

SMG Indium Resources Ltd.  
Form 10-K  
March 23, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

(Mark one)

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

**For the year ended December 31, 2011**

**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 000-54391**

**SMG INDIUM RESOURCES LTD.**

**(Exact name of registrant as specified in its charter)**

Delaware

51-0662991

**(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)**

**100 Park Ave.,**

New York, New York, 10017

(212) 984-0635

**(Address of principal executive offices, including zip code)** (Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act:**

Common Stock, par value \$.001 per share (Title of Class)	Warrants (Title of Class)	Units (Title of Class)
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 requirement for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10K.  
Yes  No

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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 definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company  S

(Do not check if a 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

The aggregate market value of the registrant’s common stock held by non-affiliates computed by reference to the price at which the common stock was last sold as of June 30, 2011 was \$20,760,048.

The number of shares of the registrant’s common stock outstanding as of March 1, 2012 was 8,832,301.

**SMG Indium Resources Ltd.**

**Annual Report of Form 10-K**

**For the Year Ended December 31, 2011**

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## Cautionary Statement Regarding Forward-Looking Statements

Unless otherwise indicated, the terms “SMG Indium,” “SMG,” the “Company,” “we,” “us,” and “our” refer to SMG Indium Resources Ltd. In this Annual Report on Form 10-K, we may make certain forward-looking statements, including statements regarding our plans, strategies, objectives, expectations, intentions and resources that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Securities and Exchange Commission (“SEC”) encourages companies to disclose forward-looking information so that investors can better understand a company’s future prospects and make informed investment decisions. This Annual Report on Form 10-K contains such “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this Annual Report, and they may also be made a part of this Annual Report by reference to other documents filed with the Securities and Exchange Commission, or SEC, which is known as “incorporation by reference”.

The statements contained in this Annual Report on Form 10-K that are not historical fact are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995), within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Forward-looking statements may be identified by the use of forward-looking terminology such as “should,” “could,” “may,” “will,” “expect,” “believe,” “estimate,” “anticipate,” “intends,” “continue,” or similar terms or variations of those terms or the negative of those terms. All forward-looking statements are management’s present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These statements appear in a number of places in this Form 10-K and include statements regarding the intent, belief or current expectations of SMG Indium Resources Ltd. Forward-looking statements are merely our current predictions of future events. Investors are cautioned that any such forward-looking statements are inherently uncertain, are not guaranties of future performance and involve risks and uncertainties. Actual results may differ materially from our predictions. There are a number of factors that could negatively affect our business and the value of our securities, including and not limited to indium price volatility from supply and demand factors, international export quotas that could affect the availability of indium and our ability to purchase indium, lack of any internationally recognized exchanges for indium, limited number of potential suppliers of indium and potential customers who purchase indium, disruption of mining operations, technological obsolescence, substitution of other materials decreasing the demand for indium, regulatory requirements regarding indium, risks associated with international economic and political events, lack of operational liquidity, lack of investment liquidity, factors affecting our Net Market Value (“NMV”), and changes in interest rates. Such factors could materially affect our Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to our Company. Although we have sought to identify the most significant risks to our business, we cannot predict whether, or to what extent, any of such risks may be realized, nor is there any assurance that we have identified all possible issues that we might face.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this Annual Report or Form 10-K or in any document incorporated by reference might not occur. Stockholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Annual Report or Form 10-K or the date of the document incorporated by reference in this Annual Report or Form 10-K, as applicable. We are not under any obligation, and we expressly disclaim any obligation, to

update or alter any forward-looking statements, whether as a result of new information, future events or otherwise except as may be required by applicable law. All subsequent forward- looking statements attributable to the Company or to any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We urge readers to carefully review and consider the various disclosures we make in this report and our other reports filed with the SEC that attempt to advise interested parties of the risks, uncertainties and other factors that may affect our business including the risk factors included herein under Item 1A“Risk Factors.”

## **PART I**

### **Item 1. Business**

#### **Introduction**

We are a corporation established pursuant to the laws of Delaware on January 7, 2008. On April 2, 2008, we changed our name from Specialty Metals Group Indium Corp. to SMG Indium Resources Ltd. We operate a single-segment business whose primary business purpose is to purchase and stockpile indium, a specialty metal that is being increasingly used as a raw material in a wide variety of consumer electronics manufacturing applications. Effective with the quarter ended June 30, 2011 we are considered an operating company and are no longer considered a development stage company.

We were formed to purchase and stockpile the metal indium. Our strategy is to achieve long-term appreciation in the value of our indium stockpile, and not to actively speculate with regard to short-term fluctuations in indium prices. We plan to achieve long-term appreciation in the value of our indium stockpile primarily through price appreciation of the physical metal. Although the price of indium has declined substantially from its high in March 2005, it is our belief that the long-term industry prospects for indium are attractive and over time the price of the metal will appreciate. Price appreciation of the metal indium held in our stockpile is critical for us to maintain our NMV and for investors to receive a return on their investment. However, there is no assurance that the price of indium or the value of our securities will increase over time. To our knowledge, this is currently the only investment that allows potential stockholders to participate in the price appreciation of indium other than physical delivery of the metal itself. Our structure provides a simple and efficient mechanism by which a public stockholder may benefit from the appreciation in the price of indium, if any. Our stockholders have the ability to effectively purchase an interest in indium in a manner that does not directly include the risks associated with ownership of companies that explore for, mine and process indium. Our common shares represent an indirect interest in the physical indium we own.

All of the indium we purchase and own is, and will be, insured and physically stored in reputable, adequately capitalized and insured third-party warehouses or storage facilities located in the United States, Canada, the Netherlands and/or the United Kingdom. These third party facilities provide storage and safeguard of our indium inventory, insurance, handle the transfer of our indium inventory in and out of the facility, visual inspections, spot checks, arrange and facilitate independent third-party random assays, confirmation of deliveries to supplier packing lists, and reporting of transfers of inventory to us.

We utilize and expect to continue to utilize facilities that meet our requirements that are either (i) located closest in proximity to our indium suppliers in order to reduce transportation fees or (ii) facilities located closest in proximity to



our corporate headquarters or satellite offices in order to facilitate our ability to inspect our inventory and reduce future corporate expenses associated with travel. We believe there are numerous third-party storage facilities that provide more than adequate services that meet our criteria, which eliminates the need for hiring a custodian. From inception until December 31, 2011, our Manager, Specialty Metals Group Advisors LLC, which is a related party, purchased on our behalf approximately 34.5 metric tons (“mt”) of indium, which is currently stored in an insured, secure facility in New York owned and operated by Brink’s Global Services U.S.A., Inc. (“Brink’s”), a bonded warehouse. We expect our chief executive officer or our chief operating officer to inspect the facilities. The facilities are visited at least once per year for inspection. We may insure the warehouse contents above and beyond a bonded warehouse to guarantee we will not sustain a loss in the event of an unforeseen catastrophe or we deem the warehouse company’s insurance inadequate.

Our expenses will be required to be satisfied by cash on hand that is not set aside for the purchase of indium. Cash on hand that is not set aside to purchase indium is expected to be sufficient to satisfy our operating expenses for approximately three years. Our annual cash operating expenses, including management fees, are estimated to be approximately \$1.4 million. We may subsequently lend or sell some, or all, of our indium stockpile to cover our operating expenses. Alternatively, we may seek to raise additional capital to cover our operating expenses through potentially dilutive equity offerings or debt financing. Our stockpile of indium may decrease over time due to sales of indium necessary to pay our annual operating expenses. Without increases in the price of indium sufficient to compensate for such decreases, our net market value (“NMV”) may also decline. Our stockpile of indium may also decrease over time due to sales of indium against purchases of common shares that are priced lower than our NMV per common share. In such instances, our NMV per common share would rise. NMV is a non-GAAP measure-see below under “GAAP verses non-GAAP Disclosure.”

All of our indium transactions are negotiated by our Manager, a related party. Our Manager is paid a 2.0% per annum fee based on our NMV as compensation for these services. The NMV shall be determined by (x) multiplying the number of kilograms of our indium holdings by the last spot price for indium published by Metal Bulletin PLC posted on Bloomberg L.P., plus cash and any other assets, less any and all of our outstanding payables, indebtedness and any other liabilities, (y) divided by our total number of outstanding shares of our common stock. Our Manager is entitled to receive the 2.0% management fee regardless of its ability to successfully purchase and stockpile the metal indium. Our officers and directors have limited experience in stockpiling the metal indium, although our chief executive officer has experience purchasing, selling, storing and lending precious metals, base metals, non-exchange traded metals, and illiquid metals. Our Manager:

- first and foremost, purchases and stockpiles indium ingots with a minimum purity level of 99.99% on our behalf;

- negotiates storage arrangements for our indium stockpile in warehouses or third-party facilities located in the United States, Canada, the Netherlands and/or the United Kingdom;

- makes sure the stockpile is fully insured by either the storage facility’s insurance policy, a separately purchased insurance policy, or both;

- purchases insurance on standard industry terms to insure the indium which we own during its transportation to and from the storage facility;

- is responsible for conducting limited inspections of the indium delivered to us;

relies on the good faith of its suppliers to provide indium that meets our requirements. If indium is purchased from a third-party supplier that is not known to be a regular indium industry supplier, our Manager, at its discretion, may hire, at our expense, an independent lab to perform random assay tests to verify the purity of the indium. The Manager uses only reputable assayers recommended by reliable third-party sources;

- may lend and/or sell indium from our stockpile, based on market conditions;

publishes on our website the spot price of indium, our NMV and the quantity of indium held in inventory on a bi-weekly basis.

Metal Bulletin's bi-weekly indium price quotation is posted on our website, [www.smg-indium.com](http://www.smg-indium.com). If for any reason, Metal Bulletin's bi-weekly indium price quotation is not available, other independent indium quotation providers are available including Platt's Metals Week, Metal-Pages Ltd., Asian Metal Ltd. and Metal Prices. Within two business days of any change in inventory held, the quantity of indium will be published on our website.

We are not legally prohibited from pursuing other business strategies pursuant to our certificate of incorporation, as amended, or any other corporate document. If based on market conditions our Manager determines that it may be in our best interest to expand our lending and/or selling activities beyond what is necessary to cover operating expenses or if the Manager determines that we should begin actively speculating on short-term fluctuations in indium prices or pursue strategic transactions with other companies operating in the indium market including the Federal Government, the Manager will be required to obtain the approval of our board of directors to adopt such a strategic change in our business directive. Additionally, we will promptly notify stockholders of any such modifications to our stated business plan. Presently, our operations are limited to purchasing, stockpiling, lending and selling only the metal indium.

## **Suppliers**

We have and intend to stockpile already mined and processed indium ingots with a minimum purity level of 99.99%, known as 4N or four nines grade. Based on common industry knowledge and our established indium industry relationships, we can determine which companies are regular indium industry suppliers. We consider companies granted indium export licenses from the Chinese government as regular indium industry suppliers. We consider companies like Teck Resources Limited., Xstrata Plc, Indium Corporation of America, Umicore Indium Products Co. Ltd., and Aim Specialty Materials as regular industry suppliers because they are all well known within the industry and have well established reputations. We consider metal trading houses listed in our “Competition” section like Traxys North America LLC, Glencore International AG, Wogen PLC, 5N Plus Inc., etc. that have years and in some cases, decades of experience within the industry as regular indium industry suppliers. We use subjective criteria to determine whom we do business with and for competitive reasons we do not disclose specifically which companies we intend to do business. Currently, an established regular indium industry designated supplier list does not exist.

## **Strategy and Policies**

Through December 31, 2011, we purchased approximately 34.5 metric tons of indium. As of March 1, 2012, we have either taken delivery of or contracted to take delivery of approximately an additional 7 metric tons of 99.99% purity indium (at an average price of \$525 per kilogram) to fully meet our commitment of utilizing 85% of the net proceeds from our initial public offering (“IPO”) to purchase indium. Our business model is premised on the long-term appreciation in the value of our indium stockpile. In order to facilitate our business plan, our Manager may elect to purchase indium under long-term supply contracts. Information regarding how much and the percentage of the total indium supply is currently under long-term contracts is not known. This may hinder our ability to enter into long-term supply contracts with industry suppliers, purchase and stockpile indium, and fulfill our business plan in a timely manner.

Our ability to complete our business plan could be adversely affected by the substantial competition we face in the marketplace. There are a substantial number of manufacturers that require indium for the production of flat panel displays (“FPDs”), liquid crystal display (“LCDs”), personal digital assistant (“PDAs”), light emitting diodes (“LEDs”) and

copper indium gallium selenide (“CIGS”) thin film photovoltaics. We expect to compete with manufacturers for purchase of the primary indium supply. The fact that many of these companies have more substantial resources than us and have established relationships with indium industry suppliers may prove to be detrimental to our ability to consummate our business plan.

We may face direct competition from market participants in purchasing our stockpile of indium. There are no other companies, known to us, that have a business model solely dedicated to the purchasing and stockpiling of indium. However, we would have to potentially compete with miners, refiners, suppliers, end- users, traders and other market participants in purchasing indium from suppliers. The companies listed in the “Competition” section are a partial list of companies that are well known indium industry participants that either mine, refine, use, and or trade indium. These companies would be considered indirect competition.

We do not expect to purchase indium from the recycling market. After extensive discussions with indium industry participants, we determined that it is not feasible for us to buy directly from the recycling companies. Recycling scrap indium into 3N7 or higher purity metal ingot is extremely complex and time consuming. Typically, end users (i.e. FPD manufacturers) establish contracts directly with the recyclers. Pursuant to such contracts, the end user supplies the recycler with scrap indium and the recycler specially processes, refines, and then returns the purified recaptured indium to the end user. Typically, recyclers do not sell the recycled indium to anyone else other than the end user who supplied the scrap indium. Industry insiders consider the recycling market a “closed loop.” End users and recyclers do not disclose the particulars of their relationships and contracts. This inaccessibility will limit us to the primary indium market. The primary market is smaller than the recycling market and may affect our ability to purchase a sufficient quantity of indium to meet our business plan’s objectives in a timely manner. Furthermore, Chinese export restrictions may serve to further reduce our access to more than 50% of the world’s primary indium production.

The indium market is illiquid and considered small compared to the base metals. There are a limited number of suppliers and purchasers of indium. If new companies are formed to purchase and stockpile indium, and in the event we raise additional capital to purchase more indium, this may adversely affect our ability to procure sufficient quantities of indium on a timely basis or even at all.

### **Indium Price Trends in 2011**

The annual average price of indium increased approximately 23% in 2011. It increased from \$567 per kilogram in 2010 to \$696 per kilogram in 2011. According to the USGS, the U.S. producer price for indium began the 2011 year at \$570 per kilogram, increased to \$690 per kilogram in April, and rose further to \$785 per kilogram in May; the price remained at that level through early November. The New York dealer price range for indium began the 2011 year at \$520 - \$570 per kilogram and increased through early June, reaching a high of \$800 - \$875 per kilogram. The price then decreased to \$630 - \$670 per kilogram by early November before falling further to \$540 - \$600 per kilogram by the end of December 2011. The price of indium on March 1, 2012 was \$582.50 per kilogram published by Metal Bulletin as posted on Bloomberg L.P.

### **Accounting for Direct Sales and Lending Transactions**

From time to time we may enter into “direct sales and or “lending” transactions. Under a “direct sale” transaction, we would record as income, or loss, the difference between the proceeds received from the sale of indium and the indium carrying value. We may engage in lending indium from time to time if we need additional capital to cover annual operating expenses. A typical loan contract would be for terms of six months or less, and in almost no circumstance would it exceed a period of one year. As lender, we will negotiate an Unconditional Sale and Purchase Agreement (“USPA”) with a prospective borrower. As part of the USPA, once all terms are reviewed and approved by our management team, we will physically deliver indium to the borrower.

In indium lending transactions, we would exchange a specified tonnage and purity of indium for cash. Title and the risks and rewards of such indium ownership would pass to the purchaser/counterparty in the lending transaction. We would simultaneously enter into an agreement with such counterparty in which it would unconditionally commit to purchase and the counterparty would unconditionally commit to sell a specified tonnage and purity of indium that would be delivered to us at a fixed price and at a fixed future date in exchange for cash (the USPA). The USPA would also contain terms providing the counterparty with substantial disincentives (“penalty fees”) for nonperformance of the return of indium to the Company as a means to assure our future supply of indium. While we believe that this risk would be mitigated by the penalty fee features of the USPA, it is nonetheless a risk associated with a transaction of this type. We anticipate accounting for any USPA transaction on a combined basis (sale and purchase) and will evaluate whether, and in what period, revenue may be recognized based on the specific terms of any arrangements. We will disclose unconditional purchase obligations under these arrangements and, if applicable, accrue net losses on such unconditional purchase obligations.

There is