CAPITAL GOLD CORP
Form 10-Q
March 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 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: 0-13078

CAPITAL GOLD CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	13-3180530
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

76 Beaver Street, 14th floor, New York, NY 10005
(Address of principal executive offices)

Registrant's telephone number, including area code: (212) 344-2785

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

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, or 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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date.

Class	Outstanding at March 3, 2011
Common Stock, par value $.0001 per share	61,427,278

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying financial statements are unaudited for the interim periods, but include all adjustments (consisting only of normal recurring adjustments), which we consider necessary for the fair presentation of results for the three and six months ended January 31, 2011.

Moreover, these financial statements do not purport to contain complete disclosure in conformity with U.S. generally accepted accounting principles and should be read in conjunction with our audited financial statements as of, and for the fiscal year ended July 31, 2010.

The results reflected for the three and six months ended January 31, 2011 are not necessarily indicative of the results for the entire fiscal year ending July 31, 2011.

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands, except for share and per share amounts)

	January 31, 2011 (unaudited)	July 31, 2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$8,863	$12,125
Ore on Leach Pads (Note 6)	40,547	32,896
Material and Supply Inventories (Note 5)	2,807	1,953
Marketable Securities (Note 4)	181	30
Prepaid Expenses	375	431
Other Current Assets (Note 7)	2,844	1,471
Total Current Assets	55,617	48,906
Mining Concessions (Note 11)	18,005	52
Property & Equipment – net (Note 8)	72,376	21,390
Goodwill (Note 9)	3,520	-
Intangible Assets – net (Note 10)	725	730
Other Assets:		
Deferred Financing Costs	816	1,351
Security Deposits	77	66
Other Assets	2	-
Total Other Assets	895	1,417
Total Assets	$151,138	$72,495
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$1,224	$907
Accrued Expenses (Note 18)	7,204	5,040
Derivative Contracts (Note 17)	-	40
Deferred Tax Liability (Note 19)	7,754	7,462
Current Portion of Long-term Debt (Note 16)	2,600	3,600
Total Current Liabilities	18,782	17,049
Reclamation and Remediation Liabilities (Note 12)	2,769	2,373
Other Liabilities	263	373
Non-Current Deferred Tax Liability (Note 19)	18,074	971
Long-Term Debt (Note 16)	-	800
Total Long-term Liabilities	21,106	4,517
Commitments and Contingencies	-	-
Stockholders' Equity:		
Common Stock, Par Value $.0001 Per Share; Authorized 75,000,000 shares; Issued and Outstanding 61,338,136 and 48,768,665 shares, respectively	6	5

Additional Paid-In Capital	113,627	65,391
Accumulated Deficit	(1,853)	(10,095)
Deferred Compensation	-	(80)
Accumulated Other Comprehensive Income (Note 13)	(530)	(4,292)
Total Stockholders' Equity	111,250	50,929
Total Liabilities and Stockholders' Equity	$151,138	$72,495

The accompanying notes are an integral part of the financial statements.

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)
(in thousands, except for share and per share amounts)

	For The Three Months Ended January 31, 2011	2010
Revenues		
Sales – Gold, net	$ 20,038	$ 13,228
Costs and Expenses:		
Costs Applicable to Sales	7,676	4,625
Depreciation and Amortization	1,030	624
General and Administrative	1,430	2,031
Exploration	826	349
Total Costs and Expenses	10,962	7,629
Income from Operations	9,076	5,599
Other Income (Expense):		
Interest Income	3	4
Interest Expense	(273)	(344)
Other Income (Expense)	10	(37)
Total Other Expense	(260)	(377)
Income before Income Taxes	8,816	5,222
Income Tax Expense	(3,526)	(2,278)
Net Income	$ 5,290	$ 2,944
Income Per Common Share		
Basic	$ 0.09	$ 0.06
Diluted	$ 0.09	$ 0.06
Basic Weighted Average Common Shares Outstanding	61,330,448	48,494,297
Diluted Weighted Average Common Shares Outstanding	61,643,859	49,976,904

The accompanying notes are an integral part of the financial statements.

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)
(in thousands, except for share and per share amounts)

	For The Six Months Ended January 31, 2011	2010
Revenues		
Sales – Gold, net	$38,989	$24,955
Costs and Expenses:		
Costs Applicable to Sales	14,886	8,735
Depreciation and Amortization	1,990	1,224
General and Administrative	4,964	3,660
Exploration	1,449	681
Total Costs and Expenses	23,289	14,300
Income from Operations	15,700	10,655
Other Income (Expense):		
Interest Income	6	8
Interest Expense	(575)	(720)
Other Income (Expense)	11	(62)
Total Other Expense	(558)	(774)
Income before Income Taxes	15,142	9,881
Income Tax Expense	(6,900)	(3,997)
Net Income	$8,242	$5,884
Income Per Common Share		
Basic	$0.13	$0.12
Diluted	$0.13	$0.12
Basic Weighted Average Common Shares Outstanding	61,150,592	48,505,818
Diluted Weighted Average Common Shares Outstanding	61,403,902	49,861,776

The accompanying notes are an integral part of the financial statements.

CAPITAL GOLD CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands, except for share and per share amounts)

	Common Stock Shares	Common Stock Amount	Additional paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Deferred Compensation	Total Stockholders' Equity
Balance at July 31, 2010	48,768,665	$ 5	$ 65,391	$ (10,095)	$ (4,292)	$ (80)	$ 50,929
Nayarit Acquisition	12,453,363	1	47,598	-	-	-	47,599
Equity based compensation, net of forfeitures	(20,833)	-	181	-	-	80	261
Common stock issued upon the exercising of options and warrants	136,108	-	457	-	-	-	457
Net income for the six months ended January 31, 2011	-	-	-	8,242	-	-	8,242
Change in fair value on interest rate swaps	-	-	-	-	(23)	-	(23)
Unrealized gain on marketable securities	-	-	-	-	149	-	149
Equity adjustment from foreign currency translation	-	-	-	-	3,636	-	3,636
Total comprehensive income	-	-	-	-	-	-	12,004
Balance at January 31, 2011	61,337,303	$ 6	$ 113,627	$ (1,853)	$ (530)	$ -	$ 111,250

The accompanying notes are an integral part of the financial statements.

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CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
(in thousands, except for share and per share amounts)

	For The Six Months Ended January 31, 2011	2010
Cash Flow From Operating Activities:		
Net Income	$8,242	$5,884
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,990	1,224
Amortization of Deferred Financing Costs	499	485
Accretion of Reclamation and Remediation	88	76
Gain on sale of property and equipment	(2)	-
Equity Based Compensation	261	848
Changes in Operating Assets and Liabilities, excluding business combination		
Increase in Accounts Receivable	-	(390)
Decrease (increase) in Prepaid Expenses	73	(103)
Increase in Inventory	(6,366)	(6,175)
Increase in Other Current Assets	(406)	(8)
Increase in Other Deposits	-	(103)
Increase (decrease) in Accounts Payable	(712)	439
Increase (decrease) in Other Liability	(119)	1
Increase in Reclamation and Remediation	209	184
Increase in Deferred Tax Liability	-	46
Increase in Accrued Expenses	2,042	2,802
Net Cash Provided By Operating Activities	5,799	5,210
Cash Flow From Investing Activities:		
Purchase of Mining, Milling and Other Property and Equipment	(7,708)	(4,031)
Proceeds from sale of Mining, Milling and Other Property and Equipment	7	-
Purchase of Intangibles	-	(391)
Investment in Privately Held Company	-	(500)
Cash Acquired in Nayarit Business Combination	50	-
Net Cash Used in Investing Activities	(7,651)	(4,922)

The accompanying notes are an integral part of the financial statements.

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED
(UNAUDITED)
(in thousands, except for share and per share amounts)

	For The Six Months Ended January 31, 2011	For The Six Months Ended January 31, 2010
Cash Flow From Financing Activities:		
Repayments from Affiliate, net	5	4
Payment of Deferred Finance Costs	-	(150)
Repayments on Notes Payable	(1,800)	(1,800)
Proceeds From Issuance of Common Stock	358	53
Net Cash Used in Financing Activities	(1,437)	(1,893)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	27	100
Decrease In Cash and Cash Equivalents	(3,262)	(1,505)
Cash and Cash Equivalents - Beginning	12,125	6,448
Cash and Cash Equivalents – Ending	$8,863	4,943
Supplemental Cash Flow Information:		
Cash Paid For Interest	$81	$242
Cash Paid For Income Taxes	$4,281	$2,156
Non-Cash Financing Activities:		
Change in Fair Value of Interest Rate Swaps	$40	$81
Non-Cash Investing Activities:		
Fair Value of Common Stock Issued Upon Acquisition of Nayarit Gold, Inc.	$47,599	-

The accompanying notes are an integral part of the financial statements.

CAPITAL GOLD CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(in thousands, except for per share and ounce amounts)

NOTE 1 - Basis of Presentation

Capital Gold Corporation ("Capital Gold", "the Company", "we" or "us") was incorporated in February 1982 in the State of Nevada. During March 2003, the Company's stockholders approved an amendment to the Articles of Incorporation to change its name from Leadville Mining and Milling Corp. to Capital Gold Corporation. In November 2005, the Company reincorporated in Delaware. Capital Gold Corporation is engaged in the mining, exploration and development of gold properties in Mexico. Our primary focus is on the operation and development of the El Chanate project, as well as the development of our Orion Project in the State of Nayarit Mexico. All of the Company's mining activities are being performed in Mexico.

On February 10, 2010, Capital Gold Corporation entered into a business combination agreement (the “Nayarit Business Combination Agreement”), as amended and extended, with Nayarit, a corporation organized under the Ontario Business Corporation Act (“OBCA”) pursuant to which, on August 2, 2010, Nayarit became a wholly-owned subsidiary of Capital Gold (the “Nayarit Business Combination”). The Company effected the amalgamation (the “Amalgamation”) of Nayarit and a corporation, organized under the OBCA as a wholly-owned subsidiary of the Company (“Merger Sub”), to form a combined entity (“AmalgSub” or “Surviving Company”), with AmalgSub continuing as the surviving entity following the Amalgamation. By virtue of the Amalgamation, the separate existence of each of Nayarit and Merger Sub cease, and AmalgSub, as the surviving company in the Amalgamation, continue its corporate existence under the OBCA as a wholly-owned subsidiary of the Company. Pursuant to the terms of the Nayarit Business Combination Agreement, all of the Nayarit shares of common stock (the “Nayarit Common Shares”) issued and outstanding immediately prior to the consummation of the Nayarit Business Combination Agreement (other than Nayarit Common Shares held by dissenting stockholders of Nayarit) were exchanged into the Company’s common stock on the basis of 0.134048 shares of Company common stock for each one (1) Nayarit Common Share.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the Company’s management, the accompanying condensed consolidated financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly the condensed consolidated financial position and results of operations and cash flows for the periods presented. They include the accounts of Capital Gold Corporation and its wholly owned and majority owned subsidiaries, Leadville Mining and Milling Holding Corporation, Minera Santa Rita, S.A de R.L. de C.V.(“MSR”) and Oro de Altar S. de R. L. de C.V. (“Oro”), Nayarit Gold, Inc. (“NYG”) and Nayarit Gold de Mexico (“NYM”), as well as the accounts within Caborca Industrial S.A. de C.V. (“Caborca Industrial”), a Mexican corporation that is 100% owned by two of the Company’s former officers and directors for mining support services. Ownership was relinquished upon their recent resignations, and as of January 31, 2011, the Company was in the process of transitioning ownership. These services include, but are not limited to, the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at slightly above cost. This entity is considered a variable interest entity under accounting rules provided under ASC guidance for consolidation accounting.

All significant intercompany accounts and transactions are eliminated in consolidation. Certain items in these financial statements have been reclassified to conform to the current period presentation. These reclassifications had no impact on the Company’s balance sheet, results of operations, stockholders’ equity or cash flows.

The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended July 31, 2010 should be read in conjunction with these condensed consolidated financial statements. Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

NOTE 2 – Summary of Significant Accounting Policies

Recently Issued Accounting Pronouncements

Fair Value Measurements

In January 2010, the ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to: i) transfers in and out of level 1 and 2 fair value measurements and ii) enhanced detail in the level 3 reconciliation. The guidance was amended to provide clarity about: i) the level of disaggregation required for assets and liabilities and ii) the disclosures required for inputs and valuation techniques used to measure fair value for both recurring and nonrecurring measurements that fall in either level 2 or level 3. The updated guidance was adopted, with the exception of the Level 3 disaggregation, which is effective for the fiscal years beginning August 1, 2011. The Company adopted this guidance on the Company's consolidated financial position, results of operations and cash flows.

NOTE 3 - Equity Based Compensation

In connection with offers of employment to the Company's executives as well as in consideration for agreements with certain consultants, the Company issues options and warrants to acquire its common stock. Employee and non-employee awards are made at the discretion of the Board of Directors.

Such options and warrants may be exercisable at varying exercise prices currently ranging from $1.96 to $9.64 per share of common stock. Certain of these grants are exercisable immediately upon grant while others vest. Certain grants have vested or are vesting over a period of between three to five years. Also, certain grants contain a provision whereby they become immediately exercisable upon a change of control.

The Company accounts for stock compensation under ASC guidance for compensation – stock compensation, which requires the Company to expense the cost of employees services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This expense must be recognized ratably over the requisite service period following the date of grant.

The cumulative effect of applying the forfeiture rates is not material. ASC guidance requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of the Company stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. The estimated per share weighted average grant-date fair values of stock options and warrants granted during the six months ended January 31, 2011, and 2010 were $1.93 and $2.16. The fair values of the options and warrants granted were estimated based on the following weighted average assumptions:

	Six months ended January 31, 2011	2010	
Expected volatility	58.66%-66.28%	71.25	%
Risk-free interest rate	1.46%-1.76%	2.48	%
Expected dividend yield	-	-	
Expected life	5 years	5.0 years	
Forfeiture rate	-	-	

Stock option and activity for employees during the fiscal years ended July 31, 2010 and 2009, and six months ended January 31, 2011 are as follows (all tables in thousands, except for option, price and term data):

	Number of Options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate intrinsic value
Outstanding at July 31, 2008	887,500	$ 2.20	4.00	$ 334
Options granted1	250,000	1.96	-	-
Options exercised	(176,432)	1.48	-	-
Options expired	(86,068)	1.40	-	-
Outstanding at July 31, 2009	875,000	2.36	5.18	70
Options granted1	500,000	3.60	-	-
Options exercised	(128,638)	2.39	-	-
Options expired	(1,015,112)	2.93	-	-
Options outstanding at July 31, 2010	231,250	2.52	4.37	280
Options granted2	237,466	4.61	-	-
Options exercised	(11,394)	3.52	-	-
Options expired	-	-	-	-
Options outstanding at January 31, 2011	457,322	$ 3.58	3.05	$ 553
Options exercisable at January 31, 2011	398,572	$ 3.70	2.91	$ 434

1 Issuances under 2006 Equity Incentive Plan.
2 212,466 options added pursuant to the business combination with Nayarit that closed on August 2, 2010; 25,000 options were issued under 2006 Equity Incentive Plan.

Unvested stock option balances for employees at January 31, 2011 are as follows:

	Number of Options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Unvested Options Outstanding at July 31, 2008	437,500	$2.52	4.49	$ 8
Options granted	250,000	1.96	-	-
Options vested	(250,000)	2.24	-	-
Unvested Options outstanding at July 31, 2009	437,500	$2.36	5.18	$ 35
Options granted	500,000	3.60	-	-
Options vested	(237,500)	3.23	-	-
Options expired	(607,500)	3.02	-	-
Unvested Options outstanding at July 31, 2010	92,500	$2.52	4.37	$ 112
Options granted	25,000	3.73	-	-
Options vested	(58,750)	2.78	-	-
Options expired	-	-	-	-
Unvested Options outstanding at January 31, 2011	58,750	$2.78	4.00	$ 118

Stock option and warrant activity for non-employees during the years ended July 31, 2010 and 2009, and six months ended January 31, 2011 are as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Warrants and options outstanding at July 31, 2008	503,750	$2.48	3.54	$ 54
Options granted1	350,000	2.00	-	-
Options exercised	(37,500)	1.56	-	-
Options expired	(37,500)	1.56	-	-
Warrants and options outstanding at July 31, 2009	778,750	$2.36	3.36	$ 73
Options granted1	237,500	3.63	-	-
Warrants and options exercised	(239,954)	2.83	-	-
Options expired	(388,796)	2.16	-	-
Warrants and options outstanding at July 31, 2010	387,500	$3.02	3.97	$ 250
Options granted2	2,644,162	4.64	-	-
Options exercised	(60,518)	3.49	-	-
Options expired	(600,272)	5.76	-	-
Warrants and options outstanding at January 31, 2011	2,370,872	$4.12	1.50	$ 1,577
Warrants and options exercisable at January 31, 2011	1,883,372	$4.29	.42	$ 945

1 Issuances under 2006 Equity Incentive Plan.
2 2,219,162 options added pursuant to the business combination with Nayarit that closed on August 2, 2010; 425,000 options were issued under 2006 Equity Incentive Plan.

Unvested stock option balances for non-employees at January 31, 2011 are as follows:

	Number of Options	Weighted Average Exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Outstanding at July 31, 2008	113,750	$ 2.52	4.49	$ 3
Options granted	318,750	1.96	-	-
Options vested	(191,875)	2.04	-	-
Outstanding at July 31, 2009	240,625	$ 2.16	4.88	$ 70
Options granted	237,500	3.63	-	-
Options vested	(154,166)	3.18	-	-
Options expired	(157,292)	2.25	-	-
Outstanding at July 31, 2010	166,667	$ 3.21	4.32	$ 77
Options granted	425,000	3.47	-	-
Options vested	(79,168)	2.74	-	-
Options expired	(25,000)	3.60	-	-
Unvested options outstanding at January 31, 2011	487,499	$ 3.49	4.50	$ 632

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The impact on the Company's results of operations of recording equity based compensation for the six months ended January 31, 2011 and 2010, for employees and non-employees was approximately $261 and $848. The Company has not recognized any tax benefit or expense for the six months ended January 31, 2011 and 2010, related to these items due to the Company's net operating losses and corresponding valuation allowance within the U.S. (See Note 19).

As of January 31, 2011, there was approximately $854 of unrecognized equity based compensation cost related to options granted which have not yet vested.

NOTE 4 - Marketable Securities

Marketable securities are classified as current assets and are summarized as follows:

	(in thousands)	
	January 31, 2011	July 31, 2010
Marketable equity securities, at cost	$ 52	$ 50
Marketable equity securities, at fair value	$ 181	$ 30

NOTE 5 – Material and Supplies Inventories

	(in thousands)	
	January 31, 2011	July 31, 2010
Materials, supplies and other	$ 2,807	$ 1,953
Total	$ 2,807	$ 1,953

NOTE 6 - Ore on Leach Pads and Inventories ("In-Process Inventory")

	(in thousands)	
	January 31, 2011	July 31, 2010
Ore on leach pads	$ 40,547	$ 32,896
Total	$ 40,547	$ 32,896

Costs that are incurred in or benefit the productive process are accumulated as ore on leach pads and inventories. Ore on leach pads and inventories are carried at the lower of average cost or market. The current portion of ore on leach pads and inventories is determined based on the estimated amounts to be processed within the next 12 months.

In-process inventories represent materials that are currently in the process of being converted to a saleable product. Conversion processes vary depending on the nature of the ore and the specific processing facility, but include leach in-circuit, flotation and column cells and carbon in-pulp inventories. In-process material are measured based on assays of the material fed into the process and the projected recoveries of the respective plants. In-process inventories are valued at the average cost of the material fed into the process attributable to the source material coming from the mines and/or leach pads plus the in-process conversion costs, including applicable depreciation relating to the process facilities incurred to that point in the process.

NOTE 7 – Other Current Assets

Other current assets consist of the following:

	(in thousands) January 31, 2011	July 31, 2010
Value added tax to be refunded	$ 2,588	$ 891
Note receivable – Nayarit	-	350
MRS receivable	-	210
Loans receivable – affiliate	10	15
Deposit	238	5
Other	8	-
Total Other Current Assets	$ 2,844	$ 1,471

NOTE 8 – Property and Equipment

Property and Equipment consist of the following:

	(in thousands)	
	January 31, 2011	July 31, 2010
Process equipment and facilities	$ 35,880	$ 29,038
Mining equipment	2,266	2,180
Mineral properties	45,528	152
Construction in progress	1,860	165
Computer and office equipment	552	366
Improvements	48	13
Furniture	73	43
Total	86,207	31,957
Less: accumulated depreciation	(13,831)	(10,567)
Property and equipment, net	$ 72,376	$ 21,390

Depreciation expense for the six months ended January 31, 2011 and 2010 was approximately $1,957 and $1,201, respectively.

NOTE 9 - Goodwill

On August 2, 2010 the Company acquired Nayarit Gold, Inc. ("Nayarit") for approximately $47,599 in net consideration paid. The allocation of the fair value of the acquisition resulted in goodwill. None of the goodwill recognized is expected to be deductible for income tax purposes. As of January 31, 2011, the balance of goodwill was $3,520 (See Note 21).

No impairment charges were recorded for the six months ended January 31, 2011.

NOTE 10 - Intangible Assets

Intangible assets consist of the following:

	(in thousands)	
	January 31, 2011	July 31, 2010
Water Rights	$ 526	$ 510
Reforestation fee	293	271
Mobilization Payment to Mineral Contractor	63	70
Investment in Right of Way	9	18
Total	891	869
Accumulated Amortization	(166)	(139)
Intangible assets, net	$ 725	$ 730

Purchased intangible assets consisting of rights of way, water rights, easements, net profit interests, etc. are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the Units of Production ("UOP") method. It is the Company's policy to assess periodically the carrying amount of its purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with ASC guidance for goodwill and other intangibles. There was no impairment at January 31, 2011.

Amortization expense for the six months ended January 31, 2011 and 2010 was approximately $33 and $23, respectively.

NOTE 11 - Mining Concessions

Mining concessions consists of the following:

	(in thousands)	
	January 31, 2011	July 31, 2010
Sonora concessions	$ 34	$ 52
Nayarit concessions	17,971	-
Total	$ 18,005	$ 52

The Sonora concessions are carried at historical cost and are being amortized using the UOP method. Amortization expense for the six months ended January 31, 2011 and 2010 was approximately $3 and $3, respectively.

On August 2, 2010 the Company acquired Nayarit Gold, Inc. ("Nayarit") for approximately $47,599 in net consideration paid. The allocation of the fair value of the acquisition included exploration interests. As of January 31, 2011, the balance of these exploration interests was $17,971 (See Note 21).

NOTE 12 - Reclamations and Remediation Liabilities ("Asset Retirement Obligations")

The Company includes environmental and reclamation costs on an ongoing basis, in our internal revenue and cost projections. No assurance can be given that environmental regulations will not be changed in a manner that would adversely affect the Company's planned operations. As of January 31, 2011, we estimated the reclamation costs for the El Chanate site to be approximately $4,782. Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. The Asset Retirement Obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. The Company reviews, on an annual basis, unless otherwise deemed necessary, the Asset Retirement Obligation at each mine site. The Company reviewed the estimated present value of the El Chanate mine reclamation and closure costs as of January 31, 2011. As of January 31, 2011, approximately $2,769 was accrued for reclamation obligations relating to mineral properties in accordance with ASC guidance for asset retirement and environmental obligations.

The following is a reconciliation of the liability for long-term Asset Retirement Obligations for the six months ended January 31, 2011:

	(in thousands)
Balance as of July 31, 2010	$ 2,373
Additions, changes in estimates and other	308
Accretion expense	88
Balance as of January 31, 2011	$ 2,769

NOTE 13 – Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consists of foreign currency translation gains and losses, unrealized gains and losses on marketable securities and fair value changes on derivative instruments and is summarized as follows:

	Foreign currency items	Unrealized gain (loss) on securities	Change in fair value on interest rate swaps	Accumulated other comprehensive income
Balance as of July 31, 2010	$ (4,512)	$ (20)	$ 240	$ (4,292)
Income	3,636	149	(23)	3,762
Balance as of January 31, 2011	$ (876)	$ 129	$ 217	$ (530)

The Company has not recognized any income tax benefit or expense associated with other comprehensive income items for the year ended July 31, 2010 and the six months ended January 31, 2011.

NOTE 14 - Related Party Transactions

The Company utilizes a Mexican Corporation, Caborca Industrial, for mining services. Caborca Industrial was 100% owned by the Company's former Chief Executive Officer and another former officer of the Company. Ownership was relinquished upon their recent resignations, and as of January 31, 2011, the Company was in the process of transitioning ownership. These services include but are not limited to the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at slightly above cost. Mining expenses charged by Caborca Industrial and eliminated upon consolidation amounted to approximately $3,317, and $2,578 for the six months ended January 31, 2011, and 2010, respectively.

On April 29, 2010, the Company entered into a severance agreement and general release with Mr. Brownlie, pursuant to which Mr. Brownlie's employment agreement terminated and he resigned as President and COO effective upon the consummation of the Business combination between the Company and Nayarit Gold on August 2, 2010. Pursuant to the Severance Agreement, Mr. Brownlie was entitled to severance payments in the aggregate amount of approximately $1,388, payable over a six month period beginning June 2010; along with an additional $375 associated with the closing of the business combination agreement with Nayarit. As of January 31, 2011, we have paid all amounts due under this agreement.

NOTE 15 - Stockholders' Equity

Common Stock

The Company received proceeds of approximately $358 during the six months ended January 31, 2011 from the exercising of an aggregate of 101,209 options. The Company also issued 6,328 shares upon the cashless exercising of options during the six months ended January 31, 2011.

During the six months ended January 31, 2011 and 2010, the Company recorded approximately $261 and $848 in equity compensation expense, net of related forfeitures, related to the vesting of restricted stock and stock option grants, respectively. As of January 31, 2011, all compensation costs related to restricted stock granted have been recognized in full.

As part of the severance agreement with the Company's former President and Chief Operating Officer, the unvested portion of a previous restricted share grant of 20,833 shares was forfeited. As of January 31, 2011, the Company recorded adjustments to additional paid in capital and deferred compensation costs totaling approximately $53 related to this forfeiture.

The Company accounts for non-employee equity based awards in which goods or services are the consideration received for the equity instruments issued at their fair value.

Reverse Stock Split

On January 25, 2010, the Company announced that, to meet minimum share price requirements in connection with its NYSE EURONEXT LLC (the "Exchange") listing, it effected a reverse stock split, with every four (4) shares of common stock of the Company issued and outstanding being converted into one (1) share of common stock. As noted above, the reverse split was originally approved by shareholders at the Annual Shareholders Meeting held on October 31, 2008 and subsequently ratified by shareholders at the recent Annual Shareholders Meeting held on January 19, 2010. No fractional common shares were issued in connection with the reverse split. A holder of common shares, who otherwise would have been entitled to receive a fractional share as a result of the reverse split, received an amount in cash equal to the dollar amount multiplied by such fractional entitlement.

On February 1, 2010, the securities of Capital Gold Corporation were approved by the Exchange for listing and registration.

2006 Equity Incentive Plan

The 2006 Equity Incentive Plan (the "Plan"), approved by stockholders on February 21, 2007, is intended to attract and retain individuals of experience and ability, to provide incentive to the Company's employees, consultants, and non-employee directors, to encourage employee and director proprietary interests in the Company, and to encourage employees to remain in the Company's employ.

The Plan authorizes the grant of non-qualified and incentive stock options, stock appreciation rights and restricted stock awards (each, an "Award"). A maximum of 4,375,000 shares of common stock are reserved for potential issuance pursuant to Awards under the Plan. Unless sooner terminated, the Plan will continue in effect for a period of 10 years from its effective date.

The Plan is administered by the Company's Board of Directors which has delegated the administration to the Company's Compensation Committee. The Plan provides for Awards to be made to such of the Company's employees, directors and consultants and its affiliates as the Board may select.

Stock options awarded under the Plan may vest and be exercisable at such times (not later than 10 years after the date of grant) and at such exercise prices (not less than Fair Market Value at the date of grant) as the Board may determine. Unless otherwise determined by the Board, stock options shall not be transferable except by will or by the laws of descent and distribution. The Board may provide for options to become immediately exercisable upon a "change in control," as defined in the Plan.

On July 23, 2009, at the recommendation of the Compensation Committee and upon approval by the Board of Directors, the Company amended the 2006 Equity Incentive Plan to provide for cashless exercises of options by participants under the Plan. Payment of the option exercise price may now be made (i) in cash or by check payable to the Company, (ii) in shares of Common Stock duly owned by the option holder (and for which the option holder has good title free and clear of any liens and encumbrances), valued at the fair market value on the date of exercise, or (iii) by delivery back to the Company from the shares acquired on exercise of the number of shares of common stock equal to the exercise price, valued at the fair market value on the date of exercise. Previously, the exercise price of an option must have been paid in cash. No options may be granted under the Plan after the tenth anniversary of its effective date. Unless the Board determines otherwise, there are certain continuous service requirements.

The Plan provides the Board with the general power to amend the Plan, or any portion thereof at any time in any respect without the approval of the Company's stockholders, provided however, that the stockholders must approve any amendment which increases the fixed maximum percentage of shares of common stock issuable pursuant to the Plan, reduces the exercise price of an Award held by a director, officer or ten percent stockholder or extends the term of an Award held by a director, officer or ten percent stockholder. Notwithstanding the foregoing, stockholder approval may still be necessary to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), Rule 16b-3 of the Securities Exchange Act of 1934, as amended or any applicable stock exchange listing requirements. The Board may amend the Plan in any respect it deems necessary or advisable to provide eligible employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith. Rights under any Award granted before amendment of the Plan cannot be impaired by any amendment of the Plan unless the Participant consents in writing. The Board is empowered to amend the terms of any one or more Awards; provided, however, that the rights under any Award shall not be impaired by any such amendment unless the applicable Participant consents in writing and further provided that the Board cannot amend the exercise price of an option, the Fair Market Value of an Award or extend the term of an option or Award without obtaining the approval of the stockholders if required by the rules of the Toronto Stock Exchange or any stock exchange upon which the common stock is listed.

On August 2, 2010, in connection with the consummation of the Business Combination, and at the recommendation of the Compensation Committee of the Board of Directors, the Company's Board of Directors approved the issuance of 25,000 options to Colin Sutherland under our 2006 Equity Incentive Plan. The stock options have a term of five years and vest as follows: 50% vested upon issuance and the balance vests 25% annually thereafter. The exercise price of the stock options is $3.73 per share. In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest. The Company utilized the Black-Scholes method to fair value the 25,000 options totaling $48. For the six months ended January 31, 2011 the Company recorded approximately $30 in equity compensation expense on the vested portion of these stock options, respectively. The grant date fair value of each stock option was $1.90.

On August 18, 2010, at the recommendation of the Compensation Committee of the Board of Directors, the Company's Board of Directors approved the issuance of 175,000, 175,000 and 75,000 options to Stephen Cooper, John Cutler and Gary Huber, respectively, aggregating 425,000 stock options under our 2006 Equity Incentive Plan. The stock options have a term of five years and vest as follows: one-third vested upon first anniversary of date of grant and the balance vests one-third annually thereafter. The exercise price of the stock options is $3.47 per share (per the Plan, the closing price on the NYSE Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest. The Company utilized the Black-Scholes method to fair value the 425,000 options received by these individuals totaling $823. For the six months ended January 31, 2011 the Company recorded approximately $125 in equity compensation expense on the vested portion of these stock options, respectively. The grant date fair value of each stock option was $1.94.

On March 11, 2010, the Company entered into an agreement with Gifford A. Dieterle, the former Chief Executive Officer ("CEO") of the Company and Chairman of the Board, pursuant to which Mr. Dieterle resigned his position as CEO and Chairman of the Board, effective March 18, 2010. Pursuant to the agreement, Mr. Dieterle received lump sum payments totaling approximately $376 in September 2010, and additional payments totaling approximately $288 will be due in 2011. As of January 31, 2011, the Company has paid approximately $24. In addition, Mr. Dieterle was due an issuance of $100 in shares of the Company's common stock, initially proposed to be received in September 2010. The number of common shares to be issued was determined by dividing $100 by the volume weighted average closing sale price for the 10 trading days prior to September 18, 2010 on NYSE EURONEXT. The Toronto Stock Exchange ("TSX") provided conditional approval for this issuance provided no more than 27,000 common shares were to be issued without additional written consent of TSX. TSX provided this additional written consent on October 4, 2010 to allow the issuance of an additional 1,571 shares, for a total of 28,571 shares pursuant to the severance agreement. The shares were issued, accordingly, on October 4, 2010.

NOTE 16 - Debt

Long term debt consists of the following:	(in thousands)	
	January 31, 2011	July 31, 2010
Total long-term debt	$ 2,600	$ 4,400
Less current portion	(2,600)	(3,600)
Long-term debt	$ -	$ 800

In September 2008, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") involving our wholly owned Mexican subsidiaries MSR and Oro, as borrowers ("Borrowers"), the Company, as guarantor, and Standard Bank, as the lender. The Credit Agreement amends and restates the prior credit agreement between the parties dated August 15, 2006. Under the Credit Agreement, MSR and Oro borrowed money in an aggregate principal amount of up to US$12,500 (the "Term Loan") for the purpose of constructing, developing and operating the El Chanate gold mining project in Sonora State, Mexico. The Company guaranteed the repayment of the Term Loan and the performance of the obligations under the Credit Agreement. As of January 31, 2011 and 2010, the accrued interest on the Term Loan was approximately $6 and $14, respectively.

Term Loan principal shall be repaid quarterly. Payments commenced on September 30, 2008 and consisted of four payments in the amount of $1,125, followed by eight payments in the amount of $900 and two final payments in the amount of $400. There is no prepayment fee. Principal under the Term Loan shall bear interest at a rate per annum equal to the LIBOR Rate plus 2.5% per annum.

The Credit Agreement contains covenants customary for a term note, including but not limited to restrictions (subject to certain exceptions) on incurring additional debt, creating liens on its property, declaring or paying dividends, disposing of any assets, merging with other companies and making any investments. The Company is required to meet and maintain certain financial covenants, including (i) a ratio of current assets to current liabilities at all times greater than or equal to 1.20:1.00, (ii) a quarterly minimum tangible net worth at all times of at least U.S. $30,000, (iii) maintain a ratio of debt to cash flow from operations of no greater than 2.50:1.00, and (iv) a quarterly average minimum liquidity of U.S. $500. In addition, the Credit Agreement restricts, among other things, the Company's ability to incur additional debt, create liens on its property, dispose of any assets, merge with other companies, enter into hedge agreements, organize or invest in subsidiaries or make any investments above a certain dollar limit. A failure to comply with the restrictions contained in the Credit Agreement could lead to an event of default thereunder which could result in an acceleration of such indebtedness. As a condition to closing the Nayarit Business Combination, the Company obtained the consent of Standard Bank.

The Loan is secured by all of the tangible and intangible assets and property owned by MSR and Oro. As additional collateral for the Loan, the Company, together with its subsidiary, Leadville Mining & Milling Holding Corporation, pledged all of its ownership interest in MSR and Oro.

On September 17, 2009, our $5,000 revolving loan contained within the Credit Agreement expired. The Company had not drawn on this facility during the term period and determined that during that time it was not cost beneficial to maintain the revolving loan on a going forward basis.

On June 30, 2010, Capital Gold Corporation entered into the First Amendment to the Amended and Restated Credit Agreement (the "Amendment") by and among our wholly-owned Mexican subsidiaries Minera Santa Rita S. de R.L. de C.V. and Oro de Altar S. de R.L. de C.V., as borrowers ("Borrowers"), the Company, as guarantor, and Standard Bank PLC ("Standard Bank"), as the lender. The Amendment amends the Credit Agreement, which amended and restated the Credit Agreement between the parties dated August 15, 2006. The Credit Agreement provided for a senior secured term credit facility in the aggregate amount of $12,500 (the "Term Facility") and provided for a senior secured revolving credit facility in the aggregate principal amount of $5,000 (the "Revolving Facility"). Capital Gold guarantees all obligations of the Borrowers under the Term Facility and the Revolving Facility. The material amendments to the Credit Agreement contained in the Amendment are as follows:

The Amendment increases the Revolving Facility to $7,500. The Revolving Facility is available for a two-year period commencing June 30, 2010. The Borrowers may request a borrowing of the Revolving Facility from time to time, provided that each borrowing shall be in a minimum aggregate amount of $500. All amounts due under the Revolving Facility, including all accrued interest and other amounts described in the Credit Agreement, shall be due and payable on June 30, 3012.

Amounts borrowed under the Term Facility and the Revolving Facility bear interest at a rate per annum equal to the LIBO Rate, as defined in the Credit Agreement, for the applicable interest period plus the applicable margin. The applicable margin for the Revolving Facility was increased in the Amendment to 3.0% per annum.

As of January 31, 2011, the Company and its related entities were in compliance with all debt covenants and default provisions. The accounts of Caborca Industrial are not subject to the debt covenants and default provisions.

Future principal payments on the term loan are as follows (in thousands):

Fiscal Years Ending July 31,

2011	$	2,200
2012		400
	$	2,600

NOTE 17 - Sales Contracts, Commodity and Financial Instruments

Interest Rate Swap Agreement

On October 11, 2006, prior to our initial draw on the Credit Agreement, the Company entered into an interest rate swap agreement covering about 75% of the expected variable rate debt exposure. Only 50% coverage is required under the Credit Agreement. The interest rate swap contract terminated on December 31, 2010. However, the Company intends to use discretion in managing this risk as market conditions vary over time, allowing for the possibility of adjusting the degree of hedge coverage as it deems appropriate. In any case, the Company's use of interest rate derivatives will be restricted to use for risk management purposes.

The Company uses variable-rate debt to finance a portion of the El Chanate Project. Variable-rate debt obligations expose the Company to variability in interest payments due to changes in interest rates. As a result of these arrangements, the Company will continuously monitor changes in interest rate exposures and evaluate hedging opportunities. The Company's risk management policy permits it to use any combination of interest rate swaps, futures, options, caps and similar instruments, for the purpose of fixing interest rates on all or a portion of variable rate debt, establishing caps or maximum effective interest rates, or otherwise constraining interest expenses to minimize the variability of these effects.

The interest rate swap agreements are accounted for as cash flow hedges, whereby "effective" hedge gains or losses are initially recorded in other comprehensive income and later reclassified to the interest expense component of earnings coincidently with the earnings impact of the interest expenses being hedged. "Ineffective" hedge results are immediately recorded in earnings also under interest expense. No component of hedge results will be excluded from the assessment of hedge effectiveness.

The following is a reconciliation of the derivative contract regarding the Company's Interest Rate Swap agreement:

	(in thousands)	
Liability balance as of July 31, 2010	$	40
Change in fair value of swap agreement		1
Net cash settlements		(41)
Liability balance as of January 31, 2011	$	-

The Company is exposed to credit losses in the event of non-performance by counterparties to these interest rate swap agreements, but the Company does not expect any of the counterparties to fail to meet their obligations. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty under defined guidelines, and monitors the market position with each counterparty as required by ASC guidance for derivatives and hedging.

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The Effect of Derivative Instruments on the Statement of Financial Position (in thousands):

Quarter Ended	Derivatives in Cash Flow Hedging Relationships	Effective Results Recognized in OCI	Location of Results Reclassified from AOCI to Earnings	Amount Reclassified from AOCI to Income	Ineffective Results Recognized in Earnings	Location of Ineffective Results
7/31/09	Interest Rate contracts	$ (19)	Interest Income (Expense)	(55)	-	N/A
10/31/09	Interest Rate contracts	$ (16)	Interest Income (Expense)	(53)	-	N/A
1/31/10	Interest Rate contracts	$ (8)	Interest Income (Expense)	(48)	-	N/A
4/30/10	Interest Rate contracts	$ (1)	Interest Income (Expense)	(38)	-	N/A
7/31/10	Interest Rate contracts	$ (2)	Interest Income (Expense)	(30)	-	N/A
10/31/10	Interest Rate contracts	$ (1)	Interest Income (Expense)	(22)	-	N/A
01/31/11	Interest Rate contracts	-	Interest Income (Expense)	(17)	-	N/A

Fair Value of Derivative Instruments in a Statement of Financial Position and the Effect of Derivative Instruments on the Statement of Financial Performance (in thousands):

		Liability Derivatives	
July 31, 2010		Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments			
	Interest rate derivatives	Current Liabilities	$ 40

		Liability Derivatives	
October 31, 2010		Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments			
	Interest rate derivatives	Current Liabilities	$ 17

		Liability Derivatives	
January 31, 2011		Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments			
	Interest rate derivatives	Current Liabilities	$ -

NOTE 18 – Accrued Expenses

Accrued expenses consist of the following:

	January 31, 2011	July 31, 2010
Net smelter return	$ 409	$ 388
Mining contract	370	497
Income tax payable	4,518	1,900

Utilities		159		126
Interest		6		11
Legal and professional		228		70
Salaries, wages and related benefits		846		662
Leach pad expansion		150		-
Severance		263		1,279
Other liabilities		255		107
	$	7,204	$	5,040

NOTE 19 - Income Taxes

The Company's Income (loss) before income tax for the three and six months ended consisted of:

	(in thousands) For The Three Months Ended		(in thousands) For The Six Months Ended	
	January 31, 2011	January 31, 2010	January 31, 2011	January 31, 2010
United States	$ (1,668)	$ (2,317)	$ (5,317)	$ (4,224)
Foreign	10,484	7,539	20,459	14,105
Total	$ 8,816	$ 5,222	$ 15,142	$ 9,881

The Company's current intent is to permanently reinvest its foreign affiliate's earnings; accordingly, no U.S. income taxes have been provided for the unremitted earnings of the Company's foreign affiliate.

On October 1, 2007, the Mexican Government enacted legislation which introduces certain tax reforms as well as a new minimum flat tax system. This new flat tax system integrates with the regular income tax system and is based on cash-basis net income that includes only certain receipts and expenditures. The flat tax is set at 17.5% of cash-basis net income as determined, with transitional rates of 16.5% and 17.0% in 2008 and 2009, respectively. If the flat tax is positive, it is reduced by the regular income tax and any excess is paid as a supplement to the regular income tax. If the flat tax is negative, it can be carried forward for a period of up to ten years to reduce any future flat tax.

On January 1, 2010, the Mexican government enacted legislation, which increases the regular income tax rate from 28% to 30%. The regular income tax rate will decrease to 29% in 2013 and then back to 28% in 2014, according to legislation.

Companies are required to prepay income taxes on a monthly basis based on the greater of the flat tax or regular income tax as calculated for each monthly period. There is the possibility of implementation amendments by the Mexican Government and the estimated future income tax liability recorded at the balance sheet date may change.

Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. The measurement of deferred income tax assets is reduced, if necessary, by a valuation allowance for any tax benefits, which are, on a more likely than not basis, not expected to be realized; in accordance with ASC guidance for income taxes. Net deferred tax benefits related to the U.S. operations have been fully reserved. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

NOTE 20 - Fair Value Measurements

ASC guidance for fair value measurements and disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following table sets forth the Company’s financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by ASC guidance, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value at January 31, 2011 (in thousands)			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 2,804	$ 2,804	$ -	$ -
Marketable securities	181	181	-	-
	$ 2,985	$ 2,985	$ -	$ -

The Company’s cash equivalent instruments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The cash instruments that are valued based on quoted market prices in active markets are primarily money market securities.

The Company’s marketable equity securities are valued using quoted market prices in active markets and as such are classified within Level 1 of the fair value hierarchy. The fair value of the marketable equity securities is calculated as the quoted market price of the marketable equity security multiplied by the quantity of shares held by the Company.

NOTE 21 - Acquisition of Nayarit Gold, Inc.

Capital Gold Corporation (“Capital Gold”) is a party to that certain Business Combination Agreement (the “Agreement”), dated as of February 10, 2010, as amended by Amendment No. 1 to the Agreement, dated as of April 29, 2010 and the Extension Agreement dated as of July 6, 2010, by and among Capital Gold, Nayarit Gold Inc. (“Nayarit”), John Brownlie, Colin Sutherland and Brad Langille. The Business Combination was consummated on August 2, 2010. As a result of the Business Combination, Nayarit became a wholly-owned subsidiary of the Company. In connection with the Business Combination, each outstanding share of Nayarit common stock was converted into 0.134048 shares of Capital Gold common stock, with cash paid in lieu of any fractional share. Capital Gold issued 12,453,363 shares of its common stock in the Business Combination to Nayarit's current stockholders and has reserved for issuance an additional 1,621,981 and 903,483 shares of Capital Gold common stock upon the exercise of former Nayarit warrants and options, respectively. Based on the number of outstanding shares of Nayarit common stock and Capital Gold common stock, after the consummation of the Business Combination, the stockholders of Nayarit own approximately 20.4% of Capital Gold on a non-diluted basis.

Based on the closing price of the Company's common stock on August 2, 2010, the consideration received by Nayarit shareholders had a value of approximately $47.6 million as detailed below.

	Conversion Calculation	Estimated Fair Value	Form of Consideration
	(In thousands, except per share amounts)		
Number of Nayarit shares outstanding as of the Amalgamation date	92,910		
Exchange ratio(1)	0.134048		
Number of shares issued to Nayarit shareholders	12,454		
Value of Capital Gold common shares issued(1)	$ 3.71	$ 46,206	Capital Gold Common stock
Value of Nayarit's options and warrants to be exchanged for Capital Gold options and warrants (2)		1,393	Capital Gold Options and Warrants
Total consideration transferred		$ 47,599	

(1) In accordance with ASC 805, the fair value of equity securities issued as part of the consideration transferred was the closing market price of Capital Gold's common stock on the effective date of the Amalgamation. The shares issued were calculated by multiplying 0.134048 by 92,909,659, being the number of shares of Nayarit common stock outstanding on August 2, 2010. Nayarit shareholders own approximately 20.4% of the issued and outstanding shares of Capital Gold common stock.

(2) Represents the fair value to acquire 1,621,981 and 903,483 shares of Capital Gold common stock upon the exercise of former Nayarit warrants and options, respectively. The fair value of the warrants and options were estimated using the Black-Scholes valuation model utilizing the assumptions noted below.

Stock price	$	3.71	
Post conversion strike price	$	3.28 - $9.92	
Average expected volatility		70	%
Dividend yield	None		
Average risk-free interest rate		0.29	%
Average contractual term	.79 years		
Black-Scholes average value per warrant and option	$	0.57	

The expected volatility of Capital Gold's stock price is based on the average historical volatility which is based on daily observations and duration consistent with the expected life assumption and implied volatility. The average contractual term of the warrants and options is based on the remaining contractual exercise term of each warrant and option. The risk free interest rate is based on U.S. treasury securities with maturities equal to the expected life of the warrants and options.

The transaction has been accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and liabilities assumed to be recognized at their fair values as of the acquisition date. The following table summarizes the estimated fair values of major assets acquired and liabilities assumed on August 2, 2010:

		Fair Value (in thousands)
Cash and cash equivalents	$	50
Short-term investments		2
Prepaid expenses and sundry receivables		1,238
Property, plant and equipment		196
Mineral interests – indicated and inferred		43,780
Exploration interests		16,730
Goodwill		3,394
Accounts payable and liabilities assumed		(1,336)
Deferred tax liability		(16,455)
Net assets acquired	$	47,599

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The Company's judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results from operations. The Company's management allocated the acquisition cost to the assets acquired and liabilities assumed based on the estimated fair value of Nayarit's tangible and identifiable assets and liabilities. The amount allocated to the mineral and exploration interests was based on a valuation report prepared by a third party appraisal firm. The allocation is considered final as of the date of this report as management reviewed certain of the underlying assumptions and calculations used in the allocation to the assets and liabilities of Nayarit that were acquired.

During the six months ended January 31, 2011, the Company incurred transaction costs consisting primarily of legal, professional, investment advisory and accounting fees of $971. These costs are included in general and administrative expenses on the consolidated statement of operations.

Pro forma Information

The following unaudited pro forma results of operations of the Company for the six months ended January 31, 2011 and 2010 assume that the Nayarit acquisition had occurred on August 1, 2009. These unaudited pro forma results are not necessarily indicative of either the actual results of operations that would have been achieved had the companies been combined during these periods, nor are they necessarily indicative of future results of operations.

(in thousands)

		Six Months Ended January 31, 2011		Six Months Ended January 31, 2010
Revenues	$	38,989	$	24,955
Net income	$	8,242	$	4,231
Income per common share:				
Basic – net income	$	0.13	$	0.07
Diluted – net income	$	0.13	$	0.07