEM 1A.</u> | <u>RISK FACTORS</u> 23 |
| <u>ITEM 2.</u> | <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> 23 |
| <u>ITEM 3.</u> | <u>DEFAULTS UPON SENIOR SECURITIES</u> 23 |
| <u>ITEM 4.</u> | <u>MINE SAFETY DISCLOSURES</u> 23 |
| <u>ITEM 5.</u> | <u>OTHER INFORMATION</u> 23 |
| <u>ITEM 6.</u> | <u>EXHIBITS</u> 23 |
| <u>SIGNATURES</u> | 24 |

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

GOLDEN MINERALS COMPANY
CONSOLIDATED BALANCE SHEETS
(Expressed in United States dollars)
(Unaudited)

| | March 31, 2012 | December 31, 2011 |
|---|-------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 32,244 | \$ 48,649 |
| Investments (Note 4) | 69 | |
| Trade receivables | 1,640 | |
| Inventories (Note 6) | 6,060 | 5,312 |
| Value added tax receivable (Note 7) | 1,767 | 1,317 |
| Prepaid expenses and other assets (Note 5) | 2,663 | 3,119 |
| Total current assets | 44,443 | 58,397 |
| Property, plant and equipment, net (Note 8) | 285,092 | 284,199 |
| Goodwill | 70,155 | 70,155 |
| Prepaid expenses and other assets (Note 5) | 263 | 264 |
| Total assets | \$ 399,953 | \$ 413,015 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable and other accrued liabilities (Note 9) | \$ 7,114 | \$ 8,070 |
| Other current liabilities (Note 11) | 7,929 | 7,505 |
| Total current liabilities | 15,043 | 15,575 |
| Asset retirement obligation (Note 10) | 3,850 | 3,781 |
| Deferred tax liability (Note 13) | 52,956 | 55,603 |
| Other long term liabilities (Note 11) | 268 | 288 |
| Total liabilities | 72,117 | 75,247 |
| Commitments and contingencies (Note 17) | | |
| Equity (Note 14) | | |
| Common stock, \$.01 par value, 100,000,000 shares authorized; 35,709,035 and 35,690,035 shares issued and outstanding, respectively | 355 | 355 |
| Additional paid in capital | 453,988 | 453,756 |
| Accumulated deficit | (126,352) | (116,221) |
| Accumulated other comprehensive loss | (155) | (122) |
| Parent company's shareholder's equity | 327,836 | 337,768 |

Edgar Filing: Golden Minerals Co - Form 10-Q

| | | | | |
|------------------------------|----|---------|----|---------|
| Total liabilities and equity | \$ | 399,953 | \$ | 413,015 |
|------------------------------|----|---------|----|---------|

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

Table of Contents

GOLDEN MINERALS COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Expressed in United States dollars)

(Unaudited)

| | Three Months Ended March 31, | |
|--|-----------------------------------|-------------------|
| | 2012 | 2011 |
| | (in thousands, except share data) | |
| Revenue: | | |
| Sale of metals (Note 15) | \$ 6,383 | \$ |
| Costs and expenses: | | |
| Costs applicable to sale of metals (exclusive of depreciation shown below) (Note 15) | (7,927) | |
| Exploration expense | (2,396) | (3,686) |
| El Quevar project expense | (1,415) | (8,737) |
| Velardeña project expense | (3,382) | |
| Administrative expense | (2,024) | (2,239) |
| Stock based compensation | (232) | (1,179) |
| Reclamation and accretion expense | (167) | |
| Other operating income & (expenses), net | 337 | 444 |
| Depreciation, depletion and amortization | (1,846) | (389) |
| Total costs and expenses | (19,052) | (15,786) |
| Loss from operations | (12,669) | (15,786) |
| Other income and expenses: | | |
| Interest and other income | 175 | 33 |
| Royalty income | 138 | 56 |
| Interest expense | | |
| Gain (loss) on foreign currency | 454 | (146) |
| Total other income and expenses | 767 | (57) |
| Loss from operations before income taxes | (11,902) | (15,843) |
| Income taxes | 1,771 | (82) |
| Net loss | \$ (10,131) | \$ (15,925) |
| Comprehensive loss: | | |
| Unrealized loss on securities | (33) | (139) |
| Comprehensive loss | \$ (10,164) | \$ (16,064) |
| Net loss per common share - basic and diluted | | |
| Loss | \$ (0.29) | \$ (1.08) |
| Weighted average common stock outstanding - basic and diluted (1) | 35,474,023 | 14,777,817 |

(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 consolidated financial statements.

Table of Contents

GOLDEN MINERALS COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in United States dollars)

(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------|
| | 2012 | 2011 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net cash used in operating activities (Note 16) | \$ (13,626) | \$ (13,577) |
| Cash flows from investing activities: | | |
| Proceeds from sale of assets | 36 | 71 |
| Capitalized costs and acquisitions of property, plant and equipment | (2,815) | (3,156) |
| Net cash used in investing activities | \$ (2,779) | \$ (3,085) |
| Cash flows from financing activities: | | |
| Net cash used in / provided by financing activities | \$ | \$ |
| Net decrease in cash and cash equivalents | (16,405) | (16,662) |
| Cash and cash equivalents - beginning of period | 48,649 | 120,990 |
| Cash and cash equivalents - end of period | \$ 32,244 | \$ 104,328 |

See Note 16 for supplemental cash flow information.

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

Table of Contents

GOLDEN MINERALS COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in United States dollars)

(Unaudited)

| | Common Stock Shares | Stock Amount | Addi- -tional Paid-in Capital | Accum- -ulated Deficit | Accum- -ulated Other Compre- -hensive income (loss) | Noncontrolling Interest | Total Equity |
|---|----------------------------------|-----------------|--|------------------------------|---|----------------------------|-----------------|
| | (in thousands except share data) | | | | | | |
| Balance, December 31, 2010 | 15,124,567 | \$ 152 | \$ 185,051 | \$ (53,550) | \$ 165 | \$ | \$ 131,818 |
| Stock compensation accrued | 331,166 | | 5,540 | | | | 5,540 |
| Treasury shares acquired and retired | (106,056) | | (1,834) | | | | (1,834) |
| Warrants exercised | 104,889 | 1 | (1) | | | | |
| Shares issued to ECU shareholders and officers | 16,117,319 | 161 | 224,514 | | | | 224,675 |
| ECU replacement options and warrants | | | 9,853 | | | | 9,853 |
| Private placements, net | 4,118,150 | 41 | 30,633 | | | | 30,674 |
| Unrealized loss on marketable equity securities | | | | | (287) | | (287) |
| Net loss | | | | (62,671) | | | (62,671) |
| Balance, December 31, 2011 | 35,690,035 | \$ 355 | \$ 453,756 | \$ (116,221) | \$ (122) | \$ | \$ 337,768 |
| Stock compensation accrued | 19,000 | | 232 | | | | 232 |
| Unrealized loss on marketable equity securities | | | | | (33) | | (33) |
| Net loss | | | | (10,131) | | | (10,131) |
| Balance, March 31, 2012 | 35,709,035 | \$ 355 | \$ 453,988 | \$ (126,352) | \$ (155) | \$ | \$ 327,836 |

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

Table of Contents

GOLDEN MINERALS COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 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.

On September 2, 2011, the Company and ECU Silver Mining Inc. (ECU) completed a business combination (the Transaction) more fully described in Note 19. The Company's consolidated financial statements include the results of the ECU Transaction from September 2, 2011.

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, 2011. Certain prior period amounts have been reclassified to conform to the current period presentation. Such reclassifications did not affect results of operations.

The Company is primarily engaged in the operation and further development of the recently acquired Velardeña mining operations in Mexico (the Velardeña Operations) (see Note 19), the advancement of its El Quevar advanced exploration property in Argentina, and the exploration and advancement of its portfolio of exploration properties in South America and Mexico. 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 the consolidated balance sheet are dependent on the ability of the Company to generate positive cash flow from operations and to continue to fund exploration and development activities that would lead to profitable production or proceeds from the disposition of the mineral properties. There can be no assurance that the Company will be successful in securing additional funding in the future on terms acceptable to the Company or at all.

2. Liquidity and Capital Resources

At March 31, 2012 the Company's aggregate cash and short-term investments totaled \$32.3 million, which were comprised of \$32.2 million of cash and cash equivalents and \$0.1 million of short term investments. The Company expects to produce approximately 590,000 ounces of silver and 9,400 ounces of gold during 2012 from the Velardeña Operations. Assuming metals prices of \$30.00 per ounce of silver and \$1,500 per ounce of gold the Company expects to generate a negative gross margin from the sale of metals of approximately \$1.0 million during the

Edgar Filing: Golden Minerals Co - Form 10-Q

remaining three quarters of 2012. With the cash and investment balance at March 31, 2012 of \$32.3 million and an anticipated \$1.0 million of negative gross margin from the sale of metals at the Velardeña Operations and approximately \$1.0 million from royalties and other income during the remainder of 2012, the Company plans to spend the following amounts during the remaining three quarters of 2012 pursuant to its long-term business strategy:

- Approximately \$13.5 million on capital and development costs related to the continued development of the San Mateo drift and other mine development and capital expenditures intended to increase the capacity and productivity of mine operations and plant facilities;
- Approximately \$2.5 million at the El Quevar project to fund maintenance activities and the continuation of project evaluation costs;

Table of Contents

- Approximately \$4.0 million on other exploration activities and property holding costs related to our portfolio of exploration properties located in South America and Mexico as we pursue strategies to monetize portions of the portfolio;
- Approximately \$6.0 million on general and administrative costs.

Based on these projections, and assuming no cash generated by monetization of the exploration properties, the Company would have at year-end 2012 a cash and investment balance of approximately \$6.0 million. Assuming metals prices of \$30.00 per ounce of silver and \$1,500 per ounce of gold during the remainder of 2012 the Company expects that gross margin from the sale of metals will be positive at the Velardeña Operations in the fourth quarter 2012.

The actual amount that the Company spends through year-end 2012 may vary significantly from the amounts specified above and will depend on a number of factors, including metals prices, the results of continuing operations and the timing of possible phased expansion projects at the Velardeña Operations and the results of continued project assessment work at El Quevar and other exploration properties, and whether the Company is able to monetize portions of its exploration portfolio and the amount and timing of cash generated by these activities or other external funding efforts. There can be no assurance that the current expenditures planned for the Velardeña Operations will result in the anticipated silver and gold production. If the anticipated production does not occur, or metals prices decline from the levels noted previously, the Company would be required to preserve its cash and investments by reducing project evaluation, exploration work, and general and administrative expenses; relying on the monetization of non-core assets; or securing external funding from debt or equity. There can be no assurance that the Company would be successful in obtaining sufficient funding from any of these actions or sources in the future on terms acceptable to it or at all.

3. Significant Accounting Policies

The Company did not adopt any new accounting standards during the quarter ended March 31, 2012, nor were there any new accounting pronouncements during that period that would have an impact on the Company's financial position or results of operations.

4. 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.

Edgar Filing: Golden Minerals Co - Form 10-Q

The following tables summarize the Company's investments at March 31, 2012:

| March 31, 2012 | Cost | Estimated Fair Value (in thousands) | Carrying Value |
|----------------------------------|---------------|---|-------------------|
| Investments: | | | |
| Short-term: | | | |
| Warrant to purchase common stock | \$ 124 | \$ | \$ |
| Available for sale common stock | 101 | 69 | 69 |
| Total available for sale | 225 | 69 | 69 |
| Total short term | \$ 225 | \$ 69 | \$ 69 |

Available for sale investments at December 31, 2011 had a nominal carrying value of less than one thousand dollars.

The available for sale common stock represents shares of stock in a junior mining company acquired during 2012 in a transaction related to the Company's exploration activities.

Table of Contents

In addition the Company holds warrants to purchase common stock of another junior mining company. The warrants were acquired in a transaction related to the Company's exploration activities during 2010. The warrants will expire during 2012 and had a nominal carrying value of less than one thousand dollars at December 31, 2011 and at March 31, 2012.

Quoted market prices at March 31, 2012 were used to determine the fair values of the above investments. See Note 12 for further discussion on the fair value measurement techniques used by the Company to value the above investments.

5. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

| | March 31, 2011 | | December 31, 2011 |
|---|-------------------|----|----------------------|
| | (in thousands) | | |
| Prepaid insurance | \$ 402 | \$ | 590 |
| Prepaid contractor fees and vendor advances | 1,026 | | 1,557 |
| Accounts receivable | 723 | | 682 |
| Recoupable deposits and other | 512 | | 290 |
| | \$ 2,663 | \$ | 3,119 |

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

The account receivable is related to the sale of the Company's Paca Pulacayo property in Bolivia and is expected to be settled during July 2012.

Included in non-current assets at March 31, 2012 and December 31, 2011 were approximately \$0.3 million of prepaid insurance on which amortization will be recognized through 2015.

6. Inventories

Inventories at the Velardeña Operations at March 31, 2012 and December 31, 2011 consist of the following:

Edgar Filing: Golden Minerals Co - Form 10-Q

| | March 31, 2012 (in thousands) | | December 31, 2011 (in thousands) |
|-----------------------|--|----|---|
| Metals inventory | \$ 4,033 | \$ | 4,250 |
| In-process inventory | 223 | | 257 |
| Material and supplies | 1,804 | | 805 |
| | \$ 6,060 | \$ | 5,312 |

At March 31, 2012, the Company had written down its metals inventory to net realizable value including a charge to cost of metals sold of approximately \$1.2 million and a charge to depreciation expense of approximately \$0.4 million.

Material and supplies inventory consist primarily of operating supplies at the Velardeña Operations and are carried at the lower of cost or market.

7. Value added tax recoverable

The Company has recorded value added tax (VAT) paid in Mexico and related to the Velardeña Operations 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 in Mexico as well as other countries, primarily related to exploration projects, which has been charged to expense as incurred because of the uncertainty of recoverability.

Table of Contents**8. Property, Plant and Equipment**

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

| | March 31, 2012 | December 31, 2011 |
|--------------------------------|---------------------------|------------------------------|
| | (in thousands) | |
| Mineral properties | \$ 239,200 | \$ 239,200 |
| Exploration properties | 16,549 | 16,549 |
| Royalty properties | 1,208 | 1,208 |
| Buildings | 4,455 | 4,766 |
| Mining equipment and machinery | 23,902 | 21,335 |
| Other furniture and equipment | 1,615 | 1,553 |
| Asset retirement cost | 3,506 | 3,506 |
| | 290,435 | 288,117 |
| Less: Accumulated depreciation | (5,343) | (3,918) |
| | 285,092 | 284,199 |

Additions to property, plant and equipment for the quarter ended March 31, 2012 are primarily related to activity at the Company's Velardeña Operations in Mexico.

9. Accounts Payable and Other Accrued Liabilities

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

| | March 31, 2012 | December 31, 2011 |
|--|---------------------------|------------------------------|
| | (in thousands) | |
| Accounts payable and accruals | \$ 3,980 | \$ 5,172 |
| Accrued employee compensation and benefits | 3,134 | 2,898 |
| | \$ 7,114 | \$ 8,070 |

March 31, 2012

Accounts payable and accruals at March 31, 2012 are primarily related to amounts due to contractors and suppliers in the amounts of \$2.8 million, \$0.3 million and \$0.9 million related to the Company's Velardeña Operations, corporate administrative activities and exploration, respectively.

Edgar Filing: Golden Minerals Co - Form 10-Q

Accrued employee compensation and benefits at March 31, 2012 consist of \$0.2 million of accrued vacation payable, \$0.3 million of accrued bonuses payable and \$2.6 million related to withholding taxes and benefits payable, of which \$2.3 million is related to activities at the Velardeña Operations.

December 31, 2011

Accounts payable and accruals at December 31, 2011 are primarily related to amounts due to contractors and suppliers in the amounts of \$3.0 million, \$0.8 million, \$0.6 million and \$0.8 million related to the Company's Velardeña Operations, El Quevar project, exploration and corporate administrative activities, respectively.

Accrued employee compensation and benefits at December 31, 2011 consist of \$0.3 million of accrued vacation payable and \$2.6 million related to withholding taxes and benefits payable, of which \$2.1 million is related to activities at the Velardeña Operations.

Table of Contents**10. Asset Retirement and Reclamation Liabilities**

The Company recorded an approximately \$3.5 million asset retirement obligation (ARO) and offsetting asset retirement cost (ARC) related to the Velardeña Operations upon the acquisition of ECU (see Note 19). 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 quarter 2012 the Company recognized approximately \$0.1 million of accretion expense during the period and approximately \$0.1 million of amortization expense related to the ARC.

The following table summarizes activity in the Velardeña Operations ARO:

| | March 31, 2012 | | December 31, 2011 |
|--|---------------------------|----|------------------------------|
| | (in thousands) | | (in thousands) |
| Beginning balance | \$ 3,577 | \$ | |
| ARO arising in the period (acquired at merger) | | | 3,506 |
| Changes in estimates, and other | | | |
| Liabilities settled | | | |
| Accretion expense | 72 | | 71 |
| Ending balance | \$ 3,649 | \$ | 3,577 |

Asset retirement and reclamation liabilities for both periods include approximately \$0.2 million of reclamation liabilities related to activities at the El Quevar project in Argentina.

11. Other Liabilities

The Company recorded other current liabilities of \$7.9 million and \$7.5 million at March 31, 2012 and December 31, 2011, respectively. The March 31, 2012 and December 31, 2011 amounts include a loss contingency of \$5.1 million and \$4.8 million, respectively and an unrecognized tax benefit of \$2.8 million and \$2.7 million, respectively. The amounts are all related to foreign withholding taxes and include estimated interest, penalties and other adjustments that may be required upon settlement of the liability. The loss contingency is expected to be settled over the next five years.

The Company has recorded other long term liabilities of approximately \$0.3 million at both March 31, 2012 and December 31, 2011, related to a deferred leasehold liability which represents the recording of rent expense on a straight-line basis while actual rent payments are escalating over the course of the lease and where certain leasehold improvement costs, reimbursable by the landlord, are being amortized, on a straight-line basis, against rent expense over the life of the lease which expires in November 2014.

12. Fair Value Measurements

Edgar Filing: Golden Minerals Co - Form 10-Q

Effective January 1, 2008, the Company adopted ASC 820, Fair Value Disclosure and Measurements (ASC 820), for the financial assets and liabilities and nonfinancial assets and liabilities which are measured at fair value on a recurring (annual) 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.

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.

Edgar Filing: Golden Minerals Co - Form 10-Q

Table of Contents

The following table summarizes the Company's financial assets at fair value at March 31, 2012, by respective level of the fair value hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|---------|---------|-----------|
| | (in thousands) | | | |
| Assets: | | | | |
| Cash equivalents | \$ 32,244 | \$ | \$ | \$ 32,244 |
| Short-term available for sale securities | 68 | | | 68 |
| Warrant to purchase common stock | | 1 | | 1 |
| Trade accounts receivable | 1,640 | | | 1,640 |
| Accounts receivable | | | 723 | 2,363 |
| | \$ 33,952 | \$ 1 | \$ 723 | \$ 34,676 |

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

The Company's short-term available for sale securities are classified within Level 1 of the fair value hierarchy and are comprised of common stock, which have been valued using quoted prices in active markets.

The Company's warrant to purchase common stock is classified within Level 2 of the fair value hierarchy. The fair value of the warrant to purchase common stock was determined using a Black-Scholes model with inputs based on quoted market price, historic volatilities, risk free interest rates and the life of the warrant.

The Company's trade accounts receivable is classified within Level 1 of the fair value hierarchy and is related to the sale of metals at our Velardeña Operations and is valued at published metals prices per the terms of the refining and smelting agreements.

The Level 3 receivable is related to the sale of a subsidiary to Apogee and is comprised of cash and common shares. The receivable is due and payable in July 2012 and is subject to a number of risks including market risk, performance risk and certain exchange related restrictions on the stock component. In addition to certain observable inputs including quoted market price, historic volatilities, risk free interest rates, the Company also used estimated discount rates to reflect the credit risks associated with the receivable. The Company recorded a reversal of the impairment of the receivable in the amount of \$44,100 during the period included in interest and other income in the consolidated statements of operations.

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.

13. 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 quarter ended March 31, 2012, the Company recorded a \$1.8 million deferred tax benefit related primarily to Mexico net operating losses. For the quarter ended March 31, 2011, the Company recorded income tax of \$0.1 million for the reversal of the tax effects of other comprehensive income reported as of December 31, 2010. Based on the limited history that the Company has with its Velardeña Operations, an estimated effective tax rate is not used to report the year-to-date results.

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. The net deferred tax liability of \$53.0 million as of March 31, 2012 consists primarily of a \$65.1 million deferred tax liability related to the basis differences of the properties, plant and equipment of our Velardeña, Mexico operation, and a \$12.3 million deferred tax asset related to Mexico net operating losses. The net deferred tax liability of \$2.1 million as of December 31, 2011 relates to the basis differences of certain other mineral properties.

Table of Contents

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 unrecognized tax benefits of \$2.8 million as of March 31, 2012, and no unrecognized tax benefits existed as of March 31, 2011.

14. Equity (Deficit)Equity Incentive Plans

In April 2009, the Company adopted the 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 March 31, 2012 and changes during the three months then ended:

| Restricted Stock Grants | Number of Shares | Weighted Average Grant Date Fair Value Per Share |
|---------------------------------------|-----------------------------|---|
| Outstanding at December 31, 2011 | 223,000 | \$ 11.54 |
| Granted during the period | 24,000 | 9.24 |
| Restrictions lifted during the period | (21,000) | 11.70 |
| Forfeited during the period | (5,000) | 6.19 |
| Outstanding at March 31, 2012 | 221,000 | \$ 11.39 |

The restricted stock granted during the period was granted to a new officer hired during the period. One third of the restricted stock granted will vest on each of the first, second and third anniversaries of the grant date, provided the officer continues to serve the Company at that time. Restrictions were lifted during the period on grants made to a Company officer as a result of his retirement.

For the three months ended March 31, 2012 the Company recognized approximately \$0.2 million of compensation expense related to the restricted stock grants. The Company expects to recognize additional compensation expense related to these awards of approximately \$1.1 million over the next 34 months.

Edgar Filing: Golden Minerals Co - Form 10-Q

The following table summarizes the status of the Company's stock option grants issued under the Equity Plan at March 31, 2012 and changes during the three months then ended:

| Equity Plan Options | Number of Shares | Weighted Average Exercise Price Per Share |
|------------------------------------|-----------------------------|--|
| Outstanding at December 31, 2011 | 136,810 | \$ 8.01 |
| Granted during period | | |
| Forfeited or expired during period | | |
| Exercised during period | | |
| Outstanding at March 31, 2012 | 136,810 | 8.01 |
| Exercisable at end of period | 136,800 | 8.01 |
| Granted and vested | 136,800 | 8.01 |

Table of Contents

As a result of the ECU Transaction (see Note 19) all of the stock options outstanding on the September 2, 2011 closing date vested on that date, and the awards were fully expensed at that time. Consequently no compensation expense related to stock option grants was recorded during the three month period ended March 31, 2012.

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 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 March 31, 2012 and changes during the three months then ended:

| Restricted Stock Units | Number of Underlying Shares | Weighted Average Grant Date Fair Value Per Share |
|---------------------------------------|-----------------------------------|--|
| Outstanding at December 31, 2011 | 63,781 | \$ 11.57 |
| Granted during the period | | |
| Restrictions lifted during the period | | |
| Forfeited during the period | | |
| Outstanding at March 31, 2012 | 63,781 | \$ 11.57 |

As a result of the ECU Transaction (see Note 19) all of the RSU grants outstanding on the September 2, 2011 closing date vested on that date, and the awards were fully expensed at that time. Consequently no compensation expense related to RSU grants was recorded during the three month period ended March 31, 2012.

15. Sale of Metals and Related Costs

The Company produces marketable products including doré, concentrates and precipitates at its Velardena Operations. During the quarter ended March 31, 2012 the Company sold marketable products to five customers. Under the terms of the Company's agreement with the doré customer, title does not pass to the purchaser until the product is received by the refinery, at which point revenue is recognized. For the Company's other customers, title generally passes when a provisional payment is made, which occurs generally after the product is shipped and customary sales documents are completed. Costs related to the sale of metals products includes direct and indirect costs incurred to mine, process and market the products. At March 31, 2012, the Company had written down its metals inventory to net realizable value including a charge to the cost of metals sold of approximately \$1.2 million and a charge to depreciation expense of approximately \$0.4 million.

16. Supplemental Cash Flow Information

Edgar Filing: Golden Minerals Co - Form 10-Q

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

Table of Contents

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2012 | 2011 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net loss | \$ (10,131) | \$ (15,925) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Amortization and depreciation | 1,846 | 389 |
| Accretion of asset retirement obligation | 72 | |
| Foreign currency gain on loss contingency | (398) | |
| Foreign currency gain on deferred tax liability | (674) | |
| Impairment (reversal of impairment) of accounts receivable | (41) | 22 |
| Fair value of stock/warrants received for mineral rights | (101) | |
| Gain on sale of assets, net | (9) | (390) |
| Income tax provision | (1,771) | 82 |
| Stock compensation | 231 | 1,179 |
| Changes in operating assets and liabilities: | | |
| Increase in trade accounts receivable | (1,640) | |
| (Increase) decrease in prepaid expenses and other assets | 498 | (440) |
| Increase in inventories | (700) | |
| Increase in value added tax recoverable, net | (450) | |
| Increase (decrease) in accounts payable and accrued liabilities | | |