

Applied Minerals, Inc.  
Form 10-Q  
May 11, 2015  
Table Of Contents

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

Transition report under section 13 or 15(d) of the Exchange Act

For the transition period from to

Commission File Number 000-31380

APPLIED MINERALS,  
INC.

(Exact name of registrant as  
specified in its charter)

Delaware 82-0096527  
(State or (I.R.S.  
other Employer  
jurisdiction Identification  
of No.)  
incorporation  
or

organization)

110  
Greene  
Street –  
Suite 10012  
1101,  
New  
York,  
NY  
(Address  
of  
principal executive  
offices) (Zip Code)

(212)  
226-4265  
(Issuer's  
Telephone  
Number,  
Including  
Area  
Code)

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

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company

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

YES NO

Edgar Filing: Applied Minerals, Inc. - Form 10-Q

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of April 30, 2015 was 95,484,257.

DOCUMENTS INCORPORATED BY REFERENCE: None.

Table Of Contents

**APPLIED MINERALS, INC.**

**(An Exploration Stage Company)**

FIRST QUARTER 2015 REPORT ON FORM 10-Q

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

	Page(s)
Item 1. <u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2015 (unaudited) and December 31, 2014</u>	3
<u>Condensed Consolidated Statements of Operations (unaudited) for the Three Months Ended March 31, 2015 and 2014</u>	4
<u>Condensed Consolidated Statements of Stockholders' Deficit (unaudited) for the Three Months Ended March 31, 2015</u>	5
<u>Condensed Consolidated Statements of Cash Flows (unaudited) for the Three Months Ended March 31, 2015 and 2014</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
Item 4. <u>Controls and Procedures</u>	34

**PART II. OTHER INFORMATION**

Item 1. <u>Legal Proceedings</u>	35
Item 1A <u>Risk Factors</u>	35
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35

Item 3. <u>Defaults Upon Senior Securities</u>	35
Item 4. <u>Mine Safety Disclosures</u>	35
Item 5. <u>Other Information</u>	35
Item 6. <u>Exhibits</u>	36
<u>Signatures</u>	37

Table Of Contents**PART I. FINANCIAL INFORMATION****APPLIED MINERALS, INC.**

(An Exploration Stage Mining Company)

## CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2015	December 31, 2014
<b><u>ASSETS</u></b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,731,293	\$ 10,701,666
Accounts receivable	144,270	112,831
Deposits and prepaid expenses	252,510	289,644
<b>Total Current Assets</b>	<b>8,128,073</b>	<b>11,104,141</b>
<b>Property and Equipment, net</b>	<b>6,729,652</b>	<b>7,055,874</b>
<b>Other Assets</b>		
Deferred Financing Costs	26,875	28,750
Deposits	268,992	268,937
<b>Total Other Assets</b>	<b>295,867</b>	<b>297,687</b>
<b>TOTAL ASSETS</b>	<b>\$ 15,153,592</b>	<b>\$ 18,457,702</b>
<b><u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u></b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 2,491,508	\$ 2,608,364
Current portion of notes payable	142,417	246,894
<b>Total Current Liabilities</b>	<b>2,633,925</b>	<b>2,855,258</b>
<b>Long-Term Liabilities</b>		
Long-term portion of notes payable	50,064	59,145
PIK notes payable, net of \$18,195,280 and \$18,400,297 debt discount, respectively	13,808,269	13,024,439
PIK Note derivatives	10,154,753	10,035,625
<b>Total Long-Term Liabilities</b>	<b>24,013,086</b>	<b>23,119,209</b>
<b>Total Liabilities</b>	<b>26,647,011</b>	<b>25,974,467</b>
<b>Commitments and Contingencies (Note 10)</b>		

**Stockholders' Deficit**

Preferred stock, \$0.001 par value, 10,000,000 shares authorized,  
none issued and outstanding

Common stock, \$0.001 par value, 200,000,000 shares authorized,  
95,450,047 and 95,054,552 shares issued and outstanding at  
March 31, 2015 and December 31, 2014, respectively

Additional paid-in capital

Accumulated deficit prior to the exploration stage

Accumulated deficit during the exploration stage

***Total Stockholders' Deficit***

***TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT***

95,450		95,055
64,743,885		64,526,469
(20,009,496	)	(20,009,496
(56,323,258	)	(52,128,793
(11,493,419	)	(7,516,765
\$ 15,153,592		\$ 18,457,702

The accompanying notes are an integral part of these condensed consolidated financial statements

Table Of Contents**APPLIED MINERALS, INC.**

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	For the Three Months ended March 31,	
	2015	2014
<b>REVENUES</b>	\$ 162,747	\$ 11,014
<b>OPERATING EXPENSES:</b>		
Production costs	2,235	3,749
Exploration costs	1,327,281	1,197,156
General and administrative	1,182,309	1,254,016
Depreciation expense	326,222	108,386
<b>Total Operating Expenses</b>	<b>2,838,047</b>	<b>2,563,307</b>
Operating Loss	(2,675,300 )	(2,552,293 )
<b>OTHER INCOME (EXPENSE):</b>		
Interest expense, net, including amortization of deferred financing cost and debt discount	(1,028,627 )	(300,167 )
Gain on revaluation of warrant derivative	--	725,000
Gain on revaluation of stock awards	--	38,000
(Loss) gain on revaluation of PIK Note derivative	(92,741 )	1,792,500
Other expense	(397,797 )	(60,265 )
<b>Total Other Income (Expense)</b>	<b>(1,519,165 )</b>	<b>2,195,068</b>
Net loss	(4,194,465 )	(357,225 )
<b>Net Loss Per Share (Basic and Diluted)</b>	<b>\$(0.04 )</b>	<b>\$-0-</b>
<b>Weighted Average Shares Outstanding (Basic and Diluted)</b>	<b>95,107,112</b>	<b>94,692,696</b>

The accompanying notes are an integral part of these condensed consolidated financial statements





Table Of Contents**APPLIED MINERALS, INC.**

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)**

(Unaudited)

	Common Stock			Accumulated Deficit Prior to Exploration Stage	Accumulated Deficit During Exploration Stage	Total Stock- holders' Equity
	Shares	Amount	Additional Paid-In Capital			
Balance, December 31, 2014	95,054,552	\$95,055	\$64,526,469	\$(20,009,496)	\$(52,128,793)	\$(7,516,765 )
Shares issued for directors fees and other services	145,495	145	117,728	--	--	117,873
Stock-based compensation expense for consultants and directors	250,000	250	99,688	--	--	99,938
Net Loss	--	--	--	--	(4,194,465 )	(4,194,465 )
Balance, March 31, 2015	95,450,047	\$95,450	\$64,743,885	\$(20,009,496)	\$(56,323,258)	\$(11,493,419)

The accompanying notes are an integral part of these condensed consolidated financial statements

Table Of Contents**APPLIED MINERALS, INC.**

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	For the Three Months ended March 31,	
	2015	2014
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$(4,194,465 )	\$(357,225 )
Adjustments to reconcile net loss to net cash used in operations		
Depreciation	326,222	108,386
Amortization of discount – PIK Notes	231,404	26,331
Amortization of deferred financing costs	1,875	--
Issuance of PIK Notes in payment of interest	578,813	525,000
Stock issued for director fees and other services	117,873	110,914
Stock-based compensation expense for consultants and directors	99,938	214,850
Gain on revaluation of stock warrant derivative	--	(725,000 )
(Gain) loss on revaluation of PIK Note derivative	92,741	(1,792,500)
Gain on revaluation of stock awards	--	(38,000 )
Change in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(31,439 )	(5,188 )
Deposits and prepaids	37,079	85,196
Increase (Decrease) in:		
Accounts payable and accrued liabilities	(116,856 )	(528,614 )
<b>Net cash used in operating activities</b>	<b>(2,856,815 )</b>	<b>(2,375,850)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	--	(18,539 )
Construction-in-progress	--	(297,169 )
<b>Net cash used in investing activities</b>	<b>--</b>	<b>(315,708 )</b>
<b>Cash Flows From Financing Activities:</b>		
Payments on notes payable	(113,558 )	(122,898 )
<b>Net cash used in financing activities</b>	<b>(113,558 )</b>	<b>(122,898 )</b>
Net change in cash and cash equivalents	(2,970,373 )	(2,814,456)
Cash and cash equivalents at beginning of period	10,701,666	8,685,552

<b>Cash and cash equivalents at end of period</b>	\$7,731,293	\$5,871,096
---------------------------------------------------	-------------	-------------

The accompanying notes are an integral part of these condensed consolidated financial statements

Table Of Contents

**APPLIED MINERALS, INC.**

(An Exploration Stage Mining Company)

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	For the Three Months ended March 31, 2015    2014	
Cash Paid For:		
Interest	\$4,198	\$3,745
Income Taxes	\$--	\$1,403
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Reclassification of construction in progress to buildings	\$--	\$2,405,648
Reclassification of construction in progress to milling equipment	\$--	\$1,857,727
Reclassification of construction in progress to lab equipment	\$--	\$96,077
Construction-in-progress in accounts payable	\$--	\$120,000

The accompanying notes are an integral part of these condensed consolidated financial statements

Table Of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

**NOTE 1 – BASIS OF PRESENTATION**

In the opinion of management, the accompanying unaudited, condensed, consolidated financial statements contain all adjustments necessary to present fairly the financial position of Applied Minerals, Inc. ("Applied Minerals" or "the Company" or "we") and its results of operations and cash flows for the interim periods presented. Such financial statements have been condensed in accordance with the applicable regulations of the Securities and Exchange Commission and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2014, included in the Company's Annual Report filed on Form 10-K for such year. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the entire year.

**NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS**

Applied Minerals, Inc. (the "Company") is the owner of the Dragon Mine located in the Tintic Mining District of the State of Utah from where it produces halloysite clay and iron oxide. The Company is currently in various phases of commercial scale trials with several organizations in various markets with respect to uses of its products.

Applied Minerals is a publicly traded company incorporated in the state of Delaware. The common stock trades on the OTC Bulletin Board under the symbol AMNL.

**NOTE 3 – LIQUIDITY**

The Company has a history of recurring losses from operations and use of cash in operating activities. For the three months ended March 31, 2015, the Company's net loss was \$4,194,465 and cash used in operating activities was \$2,856,815. As of March 31, 2015, the Company had working capital of \$5,494,148, which will not be sufficient to support its current operations for the next twelve months based on its business plan without obtaining additional financing. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

Besides continuing its strategic business plan on generating revenue, the Company intends to explore various strategic alternatives, including the sale of equity, debt or the disposal of certain non-core assets to raise additional capital. In November 2014, the Company raised \$12.5 million in capital financing through the issuance of convertible PIK Notes. During 2013, the Company raised gross proceeds of \$16,060,000 pursuant to the sale of common stock and issuance of convertible PIK Notes. Management can also take steps to reduce the Company's future operating expenses as needed. However, the Company cannot provide any assurance that it will be able to raise additional capital as needed. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

#### **NOTE 4- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### Exploration-Stage Company

Effective January 1, 2009, due to the shutdown of our contract mining business, we were, and still are, classified as an exploration company as the existence of proven or probable reserves has not been demonstrated and no significant revenue has been earned from the mine. Under the SEC's Industry Guide 7, a mining company is considered an exploration stage company until it has declared mineral reserves determined in accordance with the guide and staff interpretations thereof.

## Table Of Contents

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Applied Minerals, Inc. and its inactive subsidiary in northern Idaho.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. In these condensed consolidated financial statements, the warrant and PIK note derivative liability, stock compensation and impairment of long-lived assets involve extensive reliance on management’s estimates. Actual results could differ from those estimates.

### Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with a term of three months or less. The Company minimizes its credit risk by investing its cash and cash equivalents, which sometimes exceeds FDIC limits, with major financial institutions located in the United States with a high credit rating.

### Receivables

Trade receivables are reported at outstanding principal amounts, net of an allowance for doubtful accounts. Management evaluates the collectability of receivable account balances to determine the allowance, if any. Management considers the other party’s credit risk and financial condition, as well as current and projected economic and market conditions, in determining the amount of the allowance. Receivable balances are written off when management determines that the balance is uncollectable.

### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation and amortization is computed on the straight-line method over the estimated useful lives of the assets, or the life of the lease, whichever is shorter, as follows:

Estimated  
Useful  
Life



	(years)
Building and Building Improvements	5 – 40
Mining equipment	2 – 7
Office and shop furniture and equipment	3 – 7
Vehicles	5

During the fourth quarter of 2014, the Company started using a five-year depreciation schedule with respect to its new processing plant that was commissioned in 2014. The five-year depreciation schedule is a change from the 40 years utilized for the building and 7 years utilized for the equipment relating to the new processing plant in the quarterly financial statements for the quarters ended March 31, June 30 and September 30, 2014. This change in useful life resulted in \$587,427 of additional depreciation expense, which was recorded during the fourth quarter of 2014. The impact of the change in the depreciation schedule would not have had a material impact on the consolidated financial statements for the three quarters previously reported on Form 10-Q.

Depreciation expense for the three months ended March 31, 2015 and 2014 totaled \$326,222 and \$108,386, respectively. The Company currently does not capitalize any amounts related to proven or probable reserves and therefore does not have any depletion expense.

#### Fair Value

ASC Topic 820, *Fair Value Measurement and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy, which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 – Quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs other than level one inputs that are either directly or indirectly observable; and

Level 3 – Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Table Of Contents

Liabilities measured at fair value on a recurring basis are summarized as follows:

	Fair value measurement using inputs		Carrying amount	
	Level 1	Level 2	March 31, 2015	December 31, 2014 (a)
<b>Financial instruments:</b>				
Series 2023 PIK Note Derivative		\$554,128	\$554,128	\$478,149
Series A PIK Note Derivative		\$9,600,625	\$9,600,625	\$9,557,476

The following table summarizes the activity for financial instruments at fair value using Level 3 inputs:

Balance at December 31, 2014	\$10,035,625
Issuance of additional Series 2023 PIK Note	26,387
Net unrealized loss	92,741
Balance at March 31, 2015	\$10,154,753

In the course of preparing its financial statements for the year ended December 31, 2014, the Company (a)reclassified the Series 2023 PIK note derivative to Level 3 fair value hierarchy to match with the Series A PIK note derivative since it based off of a similar model.

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, other current assets, and accounts payable and accrued expenses approximates the fair value at March 31, 2015 and December 31, 2014 based upon the short-term nature of the assets and liabilities. Based on borrowing rates currently available to the Company for loans with similar terms, and the remaining short term period outstanding, the carrying value of notes payable other than PIK notes materially approximates fair value. Estimated fair value of the PIK Notes Payable approximate \$27,870,828 and \$27,488,811, respectively, at March 31, 2015 and December 31, 2014.

For the Company's warrant and PIK note derivative liabilities, Level 3 fair value hierarchy was estimated using a Monte Carlo Model using the following assumptions:

**Series 2023 PIK Note derivative liability** Fair Value Measurements

Using Inputs