

Applied Minerals, Inc.
Form 10-Q
May 15, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM10-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, 2017

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 other (I. R. S.
jurisdiction of Employer

incorporation Identification
or No.)
organization)

55
Washington
Street - Suite 11201
301,
Brooklyn,
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 mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

YES NO

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of May 8, 2017 was 108,613,549.

DOCUMENTS INCORPORATED BY REFERENCE: None.

Table of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Company)

FIRST QUARTER 2017 REPORT ON FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

	Page(s)
Item 1. <u>Condensed Consolidated Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2017 (unaudited) and December 31, 2016</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2017 and 2016 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Stockholders' Deficit for the Three Months Ended March 31, 2017 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2016 (unaudited)</u>	6
<u>Notes to the Condensed Consolidated Financial Statements (unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	19
Item 4. <u>Controls and Procedures</u>	19

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	19
Item 1A <u>Risk Factors</u>	19
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	19

Item 3. <u>Defaults Upon Senior Securities</u>	20
Item 4. <u>Mine Safety Disclosures</u>	20
Item 5. <u>Other Information</u>	20
Item 6. <u>Exhibits</u>	20
<u>Signatures</u>	20

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

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2017 (Unaudited)	December 31, 2016
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$218,245	\$1,049,880
Accounts receivable	352,423	364,952
Deposits and prepaid expenses	228,886	371,206
Other current receivables	462	16,801
Total Current Assets	800,016	1,802,839
Property and Equipment, net	3,744,391	4,075,176
Other Assets		
Deposits	200,593	200,524
Assets Held for Sale	1,000	1,000
Total Other Assets	201,593	201,524
TOTAL ASSETS	\$4,746,000	\$6,079,539
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities		
Accounts payable and accrued liabilities	\$865,505	622,331
PIK Notes interest accrual	1,224,491	961,395
Current portion of notes payable	147,934	234,149
Total Current Liabilities	2,237,930	1,817,875
Long-Term Liabilities		
Long-term portion of notes payable	9,210	13,073
PIK Notes payable, net of \$14,098,885 and \$15,143,123 debt discount, respectively	24,846,017	23,040,093
PIK Note derivative	1,283,475	2,176,552
Total Long-Term Liabilities	26,138,702	25,229,718
Total Liabilities	28,376,632	27,047,593
Commitments and Contingencies (Note 9)		

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, 108,613,549 and 108,613,549 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	108,614	108,614
Additional paid-in capital	68,572,392	68,506,530
Accumulated deficit prior to the exploration stage	(20,009,496)	(20,009,496)
Accumulated deficit during the exploration stage	(72,302,142)	(69,573,702)
Total Stockholders' (Deficit)	(23,630,632)	(20,968,054)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	\$4,746,000	6,079,539

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,	
	2017	2016
REVENUES	\$ 795,282	\$ 1,001,628
OPERATING EXPENSES:		
Production costs	787,121	610,280
Exploration costs	243,270	173,148
General and administrative	986,628	1,173,826
Depreciation expense	330,785	336,087
Total Operating Expenses	2,347,804	2,293,341
Operating Loss	(1,552,522)	(1,291,713)
OTHER INCOME (EXPENSE):		
Interest expense, net, including amortization of deferred financing cost and debt discount	(2,073,194)	(1,372,420)
Gain on disposal of property	-	92,491
Gain on revaluation of PIK Note derivative	895,724	2,033,915
Other income, net	1,552	585
Total Other Income (Expense)	(1,175,918)	754,571
Net loss	\$(2,728,440)	\$(537,142)
<i>Net Loss Per Share (Basic and Diluted)</i>	<i>\$(0.03)</i>	<i>\$(0.01)</i>
Weighted Average Shares Outstanding (Basic and Diluted)	108,613,549	97,243,610

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' DEFICIT

(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit Prior to Exploration Stage	Accumulated Deficit During Exploration Stage	Total Stock- holder's Deficit
	Shares	Amount				
Balance, December 31, 2016	108,613,549	\$108,614	\$68,506,530	\$(20,009,496)	\$(69,573,702)	\$(20,968,054)
Stock-based compensation expense for consultants and directors	-	-	65,862	-	-	65,862
Net Loss	-	-	-	-	(2,728,440)	(2,728,440)
Balance, March 31, 2017	108,613,549	\$108,614	\$68,572,392	\$(20,009,496)	\$(72,302,142)	\$(23,630,632)

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,	
	2017	2016
Cash Flows from Operating Activities:		
Net loss	\$(2,728,440)	\$(537,142)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation	330,785	336,087
Amortization of discount - PIK Notes	1,044,238	488,403
Amortization of deferred financing costs	1,875	1,875
Issuance of PIK Notes in payment of interest	762,458	638,142
Stock issued for director fees and other services	65,862	63,229
Stock-based compensation expense for consultants and directors	-	126,981
(Gain) on revaluation of PIK Note derivative	(895,724)	(2,033,915)
Gain on sale of property	-	(92,491)
Change in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	12,529	(88,251)
Other current receivables	16,339	94,647
Deposits and prepaids	142,251	71,758
Increase (Decrease) in:		
Accounts payable and accrued liabilities	506,270	26,376
Net cash used in operating activities	(741,557)	(904,301)
Cash Flows From Investing Activities:		
Sale of property	-	156,672
Purchases of property and equipment	-	(67,111)
Net cash provided by investing activities	-	89,561
Cash Flows From Financing Activities:		
Payments on notes payable	(90,078)	(87,814)
Net cash used in financing activities	(90,078)	(87,814)
Net change in cash and cash equivalents	(831,635)	(902,554)
Cash and cash equivalents at beginning of period	1,049,880	1,803,131

Cash and cash equivalents at end of period	\$218,245	\$900,577
---	-----------	-----------

Supplemental disclosure of cash flow information:

Cash paid for Interest	\$1,527	\$1,296
------------------------	---------	---------

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

6

Table of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

NOTE 1 – 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, Inc. is a publicly traded company incorporated in the state of Delaware. The common stock trades on the OTC Bulletin Board under the symbol AMNL.

The Company is currently selling one of its products, AMIRON iron oxide, to one customer on an ongoing basis. That customer uses the AMIRON as a catalyst to adsorb a gas. The agreement with the customer calls for the sale of \$5.0 million of AMIRON over a period of 18 months, which commenced in December 2015. Through March 2017 the Company sold approximately \$4.4 million of the \$5.0 million of AMIRON required by the agreement. The Company has agreed not to sell AMIRON to other customers for use in the same application for five years. The customer may elect to make another \$5.0 million purchase at the end of five years and extend the exclusivity for this application for a total of ten years. For the quarter ended March 31, 2017 revenues from this customer accounted for 84% of total revenues. As of March 31, 2017 amounts owed from this customer comprised 61% of accounts receivable.

NOTE 2 – LIQUIDITY AND BASIS OF PRESENTATION

The accompanying financial statements have been prepared on a going concern basis. The Company has a history of recurring losses from operations and use of cash in operating activities. For the three months ended March 31, 2017, the Company's net loss was \$2,728,440 and cash used in operating activities was \$741,557. In addition, at March 31, 2017, the Company had negative working capital of \$1,437,914, which includes \$1,224,491 of accrued PIK Note interest and \$164,390 of payables for which the Company believes it has a statute of limitations defense. Furthermore, the Company last obtained financing in November 2014 but cannot provide any assurance that it will be able to raise additional financing if needed. Collectively, these factors raise substantial doubt about the Company's ability to

continue as a going concern.

Management believes that in order for the Company to meet its obligations arising from normal business operations through May 15, 2018 that the Company requires (i) additional capital either in the form of a private placement of common stock or debt and/or (ii) additional sales of its products that will generate sufficient operating profit and cash flows to fund operations. Without additional capital or additional sales of its products, the Company's ability to continue to operate will be limited.

Based on the Company's current cash usage expectations, management believes it will not have sufficient liquidity to fund its operations through May 15, 2018. Further, management cannot provide any assurance that it is probable that the Company will be successful in accomplishing any of its plans to raise debt or equity financing or generate significant additional product sales. Collectively, these factors raise substantial doubt regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded assets amounts and classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

NOTE 3– BASIS OF REPORTING AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements of Applied Minerals, Inc. have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, these interim unaudited condensed consolidated financial statements contain all of the adjustments of a normal and recurring nature which are considered necessary for a fair presentation of the financial position of the Company and the results of its operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the operating results for the entire year. These financial statements should be read in conjunction with the financial statements and related disclosures for the year ended December 31, 2016, included in the Annual Report of Applied Minerals, Inc. on Form 10-K filed with the SEC on March 31, 2017.

The accompanying interim unaudited condensed consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes. As of March 31, 2017, the Company's significant accounting policies and estimates remain unchanged from those detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Exploration-Stage Company

From 1997 through 2008, the Company's sole source of revenue and income was derived from its contract mining business through which it provided shaft sinking, underground mine development and mine labor services. At December 31, 2008, the Company discontinued its contract mining efforts due to economic conditions and the desire to concentrate its efforts on the commercialization of the halloysite clay deposit at the Dragon Mine. Effective January 1, 2009, the Company was, and still is, classified as an exploration company as the existence of proven or probable reserves have 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 ContentsFair 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.

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

	Fair value measurement using inputs			Carrying amount	
	Level 1	Level 2	Level 3	March 31, 2017	December 31, 2016
Financial instruments:					
Series 2023 PIK Note Derivative	\$-0-	\$-0-	\$92,341	\$92,341	\$142,909
Series A PIK Note Derivative	\$-0-	\$-0-	\$1,191,134	\$1,191,134	\$2,033,643

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

Balance at December 31,	\$	2,176,552
-------------------------	----	-----------

2016		
Issuance of additional Series 2023 Notes	2,647	
Net unrealized gain included in operations	(895,724)
Balance at March 31, 2017	\$	1,283,475

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, 2017 and December 31, 2016 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 approximates fair value. Estimated fair value of the PIK Notes Payable approximate \$24,209,090 and \$23,361,553, respectively, at March 31, 2017 and December 31, 2016.

For the Company's 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		
	March 31, 2017	December 31, 2016	
Market price and estimated fair value of stock	\$0.08	\$ 0.12	
Exercise price	\$1.28	\$ 1.28	
Term (years)	6.33	6.58	
Dividend yield	\$ - 0 -	\$ - 0 -	
Expected volatility	86.5 %	86.2 %	
Risk-free interest rate	2.11 %	2.18 %	

Series A PIK Note derivative liability	Fair Value Measurements Using Inputs	
	March 31, 2017	December 31, 2016
Market price and estimated fair value of stock	\$0.08	\$ 0.12

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

Exercise price	\$0.83	\$ 0.83	
Term (years)	6.33	6.58	
Dividend yield	\$ - 0 -	\$ - 0 -	
Expected volatility	86.5 %	86.2	%
Risk-free interest rate	2.11 %	2.18	%

8

Table of Contents

Revenue Recognition

Revenue includes sales of halloysite clay and iron oxide, and is recognized when title passes to the buyer and when collectability is reasonably assured. Title passes to the buyer based on terms of the sales contract. Product pricing is determined based on related contractual arrangements with the Company's customers.

Per share data

Loss per share for the three months ended March 31, 2017 and 2016, respectively, is calculated based on 108,613,549 and 97,243,610 weighted average outstanding shares of common stock.

At March 31, 2017 and 2016, respectively, the Company had outstanding options and warrants to purchase 25,022,102 and 19,230,012 shares of the Company's common stock, respectively, and had notes payable which were convertible into 40,677,826 and 33,639,466 shares of the Company's common stock, respectively, none of which were included in the diluted computation as their effect would be anti-dilutive.

Environmental Matters

Expenditures for ongoing compliance with environmental regulations that relate to current operations are expensed or capitalized as appropriate. Expenditures resulting from the remediation of existing conditions caused by past operations that do not contribute to future revenue generations are expensed. Liabilities are recognized when environmental assessments indicate that remediation efforts are probable and the costs can be reasonably estimated.

Estimates of such liabilities are based upon currently available facts, existing technology and presently enacted laws and regulations taking into consideration the likely effects of inflation and other societal and economic factors, and include estimates of associated legal costs. These amounts also reflect prior experience in remediating contaminated sites, other companies' clean-up experience and data released by The Environmental Protection Agency or other organizations. Such estimates are by their nature imprecise and can be expected to be revised over time because of changes in government regulations, operations, technology and inflation. Recoveries are evaluated separately from the liability and, when recovery is assured, the Company records and reports an asset separately from the associated liability.

Based upon management's current assessment of its environmental responsibilities, it does not believe that any reclamation or remediation liability exists at March 31, 2017.

Comparative information

We have reclassified certain prior year information to conform with the current year's presentation.

Recent Accounting Pronouncements

Recently Adopted

In November 2015, FASB issued Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. Accounting Standards Update 2015-17 simplifies current guidance and requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet. Accounting Standards Update 2015-17 can be applied either prospectively or retrospectively and is effective for periods beginning after December 15, 2016, with early adoption permitted. The new guidance which was adopted in the quarter ended March 31, 2017 had no effect on its financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting", which simplifies several aspects of the accounting for employee share-based payment transactions. Under this amended guidance, all excess tax benefits and tax deficiencies will be recognized as income tax expense or benefit in the income statement in the period in which the awards vest or are exercised. In the statement of cash flows, excess tax benefits will be classified with other income tax cash flows in operating activities. The amended guidance also gives the option to make a policy election to account for forfeitures as they occur and increases the threshold for awards that are partially settled in cash to qualify for equity classification. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The new guidance which was adopted in the quarter ended March 31, 2017 had no effect on the financial statements. In accordance with ASU 2016-09, the Company has made the accounting policy election to continue to estimate forfeitures.

Not Yet Adopted

In May 2014, the FASB issued new accounting guidance, Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, on revenue recognition. The new standard provides for a single five-step model to be applied to all revenue contracts with customers as well as requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. Accounting Standards Update No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, but not before the original effective date of the standard. The Company is currently evaluating the impact of the new guidance on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 (“Topic 842”) new accounting guidance for leases, which supersedes previous lease guidance. Under this guidance, for all leases with terms in excess of one year, including operating leases, the Company will be required to recognize on its balance sheet a lease liability and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance retains a distinction between finance leases and operating leases and the classification criteria is substantially similar to previous guidance. Additionally, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed. The Company is currently evaluating the impact of this guidance on its consolidated financial statements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted.

Table of Contents

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which (i) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model; and (ii) provides for recording credit losses on available-for-sale (AFS) debt securities through an allowance account. The update also requires certain incremental disclosures. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is currently evaluating the effect this ASU will have on its consolidated financial statements and disclosures.

In August 2016, FASB issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments,” amended guidance which clarifies how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. The new guidance is intended to reduce the existing diversity in practice in how certain transactions are classified in the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations: Clarifying the Definition of a Business,” which clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in FASB guidance for revenue recognition. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted.

NOTE 4 - INCOME TAX

Income tax provisions or benefits for interim periods are computed based on the Company's estimated annual effective tax rate. Based on the Company's historical losses and its expectation of the continuation of losses for the foreseeable future, the Company has determined that it is more likely than not that deferred tax assets will not be realized and, accordingly, has provided a full valuation allowance as of March 31, 2017 and December 31, 2016.

NOTE 5 - NOTES PAYABLE

Notes payable at March 31, 2017 and December 31, 2016 consist of the following:

	March 31, 2017	December 31, 2016
Note payable for equipment, payable \$1,339 monthly, including interest (a)	\$24,365	\$28,033
Note payable for mine site vehicle, payable \$628 monthly (b)	3,770	5,655
Note payable to an insurance company, payable \$6,460 monthly, including interest (c)	31,967	51,679
Note payable to an insurance company, payable \$16,297 monthly, including interest (d)	97,042	161,855
	157,144	247,222
Less: Current Portion	(147,934)	(234,149)
<i>Notes Payable, Long-Term Portion</i>	\$9,210	\$13,073

On October 31, 2014, the Company purchased mining equipment for \$65,120 by paying a deposit and issuing a (a) note in the amount of \$57,900 with an interest rate of 5.2%. The note is collateralized by the mining equipment with payments of \$1,339 for 48 months, which started on November 30, 2014.

On September 20, 2012, the Company purchased a vehicle for the mine site for \$37,701 by issuing a non-interest (b) bearing note. The note is collateralized by the vehicle with payments of \$628 for 60 months, which started on October 20, 2012.

(c) The Company signed a note payable with an insurance company dated October 17, 2016 for liability insurance, due in monthly installments, including interest at 4.15%.

(d) The Company signed a note payable with an insurance company dated October 17, 2016 for liability insurance, due in monthly installments, including interest at 2.60%.

The following is a schedule of the principal maturities on these notes as of March 31, 2017:

April 2017 - March 2018	\$147,934
April 2019 - March 2019	9,210
<i>Total Notes Payable</i>	\$157,144

During the three months ended March 31, 2017 and 2016, the Company's interest payments totaled \$1,527 and \$1,296, respectively.

Table of Contents**NOTE 6 – CONVERTIBLE DEBT (PIK NOTES)**

The Company raised \$23 million of financing through the issuance of two series of Paid-In-Kind (“PIK”)-Election Convertible Notes in 2013 and 2014, with key terms highlighted in the table below:

Key Terms	Series 2023 Notes	Series A Notes
Inception Date	08/05/2013	11/03/2014
Cash Received	\$10,500,000	\$12,500,000
Principal (Initial Liability)	\$10,500,000	\$19,848,486
Maturity (Term)	10 years, but convertible after 1 year based on the market price of the Company’s stock	4 years, but may range between 2 years to the full maturity of the Series 2023 Notes, depending on whether a Specified Event occurs and/or an Extension Option is elected (see below for further details)
Exercise Price	\$1.40 at inception, adjusted downward based on anti-dilution provisions/down-round protection	\$0.92 at inception, adjusted downward based on anti-dilution provisions/down-round protection; also may be reduced by \$0.10 based if Extension Option is elected (see below)
Stated Interest	10% per annum, due semiannually	10% per annum, due semiannually, may be reduced to 1% if Specified Event (see below) occurs
Derivative Liability	\$2,055,000 established at inception due to existence of anti-dilution provisions; revalued every quarter using Monte Carlo model	\$9,212,285 established at inception due to existence of anti-dilution provisions; revalued every quarter using Monte Carlo model

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

As of March 31, 2017, the liability components of the PIK Notes on the Company's balance sheet are listed in the following table:

	Series 2023 Notes	Series A Notes	Total
PIK Note Payable, Gross	\$14,774,562	\$24,182,215	\$38,956,777
Less: Discount	(1,683,046)	(12,415,839)	(14,098,885)
Less: Deferred Financing Cost	(4,373)	(7,502)	(11,875)
PIK Note Payable, Net	\$13,087,143	\$11,758,874	\$24,846,017
PIK Note Derivative Liability	\$92,341	\$1,191,134	\$1,283,475

As of December 31, 2016, the liability components of the PIK Notes on the Company's balance sheet are listed in the following table:

	Series 2023 Notes	Series A Notes	Total
PIK Note Payable, Gross	\$14,071,008	\$24,125,958	\$38,196,966
Less: Discount	(1,721,898)	(13,421,225)	(15,143,123)
Less: Deferred Financing Cost	(5,064)	(8,686)	(13,750)
PIK Note Payable, Net	\$12,344,046	\$10,696,047	\$23,040,093
PIK Note Derivative Liability	\$142,909	\$2,033,643	\$2,176,552

Series A Notes

On November 3, 2014 ("Issue Date"), the Company issued, in a private placement pursuant to investment agreements, \$19,848,486 principal amount of 10% PIK-Election Convertible Notes due 2018 ("Series A Notes") in exchange for \$12,500,000 in cash and the cancellation of previously-issued warrants held by one investor.

Below are key terms of the Series A Notes:

Maturity- November 3, 2018, provided that the Stated Maturity Date may be extended to November 3, 2019 at the option of the Company (the "Extension Option") if (i) the Company has delivered written notice of its exercise of the Extension Option to the Holder not more than ninety (90) nor less than thirty (30) days prior to November 3, 2018 and (ii) the Company has delivered a certificate, dated as of November 3, 2018, certifying that no Default or Event of Default has occurred and is continuing; provided, further that the Stated Maturity Date shall be extended to the maturity date of the Series 2023 Notes or any Replacement Financing, as applicable, upon the occurrence of a Specified Event ("Specified Extension").

Exercise Price- initially \$0.92 per share (adjusted down to \$0.83 per share after the Company's capital raise closed on June 27, 2016) and will be (i) adjusted from time to time pursuant anti-dilution provisions and (ii) reduced by \$0.10

per share if the Company elects to exercise its Extension Option.

Stated Interest: 10% payable semiannually in arrears, provided that the interest rate shall be reduced to 1% per annum on the principal amount of the Note upon the occurrence of the Specified Event, as defined below.

Specified Event- means the event that may occur after the second anniversary of the Issuer Date if: (i) any amounts under the Series 2023 Notes or any Replacement Financing are outstanding, (ii) the VWAP for the preceding 30 consecutive Trading Days as determined by the Board of Directors of the Issuer in good faith is in excess of the Exercise Price, (iii) the closing Market Price of the Common Stock is in excess of the Exercise Price on the date immediately preceding the date on which the Specified Event occurs, (iv) no Default or Event of Default has occurred and is continuing and (v) the Issuer has delivered a certificate to each holder of Series A Notes certifying that the conditions set forth in clauses (i) through (iv) above have been met.

Table of Contents

Extension Option- If stock price is lower than current exercise price (\$0.92) prior to the stated maturity (November 3, 2018), then the Company can elect an Extension Option, whereby the maturity is extended by one year (see Maturity definition), but with a reduction in exercise price by \$0.10.

Liquidated Damages- The company is required to pay the noteholders 1% of the principal amount of the Series A Notes if a Registration statement is not filed and effective within 90 days of the inception date (and further damages for every 30 days thereafter). The registration statement became effective on July 8, 2015. Liquidation damages of \$541,011 and \$200,000 have been charged to Other Expenses during 2015 and 2014, respectively, due to the delay of the effective date of the registration statement. During the second quarter of 2015, the Company issued 1,015,086 shares, valued at \$741,011, to Series A note holders as payment of liquidated damages.

The number of shares issuable under the Notes may be affected by the anti-dilution provisions of the Notes. The antidilution provisions adjust the Exercise Price of the Notes in the event of stock dividends and splits, issuance below the market price of the Common Stock, issuances below the conversion price of the Notes, pro rata distribution of assets, rights plans, tender offers, and exchange offers.

These Series A Notes were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. In addition to the customary anti-dilution provisions the notes contain a down-round provision whereby the conversion price would be adjusted downward in the event that additional shares of the Company's common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued for cash consideration (e.g. a capital raise) at a price less than the conversion price. Therefore, the estimated fair value of the conversion feature of \$9,212,285 (based on observable inputs using a Monte Carlo model) was bifurcated from the Series A Notes and accounted for as a separate derivative liability, which resulted in a corresponding amount of debt discount on the Series A Notes. In addition, an additional debt discount of \$7,348,486 was recorded as a result of the difference between the \$12,500,000 of cash received and the \$19,848,486 of principal on the Series A Notes. This combined debt discount of \$16,560,771 is being amortized using the effective interest method over the 4-year term of the Notes as Interest Expense, while the PIK Note Derivative is carried at fair value (using a Monte Carlo model) until the Notes are converted or otherwise extinguished. Any changes in fair value are recognized in earnings.

At March 31, 2017, the fair value of the Series A PIK Note Derivative was estimated to be \$1,191,134, which includes the value of the additional PIK Notes issued for the semi-annual interest payments due. The change in the fair value of the derivative represents a decrease in valuation of \$8,021,151 from the November 3, 2014 inception date.

Series 2023 Notes

In August 2013, the Company received \$10,500,000 of financing through the private placement of 10% mandatory convertible Notes due 2023 ("Series 2023 Notes"). The principal amount of the Notes is due on maturity. The Company can elect to pay semi-annual interest on the Series 2023 Notes with additional PIK Notes containing the same terms as the Series 2023 Notes, except interest will accrue from issuance of such notes. The Company can also elect to pay interest in cash.

The Series 2023 Notes convert into the Company's common stock at a conversion price of \$1.40 per share, which is subject to customary anti-dilution adjustments; these anti-dilution adjustments reduced the conversion price to \$1.36 after the issuance of the Series A Notes and then adjusted further down to \$1.28 after the Company's capital raise closed on June 27, 2016. As of issuance, principal amount of the Series 2023 Notes were convertible into 7,500,000 shares of the common stock and into 7,720,588 shares after the issuance of the Series A Notes and into 8,203,125 shares of common stock after the private placement in June 2016.. The holders may convert the Series 2023 Notes at any time. The Series 2023 Notes are mandatorily convertible after one year when the weighted average trading price of a share of the common stock for the preceding ten trading days is in excess of the conversion price. The Series 2023 Notes contain customary representations and warranties and several covenants. The proceeds are being used for general corporate purposes. No broker was used and no commission was paid in connection with the sale of the Series 2023 Notes. As of March 31, 2017, the Company was in compliance with the covenants.

These Series 2023 Notes were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. In addition to the customary anti-dilution provisions the notes contain a down-round provision whereby the conversion price would be adjusted downward in the event that additional shares of the Company's common stock or securities exercisable, convertible or exchangeable for the Company's common stock were issued for cash consideration (e.g. a capital raise) at a price less than the conversion price. Therefore, the estimated fair value of the conversion feature of \$2,055,000 (based on observable inputs using a Monte Carlo model) was bifurcated from the Series 2023 Notes and accounted for as a separate derivative liability, which resulted in a corresponding amount of debt discount on the Series 2023 Notes. The debt discount is being amortized using the effective interest method over the 10-year term of the Series 2023 Notes as Interest Expense, while the PIK Note Derivative is carried at fair value (using a Monte Carlo model) until the Series 2023 Notes are converted or otherwise extinguished. Any changes in fair value are recognized in earnings.

At March 31, 2017, the fair value of the PIK Note Derivative was estimated to be \$92,341, which includes the value of the additional PIK Notes issued for the semi-annual interest payments due. The change in the fair value of the derivative represents a decrease in valuation of \$1,962,659 from the August 2, 2013 inception date.

NOTE 7 - STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue 10,000,000 shares of noncumulative, non-voting, nonconvertible preferred stock, \$0.001 par value per share. At March 31, 2017 and December 31, 2016, no shares of preferred stock were outstanding.

Common Stock

On December 7, 2016, stockholders of the Company approved to increase the authorized shares of common stock from 200,000,000 to 250,000,000 shares, \$0.001 par value per share. At March 31, 2017 and December 31, 2016,

108,613,549 shares were issued and outstanding.

During the three months ended March 31, 2017, the Company did not issue any shares of common stock.

Table of Contents**NOTE 8 - OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK**Outstanding Stock Warrants

A summary of the status of the warrants outstanding and exercisable at March 31, 2017 is presented below:

Exercise Price	Number Outstanding	Warrants Outstanding and Exercisable	
		Remaining Contractual Life (years)	Weighted Average Exercise Price
\$ 0.25	3,283,283	4.25	\$ 0.25
\$ 1.15	461,340	4.05	\$ 1.15
	3,744,623	4.25	\$ 0.36

During 2016, warrants to acquire 3,283,283 shares of common stock at an exercise price of \$0.25 per share were issued in connection with the private placement of common stock. No warrants were issued during the first quarter of 2017. During 2016, warrants to acquire 267,769 shares of common stock expired.

The intrinsic value of the outstanding warrants at March 31, 2017 was \$0.

Outstanding Stock Options

On November 20, 2012, the shareholders of the Company approved the adoption of the Applied Minerals, Inc. 2012 Long-Term Incentive Plan (“LTIP”) and the Short-Term Incentive Plan (“STIP”) and the performance criteria used in setting performance goals for awards intended to be performance-based. Under the LTIP, 8,900,000 shares are authorized for issuance. The STIP does not refer to a particular number of shares under the LTIP, but would use the shares authorized in the LTIP for issuance under the STIP. The CEO, the CFO, and named executive officers, and directors, among others are eligible to participate in the LTIP and STIP. Prior to the adoption of the LTIP and STIP, stock options were granted under individual arrangements between the Company and the grantees, and approved by the Board of Directors.

The fair value of each of the Company's stock option awards is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted in the table below. Expected volatility is based on an average of historical volatility of the Company's common stock. The risk-free interest rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury Bond on the date the award is granted with a maturity equal to the expected term of the award.

A summary of the status and changes of the options granted under stock option plans and other agreements for the first quarter of 2017 is as follows:

	March 31, 2017		
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life*
Outstanding at beginning of period	21,277,479	\$ 0.87	4.26
Outstanding at end of period	21,277,479	\$ 0.87	4.19
Exercisable at end of period	20,540,796	\$ 0.88	4.11

* Measured in years

During the three months ended March 31, 2017, no options to purchase the Company's stock were granted.

Compensation expense of \$50,104 and \$126,982 has been recognized for the vested options for the three months ended March 31, 2017 and 2016, respectively. The aggregate intrinsic value of the outstanding options at March 31, 2017 was \$0. At March 31, 2017, there was \$95,889 of unamortized compensation expense for unvested options which is expected to be recognized over the next 1.52 years on a weighted average basis.

Table of Contents**NOTE 9 - COMMITMENTS AND CONTINGENCIES****Office Lease**

During 2016, the Company rented office space in New York, NY on a month-to-month basis at a monthly rent of approximately \$16,700 per month, for an aggregate of approximately \$201,000 for the year ended December 31, 2016. Effective January 1, 2017, the Company moved to a new temporary office location in Brooklyn, NY on a month-to-month basis at a monthly rent of approximately \$6,000 per month. The temporary office rental is pending completion of the Company's permanent office location in the same Brooklyn, NY building. Upon occupancy of the permanent office space, the Company has entered into a five-year lease agreement. Assuming occupancy of the new office space on May 16, 2017, the Company is obligated to pay a monthly rent of approximately \$9,000 for the period from May 16, 2017 through March 31, 2022.

The following table summarizes the Company's contractual obligations under the five-year lease agreement referred above:

	Payment due by period				
	Total	< 1 year	1 – 3 years	3 – 5 years	> 5 years
Contractual Obligations:					
Rent obligations	\$554,000	\$78,000	\$217,000	\$230,000	\$29,000
Total	\$554,000	\$78,000	\$217,000	\$230,000	\$29,000

Contingencies

In accordance with ASC Topic 450, when applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. As of March 31, 2017, there is no pending or threatened litigation, which we may become involved in or subject. Routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business could have a material adverse effect on our financial condition, cash flows or results of operations.

Table of Contents

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on our current expectations, assumptions, estimates and projections about our business and our industry. Words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," and other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements.

Overview

Applied Minerals, Inc. (the "Company" or "we" or "us") is focused primarily on (i) the development, marketing and sale of our halloysite clay-based DRAGONITE™ line of products for use in advanced applications such as, but not limited to, reinforcement additives for polymer composites, flame retardant additives for polymers, catalysts, controlled release carriers for paints and coatings, strength reinforcement additives for cement, concrete, mortars and grouts, advanced ceramics, rheology additives for drilling fluids, environmental remediation media, and carriers of agricultural agents and (ii) the development, marketing and sale of our AMIRON™ line of iron oxide products for pigmentary and technical applications. Halloysite is an aluminosilicate with a tubular structure that provides functionality for a number of applications. Iron oxides are inorganic compounds that are widely used as pigments in paints, coatings and colored concrete.

The Company owns the Dragon Mine, which has significant deposits of high-quality halloysite clay and iron oxide. The 267-acre property is located in southwestern Utah and its resource was mined for halloysite on a large-scale, commercial basis between 1949 and 1976 for use as a petroleum cracking catalyst. The mine was idle until 2001 when the Company leased it to initially develop its halloysite resource for advanced, high-value applications. We purchased 100% of the property in 2005. After further geological characterization of the mine, the Company identified a high-purity, natural iron oxide resource that it has commercialized to supply certain pigmentary and technical markets.

The Company has a mineral processing plant with a capacity of up to 45,000 tons per annum for certain applications that is currently dedicated to the processing of its AMIRON product. The Company has a smaller processing facility

with a capacity of 5,000 – 10,000 tons per annum that is currently dedicated to its halloysite resource. The Company believes it can increase its halloysite production capacity to meet an increase in demand through (i) an expansion of our on-site production capacity through a relatively modest capital investment and (ii) the use of a manufacturing tolling agreement.

In late 2015, the Company entered into a \$5 million take-or-pay supply agreement for its AMIRON product. The \$5 million portion of the take-or-pay agreement is expected to be completed by June, 2017. In late 2015 the Company began selling DRAGONITE to a manufacturer of molecular sieves. In July, 2016 the Company received an order for 5 tons of DRAGONITE from another leading molecular sieve manufacturer, which is carrying out a commercial-scale trial of a halloysite-based molecular sieve product. The Company is involved in a number of advanced-stage product development projects with customers that operate within industries that include, but are not limited to, catalysts and oilfield services. The Company has engaged leading special material distribution organizations, HORN, Brandt Technologies and KODA Distribution Group for the U.S. and Fimatec LTD for Korea. In May, 2016, the Company's Board of Directors established an Operations Committee to which it appointed Mario Concha, Robert Betz and Andre Zeitoun. The purpose of the Operations Committee is to advise the Company's management team on how best to execute its operations, marketing and sales strategies.

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

Critical Accounting Policies and Estimates

A complete discussion of our critical accounting policies and estimates is included in our Form 10-K for the year ended December 31, 2016. There have been no material changes in our critical accounting policies and estimates during the three-month period ended March 31, 2017 compared to the disclosures on Form 10-K for the year ended December 31, 2016.

Recent Accounting Pronouncements

Recently Adopted

In November 2015, FASB issued Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. Accounting Standards Update 2015-17 simplifies current guidance and requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet. Accounting Standards Update 2015-17 can be applied either prospectively or retrospectively and is effective for periods beginning after December 15, 2016, with early adoption permitted. The new guidance which was adopted in the quarter ended March 31, 2017 had no effect on its financial statements and related disclosures.

Table of Contents

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting”, which simplifies several aspects of the accounting for employee share-based payment transactions. Under this amended guidance, all excess tax benefits and tax deficiencies will be recognized as income tax expense or benefit in the income statement in the period in which the awards vest or are exercised. In the statement of cash flows, excess tax benefits will be classified with other income tax cash flows in operating activities. The amended guidance also gives the option to make a policy election to account for forfeitures as they occur and increases the threshold for awards that are partially settled in cash to qualify for equity classification. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The new guidance which was adopted in the quarter ended March 31, 2017 had no effect on the financial statements. In accordance with ASU 2016-09, the Company has made the accounting policy election to continue to estimate forfeitures.

Not Yet Adopted

In May 2014, the FASB issued new accounting guidance, Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, on revenue recognition. The new standard provides for a single five-step model to be applied to all revenue contracts with customers as well as requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. Accounting Standards Update No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted, but not before the original effective date of the standard. The Company is currently evaluating the impact of the new guidance on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 (“Topic 842”) new accounting guidance for leases, which supersedes previous lease guidance. Under this guidance, for all leases with terms in excess of one year, including operating leases, the Company will be required to recognize on its balance sheet a lease liability and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance retains a distinction between finance leases and operating leases and the classification criteria is substantially similar to previous guidance. Additionally, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed. The Company is currently evaluating the impact of this guidance on its consolidated financial statements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which (i) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model; and (ii) provides for recording credit losses on available-for-sale (AFS) debt securities through an allowance account. The update also requires certain incremental disclosures. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The

Company is currently evaluating the effect this ASU will have on its consolidated financial statements and disclosures.

In August 2016, FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," amended guidance which clarifies how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. The new guidance is intended to reduce the existing diversity in practice in how certain transactions are classified in the statement of cash flows. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations: Clarifying the Definition of a Business," which clarifies the definition of a business and assists entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contribute to the ability to create an output. The amended guidance also narrows the definition of outputs by more closely aligning it with how outputs are described in FASB guidance for revenue recognition. This guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted.

Table of Contents*Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016***Results of Operations**

The following sets forth, for the periods indicated, certain components of our operating earnings, including such data stated as percentage of revenues:

	Three Months Ended March 31,		Variance	
	2017	2016	Amount	%
REVENUES	\$795,282	\$1,001,628	(206,346)	(20.6 %)
OPERATING EXPENSES:				
Production costs	787,121	610,280	176,841	29.0 %
Exploration costs	243,270	173,148	70,122	40.5 %
General and administrative	986,628	1,173,826	(187,198)	(15.9 %)
Depreciation expense	330,785	336,087	(5,302)	(1.6 %)
Total Operating Expenses	2,347,804	2,293,341	54,463	2.4 %
Operating Loss	(1,552,522)	(1,291,713)	260,809	20.2 %
OTHER INCOME (EXPENSE):				
Interest expense, net, including amortization of deferred financing cost and debt discount	(2,073,194)	(1,372,420)	700,774	51.1 %
Gain on disposal of property	- 0 -	92,491	(92,491)	(100.0%)
Gain on revaluation of PIK Note derivative	895,724	2,033,915	(1,138,191)	(56.0 %)
Other income, net	1,552	585	967	165.3 %
Total Other Income (Expense)	(1,175,918)	754,571	(1,930,489)	(255.8%)
NET LOSS	\$(2,728,440)	\$(537,142)	\$2,191,298	408.0 %

Revenue generated during the three months ended March 31, 2017 was \$795,282, compared to \$1,001,628 of revenue generated during the same period in 2016, a decrease of approximately \$206,000 or 20.6%. Sales of AMIRON natural iron oxide during the period totaled approximately \$676,300, a decline of \$179,800 or 21.0%. The great majority of sales of AMIRON during the period was related to the fulfillment of a \$5.0 million take-or-pay supply agreement entered into by the Company in December, 2015. Sales of DRAGONITE halloysite clay during the period totaled

approximately \$122,400, a decline of \$15,500 or 11.2%.

The decrease in sales of AMIRON during the period was driven primarily by a disruption to production during the early part of the period due to (i) the need to repair certain processing equipment and (ii) inclement weather which delayed the delivery of product. The equipment was eventually placed back in service by early February, 2017. The shortfall in production is expected to be made up during the second calendar quarter of 2017. Additionally, approximately \$7,800 of the decline in sales of AMIRON was due to the absence, during the current period, of a one-time sale by a customer for us in a pigment application that occurred during the three months ended March 31, 2016.

During the period, the Company experienced a \$57,200 or 50.0% decline in sales of its DRAGONITE to a customer that utilizes DRAGONITE in a specialty zeolite application. This decline was due to the timing of the customer order. The Company expects orders received from this customer during calendar year 2017 to exceed those received during calendar year 2016. The decline in DRAGONITE sales during the period was partially offset by approximately \$41,500 of sales to a customer using DRAGONITE as a nucleating agent. This customer began purchasing DRAGONITE during the period and the Company expects continued purchases from this customer throughout the remainder of calendar year 2017.

Total operating expenses for the three months ended March 31, 2017 were \$2,347,804 compared to \$2,293,341 of operating expenses incurred during the same period in 2016, an increase of approximately \$54,000 or 2.4%. The increase in operating costs was driven primarily by a decline in general and administrative expense of \$187,198 or 15.9% when compared to the same period in 2016, partially offset by an increase in production costs of \$176,841, or 29.0%, and an increase in exploration expense of \$70,122, or 40.5%, when compared to the same period in 2016.

Production costs include those operating expenses which management believes are directly related to the mining and processing of the Company's iron oxide and halloysite minerals, which result in the production of its AMIRON and DRAGONITE products for commercial sale. Production costs include, but are not limited to, wages and benefits of employees who mine material and who work in the Company's milling operations, energy costs associated with the operation of the Company's two mills, the cost of mining and milling supplies and the cost of the maintenance and repair of the Company's mining and milling equipment. Wages and energy are the two largest components of the Company's production costs.

Table of Contents

Production costs incurred during the three months ended March 31, 2017 totaled \$787,121 compared to \$610,280 of production costs incurred during the same period in 2016. The increase of \$176,841 was driven primarily by \$90,000 of increased wage costs associated with overtime related to mining activities, \$46,600 of increased equipment repair and maintenance costs related to certain equipment breakdowns, approximately \$39,500 of increased mining and related material costs associated with an increase in mining activities, approximately \$18,100 in equipment rental expense increases and approximately \$16,900 of increased repair costs related to the Company's primary milling equipment. These increases were partially offset by a \$15,200 decline in freight expense, \$9,000 of lower employee health insurance costs, \$8,500 of lower utilities costs and \$8,500 of lower insurance expense.

Production costs as a percentage of revenue for the three months ended March 31, 2017 was 99.0% compared to 61.0% for the same period in 2016. The increase was driven primarily by (i) a lower level of AMIRON sales resulting from equipment breakdowns and inclement weather and (ii) increased production costs resulting from the expenses incurred to rectify the equipment breakdowns. The equipment breakdowns were resolved during the period.

Exploration costs include operating expenses incurred at the Dragon Mine that are not directly related to production activities. Exploration costs incurred during the three months ended March 31, 2017 were \$243,270 compared to \$173,148 of exploration costs incurred during the same period in 2016, an increase of approximately 70,000 or 40.5%. The increase was driven primarily by an increase in material costs associated with certain underground work and an increase in costs associated with the maintenance of certain exploration equipment, partially offset by a decline in non-production wage costs.

General and administrative expenses incurred during the three months ended March 31, 2017 totaled \$986,628 compared to \$1,173,826 of expense incurred during the same period in 2016, a decrease of \$187,198, or 15.9%. The Company's selling and administrative expenses are associated primarily with its New York operations. The largest component of the Company's general and administrative expense, and the primary driver of its decline during the period, includes approximately \$235,000 decrease in compensation of certain executives and a reduction in headcount, an approximately \$32,000 decrease in rent expense, partially offset by an approximately \$77,000 increase in director compensation related to 2016 under accrued and an approximately \$14,000 increase in T&E expense.

Operating loss incurred during the three months ended March 31, 2017 was \$1,552,522 compared to a loss of \$1,291,713 incurred during the same period in 2016, an increase of \$260,809 or 20.2%. The increase in operating loss during the quarter was due to a 20.6% decrease in revenue and a 2.4% increase in operating expense. As discussed previously, the decline in revenue was driven by (i) a production disruption caused by the temporary breakdown of certain equipment and (ii) inclement weather experienced during the period. The increase in operating expense was driven primarily by the costs associated with rectifying the equipment breakdown.

Net Loss for the three-month period ending March 31, 2017 was \$2,728,440 compared to a loss of \$537,142 incurred during the same period in 2016, an increase of \$2,191,298, or 408.0%. The increase in net loss was due primarily to the \$1,930,489 decline in total other income. The decline in total other income during the period was driven primarily by a \$700,774 increase in interest expense and a \$1,138,191 decline in gain on the revaluation of the PIK Note derivatives. The increase in interest expense was due to a higher PIK Note balance during the period when compared to the same period in 2016. The decline in gain on the revaluation of the PIK Note derivative was due primarily to the decline in the market price of the Company's common stock when compared to the same period in 2016.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a history of recurring losses from operations and use of cash in operating activities. For the three months ended March 31, 2017, the Company's net loss was \$2,728,440 and cash used in operating activities was \$741,557. In addition, at March 31, 2017, the Company had negative working capital of (\$1,437,914), which takes into account \$1,224,491 of accrued PIK Note interest, which the Company expects to satisfy through the issuance of additional PIK Notes, and \$164,390 of payables for which the Company believes it has a statute of limitations defense. Furthermore, the Company last obtained financing in June, 2016 but cannot provide any assurance that it will be able to raise additional financing if needed. Collectively, these factors raise substantial doubt about the Company's ability to continue as a going concern.

Management believes that in order for the Company to meet its obligations arising from normal business operations through May 15, 2018 that the Company requires (i) additional capital either in the form of a private placement of common stock or debt and/or (ii) additional sales of its products that will generate sufficient operating profit and cash flows to fund operations. Without additional capital or additional sales of its products, the Company's ability to continue to operate may be limited.

Based on the Company's current cash usage expectations, management believes it will not have sufficient liquidity to fund its operations through May 15, 2018. Further, management cannot provide any assurance that it is probable that the Company will be successful in accomplishing any of its plans to raise debt or equity financing or generate significant additional product sales. Collectively, these factors raise substantial doubt regarding the Company's ability to continue as a going concern.

Cash used in operating activities during the three months ended March 31, 2017 was \$741,557 compared to \$904,301 during the same period in 2016, a decline of \$162,744 or 18.0%. The primary driver of the decline in the usage of cash during the period was the generation of approximately \$677,000 of cash from the change in operating assets and liabilities during the period compared to \$104,530 during the same period in 2016. This increase in cash generated from changes in operating assets and liabilities during the period was partially offset by the Company's decrease in revenue, increase in amortization of PIK Notes Discount and increase in operating expenses.

Table of Contents

Cash provided by investing activities during 2017 was \$0 compared to \$89,561 during the same period in 2016. During the first quarter of 2017, the Company did not purchase nor dispose of fixed assets.

Cash used in financing activities during 2017 was \$90,078 compared to \$87,814 of cash used during the same period in 2016. The cash used in financing activities was related to the payment of notes.

Total assets at March 31, 2017 were \$4,746,000 compared to \$6,079,539 at December 31, 2016, a decrease of \$1,333,539 due primarily to a decrease in cash related to the funding of operations. Total liabilities were \$28,376,632 at March 31, 2017, compared to \$27,047,593 at December 31, 2016. The increase in total liabilities was due primarily to a \$2,069,020 increase in PIK Notes payable and related interest accrual.

ISSUANCE OF CONVERTIBLE DEBT

For information with respect to issuance of convertible debt, see Note 6 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements between the Company and any other entity that have, or are reasonable likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

The following table summarizes our contractual obligations as of March 31, 2017 that requires us to make future cash payments:

	Payment due by period				
	Total	< 1 year	1 – 3 years	3 – 5 years	> 5 years
Contractual Obligations:					
Rent obligations	\$554,000	\$78,000	\$217,000	\$230,000	\$29,000
Total	\$554,000	\$78,000	\$217,000	\$230,000	\$29,000

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no exposure to fluctuations in interest rates, foreign currencies, or other factors.

ITEM 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the “Exchange Act”), our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were, as of the end of the fiscal quarter covered by this quarterly report, effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal controls over financial reporting to determine whether any changes occurred during the quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of the date of this report, there is no pending or threatened litigation. We may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, could have a material adverse effect on our financial condition, cash flows or results of operations.

ITEM 1A. RISK FACTORS.

Except for the below, there were no additions or material changes to the Company's risk factors disclosed in Item 1A of Part I in the Company's 2016 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

19

Table of Contents

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and this Item is included in Exhibit 95 to this Form 10-Q.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits.

The following exhibits are included in this report:

Exhibit Number	Description of Exhibit
31.1	Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Principal Executive Officer
31.2	Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Principal Financial Officer

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

- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Principal Executive Officer
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Principal Financial Officer
- 95 Mine Safety Disclosure

101.INS XBRL Instance

101.SCHXBRL Taxonomy Extension Schema

101.CALXBRL Taxonomy Extension Calculation

101.DEF XBRL Taxonomy Extension Definition

101.LABXBRL Taxonomy Extension Labels

101.PRE XBRL Taxonomy Extension Presentation

XBRL Information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

APPLIED MINERALS, INC.

Dated: May 15, 2017 /s/ ANDRE ZEITOUN
By: Andre Zeitoun
Chief Executive Officer

Dated: May 15, 2017 /s/ CHRISTOPHER T. CARNEY
By: Christopher T. Carney
Chief Financial Officer