

Applied Minerals, Inc.
Form 10-Q
August 11, 2014
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 June 30, 2014

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)

(800)
356-6463
(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 X 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 X 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 X

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 August 1, 2014 was 94,980,078.

DOCUMENTS INCORPORATED BY REFERENCE: None.

Table Of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Company)

SECOND QUARTER 2014 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 June 30, 2014 (unaudited) and December 31, 2013</u>	3
<u>Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and Six Months Ended June 30, 2014 and 2013</u>	4
<u>Unaudited Condensed Consolidated Statement of Stockholders' Equity (Deficiency) for the Six Months Ended June 30, 2014</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</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>	22
Item 4. <u>Controls and Procedures</u>	22

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	22
<u>Risk Factors</u>	22

Item 1A	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
Item 3. <u>Defaults Upon Senior Securities</u>	22
Item 4. <u>Mine Safety Disclosures</u>	22
Item 5. <u>Other Information</u>	22
Item 6. <u>Exhibits</u>	23
<u>Signatures</u>	24
Certification under Sarbanes-Oxley Act of 2002	

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

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (Unaudited)	December 31, 2013
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$3,210,112	\$8,685,552
Accounts receivable, net of \$0 allowance	19,651	5,756
Deposits and prepaid expenses	334,200	423,472
Total Current Assets	3,563,963	9,114,780
Property and Equipment		
Land and mining property	1,109,938	1,109,938
Property and Equipment, net of depreciation	6,719,905	4,921,611
Total Property and Equipment	7,829,843	6,031,549
Other Assets		
Deposits	68,958	68,958
Total Other Assets	68,958	68,958
TOTAL ASSETS	\$11,462,764	\$15,215,287
<u>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)</u>		
Current Liabilities		
Accounts payable and accrued liabilities	\$2,558,417	\$1,580,146
Stock awards payable	--	110,000
Current portion of notes payable	165,624	311,165
Total Current Liabilities	2,724,041	2,001,311
Long-Term Liabilities		
Long-term portion of notes payable	25,996	40,826
Warrant derivative	250,000	950,000
PIK notes payable, net of \$1,982,609 and \$2,020,750 debt discount, respectively	9,042,391	8,486,583
PIK Note derivative	519,750	2,250,000
Total Long-Term Liabilities	9,838,137	11,727,409

Total Liabilities	12,562,178	13,728,720
Commitments and Contingencies (Note 9)	--	--
Stockholders' Equity (Deficiency)		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, noncumulative, nonvoting, nonconvertible, none issued or outstanding	--	--
Common stock, \$0.001 par value, 120,000,000 shares authorized, 94,923,310 and 94,646,013 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	94,923	94,646
Additional paid-in capital	64,020,564	63,213,893
Accumulated deficit prior to the exploration stage	(20,009,496)	(20,009,496)
Accumulated deficit during the exploration stage	(45,205,405)	(41,812,476)
Total Stockholders' Equity (Deficiency)	(1,099,414)	1,486,567
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	\$11,462,764	\$15,215,287

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 AND COMPREHENSIVE LOSS

(Unaudited)

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
REVENUES	\$47,993	\$12,878	\$59,007	\$37,964
OPERATING EXPENSES:				
Production costs	21,567	2,640	25,316	18,407
Exploration costs	1,257,579	875,654	2,454,735	2,243,266
General and administrative	1,343,719	1,830,663	2,597,735	3,976,086
Depreciation expense	137,193	78,890	245,579	157,688
Total Operating Expenses	2,760,058	2,787,847	5,323,365	6,395,447
Operating Loss	(2,712,065)	(2,774,969)	(5,264,358)	(6,357,483)
OTHER INCOME (EXPENSE):				
Interest expense, net, including amortization of deferred financing cost and debt discount	(304,196)	(7,137)	(604,363)	(13,624)
Gain (loss) on revaluation of warrant derivative	(25,000)	155,000	700,000	650,000
Gain on revaluation of stock award	72,000	21,000	110,000	35,000
Gain (loss) on revaluation of PIK Note derivative	(39,375)	--	1,753,125	--
Other income (expense)	(27,068)	1,221	(87,333)	2,331
Total Other Income (Expense)	(323,639)	170,084	1,871,429	673,707
Net Loss	\$ (3,035,704)	\$ (2,604,885)	\$ (3,392,929)	\$ (5,683,776)
Net Loss Per Share (Basic and Diluted)	\$ (0.03)	\$ (0.03)	\$ (0.04)	\$ (0.06)
Weighted Average Shares Outstanding (Basic and Diluted)	94,860,753	94,417,614	94,777,189	94,051,411

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 (DEFICIENCY)

(Unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit Prior to Exploration Stage	Accumulated Deficit During Exploration Stage	Total Stockholders' Equity (Deficiency)
	Shares	Amount				
Balance, December 31, 2013	94,646,013	\$94,646	\$63,213,893	\$(20,009,496)	\$(41,812,476)	\$1,486,567
Shares issued for directors' fees and other services	277,297	277	220,603	--	--	220,880
Stock-based compensation expense	--	--	586,068	--	--	586,068
Net Loss	--	--	--	--	(3,392,929)	(3,392,929)
Balance, June 30, 2014	94,923,310	\$94,923	\$64,020,564	\$(20,009,496)	\$(45,205,405)	\$(1,099,414)

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 six months ended	
	June 30,	
	2014	2013
Cash Flows From Operating Activities:		
Net loss	\$(3,392,929)	\$(5,683,776)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation	245,579	157,688
Amortization of discount – PIK Notes	53,683	--
Issuance of PIK Notes in payment of interest	525,000	--
Stock issued for director and consulting services	220,880	76,750
Stock-based compensation expense	586,068	2,284,769
Gain on revaluation of warrant derivative	(700,000)	(650,000)
Gain on revaluation of PIK Notes	(1,753,125)	--
(Gain) loss on revaluation of stock awards for non-employees	(110,000)	(35,000)
Change in operating assets and liabilities:		
Accounts receivable	(13,895)	(2,540)
Deposits and prepaids	138,439	125,766
Accounts payable and accrued expenses	(203,996)	(699,444)
Net cash used in operating activities	(4,404,296)	(4,425,787)
Cash Flows From Investing Activities:		
Purchases of property and equipment	(306,266)	(2,223)
Construction-in-progress	(513,278)	(924,022)
Net cash used in investing activities	(819,544)	(926,245)
Cash Flows From Financing Activities:		
Payments on notes payable	(251,600)	(289,633)
Proceeds from sale of common stock	--	5,560,000
Net cash (used in) provided by financing activities	(251,600)	5,270,367
Net change in cash and cash equivalents	(5,475,440)	(81,665)
Cash and cash equivalents at beginning of period	8,685,552	3,356,103
Cash and cash equivalents at end of period	\$3,210,112	\$3,274,438

	For the six months ended June 30,	
	2014	2013
Cash Paid For:		
Interest	\$6,121	\$13,624
Income Taxes	\$1,403	\$3,814
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Additional large mine permit deposit in accounts payable	\$49,167	\$--
Property and equipment financed with notes payable	\$91,229	\$--
Laboratory equipment in accounts payable	\$378,485	\$--
Prepaid insurance financed with note payable	\$--	\$25,005
Reclassification from buildings to milling equipment	\$319,328	\$--
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	\$--

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, 2013, included in the Company's Annual Report filed on Form 10-K for such year. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the entire year. The condensed consolidated financial statements were prepared using accounting principles generally accepted in the United States of America ("GAAP"). These principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

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

As the Company continues its commercialization efforts of halloysite clay and iron oxide, it will require additional financing later in 2014 to fund its current operations as it has done in the past. The Company has a history of recurring losses from operations and use of cash in operating activities as it is still an exploration stage company. For the six months ended June 30, 2014, the Company's net loss was \$3,392,929 and cash used in operating activities was \$4,404,296. As of June 30, 2014, the Company had working capital of \$839,922 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. 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. As a result, we are unable to present inventories of mined and processed mineralization and are unable to capitalize any related mine development costs.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Applied Minerals, Inc. and its inactive subsidiary, which holds 100 acres of timber and mineral property 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 liabilities, 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 maturity 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.

Table Of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

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	20 – 40
Mining equipment	2 – 7
Office and shop furniture and equipment	3 – 7
Vehicles	5

Depreciation expense for the three months ended June 30, 2014 and 2013 totaled \$137,193 and \$78,890, respectively. Depreciation expense for the six months ended June 30, 2014 and 2013 totaled \$245,579 and \$157,688, 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 - observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 - significant unobservable inputs

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	June 30, 2014	December 31, 2013
Financial instruments:					
Warrant derivative		\$250,000		\$250,000	\$950,000
PIK Note derivative		\$519,750		\$519,750	\$2,250,000

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 approximate their fair value at June 30, 2014 and December 31, 2013 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, the carrying value of notes payable approximate fair value. Estimated fair value of the PIK Notes Payable approximates the outstanding principal amount of \$11,025,000 at June 30, 2014. For the Company's warrant and PIK note derivative liabilities, fair value was estimated using a Monte Carlo Model using the following assumptions:

Warrant derivative liability	Fair Value Measurements Using Inputs			
	June 30, 2014	December 31, 2013		
Market price and estimated fair value of stock	\$0.85	\$ 1.10		
Exercise price	\$1.93	\$ 1.93		
Term (years)	2.48	3.00		
Dividend yield	\$--	\$ --		
Expected volatility *	53.40 %	76.90 %		
Risk-free interest rate	0.68 %	0.78 %		

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

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

PIK Note derivative liability	Fair Value		Measurements		Using Inputs	
	June	December				
	30,	31, 2013				
	2014					
Market price and estimated fair value of stock	\$0.85	\$ 1.10				
Exercise price	\$1.40	\$ 1.40				
Term (years)	9.08	9.58				
Dividend yield	\$--	--				
Expected volatility *	53.40 %	76.90 %				
Risk-free interest rate	2.40 %	2.96 %				

* During the first quarter of 2014, the Company revised its assumption for expected volatility by switching from a peer-group average volatility to the Company's three-year historical volatility in measuring the value of the derivative liabilities mentioned above. Prior to 2011, the occurrence of certain corporate events would not have made the historical volatility calculations meaningful or accurate if included. This reduction in volatility led to a reduced valuation for both the Warrant and PIK Note derivative liabilities of approximately \$118,500 and \$126,000, respectively. The remaining decrease in the valuation is attributable to the decline in stock price.

Impairment of Long-lived Assets

The Company periodically reviews the carrying amounts of long-lived assets to determine whether current events or circumstances warrant adjustment to such carrying amounts. Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, the Company compares the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset to its carrying amount.

If this comparison indicates an impairment, the amount of the impairment is typically calculated using discounted expected future cash flows where observable fair values are not readily determinable. Considerable management judgment is necessary to estimate the fair value of assets. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value, less cost to sell.

Revenue Recognition

Revenue includes sales of halloysite clay and, commencing in June 2013, 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.

Mining Exploration and Development Costs

Land and mining property are carried at cost. The Company expenses prospecting and mining exploration costs. At the point when a property is determined to have proven and probable reserves, subsequent development costs will be capitalized and will be charged to operations using the units-of-production method over proven and probable reserves. Upon abandonment or sale of a mineral property, all capitalized costs relating to the specific property are written off in the period abandoned or sold and a gain or loss is recognized.

Income taxes

The Company uses an asset and liability approach which results in the recognition of deferred tax liabilities and assets for the expected future tax consequences or benefits of temporary differences between the financial reporting basis and the tax basis of assets and liabilities, as well as operating loss and tax credit carry forwards, using enacted tax rates in effect in the years in which the differences are expected to reverse. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. A valuation allowance has been provided for the portion of the Company's net deferred tax assets for which it is more likely than not that they will not be realized.

The Company is subject to U.S. federal income tax as well as income tax of certain state jurisdictions. Federal income tax returns subsequent to 2009 are subject to examination by major tax jurisdictions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company follows the provision of ASC Topic 740-10, "Income Taxes", relating to recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and requires increased disclosures. This guidance provides that the tax effects from an uncertain tax position can be recognized in our financial statements, only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. As of June 30, 2014, no amounts are included in the financial statements for unrecognized tax benefits.

Stock Options and Warrants

The Company follows ASC 718 (Stock Compensation) and 505-50 (Equity-Based Payments to Non-employees), which provide guidance in accounting for share-based awards exchanged for services rendered and requires companies to expense the estimated fair value of these awards over the requisite service period.

Table Of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

We determine the fair value of the stock-based compensation awards granted to non-employees as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either of (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete. The Company utilized the contractual term as the expected term.

Per share data

Loss per share for the three months ended June 30, 2014 and 2013, respectively, is calculated based on 94,860,753 and 94,417,614 weighted average outstanding shares of common stock. Loss per share for the six months ended June 30, 2014 and 2013, respectively, is calculated based on 94,777,189 and 94,051,411 weighted average outstanding shares of common stock.

At June 30, 2014 and 2013, respectively, the Company has outstanding options and warrants to purchase 23,258,046 and 15,578,115 shares of Company common stock, which were not 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, the Company cannot reasonably estimate any reclamation or remediation liability that may occur in the future, if any.

Recent Accounting Pronouncements

In June 2014, the FASB issued Accounting Standards Update ("ASU") ASU 2014-10 Development Stage Entities. The amendments in ASU 2014-10 remove the definition of a development stage entity from Topic 915 Development Stage Entities, thereby removing the distinction between development stage entities and other reporting entities from US GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of operations, cash flows, and shareholder's equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The amendments also clarify that the guidance in Topic 275, Risks and Uncertainties, is applicable to entities that have not commenced planned principal operations. ASU 2014-10 is effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. The Company could early adopt ASU 2014-10 for any annual reporting period or interim period for which the entity's financial statements have not yet been issued. The Company has elected to adopt this ASU effective with this Quarterly Report on Form 10-Q and its adoption resulted in the removal of inception-to-date information in the Company's statements of operations and cash flows.

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers*. The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605 *Revenue Recognition*, and most industry-specific guidance, and creates a Topic 606 *Revenue from Contracts with Customers*.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently evaluating these new requirements to determine the method of implementation and any resulting estimated effects on the financial statements.

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

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

NOTE 5 - STOCK AWARD PAYABLE

The stock award payable amount of \$110,000 at December 31, 2013 relates to 100,000 shares issuable, but not issued, under a 2007 employment agreement. The Company recorded the stock grant as a liability and revalued based on the quoted price of the Company's stock at the end of each period. During the second quarter of 2014, the Company received a release in writing from the former employee absolving the Company of the Stock Award Payable and accordingly reversed the \$72,000 balance of the liability into Other Income.

NOTE 6 - 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 not more likely than not that deferred tax assets will not be realized and, accordingly, has provided a full valuation allowance as of June 30, 2014 and December 31, 2013.

NOTE 7 - NOTES PAYABLE

Notes payable at June 30, 2014 and December 31, 2013 consist of the following:

	June 30, 2014 (unaudited)	December 31, 2013
Note payable for mining equipment, payable \$5,556 monthly, including interest (a)	\$ 10,292	\$42,927
Note payable for mining equipment, payable \$950 monthly, including interest (b)	18,809	23,302
Note payable for mining equipment, payable \$6,060 monthly, including interest (c)	41,655	76,313
Note payable for mine site vehicle, payable \$628 monthly, including interest (d)	24,506	28,276

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

Note payable for mining equipment, payable \$5,000 monthly, including interest (e)	--	9,932
Note payable for mining equipment, payable \$2,250 monthly, including interest (f)	--	8,898
Note payable to an insurance company, payable \$19,139 monthly, including interest (g)	19,089	132,576
Note payable to an insurance company, payable \$4,297 monthly, including interest (h)	4,286	29,767
Note payable for lab equipment, payable \$9,123 monthly (i)	72,983	--
	191,620	351,991
Less: Current Portion	(165,624)	(311,165)
Notes Payable, Long-Term Portion	\$ 25,996	\$ 40,826

On July 7, 2011, the Company purchased mining equipment for \$198,838 by issuing a note with an implicit (a) interest rate of 9.34%. The note is collateralized by the mining equipment with payments of \$5,556 for 36 months, which started on August 15, 2011

On April 17, 2012, the Company purchased mining equipment for \$40,565 by issuing a note with an effective (b) interest rate of 11.279%. The note is collateralized by the mining equipment with payments of \$950 for 48 months, which started on May 1, 2012.

On July 23, 2012, the Company purchased mining equipment for \$169,500 by issuing a note with an interest rate (c) of 5.5%. The note is collateralized by the mining equipment with payments of \$6,060 for 30 months, which started on August 25, 2012.

On September 20, 2012, the Company purchased a vehicle for the mine site for \$37,701 by issuing a note with an (d) interest rate of 0%. The note is collateralized by the vehicle with payments of \$628 for 60 months, which started on October 20, 2012.

On November 16, 2012, the Company purchased a piece of mining equipment that had been leased for \$67,960 by (e) issuing a note with an effective interest rate of 5.5%. The note is collateralized by the mining equipment with payments of \$3,518 for three months, then \$5,000 for twelve months.

On November 16, 2012, the Company purchased a piece of mining equipment that had been leased for \$33,748 by (f) issuing a note with an effective interest rate of 5.5%. The note is collateralized by the mining equipment with payments of \$1,632 for five months, then \$2,250 for twelve months.

(g) The Company signed a note payable with an insurance company dated October 17, 2012 for directors' and officers' insurance, due in monthly installments, including interest at 3.15%. The note will mature in June 2013.

(h) The Company signed a note payable with an insurance company dated October 17, 2012 for liability insurance, due in monthly installments, including interest at 4.732%. The note will mature in July 2013.

On April 16, 2014, the Company purchased laboratory equipment for \$109,493 by depositing \$18,424 and issuing (i) a non-interest bearing note. The note is collateralized by the lab equipment with payments of \$9,122 for ten months.

The following is a schedule of the principal maturities for the next five years and the total thereafter on these notes as of June 30, 2014:

July 2014 – June 2015	165,624
July 2015 – June 2016	16,571
July 2016 – June 2017	7,540
July 2017 – June 2018	1,885
Thereafter	--
Total Notes Payable	\$ 191,620

During the three and six months ending June 30, 2014, the Company's interest payments totaled \$2,376 and \$6,121, respectively.

Table Of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

NOTE 8 – CONVERTIBLE DEBT (PIK NOTES)

In August 2013, the Company received \$10,500,000 of financing through the private placement of 10% mandatory convertible Notes due 2023 ("Notes"). The principal amount of the Notes is due on maturity. The Company can elect to pay semi-annual interest on the Notes with additional PIK Notes containing the same terms as the Notes, except interest will accrue from issuance of such notes. The Company can also elect to pay interest in cash. In February 2014, the Company issued \$525,000 in additional PIK Notes to the holders to pay the semi-annual interest.

The Notes convert into the Company's common stock at a conversion price of \$1.40 per share, which is subject to customary antidilution adjustments. As of issuance, the Notes are convertible into 7,500,000 shares of the common stock. The holders may convert the Notes at any time. The 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 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 Notes.

These 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 antidilution 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) was bifurcated from the Notes and accounted for as a separate derivative liability, which resulted in a corresponding amount of debt discount on the Notes. The debt discount is being amortized using the effective interest method over the 10-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 June 30, 2014, the fair value of the PIK Note Derivative was estimated to be \$519,750, which includes the value of the additional PIK Notes issued in February 2014, as mentioned above. Total gain from the revaluation of the original PIK Notes was \$1,753,125 for the six months ending June 30, 2014. In addition, during such period, the Company

amortized \$53,683 of debt discount relating to the PIK Notes Payable, increasing the PIK Notes Payable carrying value to \$9,042,391 as of June 30, 2014.

NOTE 9 - STOCKHOLDERS' EQUITY

During the six months ended June 30, 2014, the Company issued a total of 277,297 shares of common stock valued at \$220,880 to directors and consultants as payments of fees.

NOTE 10 - OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK

Derivative Instruments - Warrants

The Company issued 5,000,000 warrants ("Samlyn warrants") in connection with the December 22, 2011 private placement of 10,000,000 shares of common stock. The strike price of these warrants was \$2.00 per share at the date of grant. These warrants 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 antidilution provisions the notes contain a down-round provision whereby the exercise 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 at a price less than the exercise price. Therefore, the fair value of these warrants (based on observable inputs) was recorded as a liability in the balance sheet until they are exercised or expire or are otherwise extinguished. During the first quarter of 2013, the Company issued 3,756,757 shares of its common stock for gross proceeds of \$5,560,000, which triggered a down-round adjustment of \$0.03 from \$2.00 to \$1.97 in the strike price of the Samlyn warrants at that time. As discussed in Note 8, during August 2013, the Company issued \$10,500,000 of 10% mandatorily convertible PIK Notes due 2023 ("Notes") in a private placement, which triggered a down-round adjustment of \$0.04 from \$1.97 to \$1.93 in the strike price of the Samlyn warrants.

During the three months ended June 30, 2014 and 2013, the Company recognized \$25,000 of loss and \$155,000 of income, respectively, of Other Income (Expense) resulting from the changes in the fair value of the warrant liability. During the six months ended June 30, 2014 and 2013, the Company recognized \$700,000 and \$650,000 of income resulting from the decrease in the fair value of the warrant liability. As described in Note 4, this reduction mainly resulted from a lower stock price and a change in the volatility utilized by the Company.

Outstanding Stock Warrants

A summary of the status of the warrants outstanding and exercisable at June 30, 2014 is presented below:

Exercise Price	Warrants Outstanding and Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (years)
\$ 0.75	139,340	1.25
\$ 0.78	213,402	1.59
\$ 0.80	124,481	1.50
\$ 1.00	212,000	1.16
\$ 1.15	461,340	6.83
\$ 1.93	5,000,000	2.48
\$ 2.00	54,367	2.09
\$ 1.75 (a)	6,204,930	2.68
(a) Weighted average		

Table Of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

No warrants have been issued since 2011 and no warrants vested in 2013 or 2014; accordingly, no compensation expense has been recorded during 2013 and 2014. The intrinsic value of the outstanding warrants at June 30, 2014 was \$35,096.

Excluding the 5,000,000 warrants with the down round provisions discussed above, the fair value of each of the Company's stock warrant awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below.

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.

The significant assumptions relating to the valuation of the Company's options issued for the six months ended June 30, 2014 and 2013 were as follows:

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

	2014		2013	
Dividend Yield	0	%	0	%
Expected Life (years)	5-6		5 - 10	
Expected Volatility	55.70	%	66-83	%
Risk Free Interest Rate	1.71-1.90%		0.88-2.57%	

A summary of the status and changes of the options granted under stock option plans and other agreements for the six months ended June 30, 2014 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	15,878,116	\$ 1.03
Issued	1,175,000	0.84
Exercised	--	--
Forfeited	--	--
Outstanding at end of period	17,053,116	\$ 1.02

During the six months ended June 30, 2014, the Company granted 1,175,000 options to purchase the Company's common stock with a weighted average exercise price of \$0.84. Of the 1,175,000 options granted during 2014, 200,000 options vest quarterly starting on March 31, 2014 and ending on December 31, 2014; 375,000 options granted during the second quarter immediately vested on June 9, 2014; and 600,000 options granted on June 9, 2014 vest monthly over a three-year period.

Table Of Contents

A summary of the status of the options outstanding at June 30, 2014 is presented below:

Options Outstanding			Options Exercisable	
Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding			Exercisable	
7,358,277	4.44	\$ 0.70	7,358,277	\$ 0.70
3,405,134	7.19	\$ 0.83	3,305,134	\$ 0.83
975,000	9.95	\$ 0.84	391,667	\$ 0.84
60,000	2.00	\$ 1.00	60,000	\$ 1.00
300,000	9.15	\$ 1.10	--	--
300,000	8.99	\$ 1.15	83,333	\$ 1.15
100,000	3.59	\$ 1.24	100,000	\$ 1.24
115,000	6.74	\$ 1.35	115,000	\$ 1.35
125,000	3.59	\$ 1.45	125,000	\$ 1.45
330,000	7.45	\$ 1.55	246,667	\$ 1.55
7,645	3.59	\$ 1.58	7,645	\$ 1.58
3,077,060	8.40	\$ 1.66	3,077,060	\$ 1.66
900,000	7.14	\$ 1.90	850,000	\$ 1.90
17,053,116	6.38	\$ 1.02	15,719,783	\$ 1.02

At June 30, 2014, the total compensation expense of \$754,293 for unvested options is to be recognized over the next 1.95 years on a weighted average basis.

Compensation expense of \$371,218 and \$586,068 have been recognized for vesting of options for the three and six months ended June 30, 2014, respectively. The aggregate intrinsic value of the outstanding options as June 30, 2014 was \$1,181,594.

NOTE 11 - COMMITMENTS AND CONTINGENCIESCommitments

The following table summarizes our contractual obligations as of June 30, 2014 that require 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	\$68,958	\$68,958	--	--	--
Total	\$68,958	\$68,958	--	--	--

Contingencies

The Company was named as the defendant in a lawsuit filed on April 18, 2014 in state District court in Salt Lake City, Utah. The plaintiff is Tekko Enterprises, Inc., which was hired in 2012 as project manager for the construction of a processing plant at the Company's Dragon Mine property and terminated in 2013 before the completion of the plant. The complaint seeks damages of \$346,000, unpaid amounts that the plaintiff claims it is entitled to under the project management agreement and two purchase orders. The Company intends to vigorously defend against the claims and to counterclaim. Because the facts are not fully developed, at this time the possible loss or range of loss, or the probability of an adverse conclusion, cannot be estimated.

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. In addition to the matters described herein, 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.

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 and marketing of our halloysite clay-based Dragonite™ line of products for use to improve the performance of end-products in application markets such as flame retardant additives for plastics, nucleation, thermosets and adhesives, reinforcement of plastic composites, molecular sieves and catalysts, ceramics, binders, cosmetics, controlled release carriers and environmental remediation and (ii) the development and marketing of our Amiron™ line of iron oxide products for pigmentary and technical applications.

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 develop its halloysite resource for advanced, high-value applications. We purchased 100% of the property in 2005.

Halloysite is an aluminosilicate clay that possesses a tubular morphology with a hollow lumen (pore). Traditionally, halloysite has been used to manufacture porcelain, bone china and catalysts used in the petroleum cracking process. A significant amount of academic research has been performed on the commercial uses of halloysite clay beyond porcelain products and ceramic catalysts. This research has identified a wide array of application areas in which the unique morphology of halloysite can be utilized to either enhance the performance of existing applications or create new high performance ones. Since 2009, management has been primarily focused on developing halloysite-based products for advanced applications, such as, but not limited to, additives for polymer composites. The clays used in these advanced applications sell for significantly higher than those of the more traditional applications. Nanoclays

have been used as additives to develop high performance plastic composites that cannot be developed using traditional fillers. Nanoclays, such as treated montmorillonite, sell for up to \$5,000 per ton due, in large part, to the cost associated with exfoliating the clay so it may be properly dispersed within a polymer matrix. Halloysite has been shown to be as effective a polymer additive as nanoclay without requiring a costly exfoliation to disperse it within a polymer matrix. The Company has and continues to utilize a number of PhD-level consultants to research and develop the use of halloysite in advanced applications.

Table Of Contents

In addition to the development of its halloysite resource, management has also developed a line of iron oxide-based products for the pigmentary and technical markets. Initially, the resource was considered to be utilizable as only an input to the steel-manufacturing process. Upon additional analysis the iron resource was found to be an advanced iron oxide due to its high Fe₂O₃ content, exceptional chemical purity, fine grains and good dispersability, good tinting strength and color saturation, low color variation and a low content of heavy metals. Advanced iron oxides have commercial uses in a number of higher value applications such as the aforementioned pigmentary and technical markets. The Company's Amiron product line includes semi-transparent and FDA-compliant pigments for the construction, concrete, paints and coatings, and plastics and rubber industries. Amiron Technical Oxides, due to their particularly high surface area of 25 m²/g – 125 m²/g and reactivity, can be used as the media for the removal of toxins from waste and drinking water and as a catalyst for desulfurization. The Company has made its first sale of Amiron to a customer for use as a pigment.

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

Recent Business Developments

During the first quarter of 2014, the Company commissioned a 45,000 tpa mineral processing plant at its Dragon Mine property. This facility utilizes Hosokawa-Alpine technology that enhances the Company's ability to control the processing of its mineral resource for qualities such as particle size, moisture and purity. The plant was originally commissioned for halloysite clay, but the Company plans to initially utilize it for iron oxide and utilize its KDS machine for halloysite clay, while using a third party to surface treat the clay if required.

Between September 2013 and January 2014, the Company appointed three new Board members: Mario Concha, former president of the Chemical Division of Georgia Pacific, Inc.; Robert Betz, formerly of Cognis Corp., the North American division of Cognis GmbH, a \$4 billion worldwide supplier of specialty chemicals and nutritional ingredients, and Henkel AG & Company; and Ali Zamani, a former Principal at SLZ Capital Management, a New York-based asset management firm, and former senior investment professional at Goldman Sachs Investment Partners and Goldman Sachs Principal Strategies. Evan Stone resigned as a director on December 31, 2013; Mr. Stone, an attorney, resigned because he joined a new law firm as of January 1, 2014 and it is the policy of the new firm that its lawyers may not serve as directors of public companies. Mr. Stone had no disagreements with the Company or the Board of Directors. The foregoing changes expanded the Board to six directors and the number of independent directors to four.

In December 2013, the Company launched its Amiron line of iron oxide products focused particularly on the pigmentary and technical markets.

In December 2013, the Company entered into a distribution agreement with Mitsui Plastics, Inc. to market, sell, and distribute its Dragonite halloysite clay and Amiron iron oxide outside of North America.

Critical Accounting Policies and Estimates

The following accounting policies have been identified by management as policies critical to the Company's financial reporting:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. In these financial statements, assets and liabilities involve extensive reliance on management's estimates. Actual results could differ from those estimates.

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 - observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 - significant unobservable inputs

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

Fair value measurement using		Carrying amount	
inputs			
Level 1	Level 2	Level 3	June 30, December 31, 2013
1	2	3	2014

Financial instruments:

Warrant derivative	\$250,000	\$250,000	\$950,000
PIK Note derivative	\$519,750	\$519,750	\$2,250,000

Table Of Contents

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 approximate their fair value at June 30, 2014 and December 31, 2013 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, the carrying value of notes payable approximate fair value. Estimated fair value of the PIK Notes Payable approximates the outstanding principal amount of \$11,025,000 at June 30, 2014. For the Company's warrant and PIK note derivative liabilities, fair value was estimated using a Monte Carlo Model using the following assumptions:

Warrant derivative liability	Fair Value Measurements Using Inputs		
	June 30, 2014	December 31, 2013	
	Market price and estimated fair value of stock	\$0.85	\$ 1.10
Exercise price	\$1.93	\$ 1.93	
Term (years)	2.48	3.00	
Dividend yield	\$--	\$ --	
Expected volatility *	53.40 %	76.90 %	%
Risk-free interest rate	0.68 %	0.78 %	%

PIK Note derivative liability	Fair Value Measurements Using Inputs		
	June 30, 2014	December 31, 2013	
	Market price and estimated fair value of stock	\$0.85	\$ 1.10
Exercise price	\$1.40	\$ 1.40	
Term (years)	9.08	9.58	
Dividend yield	\$--	--	
Expected volatility *	53.40 %	76.90 %	%
Risk-free interest rate	2.40 %	2.96 %	%

* During the first quarter of 2014, the Company revised its assumption for expected volatility by switching from a peer-group average volatility to the Company's three-year historical volatility in measuring the value of the derivative liabilities mentioned above. Prior to 2011, the occurrence of certain corporate events would not have made the historical volatility calculations meaningful or accurate if included. This reduction in volatility led to a reduced valuation for both the Warrant and PIK Note derivative liabilities of approximately \$118,500 and \$126,000, respectively. The remaining decrease in the valuation is attributable to the decline in stock price.

Impairment of Long-Lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, the Company compares the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset to its carrying amount. If this comparison indicates that there is impairment, the amount of the impairment is typically calculated using discounted expected future cash flows where observable fair values are not readily determinable.

Mining Exploration and Development Costs

Land and mining property are carried at cost. The Company expenses prospecting and mining exploration costs. At the point when a property is determined to have proven and probable reserves, subsequent development costs are capitalized. When these properties are developed and operations commence, capitalized costs will be charged to operations using the units-of-production method over proven and probable reserves. Upon abandonment or sale of a mineral property, all capitalized costs relating to the specific property are written off in the period abandoned or sold and a gain or loss is recognized. For all periods through June 30, 2014, all costs associated with the Company's mines, excluding original acquisition cost, have been expensed as the Company remains an exploration stage company.

Provision for Income Taxes

We use the asset and liability method of accounting for income taxes. Deferred income taxes are provided for the temporary difference between the financial reporting basis and tax basis of our assets and liabilities. Deferred tax benefits result principally from certain tax carryover benefits and from recording certain expenses in the financial statements that are not currently deductible for tax purposes and from differences between the tax and book basis of assets and deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax liabilities result principally from deductions recorded for tax purposes in excess of that recorded in the financial statements or income for financial statement purposes in excess of the amount for tax purposes. The effect of changes in tax rates is recognized in the period the rate change is enacted.

Stock Options and Warrants

The Company follows ASC 718 (Stock Compensation) and 505-50 (Equity-Based Payments to Non-Employees), which provide guidance in accounting for share-based awards exchanged for services rendered and requires companies to expense the estimated fair value of these awards over the requisite service period. With respect to equity based payments to non-employees, we determine the fair value of the stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either of (1) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete.

Table Of Contents

Recent Accounting Pronouncements

In June 2014, the FASB issued Accounting Standards Update (“ASU”) ASU 2014-10 Development Stage Entities. The amendments in ASU 2014-10 remove the definition of a development stage entity from Topic 915 Development Stage Entities, thereby removing the distinction between development stage entities and other reporting entities from US GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of operations, cash flows, and shareholder’s equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The amendments also clarify that the guidance in Topic 275, Risks and Uncertainties, is applicable to entities that have not commenced planned principal operations. ASU 2014-10 is effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. The Company could early adopt ASU 2014-10 for any annual reporting period or interim period for which the entity’s financial statements have not yet been issued. The Company has elected to adopt this ASU effective with this Quarterly Report on Form 10-Q and its adoption resulted in the removal of inception-to-date information in the Company’s statements of operations and cash flows.

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers*. The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605 *Revenue Recognition*, and most industry-specific guidance, and creates a Topic 606 *Revenue from Contracts with Customers*.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company is currently evaluating these new requirements to determine the method of implementation and any resulting estimated effects on the financial statements.

Table Of Contents*Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013***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 June 30,		Variance	
	2014	2013	Amount	%
REVENUES	\$47,993	\$12,878	\$35,115	273 %
OPERATING EXPENSES:				
Production costs	21,567	2,640	18,927	717 %
Exploration costs	1,257,579	875,654	381,925	44 %
General and administrative	1,343,719	1,830,663	(486,944)	-27 %
Depreciation expense	137,193	78,890	58,303	74 %
Total Operating Expenses	2,760,058	2,787,847	(27,789)	-1 %
Operating Loss	(2,712,065)	(2,774,969)	62,904	-2 %
OTHER INCOME (EXPENSE):				
Interest expense, net, including amortization of deferred financing cost and debt discount	(304,196)	(7,137)	(297,059)	4162 %
(Loss) gain on revaluation of warrant derivative	(25,000)	155,000	(180,000)	-116 %
Gain on revaluation of stock award	72,000	21,000	51,000	243 %
(Loss) on revaluation of PIK note derivative	(39,375)	--	(39,375)	100 %
Other income (expense)	(27,068)	1,221	(28,289)	-2317 %
Total Other Income (Expense)	(323,639)	170,084	(493,723)	-292 %
Net Loss	\$ (3,035,704)	\$ (2,604,885)	\$ (430,819)	17 %

Revenue generated during the three months ended June 30, 2014 was \$47,993, compared to \$12,878 of revenue generated during the same period in 2013. After selling its first iron oxide shipment last year to a leading specialty chemicals company for use in the absorption and catalyst market, the Company sold 42,590 pounds to a different customer during the second quarter of 2014 for use as a hydrogen sulfide scavenger in a scale trial. Quarterly revenue may be unpredictable as we are in various stages of product development, ongoing trials and the building of stockpile levels. While the iron oxide market is more defined and developed than the halloysite market, we continue to explore various commercial opportunities in both areas.

Total operating expenses for the three months ending June 30, 2014 were \$2,760,058 compared to \$2,787,847 of operating expenses incurred during the same period in 2013, a decrease of \$27,789 or -1%. The decrease was due primarily to a \$486,944, or 27%, decrease in general and administrative costs, mainly offset by a \$381,925, or 44%, increase in exploration expense, and a \$58,303 increase in depreciation expense as fixed assets were moved from Construction-in-Progress and depreciated as a result of the new mill.

Exploration costs incurred during the three months ended June 30, 2014 were \$1,257,579 compared to \$875,654 of exploration costs incurred during the same period in 2013, an increase of \$381,925, or 44%. Our exploration costs are related to the continued exploration activities at our Dragon Mine property and the mineralogical analysis of the material mined from the property. The increase in exploration costs mainly related to \$190,002 of additional payroll and personnel costs of miners and other workers hired during late 2013 and 2014 to help in the development of the mine and the new mill; \$67,050 of consulting costs relating to a development agreement with OPF Enterprises, LLC ("OPF"), a leading ceramic consulting firm that focuses on ceramic materials and process development; and \$122,181 of additional maintenance, electrical and utility expense relating to the new mill.

General and administrative expenses incurred during the three months ended June 30, 2014 totaled \$1,343,719 compared to \$1,830,663 of expense incurred during the same period in 2013, a decrease of \$486,944 or 27%. Stock compensation expense reduced by \$623,385 to \$371,218 because certain options issued to the CEO and other executives culminated vesting as of January 1, 2014 without any further option grants. This reduction was mainly offset by the following: a \$54,582 increase in payroll and personnel expenses relating to new corporate hires, such as the Head of Iron Oxide and a Chief Technology Officer; a \$53,834 increase in travel relating to increased trips to the mine pursuant to the commissioning of our new plant; and a \$28,750 increase in Board fees as the Company added three new Board members, while losing one because the Board member's new employer did not allow the Board member to serve on a public Board.

Net loss for the three-month period ending June 30, 2014 was \$3,035,704 compared to a loss of \$2,604,885 incurred during the same period in 2013, an increase of \$430,819 or 17%. The increase in the net loss was primarily due to a \$493,723 reduction in Other Income, offset by a \$27,789 decrease in operating expenses and a \$35,115 increase of revenue, as described above.

Table Of Contents*Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013***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:

	Six Months Ended June 30,		Variance		
	2014	2013	Amount	%	
REVENUES	\$59,007	\$37,964	\$21,043	55	%
OPERATING (INCOME) EXPENSES:					
Production costs	25,316	18,407	6,909	38	%
Exploration costs	2,454,735	2,243,266	211,469	9	%
General and administrative	2,597,735	3,976,086	(1,378,351)	-35	%
Depreciation expense	245,579	157,688	87,891	56	%
Total Operating Expenses	5,323,365	6,395,447	(1,072,082)	-17	%
Net Operating Loss	(5,264,358)	(6,357,483)	1,093,125	-17	%
OTHER INCOME (EXPENSE):					
Interest expense, net, including amortization of deferred financing cost and debt discount	(604,363)	(13,624)	(590,739)	4336	%
Gain on revaluation of warrant derivative	700,000	650,000	50,000	8	%
Gain on revaluation of stock awards	110,000	35,000	75,000	214	%
Gain on revaluation of PIK note derivative	1,753,125	--	1,753,125	100	%
Other income (expense)	(87,333)	2,331	(89,664)	-3847	%
Total Other Income (Expense)	1,871,429	673,707	1,197,722	178	%
Net Loss	\$(3,392,929)	\$(5,683,776)	\$2,290,847	-40	%

Revenue generated during the six months ended June 30, 2014 was \$59,007, compared to \$37,964 of revenue generated during the same period in 2013. After selling its first iron oxide shipment last year to a leading specialty chemicals company for use in the absorption and catalyst market, the Company sold 17,000 pounds during the first quarter of 2014 to another company specializing in paints, coatings, inks and specialty chemicals and another 42,590 pounds to a different customer for use as a hydrogen sulfide scavenger in a scale trial. Quarterly revenue may be unpredictable as we are in various stages of product development, ongoing trials and the building of stockpile levels. While the iron oxide market is more defined and developed than the halloysite market, we continue to explore various

commercial opportunities in both areas.

Total operating expenses for the six months ending June 30, 2014 were \$5,323,365 compared to \$6,395,447 of expenses incurred during the same period in 2013, a decrease of \$1,072,082 or 17%. The decrease was due primarily to a \$1,378,351, or 35%, decrease in general and administrative expense, a \$211,469, or 9%, increase in exploration expense, and an \$87,891 increase in depreciation expense as fixed assets were moved from Construction-in-Progress and depreciated as a result of the new mill.

Table Of Contents

Exploration costs incurred during the six months ended June 30, 2014 were \$2,454,735 compared to \$2,243,266 of costs incurred during the same period in 2013, an increase of \$211,469 or 9%. The increase in exploration costs mainly related to \$236,141 of additional payroll and personnel costs of miners and other workers hired during late 2013 and 2014 to help in the development of the mine and the new mill; \$150,616 of consulting costs mainly relating to a development agreement with OPF Enterprises, LLC ("OPF"), a leading ceramic consulting firm that focuses on ceramic materials and process development; and \$141,835 of additional maintenance, electrical and utility expense relating to the new mill. The increases were offset by \$282,398 of incremental drilling costs incurred in the first half of 2013 which did not recur in the first half of 2014, and \$42,964 of lower ground support expense in 2014.

General and administrative expenses incurred during the six months ended June 30, 2014 totaled \$2,597,735 compared to \$3,976,086 of expense incurred during the same period in 2013, a decrease of \$1,378,351 or 35%. Stock compensation expense reduced by \$1,687,084 to \$586,068 because certain options issued to the CEO and other executives culminated vesting as of January 1, 2014 without any further option grants. This reduction was mainly offset by the following: a \$68,682 increase in payroll and personnel expenses relating to new corporate hires, such as the Head of Iron Oxide and a Chief Technology Officer; a \$94,663 increase in travel relating to increased trips to the mine pursuant to the commissioning of our new plant; a \$45,249 increase in investor meeting expenses; and a \$68,184 increase in Board fees as the Company added three new Board members, while losing one because the Board member's new employer did not allow the Board member to serve on a public Board.

Net loss for the six-month period ended June 30, 2014 was \$3,392,929 compared to a loss of \$5,683,776 incurred during the same period in 2013, a decrease of \$2,290,847 or 40%. The decrease in the net loss was due to a \$1,072,082 decrease in operating expenses, a \$21,043 increase in revenue, and a \$1,197,722 increase in Other Income, primarily from the revaluation of derivatives.

LIQUIDITY AND CAPITAL RESOURCES

As the Company continues its commercialization efforts of halloysite clay and iron oxide, it will also require additional financing later in 2014 to fund its current operations as it has done in the past. The Company has a history of recurring losses from operations and use of cash in operating activities as it is still a development stage company. For the six months ended June 30, 2014, the Company's net loss was \$3,392,929 and cash used in operating activities was \$4,404,296. As of June 30, 2014, the Company has working capital of \$839,922, 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.

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.

Cash used in operating activities during the six months ended June 30, 2014 was \$4,404,296 compared to \$4,425,787 of cash used during the same period in 2013. The key difference is in the timing of certain payments made over both periods.

Cash used in investing activities during the six months ended June 30, 2014 was \$819,544 compared to a use of \$926,245 during the same period in 2013. The Company incurred costs relating to the new mill, which was commissioned with the lab and office during the first half of 2014.

Cash used by financing activities during the six months ended June 30, 2014 was \$251,600 compared to \$5,270,367 of cash provided during the same period in 2013. In January 2013, the Company sold, in a privately negotiated transaction, 3,756,757 shares of its common stock at \$1.48 per share for gross proceeds of \$5,560,000.

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 June 30, 2014 that require 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	\$68,958	\$68,958	--	--	--
Total	\$68,958	\$68,958	--	--	--

Table Of Contents

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

The Company was named as the defendant in a lawsuit filed on April 18, 2014 in state District court in Salt Lake City, Utah. The plaintiff is Tekko Enterprises, Inc., which was hired in 2012 as project manager for the construction of a processing plant at the Company’s Dragon Mine property and terminated in 2013 before the completion of the plant. The complaint seeks damages of \$346,000, unpaid amounts that the plaintiff claims it is entitled to under the project management agreement and two purchase orders. The Company intends to vigorously defend against the claims and to counterclaim. Because the facts are not fully developed, at this time the possible loss or range of loss, or the probability of an adverse conclusion, cannot be estimated.

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. In addition to the matter described above, 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.

There were no additions or material changes to the Company's risk factors as disclosed in Item 1A of Part I in the Company's 2013 Annual Report on Form 10-K.

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

None.

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.

Table Of Contents**ITEM 6. EXHIBITS**

(a) Exhibits.

The following exhibits are included in this report:

Exhibit Number	Description of Exhibits
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 Chief 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 Chief Financial Officer
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 Chief 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 Chief Financial Officer
95	Mine Safety Disclosures
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

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.*

Table Of Contents

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: August 11, 2014 /s/ ANDRE ZEITOUN
By: Andre Zeitoun
Chief Executive Officer

Dated: August 11, 2014 /s/ NAT KRISHNAMURTI
By: Nat Krishnamurti
Chief Financial Officer