SOLITARIO EXPLORATION & ROYALTY CORP.
Form 10-Q
August 10, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 **June 30, 2010**
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 **001-32978**

SOLITARIO EXPLORATION & ROYALTY CORP.
(Exact name of registrant as specified in its charter)

Colorado	84-1285791
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.
4251 Kipling St. Suite 390, Wheat Ridge, CO	**80033**
(Address of principal executive offices)	(Zip Code)
(303) 534-1030	
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 [X] 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 (Sub Section 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, 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.

Large accelerated filer [ ]	Accelerated filer [ ]	Non accelerated Filer [ ] (Do not check if a smaller reporting company)	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 [ ] NO [X]

There were 29,750,242 shares of $0.01 par value common stock outstanding as of August 4, 2010.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SOLITARIO EXPLORATION & ROYALTY CORP.
CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars, except share and per share amounts)	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 937	$ 1,946
Investments in marketable equity securities, at fair value	3,418	4,600
Prepaid expenses and other	307	196
Total current assets	4,662	6,742
Mineral properties, net	2,705	2,739
Investments in marketable equity securities, at fair value	14,072	15,006
Other assets	98	154
Total assets	$21,537	$24,641
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 154	$ 269
Derivative instruments fair value	-	53
Short-term margin debt	600	-
Current taxes payable	20	385
Deferred income taxes	1,307	1,567
Other	150	150
Total current liabilities	2,231	2,424
	4,799	
Deferred income taxes		5,555
	907	262
Stock option liability		
Deferred noncontrolling shareholder payments	2,033	1,286
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, 2010 and December 31, 2009)	-	-
Common stock, $0.01 par value, authorized 100,000,000 shares (29,750,242 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively)	297	297
Additional paid-in capital	35,611	35,611
Accumulated deficit	(35,127)	(32,930)
Accumulated other comprehensive income	10,506	11,722
Total Solitario shareholders' equity	11,287	14,700
Noncontrolling interest	280	414
Total shareholders' equity	11,567	15,114
Total liabilities and shareholders' equity	$21,537	$ 24,641

See Notes to Unaudited Condensed Consolidated Financial Statements

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SOLITARIO EXPLORATION & ROYALTY CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Costs, expenses and other:				
Exploration expense	$ 953	$ 797	$ 1,728	$ 1,478
Depreciation and amortization	20	24	44	47
General and administrative	1,082	1,410	1,560	1,924
Gain on derivative instruments	(6)	(3)	(118)	(530)
Asset write downs	39	-	39	10
Interest and dividend income	-	(5)	(53)	(53)
Gain on sale of assets	-	-	(22)	-
Total costs, expenses and other	2,088	2,223	3,178	2,876
	553	490	553	490
Other income -gain on the sale of marketable				

equity securities				
Loss before income taxes	(1,535)	(1,733)	(2,625)	(2,386)
Income tax benefit	178	295	293	211
Net Loss	(1,357)	(1,438)	(2,332)	(2,175)
Less net loss attributable to noncontrolling interest	65	50	135	116
Net loss attributable to Solitario shareholders	$(1,292)	$(1,388)	$(2,197)	$(2,059)
Loss per common share attributable to Solitario common shareholders:				
Basic and diluted	$(0.04)	$(0.05)	$(0.07)	$(0.07)
Weighted average shares outstanding Basic and diluted	29,750	29,750	29,750	29,750

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,	
	2010	2009
Operating activities:		
Net loss	$ (2,197)	$ (2,059)
Adjustments to reconcile net loss to net cash used in operating activities:		
Unrealized gain on derivative instruments	(118)	(530)
Depreciation and amortization	44	47
Stock option compensation expense	645	747
Asset write down	39	10
Noncontrolling interest	(135)	(116)
Gain on sale of assets	(22)	-
Deferred income tax benefit	(293)	(211)
Gain on sale of marketable equity security	(553)	(490)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(26)	105
Accounts payable and other current liabilities	(479	66
)		
Net cash used in operating activities	(3,095)	(2,431)
Investing activities:		
Additions to mineral properties	(5)	-

Additions to other assets	(8)	(3)
Sale of derivative instrument	-	66
Proceeds from sale of marketable equity securities	730	667
Proceeds from sale of other assets	22	-
Net cash provided by investing activities	739	730
Financing activities:		
Noncontrolling interest equity contribution	747	688
Short term debt borrowing	600	-
Net cash provided by financing activities	1,347	688
Net decrease in cash and cash equivalents	(1,009)	(1,013)
Cash and cash equivalents, beginning of period	1,946	1,942
Cash and cash equivalents, end of period	$ 937	$ 929

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 an exploration stage company with a focus on the acquisition of precious and base metal properties with exploration potential and the development or purchase of royalty interests. Solitario acquires and holds a portfolio of exploration properties for future sale, joint venture or to create a royalty prior to the establishment of proven and probable reserves. Although its mineral properties may be developed in the future through a joint venture, Solitario has never developed a mineral property and Solitario does not anticipate developing any currently owned mineral properties on its own in the future. Solitario may also evaluate mineral properties to potentially buy a royalty. At June 30, 2010, Solitario's mineral properties are located in Mexico, Brazil, Bolivia and Peru. Solitario was incorporated in the state of Colorado on November 15, 1984 as a wholly owned subsidiary of Crown Resources Corporation ("Crown") and has been actively involved in minerals exploration since 1993.

The accompanying interim condensed consolidated financial statements of Solitario for the six months ended June 30, 2010 and 2009 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, 2010.

These financial statements should be read in conjunction with the financial statements and notes thereto which are included in Solitario's Annual Report for the year ended December 31, 2009. 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.

Recent developments

On July 21, 2010, Anglo Platinum Limited ("Anglo") made a payment of $746,000 to Pedra Branca Minercao, Ltd. ("PBM") required to fund the third work program at the Pedra Branca project, which is held by PBM. Upon making this payment, Anglo earned an additional 21% interest in PBM and now holds a 51% interest in PBM.

On June 24, 2010, Solitario borrowed $600,000 from RBC Dain Rauscher, a stock Brokerage firm ("RBC"), in a short-term margin loan, using Solitario's investment in Kinross Gold Corporation ("Kinross") held at RBC as collateral for the short-term margin loan. On July 19, 2010 the RBC short-term margin loan was repaid with proceeds from Solitario's short term line of credit with UBS Bank, discussed below. See Note 4, Short Term Debt, below.

On July 16, 2010, Solitario borrowed $1,000,000 pursuant to a secured Credit Line Agreement between Solitario and UBS Bank of USA ("UBS Bank"). See Note 4, Short Term Debt, below.

On April 28, 2010, Solitario signed a definitive venture agreement with Compania De Minas Buenaventura S.A.A. ("Buenaventura") on Solitario's Pachuca Real silver-gold project in central Mexico. The Pachuca Real project (the "Pachuca Project") encompasses approximately 31,300 hectares of mineral rights in and around the Pachuca silver-gold mining district. The agreement calls for a firm work commitment by Buenaventura of $2.0 million over the first 18 months. Work commitments over the entire 4.5 years total $12.0 million. Buenaventura will earn a 51% interest in the Pachuca Project upon the completion of $12.0 million in expenditures. All work commitments will be performed by Buenaventura employees or contractors. Buenaventura will have the right to earn an additional 14% (total 65%) interest in the Pachuca Project by completing a positive feasibility study for the project. During the feasibility stage, Buenaventura is required to spend a minimum of $5.0 million annually until such time as the positive feasibility study is completed. Buenaventura has the right to terminate the agreement at anytime following its firm initial work commitment. Upon completion of the feasibility study, Solitario will have the option to self-finance its 35%-participating interest in the Pachuca Project, or to have Buenaventura fund Solitario's portion of construction costs at Libor + 3%. If Solitario elects to have Buenaventura fund its portion of construction costs, then Solitario's participating interest in the Pachuca Project will be 30% and Buenaventura's interest will be 70%.

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On March 9, 2010 Solitario signed a letter agreement with Regent Holdings, Ltd. ("Regent"), related to Solitario's Mercurio property, located in Brazil, whereby Regent has agreed to pay to Solitario $1,000,000 over the next four years, in the amounts of $50,000, $100,000, $200,000 and $650,000 beginning March 15, 2011 and on each anniversary of that date through March 15, 2014, and invest in minimum expenditure amounts totaling $900,000 over the same period. Upon the final payment Regent will own Mercurio and Solitario will retain a net smelter royalty of 1.5% on all ounces of gold produced at Mercurio up to 2 million ounces and Solitario will retain a net smelter royalty of 2.0% on all ounces of gold produced at Mercurio over 2 million ounces. Regent may terminate the agreement at any time after six months from the date of signing the agreement. Regent will be responsible for all payments to keep the Mercurio claims in good standing during the period of the agreement.

Solitario has a significant investment in Kinross at June 30, 2010, which consists of 1,010,000 shares of Kinross common stock. As of June 30, 2010, 910,000 of these shares are not subject to the Kinross Collar, discussed below under "Derivative instruments." During the three and six months ended June 30, 2010 Solitario sold 40,000 shares of

Kinross for net proceeds of $730,000. On April 14, 2010, a tranche of the Kinross Collar due on that date expired, and 400,000 shares under the Kinross Collar were released. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon termination of that tranche of the Kinross Collar. As of August 4, 2010 the 910,000 Kinross shares not subject to the Kinross Collar, discussed below, have a value of approximately $14.3 million based upon the market price of $15.72 per Kinross share. Any significant fluctuation in the market value of Kinross common shares could have a material impact on Solitario's liquidity and capital resources.

Employee stock compensation plans

Solitario accounts for its stock options under the provisions of ASC 718, Compensation - Stock Compensation. Pursuant to ASC 718 Solitario classifies its stock options as liabilities as they are priced in Canadian dollars and Solitario's functional currency is United States dollars. Solitario records a liability for the fair value of the vested portion of outstanding options based upon a Black-Scholes option pricing model. This model requires the input of subjective assumptions, including a risk free interest rate, the contractual term, the exchange rate between the United States dollar and the Canadian dollar, a zero dividend yield, a zero forfeiture rate, and an expected volatility based upon the historical volatility of Solitario's common stock on the Toronto Stock Exchange (the "TSX") over the period corresponding to the expected life of the options. These estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, Solitario's recorded stock-based compensation expense could have been materially different from that reported.

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 anniversary date. Solitario recognizes stock option compensation expense (benefit) for the change in fair value of vested options. Solitario records stock option liability for the vested fair value of each option grant on the measurement date by multiplying the estimated fair value determined using the Black-Scholes model by a vesting percentage, with 25% recognized immediately, and the remaining 75% recognized over three years on a straight line basis.

Solitario granted 2,065,000 options on May 5, 2010, with a grant date fair value of $2,449,000, based upon a Black-Scholes option pricing model resulting in a weighted average fair value of $1.19 per share.

Solitario granted 519,000 options on May 19, 2009, with a grant date fair value of $339,000, based upon a Black-Scholes option pricing model resulting in a weighted average fair value of $0.65 per share.

At June 30, 2010 and December 31, 2009, the fair value of outstanding options granted under the Solitario Resources Corporation 2006 Stock Option Incentive Plan (the "2006 Plan") was determined utilizing the following assumptions and a Canadian dollar to United States dollar exchange rate of 0.9538 and 0.9529, respectively.

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Fair Value at June 30, 2010

Grant Date	5/5/10	5/19/09
Plan	2006 Plan	2006 Plan
Option price (Cdn$)	$2.40	$1.55
Options outstanding	2,065,000	519,000
Expected life	4.85 yrs	3.89 yrs
Expected volatility	57%	59%
Risk free interest rate	1.8%	1.4%
Weighted average fair value	$0.99	$1.16

Portion of vesting at measurement date	29.2%	52.1%
Fair value of outstanding vested options	$594,000	$313,000

Fair Value at December 31, 2009

Grant Date	5/19/09
Plan	2006 Plan
Option price (Cdn$)	$1.55
Options outstanding	519,000
Expected Life	4.4 yrs
Expected volatility	57%
Risk free interest rate	2.2%
Weighted average fair value	$1.27
Portion of vesting at measurement date	39.5%
Fair value of outstanding vested options	$262,000

During the three and six months ended June 30, 2010, Solitario recognized $636,000 and $645,000, respectively, in stock option compensation expense. During the three and six months ended June 30, 2009, Solitario recognized $868,000 and $747,000, respectively, in stock option compensation expense.

The following table summarizes the activity for stock options outstanding under the 2006 Plan as of June 30, 2010, with exercise prices equal to the stock price, as defined, on the date of grant and no restrictions on exercisability after vesting:

	Shares issuable on outstanding Options	Weighted average exercise Price (Cdn$)	Weighted average remaining contractual term in years	Aggregate intrinsic value(1)
2006 Plan				
Outstanding, beginning of year	519,000	$1.55		
Granted	2,065,000	$2.40		
Exercised	-			
Forfeited	-			
Outstanding at June 30, 2010	2,584,000	$2.23	4.7	$321,000
Exercisable at June 30, 2010	775,750	$2.12	4.5	$161,000

(1)The intrinsic value at June 30, 2010 based upon the option exercise price less the quoted market price of Cdn$2.20 per share for our common stock on the TSX and an exchange ratio of 0.9538 Canadian dollars per United States dollar for those options with an exercise price below the market price on June 30, 2010.

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, 2010 and 2009.

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Solitario's potentially dilutive shares are related to outstanding common stock options. Diluted earnings per common share consider the impact of these potentially dilutive shares, except in periods of a loss because their inclusion would have an anti-dilutive effect. It also excludes those periods when the option exercise price exceeds the weighted average market price of a share of Solitario's common stock during the period. Approximately 2,584,000, of potential common shares were excluded from the calculation of diluted loss per share for the three and six months ended June 30, 2010 and approximately 2,654,000 for the three and six months ended June 30, 2009 because the effects were anti-dilutive.

Derivative instruments

On October 12, 2007 Solitario entered into a Zero-Premium Equity Collar (the "Kinross Collar") pursuant to a Master Agreement for Equity Collars and a Pledge and Security Agreement with UBS AG, London, England, an Affiliate of UBS Securities LLC (collectively "UBS"). As of December 31, 2009, 500,000 shares of Kinross common stock were pledged under the terms of the Kinross Collar to be sold (or delivered back to Solitario with any differences settled in cash). On April 13, 2010, 400,000 shares under the Kinross Collar were released upon the expiration of the tranche of the Kinross Collar that expired on that date. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received upon the termination of that tranche of the Kinross Collar. As of June 30, 2010, 100,000 shares of Kinross common stock remain pledged under the Kinross Collar due on April 12, 2011 for a lower threshold price of no less than $13.69 per share (the "Floor Price") and an upper threshold price of no more than $27.50 per share.

Solitario has not designated the Kinross Collar as a hedging instrument as described in ASC 815 Derivatives and Hedging and any changes in the fair market value of the Kinross Collar are recognized in the statement of operations in the period of the change. As of June 30, 2010 and December 31, 2009, Solitario recorded $85,000 and $9,000, respectively, for the fair market value of the Kinross Collar. As of June 30, 2010, $85,000 is recorded as derivative instrument in prepaid expenses and other current assets and as of December 31, 2009, $11,000 is recorded as a derivative instrument in current liabilities and $20,000 is recorded in other assets. Solitario recorded an unrealized gain of $2,000 and $76,000, respectively, for the three and six months ended June 30, 2010 and a gain of $45,000 and $456,000, respectively, for the three and six months ended June 30, 2009 in gain on derivative instruments for the change in the fair market value of the Kinross Collar.

On November 13, 2009, Solitario sold a covered call option covering 40,000 shares of Kinross with a strike price of $22.00 expiring on May 22, 2010 (the "May 10 Kinross Call") for $76,000. In May 2010, the call expired unexercised. Solitario recorded a liability for the May 10 Kinross Call as of December 31, 2009 of $42,000. Solitario recorded a gain on derivative instrument of $4,000 and $42,000, respectively, during the three and six months ended June 30, 2010 related to the May 10 Kinross Call

On December 10, 2008, Solitario sold two covered call options covering 50,000 shares of Kinross each (the "February 09 Kinross Calls") for $104,000 cash and recorded a derivative instrument liability of $116,000 as of December 31, 2008. The options expired unexercised in February 2009 and Solitario recognized a gain on derivative instrument of $116,000 during the six months ended June 30, 2009.

On March 31, 2009, Solitario sold the April 09 Kinross Call covering 50,000 shares of Kinross. Solitario sold the option for $21,000. The cash was received on settlement on April 2, 2009 and the option expired unexercised on April 21, 2009. Solitario recorded a gain on derivative instruments of $21,000 on the April 09 Kinross Call during the six months ended June 30, 2009.

On April 16, 2009 Solitario sold the August 09 Kinross Call for net proceeds of $45,000. Solitario recorded a current liability of $108,000 for the fair value of the August 09 Kinross Call and recorded a loss on derivative instrument of $63,000 for the three and six months ended June 30, 2009. Solitario repurchased the August 09 Kinross Call for cash of $125,000 and concurrently Solitario sold the November 09 Kinross Call for $158,000.

Solitario does not use its Kinross Collar or its covered call derivative instruments as trading instruments and any cash received or paid related to its derivative instruments are shown as investing activities in the condensed consolidated statement of cash flows.

The following table provides a detail of the location and amount of the fair values of Solitario's derivative instruments presented in the condensed consolidated balance sheet as of June 30, 2010 and December 31, 2009:

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(in thousands)	Liability Derivatives		
	Balance Sheet Location	June 30, 2010	December 31, 2009
Derivatives not designated as hedging instruments under ASC 815			
Kinross Collar	Current assets	$ 85	$ -
Kinross Collar	Current liabilities	-	11
Kinross Collar	Long-term other assets	-	20
May 10 Kinross Call	Current liabilities	-	42

The following amounts are included in Gain (loss) on derivative instruments in the condensed consolidated statement of operations for the three and six months ended June 30, 2010 and 2009:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Derivatives not designated as hedging instruments under ASC 815	Gain (loss)	Gain (loss)	Gain (loss)	Gain (loss)
Kinross Collar	$ 2	$ 45	$ 76	$ 456
May 10 Kinross Call	4	-	42	-
February 09 Kinross Call	-	-	-	116
April 09 Kinross Call	-	21	-	21
August 09 Kinross Call	-	(63)	-	(63)
Total derivatives	$ 6	$ 3	$118	$ 530

Fair Value

Effective January 1, 2008, Solitario adopted ASC 820, "Fair Value Measurements." ASC 820 establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs as follows:

Level 1

: quoted prices in active markets for identical assets or liabilities;

Level 2

: quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3

: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. During the three and six months ended June 30, 2010 and 2009, there were no reclassification in financial assets or liabilities between Level 1, 2 or 3 categories.

The following is a listing of Solitario's financial assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of June 30, 2010:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Marketable equity securities	$17,490	-	-	$17,490
Kinross Collar derivative instrument	-	85	-	85

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The following is a listing of Solitario's financial assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of December 31, 2009:

(in thousands)	Level 1	Level 2	Level 3	Total
Assets				
Marketable equity securities	$19,606	-	-	$19,606
Kinross Collar derivative instrument	-	20	-	20
Liabilities				
Kinross Collar derivative instrument	-	11	-	11
May 10 Kinross Calls derivative instrument	42	-	-	42

Marketable equity securities:

At June 30, 2010 and December 31, 2009 the fair value of Solitario's marketable equity securities are based upon quoted market prices.

Kinross Collar:

The Kinross Collar between Solitario and UBS is a contractual hedge that is not traded on any public exchange. Solitario determines the fair value of the Kinross Collar using a Black-Scholes model using inputs, including the price of a share of Kinross common stock, volatility of Kinross common stock price that are readily available from public markets, and discount rates that include an assessment of performance risk, therefore, they are classified as Level 2 inputs. See Derivative instruments above.

Covered call options:

The May 10 Kinross Calls at December 31, 2009 are exchange traded options and fair values are based upon quoted market prices. See Derivative instruments above.

During the three and six months ended June 30, 2010, Solitario did not change any of the valuation techniques used to measure its financial assets and liabilities at fair value.

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 stockholders' 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. Solitario had marketable equity securities with fair values of $17,490,000 and $19,606,000, respectively, and cost of $858,000 and $1,035,000, respectively at June 30, 2010 and December 31, 2009. Solitario has accumulated other comprehensive income for unrealized holding gains of $16,632,000 and $18,571,000, respectively, net of deferred taxes of $6,126,000 and $6,849,000, respectively, at June 30, 2010 and December 31, 2009 related to our marketable equity securities. Solitario sold 40,000 shares of its Kinross common stock during the three and six months ended June 30, 2010 for gross proceeds of $730,000. Solitario sold 40,000 shares of its Kinross common stock during the three and six months ended June 30, 2009 for gross proceeds of $667,000. Solitario has classified $3,418,000 and $4,600,000, respectively, of marketable equity securities as current as of June30, 2010 and December 31, 2009, which represents Solitario's estimate of what portion of marketable equity securities will be liquidated within one year.

The following table represents changes in marketable equity securities.

(in thousands)	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Gross cash proceeds	$ 730	$ 667	$ 730	$ 667
Cost	177	177	177	177
Gross gain on sale included in earnings during the period	553	490	553	490
Unrealized holding gain (loss) arising during the period included in other comprehensive income, net of tax of $11 and $(517) for the three and six months ended June 30, 2010 and $142 and $(88) for the three and six months ended June 30, 2009.	19	238	(869)	(149)
	(347)	(307)	(347)	(307)

Reclassification adjustment for gains included in
earnings during the period, net of tax of $206 for the
three and six months ended June 30, 2010 and $183 for the three
and six months ended June 30, 2009.

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Revenue Recognition

Solitario records any proceeds from parties earning an interest in subsidiaries as deferred noncontrolling shareholder payments until the party earns an interest in the subsidiary. Upon earning an initial or subsequent interest in the subsidiary by the other party, Solitario records noncontrolling interest equal to the earned percentage interest in the net book value of the subsidiary and any difference between the proceeds recorded in deferred noncontrolling interest is recorded as additional paid-in-capital. In the event the parties do not earn either an initial interest or a subsequent interest in the subsidiary, Solitario records any payments included in deferred noncontrolling shareholder payments to the statement of operations. During the three and six months ended June 30, 2010 Solitario received $747,000 of deferred noncontrolling shareholder payments from Anglo Platinum Limited ("Anglo"). During the three and six months ended June 30, 2009, Solitario received $101,000 and $587,000, respectively, in deferred noncontrolling shareholder payments from Anglo. Solitario has recorded deferred noncontrolling shareholder payments of $2,033,000 and $1,286,000, respectively, as of June 30, 2010 and December 31, 2009. Solitario records delay rental payments as revenue in the period received. There were no delay rental payments received during the three and six months ended June 30, 2010 or 2009. Any payments received for the sale of property interests are recorded as a reduction of the related property's capitalized cost. Proceeds which exceed the capitalized cost of the property are recognized as revenue.

Recent Accounting Pronouncements

In April 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-13, "Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades" ("ASU 2010-13"). ASU 2010-13 addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. FASB Accounting Standards Codification ("ASC") Topic 718 was amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade shall not be considered to contain a market, performance or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies for equity classification. The amendments in ASU 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, with early application permitted. Solitario is currently evaluating the impact ASU 2010-13 will have on its financial statements.

In January 2010, ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to transfers in and out of level 1 and 2 fair value measurements and enhanced detail in the level 3 reconciliation. The guidance was amended to clarify the level of disaggregation required for assets and liabilities and the disclosures required for inputs and valuation techniques used to measure the fair value of assets and liabilities that fall in either level 2 or level 3. The updated guidance was effective for Solitario's fiscal year beginning January 1, 2010, with the exception of the level 3 disaggregation, which is effective for Solitario's fiscal year beginning January 1, 2011. The adoption had no impact on the Solitario's condensed consolidated financial position, results of operations or cash flows. See the discussion of Solitario's assets and liabilities measured at fair value above under "Fair Value."

2. Comprehensive Loss

The following represents comprehensive loss and its components:

(in thousands)	Three months ended June 30, 2010	2009	Six months ended June 30, 2010	2009
Net loss attributable to Solitario shareholders	$(1,292)	$(1,388)	$(2,197)	$(2,059)
Unrealized loss on marketable equity securities, net of related tax effects	(328)	(69)	(1,216)	(456)
Comprehensive loss	$(1,620)	$(1,457)	$(3,413)	$(2,515)

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3. Exploration Expense

The following items comprised exploration expense:

(in thousands)	Three months ended June 30, 2010	2009	Six months ended June 30, 2010	2009
Geologic and field expenses	$ 820	$ 543	$1,480	$ 914
Administrative	133	254	248	564
Total exploration costs	$ 953	$ 797	$1,728	$1,478

4. Short term debt

On June 24, 2010, Solitario borrowed $600,000 from RBC, in a short-term margin loan, using Solitario's investment in Kinross held at RBC as collateral for the short-term margin loan. The loan carries interest at a margin loan rate of 4.25% per annum. The margin loan rate may be modified by RBC at any time. The margin loan may be called by RBC at any time. In addition, Solitario is currently required to maintain a minimum equity value in the account of 35%, based upon the value of its Kinross shares and any other assets held at RBC, less any short term margin loan balance and any other balances owed to RBC. The equity value percentage may be modified by RBC at any time. As of June 30, 2010 the equity value in Solitario's account at RBC was 84%. If the equity value in Solitario's account at RBC falls below the minimum, RBC may call the loan, or may sell enough Kinross shares held in Solitario's brokerage account or liquidate any other assets to restore the minimum equity value. Interest expense related to the short term margin loan for the three and six months ended June 30, 2010 was less than $1,000. On July 19, 2010 the RBC short-term margin loan was repaid with proceeds from Solitario's short term line of credit with UBS Bank, discussed below.

On July 16, 2010, Solitario borrowed $1,000,000 pursuant to a secured credit line agreement between Solitario and UBS Bank. The UBS Bank credit line currently carries an interest rate of 2.65% per annum, which floats, based upon a base rate of 2.25% plus the London Interbank Offered Rate ("LIBOR"), which is currently 0.4%. UBS Bank may change the base rate at any time. The UBS Bank credit line provides that Solitario may borrow up to $2 million and that Solitario maintain a minimum equity value percentage in its UBS brokerage account above 40%, based upon the value of its Kinross shares and any other assets held in Solitario's UBS brokerage account, less the value of its UBS Bank credit line and any other balances owed to UBS Bank. At August 4, 2010, the equity value in Solitario's UBS brokerage account was 79%. UBS Bank may modify the minimum equity percentage the loan at any time. In addition, if the equity value in Solitario's UBS brokerage account falls below the minimum equity value, UBS Bank may sell enough Kinross shares held in Solitario's UBS brokerage account or liquidate any other assets to restore the minimum equity value.

5. Income Taxes

Solitario accounts for income taxes in accordance with ASC 740, "Accounting for Income Taxes." Under ASC 740, income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to certain income and expenses recognized in different periods for financial and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses and tax credits that are available to offset future taxable income and income taxes, respectively. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized.

Primarily as a result of the increases in the value of Solitario's holdings in Kinross common stock recognized as other comprehensive income, Solitario estimated that its deferred tax liabilities exceeded its realizable deferred tax assets by $6,106,000 and $7,122,000, respectively, at June 30, 2010 and December 31, 2009.

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During the three and six months ended June 30, 2010, Solitario recorded a deferred tax benefit of $178,000 and $293,000, respectively, in the statement of operations. Solitario recorded deferred tax expense during the three months ended June 30, 2010 of $11,000 related to net unrealized gains of $30,000 on marketable equity securities. Solitario recorded a deferred tax benefit during the six months ended June 30, 2010 of $517,000 related to net unrealized losses of $1,386,000 on marketable equity securities. During the three and six months ended June 30, 2009, Solitario recorded a deferred tax benefit of $295,000 and $211,000, respectively, in the statement of operations. Solitario recorded a deferred tax benefit during the three months ended June 30, 2009 of $142,000 related to unrealized losses of $380,000 on marketable equity securities. Solitario recorded deferred tax expense during the six months ended June 30, 2009 of $89,000 related to net unrealized gains of $238,000 on marketable equity securities. Solitario transferred deferred tax expense of $206,000 from unrealized gain (loss) on marketable equity securities related to the gain on sale of Kinross of $553,000 upon the sale of 40,000 shares of Kinross during the three and six months ended June 30, 2010. Solitario transferred deferred tax expense of $183,000 from unrealized gain (loss) on marketable equity securities related to the gain on sale of Kinross of $490,000 upon the sale of 40,000 shares of Kinross during the three and six months ended June 30, 2009.

6. Financial Market Risk

Approximately $804,000 of Solitario's $937,000 cash as of June 30, 2010 is held in accounts, both in United States financial institutions and foreign banks that are not insured by the Federal Deposit Insurance Corporation. These funds may be subject to risk if the financial institutions where these funds are on deposit fail. At June 30, 2010, $133,000 of our cash is held in a United States Bank, $7,000 and $10,000, respectively, are held in the United States in money market funds managed by UBS and Black Rock Financial Advisors. The balance of our cash is held in foreign banks in Canada, Brazil, Peru and Mexico.

Solitario's Kinross Collar is subject to certain counterparty risk if, on the date that shares subject to the Kinross Collar are due, the price of Kinross common stock is below the Floor Price and UBS is unable to pay the differential between the market price and the Floor Price. See a discussion of the Kinross Collar under "Derivative instruments," above.

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7. Shareholders' Equity and Noncontrolling Interest

The following provides a reconciliation of the beginning and ending balances of Solitario Shareholder's equity and Anglo's 30% and 15%, respectively, noncontrolling interest in our consolidated subsidiary PBM for the three and six months ended June 30, 2009 and 2008. PBM has no debt or other guarantee obligations as of June 30, 2009 and December 31, 2008.

(in thousands)	Three months ended June 30, 2010		Six months ended June 30, 2010	
	Shareholders' Equity	Noncontrolling Interest	Shareholders' Equity	Noncontrolling Interest
Beginning balance	$ 12,908	$ 344	$ 14,700	$ 414
Comprehensive income:				
Net loss	(1,292)	(64)	(2,197)	(134)
Net unrealized loss on marketable equity securities (net of tax of $195 and $723)	(329)	-	(1,216)	-
Comprehensive loss	(1,621)	(64)	(3,413)	(134)
Ending balance	$ 11,287	$ 280	$ 11,287	$ 280

(in thousands)	Three months ended June 30, 2009		Six months ended June 30, 2009	
	Shareholders' Equity	Noncontrolling Interest	Shareholders' Equity	Noncontrolling Interest
Beginning balance	$ 16,160	$ 766	$ 17,218	$ 832
Comprehensive income:				
Net loss	(1,388)	(50)	(2,059)	(116)
Net unrealized loss on marketable equity securities (net of tax of $41 and $271)	(69)	-	(456)	-
Comprehensive loss	(1,457)	(50)	(2,515)	(116)
Ending balance	$ 14,703	$ 716	$ 14,703	$ 716

8. Subsequent Event

On July 21, 2010, Anglo Platinum Limited ("Anglo") made a payment of $746,000 to Pedra Branca Minercao, Ltd. ("PBM") required to fund the third work program at the Pedra Branca project, which is held by PBM. Upon making this payment, Anglo earned an additional 21% interest in PBM and now holds a 51% interest in PBM.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the information contained in the consolidated financial statements of Solitario for the years ended December 31, 2009, 2008 and 2007, and Management's Discussion and Analysis contained in Solitario's Annual Report on Form 10-K for the year ended December 31, 2009.

Solitario's financial condition and results of operations are not necessarily indicative of what may be expected in future periods. Unless otherwise indicated, all references to dollars are to U.S. dollars.

(a). Business Overview and Summary

We are an exploration stage company with a focus on the acquisition of precious and base metal properties with exploration potential and development or purchase of royalty interests. We acquire and hold a portfolio of exploration properties for future sale, joint venture, or to create a royalty prior to the establishment of proven and probable reserves. Although our mineral properties may be developed in the future through a joint venture, we have never developed a mineral property and we do not anticipate developing any currently owned mineral properties on our own in the future. We may also evaluate mineral properties to potentially buy a royalty. At June 30, 2010 we had 12 exploration properties in Peru, Bolivia, Mexico and Brazil. We also have an interest in our Yanacocha and La Tola royalty properties in Peru.

(b). Recent Developments

On July 21, 2010, Anglo Platinum Limited ("Anglo") made a payment of $746,000 to Pedra Branca Minercao, Ltd. ("PBM") required to fund the third work program at the Pedra Branca project, which is held by PBM. Upon making this payment, Anglo earned an additional 21% interest in PBM and now holds a 51% interest in PBM.

On June 24, 2010, we borrowed $600,000 from RBC, in a short-term margin loan, using our investment in Kinross held at RBC as collateral for the short-term margin loan. On July 19, 2010 the RBC short-term margin loan was repaid with proceeds from our short term line of credit with UBS Bank, discussed below. See Note 4 to the unaudited condensed consolidated financial statements, above.

On July 16, 2010, we borrowed $1,000,000 from UBS Bank. See Note 4 to the unaudited condensed consolidated financial statements, above.

On April 28, 2010, we signed a definitive venture agreement with Compania De Minas Buenaventura S.A.A ("Buenaventura") on Solitario's Pachuca Real silver-gold project in central Mexico. See Recent Developments in Note 1 to the unaudited condensed consolidated financial statements above.

On March 9, 2010 we signed a letter agreement with Regent Holdings, Ltd. ("Regent"), related to Solitario's Mercurio project located in Brazil. See Recent Developments in Note 1 to the unaudited condensed consolidated financial statements above.

We have a significant investment in Kinross Gold Corporation ("Kinross") at June 30, 2010, which consists of 1,010,000 shares of Kinross common stock. As of June 30, 2010, 910,000 of these shares are not subject to the Kinross Collar, discussed below. During the three and six months ended June 30, 2010 we sold 40,000 shares of Kinross for net proceeds of $730,000. On April 13, 2010, a tranche of the Kinross Collar due on that date expired, and 400,000 shares of Kinross under the Kinross Collar were released. No shares were delivered to UBS under the Kinross Collar and no cash was paid or received under the termination of that tranche of the Kinross Collar. As of August 4, 2010 the 910,000 Kinross shares not subject to the Kinross Collar, have a value of approximately $14.3 million based upon the market price of $15.72 per Kinross share. Any significant fluctuation in the market value of Kinross common shares could have a material impact on our liquidity and capital resources.

(c). Results of Operations

<u>Comparison of the three months ended June 30, 2010 to the three months ended June 30, 2009</u>

We had a net loss of $1,292,000 or $0.04 per basic and diluted share for the three months ended June 30, 2010 compared to a loss of $1,388,000 or $0.05 per basic and diluted share for the three months ended June 30, 2009. As explained in more detail below, the primary reason for the decrease in the loss for the three months ended June 30, 2010 compared to the loss in the same period of 2009 was a reduction in general and administrative costs including a reduction in stock option compensation expense to $635,000 in the three months ended June 30, 2010 compared to $868,000 in the same period of 2009. In addition we recorded a larger gain on sale of our Kinross shares in the three months ended June 30, 2010 compared to the same period of 2009. These were partially offset by an increase in our exploration expense to $953,000 during the three months ended June 30, 2010 compared to exploration expense of $797,000 the same period in 2009 and a lower income tax benefit in the three months ended June 30, 2010 compared to the same period in 2009. Each of these items is discussed in more detail below.

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Our net exploration expense increased to $953,000 during the second quarter of 2010 compared to $797,000 in the second quarter of 2009. The increase was related to increased exploration activities at our Cajatambo, Palmira and La Noria projects, where we had drilling programs during the second quarter of 2010 as well as increases in exploration at our Pedra Branca project in Brazil and exploration on new projects at Excelsior and Atico. We continued our increased emphasis on our reconnaissance exploration which increased to $318,000 during the three months ended June 30, 2010 compared to $173,000 in the same period of 2009. These increases were offset by reductions in exploration activities at certain of our projects where we were not conducting drilling during the second quarter of 2010. The comparative expenditures are detailed in the table below. The price of an ounce of gold has fluctuated significantly during 2009 and 2010, but has been trending upward during this period and has been trading between approximately $1,256 and $1,061 during the first six months of 2010, compared to an average price of approximately $972 per ounce of gold for the year during 2009. Accordingly, we have selectively increased our exploration efforts to capitalize on the recent increase in commodity prices. We anticipate our future exploration activities will continue to follow the broad commodity pricing but will be most affected by the property-by-property results of our exploration efforts and assumed potential of our currently owned properties and any properties we may acquire. We anticipate continuing to acquire mineral properties, either through staking, joint venture or lease, in Latin America during 2010 and our 2010 exploration expenditure budget is approximately $4,705,000. This budget includes approximately $1,428,000 for the Pedra Branca project, which has been budgeted to be funded by deferred noncontrolling shareholder contributions from Anglo.

Exploration expense (in thousands) by project for the three and six months ended June 30, 2010 and 2009 consisted of the following:

	Three months ended		Six months ended	
Project Name	June 30 2010	June 30 2009	June 30 2010	June 30 2009
Pedra Branca	$ 141	$ 129	$ 335	$ 300
Cajatambo	265	48	293	53
Palmira	72	-	164	-
La Noria	20	5	139	5
La Promessa	35	36	40	59
Pachuca	27	36	34	63
Mercurio	18	26	32	43
Excelsior	20	-	23	-
Atico	20	-	20	-
Espanola	-	-	16	5
Cerro Azul	6	42	7	61

Paria Cruz	9	2	11	2
Chonta	1	250	2	349
Bongara	1	16		