

Applied Minerals, Inc.  
Form 10-Q  
May 10, 2012

---

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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  
(State or other jurisdiction of incorporation or organization)

82-0096527  
(I.R.S. Employer Identification No.)

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

10012  
(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.

YESx NO

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

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 x Filer	Non-accelerated Filer	Smaller Reporting Company
----------------------------	------------------------	--------------------------	------------------------------

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

The number of shares of the registrant’s common stock, \$0.001 par value per share, outstanding as of May 8, 2012 was 89,154,021.

DOCUMENTS INCORPORATED BY REFERENCE: None.

---

APPLIED MINERALS, INC.  
(An Exploration Stage Company)

FIRST QUARTER 2012 REPORT ON FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

		Page(s)
Item 1.	Consolidated Financial Statements	
	Balance Sheets at March 31, 2012 (unaudited) and December 31, 2011	3
	Statements of Operations (unaudited) for the Three Months Ended March 31, 2012	4
	Statements of Cash Flows (unaudited) for the Three Months Ended March 31, 2012	6
	Condensed Notes to the Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	18
Item 4.	Controls and Procedures	18
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	19
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	19
Item 3.	Defaults Upon Senior Securities	19
Item 4.	Mine Safety Disclosures	19
Item 5.	Other Information	19
Item 6.	Exhibits	19
	Signatures	

Certification under Sarbanes-Oxley Act of 2002

---

## PART I. FINANCIAL INFORMATION

APPLIED MINERALS, INC.  
(An Exploration Stage Mining Company)  
BALANCE SHEETS

	March 31, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$7,991,788	\$10,170,536
Accounts receivable, net of allowance of \$25,106 March 31, 2012 (unaudited) and \$11,938 December 31, 2011	10,216	20,464
Deposits and prepaid expenses	367,177	333,447
<b>Total Current Assets</b>	<b>8,369,181</b>	<b>10,524,447</b>
<b>Property and Equipment</b>		
Land and tunnels	500,000	500,000
Land improvements	164,758	164,758
Buildings	455,906	455,906
Mining equipment	1,011,402	975,164
Milling equipment	336,146	336,146
Laboratory equipment	67,728	67,728
Office furniture and equipment	47,794	34,643
Vehicles	100,800	100,800
Less: Accumulated Depreciation	(811,045 )	(729,969 )
<b>Total Property and Equipment</b>	<b>1,873,489</b>	<b>1,905,176</b>
<b>Other Assets</b>		
Assets held for sale	445,180	445,180
<b>Total Other Assets</b>	<b>445,180</b>	<b>445,180</b>
<b>TOTAL ASSETS</b>	<b>\$10,687,850</b>	<b>\$12,874,803</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$278,769	\$291,142
Liabilities from discontinued operations	1,835	- 0 -
Stock awards payable	148,000	127,000
Current portion of notes payable	119,479	165,375
Current portion of leases payable	-0-	10,094
Warrant derivative	4,614,500	3,355,000
<b>Total Current Liabilities</b>	<b>5,162,583</b>	<b>3,948,611</b>
<b>Long-Term Liabilities</b>		
Long-term portion of notes payable	83,273	97,769

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

Total Long-Term Liabilities	83,273	97,769
Total Liabilities	5,245,856	4,046,380
Commitments and Contingencies	- 0 -	- 0 -
<b>Stockholders' Equity</b>		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, noncumulative, nonvoting, nonconvertible, none issued or outstanding	-0-	- 0 -
Common stock, \$0.001 par value, 120,000,000 shares authorized, 89,142,169 and 89,119,405 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	89,143	89,120
Additional paid-in capital	48,437,438	47,765,350
Accumulated deficit prior to the exploration stage	(20,009,496)	(20,009,496)
Accumulated deficit during the exploration stage	(23,075,091)	(19,016,551)
Total Stockholders' Equity	5,441,994	8,828,423
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$10,687,850</b>	<b>\$12,874,803</b>

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

APPLIED MINERALS, INC.  
 (An Exploration Stage Mining Company)  
 STATEMENTS OF OPERATIONS  
 (Unaudited)

	For the three months ended March 31,		For the Period January 1, 2009 (Beginning of Exploration Stage) through March 31, 2012
	2012	2011	
REVENUES	\$55,402	\$44,468	\$148,354
COST OF SALES	(42,492 )	(21,075 )	(123,070 )
Gross Profit	12,910	23,393	25,284
<b>OPERATING (INCOME) EXPENSES:</b>			
Exploration costs	774,961	670,854	7,301,222
General and administrative	2,010,420	907,651	13,445,856
(Gain) loss from disposition of land and equipment	-0-	(1,000 )	(4,523 )
Loss on impairment of equipment	-0-	- 0 -	55,122
Total Operating Expenses	2,785,381	1,577,505	20,797,677
Net Operating Loss	(2,772,471)	(1,554,112)	(20,772,393)
<b>OTHER INCOME (EXPENSE):</b>			
Interest income	1,122	222	3,703
Interest expenses	(4,312 )	(132,146 )	(950,597 )
Sale of clay samples	-0-	- 0 -	10,943
Refund of insurance premium	-0-	2,531	20,156
Gain on stock award forfeiture	-0-	- 0 -	145,000
Gain (loss) on revaluation of warrants	(1,259,500)	-0-	(1,034,500 )
Gain (loss) on revaluation of stock awards	(21,000 )	(1,000 )	(240,500 )
Net proceeds (expenses) from legal settlement	-0-	- 0 -	(173,325 )
Amortization of deferred financing costs	-0-	(4,592 )	(150,000 )
Amortization of convertible debt discount	-0-	- 0 -	(365,341 )
Gain on settlement of debt	-0-	- 0 -	434,882
Other income (expense)	(544 )	(6,041 )	(2,346 )
Total Other Income (Expense)	(1,284,234)	(141,026 )	(2,301,925 )
Loss from exploration stage, before income taxes	(4,056,705)	(1,695,138)	(23,074,318)

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

Provision (benefit) for income taxes	- 0 -	- 0 -	- 0 -
Net Loss from Exploration Stage Before Discontinued Operations	(4,056,705)	(1,695,138)	(23,074,318)
Net income (loss) from discontinued operations	(1,835 )	(910 )	51,547
Net Loss from Exploration Stage After Discontinued Operations	(4,058,540)	(1,696,048)	(23,022,771)
Net income (loss) attributable to non-controlling interest	-0-	24	(52,320 )
Net Loss Attributable to Applied Minerals, Inc.	\$(4,058,540)	\$(1,696,024)	\$(23,075,091)

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



APPLIED MINERALS, INC.  
 (An Exploration Stage Mining Company)  
 STATEMENTS OF OPERATIONS  
 (Unaudited)  
 (continued)

	For the three months ended March 31,	
	2012	2011
Earnings Per Share Information (Basic and Diluted):		
Net loss per share before discontinued operations	\$(0.05 )	\$(0.02 )
Net income (loss) per share from discontinued operations	-0-	- 0 -
Net Loss Per Share (Basic and Diluted)	\$(0.05 )	\$(0.02 )
Weighted Averages Shares Outstanding (Basic and Diluted)	89,136,400	69,820,574

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

APPLIED MINERALS, INC.  
(An Exploration Stage Mining Company)  
STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the three months ended March 31,		For the Period January 1, 2009 (Beginning of Exploration Stage ) through March 31, 2012
	2012	2011	
<b>Cash Flows From Operating Activities:</b>			
Net loss	\$(4,058,540 )	\$(1,696,048)	\$(23,075,091)
Adjustments to reconcile net loss to net cash used in operations			
Depreciation	81,076	66,239	616,273
Amortization of deferred financing costs	-0-	4,592	150,000
Amortization of discount – PIK Notes	-0-	- 0 -	367,534
Issuance of PIK Notes in payment of interest	-0-	- 0 -	863,870
Stock issued for director and consulting services	30,999	34,338	231,764
Fair value of warrants and options issued to consultants and directors	641, 112	429,029	3,558,409
Loss on revaluation of stock warrants	1,259,500	-0-	1,034,500
Loss on revaluation of stock awards	21,000	1,000	240,500
Gain on stock award forfeiture	-0-	- 0 -	(145,000 )
Gain on disposition of assets	-0-	(1,000 )	(4,523 )
Gain on settlement of debts	-0-	-0-	(101,380 )
Other non-cash expense (income)	-0-	-0-	(28,587 )
Provision for doubtful accounts	-0-	-0-	11,938
Loss on impairment of assets	-0-	- 0 -	66,881
<b>Change in operating assets and liabilities:</b>			
<b>(Increase) Decrease in:</b>			
Accounts receivable	10,248	17,075	(22,110 )
Mining supplies inventory	-0-	325	-0-
Deposits and prepaids	(33,730 )	(15,847 )	57,037
<b>Increase (Decrease) in:</b>			
Accounts payable and accrued expenses	(10,538 )	247,460	179,029
Net cash used by discontinued operations	-0-	1,350	603,585
Net cash used by operating activities	(2,058,873 )	(911,487 )	(15,395,371)
<b>Cash Flows From Investing Activities:</b>			
Purchases of land improvements	-0-	- 0 -	(72,923 )
Purchases of equipment and vehicles	(49,389 )	(74,979 )	(503,460 )

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

Proceeds from sale of assets	-0-	1,000	151,000
Net cash provided by discontinued operations	-0-	- 0 -	434,670
Net cash provided (used) by investing activities	(49,389 )	(73,979 )	9,287
Cash Flows From Financing Activities:			
Payments on notes payable	(60,392 )	(62,597 )	(891,739 )
Payments on leases payable	(10,094 )	(45,817 )	(431,088 )
Proceeds from insurance settlement	-0-	- 0 -	115,000
Proceeds from notes payable	-0-	- 0 -	124,129
Proceeds from PIK notes payable	-0-	- 0 -	9,600,000
Proceeds from sale of common stock	-0-	2,250,000	14,185,000
Payments for legal settlement	-0-	- 0 -	(170,000 )
Net cash used by discontinued operations	-0-	- 0 -	(56,431 )
Net cash provided (used) by financing activities	(70,486 )	2,141,586	22,474,871
Net increase (decrease) in cash	(2,178,748 )	1,156,120	7,088,787
Cash and cash equivalents at beginning of period	10,170,536	1,642,340	903,001
Cash and cash equivalents at end of period	\$7,991,788	\$2,798,460	\$7,991,788

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

APPLIED MINERALS, INC.  
 (An Exploration Stage Mining Company)  
 STATEMENTS OF CASH FLOWS  
 (Unaudited)

	For the three months ended March 31,		For the Period January 1, 2009 (Beginning of Exploration Stage) through March 31, 2012
	2012	2011	
<b>Cash Paid For:</b>			
Interest	\$4,312	\$15,054	\$90,848
Income Taxes	\$-0-	\$160	\$-0-
<b>Supplemental Disclosure of Non-Cash Investing and Financing Activities:</b>			
Conversion of debt and			
accrued interest to common stock	\$-0-	\$- 0 -	\$11,459,738
Equipment financed on lease	\$-0-	\$- 0 -	\$197,000
Equipment financed with notes payable	\$-0-	\$-0-	\$173,838
Prepaid insurance financed with note payable	\$-0-	\$-0-	\$141,908

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

APPLIED MINERALS, INC.  
(An Exploration Stage Mining Company)  
Condensed Notes to the Financial Statements

NOTE 1 – BASIS OF PRESENTATION

The interim financial statements as of March 31, 2012 and 2011, and cumulative from inception of the exploration stage through March 31, 2012, are unaudited. However, in the opinion of management, the interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present the Company's financial position as of March 31, 2012 and the results of its operations and its cash flows for the periods ended March 31, 2012 and 2011, and cumulative from inception of the exploration stage through March 31, 2012. These results are not necessarily indicative of the results expected for the year ending December 31, 2012. The accompanying financial statements and condensed notes thereto do not reflect all disclosures required under accounting principles generally accepted in the United States of America. Refer to the Company's audited financial statements as of December 31, 2011, as amended, filed with the Securities and Exchange Commission ("SEC") for additional information, including significant accounting policies.

Operating results for the three months period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The financial information as of December 31, 2011 included herein has been derived from the Company's audited financial statements as of, and for the fiscal year ended, December 31, 2011, as amended.

NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS

The Company owns the Atlas Mine, a consolidation of several patented mining claims located in the Coeur d'Alene Mining District near Mullan, Idaho, and the Dragon Mine, a halloysite clay property located in Juab County, Utah. The Company discontinued its contract mining operation on December 31, 2008, and, thus, changed its planned principal operation to development and exploration of its mining property located in Utah on January 1, 2009, thus taking the Company to the exploration stage at that date. The Company is currently focused on the commercialization of the Dragon Mine property while actively seeking to dispose of the idle Atlas Mine property.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed, financial statements represent the consolidation of the Company and all companies that the Company directly controls either through majority ownership or otherwise.

Accounting Method and Use of Estimates

The Company's financial statements are prepared using the accrual basis of accounting in accordance with principles generally accepted in the United States of America.

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 in 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

The fair value of the Company's financial instruments reflects the amounts that the Company estimates to receive in connection with the sale of an asset or paid in connection with the transfer of a liability in an orderly transaction between market participants at the measurement date (exit price). For financial assets and liabilities that are periodically re-measured to fair value, the Company discloses a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following 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 – unobservable inputs

APPLIED MINERALS, INC.  
(An Exploration Stage Mining Company)  
Condensed Notes to the Financial Statements

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Fair Value (continued)

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued expenses, approximate the fair value of the respective assets and liabilities at March 31, 2012 and December 31, 2011 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 short- and long-term notes payable approximate fair value.

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

	Fair value measurement using inputs			Carrying amount at March 31, 2012
	Level 1	Level 2	Level 3	
Financial instruments:				
Liabilities				
Stock awards payable	\$ - 0 -	\$ 148,000	\$ - 0 -	\$ 148,000
Derivative instruments - Warrants	- 0 -	4,614,500	- 0 -	4,614,500
Total	\$ - 0 -	\$ 4,762,500	\$ - 0 -	\$ 4,762,500

The Company estimates the fair value of the warrants using the Black-Scholes option pricing model using the following assumptions:

	Fair value measurement using inputs	
	March 31, 2012	December 31, 2011
Market price and estimated fair value of stock:	\$ 1.48	\$ 1.27
Exercise price:	\$ 2.00	\$ 2.00
Expected term (years):	4.75	5
Dividend yield	\$ - 0 -	\$ - 0 -
Expected volatility:	89 %	77 %
Risk-free interest rate:	1.04 %	.90 %

The risk-free rate of return reflects the interest rate for United States Treasury Note with similar time-to-maturity to that of the warrants.

## Mining Exploration and Development Costs

Land and mining property acquisitions 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. Capitalized development costs will include acquisition costs and property development costs. 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.

At March 31, 2012 and 2011, all costs associated with the Company's mine have been expensed.

#### Subsequent Events

The Company evaluates events that occur subsequent to the balance sheet date of periodic reports, but before financial statements are issued for periods ending on such balance sheet dates, for possible adjustment to such financial statements or other disclosure.

#### Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS')." The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRS. The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted. The Company does not expect that the adoption of ASU 2011-04 will have a material impact on its financial statements.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." Specifically, the new guidance allows an entity to present components of net income or other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The new guidance is effective for fiscal years and interim periods beginning after December 15, 2011 and is to be applied retrospectively. The Company does not expect that the adoption of ASU 2011-05 will have a material impact on its financial statements.



APPLIED MINERALS, INC.  
(An Exploration Stage Mining Company)  
Condensed Notes to the Financial Statements

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

## NOTE 4 – DISCONTINUED OPERATIONS

The Company permanently discontinued its contract mining operations. There are no plans to resume the contract mining business.

The Company has identified assets attributed to the discontinued operation that are being held for sale or have been identified as part of the discontinued operation and have been identified as such. Assets at March 31, 2012 and December 31, 2011 attributed to the discontinued operation are as follows:

	March 31, 2012	December 31, 2011
Property and equipment	\$445,180	\$445,180
Total Assets From Discontinued Operations	\$445,180	\$445,180

At March 31, 2012 property taxes of \$1,835 were accrued related to discontinued operations. At December 31, 2011, there were no liabilities attributed to discontinued operations.

Income (loss) after discontinued operations for the three months ended March 31, 2012 and 2011 was calculated as follows:

	For the three months ended March 31,	
	2012	2011
Revenues from discontinued operations	\$-0-	\$- 0 -
Cost of goods sold	-0-	- 0 -
General and administrative expenses	(1,835 )	(910 )
Collection of previously recorded bad debt	-0-	- 0 -
Loss on disposal of assets	-0-	- 0 -
Loss on impairment of assets	-0-	- 0 -
Income (Loss) from discontinued operations	(1,835 )	(910 )
Income tax liability	- 0 -	- 0 -
Net income (loss) from discontinued operations	\$(1,835 )	\$(910 )

The Company does not believe there is an effect of income taxes on discontinued operations. Due to ongoing operating losses, the uncertainty of future profitability and limitations on the utilization of net operating loss carry-forwards under IRC Section 382, a valuation allowance has been recorded to fully offset the Company's deferred tax asset.

#### NOTE 5 – STOCK AWARD PAYABLE

In 2007, the Company agreed to grant 150,000 shares in total to an Executive Vice President, John Gaensbauer, as part of his employment agreement. At the time of the grant in 2007, there were not enough unauthorized, unissued and available shares necessary to issue the above referenced shares to Mr. Gaensbauer. By the time the Company had enough authorized available shares to issue the stock to Mr. Gaensbauer who had, by then, resigned his position, the Company and certain members of its former management team were defendants in a class action filed by the Company's shareholders. Given the class action, the Company was uncertain whether it would have to ultimately issue shares to Mr. Gaensbauer, settle such stock grant in cash, or rescind the stock grant. As such the Company recorded the stock grant as a liability and revalues it accordingly at the end of each period. The Company continues to explore its options to resolve this outstanding issue. For the three months ended March 31, 2012, the Company realized a loss on the revaluation of the remaining stock award. The value of the outstanding stock awards at March 31, 2012 and December 31, 2011 were \$148,000 and \$127,000, respectively.

APPLIED MINERALS, INC.  
(An Exploration Stage Mining Company)  
Condensed Notes to the Financial Statements

## NOTE 6 - NOTES PAYABLE

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

Note payable to an insurance company due in monthly installments, including interest at 3%. Note matures in July 2012.

Note payable at March 31, 2012, payable \$5,556 monthly, including interest	\$ 139,288
Note payable to an insurance company due in monthly installments, including 3% interest	63,464
Less: current portion	(119,479 )
Note payable, long-term portion	\$83,273

The following is a schedule of the future minimum note payments as of March 31, 2012:

2012	\$ 119,479
2013	61,477
2014	21,796
Total notes payable	\$202,752

During the three months ending March 31, 2012, the Company's interest expense totaled \$4,312.

## NOTE 7 – CONVERTIBLE DEBT (PIK NOTES)

Between December 31, 2008 and October 2010, the Company sold several 10% Convertible Notes due December 15, 2018. The notes convert into common stock at a fixed conversion rate of between \$0.35 to \$1.00 per share, with conversion rates at the time of the issuance of the notes being lower than, higher than, or equal to the market price of the Company's common stock. In the case in which the conversion rate of a newly issued note is lower than the market price of the Company's common stock, a beneficial conversion feature is recognized and the intrinsic value of the beneficial conversion feature is recorded as a discount on the note with a corresponding credit to additional paid-in capital. The notes bear nominal interest at the rate of 10% per annum (or an effective interest rate of 10.25%) payable (including by issuance of additional in-kind notes) semi-annually in arrears on June 15th and December 15th of each year. The notes include terms whereby interest payable may be paid in either cash or by converting the interest owed the note holder into additional PIK Notes. The Convertible Notes are notes whereby the holder may only realize the value of the conversion option by exercising the option and receiving the entire proceeds in either a fixed number of shares or the equivalent amount of cash (at the discretion of the issuer).

## Conversion Feature

All notes described above may be converted at the option of the note holder at any time there is sufficient authorized unissued common stock of the Company available for conversion. The PIK Notes, except those issued in October

2010, may be converted, at the option of the Company, when the average closing bid price or market price of the Company's common stock for the preceding five (5) days is above the conversion price. The Notes issued in October 2010 cannot be converted by the Company for one year from the date of issuance

As of December 31, 2011, all PIK notes had been converted to the Company's common stock.

#### Deferred Financing Costs

In connection with the convertible debt issued during October 2010, the Company recorded the financing costs paid to a third party in the amount of \$150,000 as deferred financing costs. These costs were amortized over the term of the debt. The Company amortized the deferred financing costs using straight-line over the life of the debt, which approximates the effective interest rate. In the event of conversion before note maturity, any remaining costs were immediately expensed. During the three months ended March 31, 2012, 2011, and 2010, total expense related to deferred financing costs were \$0, and \$4,592, respectively. As of March 31, 2012 and December 31, 2011, there were \$0 of deferred financing costs remaining on Convertible PIK Notes.

#### Mandatory Conversion

In May 2011, the Company mandatorily converted the May 2010 convertible debt and unpaid interest. Upon conversion, 1,654,725 shares of the Company's common stock were issued for the conversion of the notes.

In October 2011, the Company mandatorily converted the October 2010 convertible debt and unpaid interest into the Company's common stock. On the date of conversion, 3,365,170 shares of common stock was issued, valued at a total of \$3,365,170, of which \$3,250,786 was principal and the remainder of \$114,384 was accrued interest. In addition, the related deferred financing costs were immediately amortized to zero as, at the time of mandatory conversion, the remaining convertible debt equaled \$0.

APPLIED MINERALS, INC.  
(An Exploration Stage Mining Company)  
Condensed Notes to the Financial Statements

## NOTE 8 – 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, 2012 and December 31, 2011, no shares of preferred stock were outstanding.

## Common Stock

The Company is authorized to issue 120,000,000 shares of common stock, \$0.001 par value per share. At March 31, 2012 and December 31, 2011, 89,142,169 and 89,119,405 shares were issued and outstanding, respectively.

During the three months ended March 31, 2012, the Company issued a total of 22,764 shares of restricted, common stock to directors and consultants as payment of fees. The value of such was recorded at \$30,999.

## NOTE 9 – OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK

## Outstanding Stock Warrants

No warrants were issued during the three months ended March 31, 2012. A summary of the status and changes of the warrants are as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2011	6,423,777	\$ 1.77
Issued	-0-	-0-
Exercised	-0-	-0-
Forfeited	-0-	-0-
Expired	-0-	-0-
Outstanding at March 31, 2012	6,423,777	\$ 1.77
Exercisable at March 31, 2012	6,405,657	\$ 1.77

A summary of the status of the warrants outstanding at March 31, 2012 is presented below:

Exercise Price	Warrants Outstanding			Weighted Average Exercise Price	Warrants Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life			Number Exercisable	Weighted Average Exercise Price
\$ 0.35	90,000	2.00 years		\$ 0.35	90,000	\$ 0.35
\$ 0.78	213,402	3.83 years		\$ 0.78	213,402	\$ 0.78

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

\$ 0.80	264,668	3.62 years	\$ 0.80	264,668	\$ 0.80
\$ 1.00	340,000	2.50 years	\$ 1.00	340,000	\$ 1.00
\$ 1.15	461,340	9.08 years	\$ 1.15	461,340	\$ 1.15
\$ 2.00	5,054,367	4.72 years	\$ 2.00	5,036,247	\$ 2.00
	6,423,777		\$ 1.77	6,405,657	\$ 1.77

At March 31, 2012, the total compensation of \$20,979 for unvested shares is to be recognized over the next 3 months on a weighted average basis. Compensation expense of \$188,907 has been recognized for the vesting of warrants to non-related parties in the accompanying statements of operations for the three months ended March 31, 2012.

#### Outstanding Stock Options

The Company is authorized to issue stock options under the existing stock option plan approved by stockholders.

The fair value of each of the Company's stock option awards is estimated on the date of grant using a 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 Company uses historical data to estimate forfeitures within its valuation model.

The expected term of awards granted is derived from historical experience under the Company's stock-based compensation plans and represents the period of time that awards granted are expected to be outstanding.

APPLIED MINERALS, INC.  
(An Exploration Stage Mining Company)  
Condensed Notes to the Financial Statements

## NOTE 9 – OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK (CONTINUED)

## Outstanding Stock Options (continued)

The significant assumptions relating to the valuation of the Company's options for the three months ended March 31, 2012 and 2011 were as follows:

	2012	2011
Dividend Yield	0%	0%
Expected Life	5 years	5 – 10 years
Expected Volatility	89%	81 – 105%
Risk Free Interest Rate	0.72% - 1.06%	2.02 – 3.75%

A summary of the status and changes of the options granted under stock option plans and other agreements for the period ended March 31, 2012 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2011	11,598,411	\$0.83
Issued	225,000	1.45
Exercised	-0-	-0-
Forfeited	-0-	-0-
Expired	-0-	-0-
Outstanding at March 31, 2012	11,823,411	\$0.84
Exercisable at March 31, 2012	8,444,452	

During the three months ended March 31, 2012, the Company issued 225,000 options to purchase the Company's common stock with an average exercise price of 1.35. The options that have been granted will vest either monthly or quarterly as follows:

Shares	Frequency	Vesting Information	
		Begin Date	End Date
225,000	Monthly	March 1, 2012	February 1, 2013

A summary of the status of the options outstanding at March 31, 2012 is presented below:

Options Outstanding

Options Exercisable

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

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
0.65 - \$					
\$0.71	75,000	2.25 years	\$0.69	75,000	\$0.69
\$0.70	7,358,277	7.50 years	\$0.70	7,358,277	\$0.70
\$0.83	3,205,134	4.00 years	\$0.83	757,425	\$0.83
\$1.00	60,000	4.25 years	\$1.00	60,000	\$1.00
\$1.24	100,000	5.00 years	\$1.24	8,333	\$1.24
\$1.45	125,000	5.00 years	\$1.45	10,417	\$1.45
\$1.90	900,000	9.50 years	\$1.90	175,000	\$1.90
	11,823,411		\$0.74	8,444,452	\$0.99

At March 31, 2012, the total compensation of \$2,161,146 for unvested shares is to be recognized over the next three years on a weighted average basis.

Compensation expense of \$452,205 has been recognized for vesting of options for the three months ended March 31, 2012. The intrinsic value of the outstanding options at March 31, 2012 was \$7,940,093.



APPLIED MINERALS, INC.  
(An Exploration Stage Mining Company)  
Condensed Notes to the Financial Statements

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Company will accrue an estimated loss contingency when information is available before the financial statements are issued or are available to be issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

COMMITMENTS

Material Advisors

On December 30, 2008, the Company entered into a Management Agreement with Material Advisors LLC, a management services company (“Manager”). The Management Agreement has a term ending on December 31, 2010 with automatic renewal for successive one-year periods unless either Manager or Company provides 90 days prior notice of cancellation to the other party or pursuant to the termination provisions of the Management Agreement. Under the Management Agreement, Manager will perform or engage others, including Andre Zeitoun, a principal of Manager, Chris Carney and Eric Basroon (“Management Personnel”), to perform senior management services including such services as are customarily provided by a chief executive officer but not (unless otherwise agreed) services customarily provided by a chief financial officer. Pursuant to the Management Agreement, Andre Zeitoun will serve as Company’s Chief Executive Officer and will be appointed as a member of the Company’s Board of Directors.

The services provided by Manager will include, without limitation, consulting with the Board of Directors of the Company and the Company’s management on business and financial matters. Manager will be paid an annual fee of \$1,000,000 per year, payable in equal monthly installments of \$83,333. Manager will be solely responsible for the compensation of the Management Personnel, including Mr. Zeitoun and the Management Personnel will not be entitled to any direct compensation or benefits from the Company (including, in the case of Mr. Zeitoun, for service on the Board). The Company granted Manager non-qualified stock options to purchase, for \$0.70 per share, up to 6,583,277 shares of the Company’s common stock.

On February 8, 2011, the Company’s Board of Directors extended the management agreement between the Company and Materials Advisors for an additional year. The extension continues Manager’s services through December 31, 2012. The extension included the option to purchase 2,904,653 shares of the Company’s common stock at an exercise price of \$0.83. The vesting of such options will begin January 1, 2012 and will vest equally over the twelve-month period ending December 1, 2012.

As of January 1, 2012, the Company’s management agreement with the Manager was amended. The amendments included: (i) the Company is to be responsible for any employee benefits provided to the members of the Manager; and (ii) the Company is to be solely responsible for all travel, entertainment, office and marketing expenses and all other ordinary and necessary business expenses incurred by the Manager and its members in connection with the services provided under the 2012 Agreement.

On January 17, 2012, the Company’s Board of Directors unanimously agreed to pay a performance bonus of \$750,000 to the Manager.

Office Lease

On February 24, 2012 the Company entered into an extension of their lease agreement to commence on April 1, 2012. The lease is to expire on December 31, 2012 with an option to extend the lease through December 31, 2014. A deposit of \$68,958 was paid on March 31, 2012. The monthly rent will be \$11,614 for 2012, \$11,963 for 2013, and \$12,322 for 2014, if the Company makes the decision to extend the lease for 2013 and 2014.

NOTE 11 – RELATED PARTIES

The Company is a related party to Material Advisors (“MA”), an entity with which the Company has a management agreement for executive guidance. The agreement has a term beginning on December 30, 2008 and ending on December 30, 2012 and calls for monthly management fees of \$83,333 to be paid for services. In addition to management fees, MA was granted stock options equivalent to 6,583,277 shares of common stock. Such options vest equally over the life of the management agreement and may be exercised at a strike price of \$0.70 per share. On February 8, 2011, the Company’s Board of Directors extended the management agreement between the Company and Materials Advisors for an additional year. The extension continues Material Advisor’s services through December 31, 2012. The extension included the option to purchase 2,904,653 shares of the Company’s common stock at an exercise price of \$0.83. The vesting of such options will begin January 1, 2012 and will vest equally over the twelve-month period ending December 1, 2012. As of January 1, 2012, the Company’s management agreement with the Manager was amended.

The amendments included: (i) the Company is to be responsible for any employee benefits provided to the members of the Manager; and (ii) the Company is to be solely responsible for all travel, entertainment, office and marketing expenses and all other ordinary and necessary business expenses incurred by the Manager and its members in connection with the services provided under the 2012 Agreement. On January 17, 2012, the Company’s Board of Directors unanimously agreed to pay a performance bonus of \$750,000 to the Manager.

## NOTE REGARDING 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.

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

### OVERVIEW

Applied Minerals, Inc. is a leading global producer of halloysite clay used in the development of advanced polymer, catalytic, environmental remediation, and controlled release applications. The Company operates the Dragon Mine located in Juab County, Utah, the only commercial source of halloysite clay in the western hemisphere. We believe that we possess the only source of halloysite clay in the Western Hemisphere large enough, and of high enough purity, to supply commercial-sized application demand. Since January 1, 2011 we have sold approximately \$93,000 of halloysite clay to two companies that are using it in the production of a number polymer-based applications. We have three grades of halloysite products, the difference among them being the percentage of halloysite contained in each. We also differentiate our halloysite products based on color. At times we surface treat our product to achieve certain performance characteristics required by customers products. There are approximately 300 companies in various stages of testing halloysite clay products. There have been no sales of iron ore. We intend to market the goethite and the hematite as iron ore pigments.

### Property Exploration

The Dragon Mine, to our knowledge, is the only source of halloysite clay in the Western Hemisphere large enough, and of high enough purity, to supply commercial-sized application demand. The property is located in the Tintic District of Utah, covering 230 acres of fully owned land with mining permits for extraction of minerals. Formation is attributed to the alteration of fine clay sediments that accumulated on what was then a shallow sea floor over 600 million years ago. From 1949 through 1976, Filtrol Corporation operated the Dragon Mine on a contracted basis for the property's owner at the time, a subsidiary of Anaconda Mining Company. According to certain mining-related records, Filtrol mined approximately 1.35 million tons of clay from the Dragon Mine for use as an input of a petroleum-cracking catalyst product. The mine was idle from 1977 until it was leased by the Company in 2001. The property was ultimately purchased by the Company in 2005. The current management of the Company hired geologist Dr. Ian Wilson who has supervised our extensive drilling program and continues to explore underground areas of the Dragon property including, but not limited to, two mines developed by prior operators as well as one area that had previously remained unexplored. As of the date of this report, an above-ground area covering approximately 11.5 of the Dragon Mine's 230 acres have been explored. The extraction of material from certain targeted areas of this resource is in progress. The Company applied for and was granted a large mining permit in early 2011 for which it will be required to post a reclamation surety bond. The Company posted the required surety bond in May 2011.

The Dragon Mine property also contains five waste piles comprised of material, which can be processed to create a range of halloysite products of different grades of purity. The piles are the result of prior mining operations that took place between 1949 and 1976. The clay mined during that period was used in a petroleum-cracking catalyst

application. For that application the clay mined had to contain no more than 2% of an iron oxide impurity. Any clay, which exceeded such limit, was discarded into the piles. To date, Applied Minerals has characterized the chemistry and mineralogy of the surface piles and has developed a processing system to convert them into purified halloysite products. The Company has identified a number of application areas to which it is marketing its waste pile material.

In addition to the presence of halloysite, the Dragon Mine also possesses quantities of other clays, such as, kaolinite, illite, smectite as well as iron oxide ores in the form of hematite, goethite and ferrihydrite, and manganese, some of which we are in the process of commercializing. The Dragon Mine is present at the contact between the Silver City quartz monzonite stock and limestone and dolomite of the Paleozoic formation. Gold and silver is found in veinlets in pervasively altered rocks of the Silver City stock immediately south of the Dragon mine and were one of the first discoveries made in the Tintic district in 1869. The Dragon Mine was mined as a copper-gold deposit not long after these initial findings. The mine's fissure fault system forms the southern extremity of the Iron Blossom ore run. Within five kilometers of the Dragon Mine, exploration is being carried out by at least one major mining company to determine the possibility of the existence of a large copper-gold porphyry. Testing of surface rock samples in the vicinity of the Dragon Mine carried out in the past show anomalous copper values with gold values exceeding one ounce per ton and silver values of approximately five ounces per ton. Records indicate that, during the 1870's, mining activity at the Dragon Mine had been focused on the iron ore presence at the mine. According to certain records kept by the former U.S. Bureau of Mines, the 305,000 tons of iron ore mined during the 1870's produced 18,000 ounces of gold and 928,000 ounces of silver.

The Company has spent significant resources on the exploration of its Dragon Mine property. The results of the extensive drilling program supervised by the Company's consulting geologist has identified what is believed to be a sufficient amount of clay material, both underground and on the surface of the property, to support a commercial operation. The clay mineral identified at the Dragon Mine has been classified by level of purity. The Company will not be able to refer to the mineral found in its Dragon Mine property as a "reserve" until it can demonstrate the deposit is economically viable. As the Company continues to sell its halloysite clay products into existing and developing markets, it will revisit the possibility of classifying its deposit as a reserve.

## Commercial Applications of Halloysite

Halloysite is an aluminosilicate clay exhibiting a rare, naturally occurring hollow tubular structure. Halloysite tubes have a length in the range of 0.5 - 3.0 microns, an exterior diameter in the range of 50 - 70 nanometers and an internal diameter (lumen) in the range of 15 - 30 nanometers. The clay is non-toxic and natural, demonstrating high biocompatibility without posing any risk to the environment. It is chemically identical to commonly used kaolin clay ( $\text{Al}_2\text{Si}_2\text{O}_5(\text{OH})_4 \times n\text{H}_2\text{O}$ ) with one layer of water molecules existing between layers of alumina and silica. Formation of halloysite occurs when kaolin sheets roll into tubes due to the strain caused by a lattice mismatch between the adjacent silicone dioxide and aluminum oxide layers. This is a process that occurs over millions of years under extremely rare geological conditions.

The results of research carried out by the Company, academic institutions, and other third parties have determined that the unique morphological and chemical characteristics of the Dragon Mine's halloysite resource add functionality to applications such as, but not limited to, the controlled release of biological and chemical agents, polymer-related additives, fillers and fire retardants, paints and coatings, agricultural products, sorbents for environmental remediation, oil field drilling minerals, catalysts, filtration technologies, hydrogen storage for fuel cells and cosmetics.

To our knowledge, the only other large-scale, commercially developed source of halloysite clay is located in New Zealand. The New Zealand property, which is owned by Imerys, (Euronext: NK), has been historically focused on supplying its halloysite clay to the porcelain, fine china and other commodity-like markets. Our primary focus, however, is centered on marketing the Dragon Mine's halloysite clay to certain advanced application markets to which the material's unique morphological and chemical characteristics provides enhanced functionality, contributing to the development of a number of high-performance products within a range of industries. At the time of this report, we have sold our Dragon Mine clay to two customers who plan to utilize it in plastic applications. Additionally, we are at different stages of the halloysite commercialization process with at least one hundred potential customers. The Company currently markets its line of halloysite-based products under the Dragonite™ name.

## Critical Accounting Policies

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.

### Accounting Standards Codification

The Financial Accounting Standards Board (the "FASB") has compiled the "Accounting Standards Codification" (the "ASC" or "Codification"), which is a new structure that takes accounting pronouncements and organizes them by approximately ninety accounting topics. The Codification is the single source of authoritative generally accepted accounting principles in the United States. All guidance included in the Codification is considered authoritative and as of December 31, 2011, we had adopted such guidance.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force ("EITF")), the American Institute of Certified Public Accountants ("AICPA"), and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements.

#### Impairment of Assets

Long-lived assets are measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. The Company records losses due to impairment of assets held in continuing operations, and losses on assets held for sale from impairment, which is included in net loss from discontinued operations.

#### Mining Exploration and Development Costs

Land and mining property acquisitions are carried at cost. We expense prospecting and mining exploration costs. At the point when a property is determined to have proven and probable reserves, subsequent development costs are capitalized as capitalized development costs. Capitalized development costs will include acquisition costs and property development costs. 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. At March 31, 2012 and 2010, all costs associated with the Dragon Mine have been expensed.

#### Provision for Income Taxes

Income taxes are calculated based upon the liability method of accounting. Deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard to allow for recognition of such an asset. In addition, realization of an uncertain income tax position must be estimated as "more likely than not" (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Further, the recognition of tax benefits recorded in the financial statements to be based on the amount most likely to be realized assuming a review by tax authorities having all relevant information.

#### Stock Options and Warrants

We have stock option plans that provide for stock-based employee compensation, including the granting of stock options, to certain key employees. The plans are more fully described in Note 9 to the financial statements. Compensation expense is recorded for all share-based awards granted to either non-employees, or employees and directors on or after January 1, 2006. Accordingly, compensation expense has been recognized for vesting of options and warrants to consultants and directors in the accompanying statements of operations. We account for the issuance of equity instruments (including options and warrants) to acquire goods and services based on the fair value of the goods and services or the fair value of the equity instrument at the time of issuance, whichever is more reliably measurable.

## RESULTS OF OPERATIONS

### Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Revenue for the three months ended March 31, 2012 was approximately \$55,400, compared to \$44,500 generated during the same period in 2011. The increase was due to an increase in sales of Dragonite™ to a customer for use as a reinforcing additive for certain plastic applications.

Gross profit for the three months ended March 31, 2012 was approximately \$12,900 compared to \$23,400 in gross profit generated during the same period in 2011. The \$10,500 decline in gross profit was driven primarily by the allocation of labor expense to cost of sales, which was not allocated in the same period in 2011. Gross profit as a percentage of revenue was approximately 23.2% compared to 52.3%. The difference was attributable primarily to the allocation of labor costs to cost of sales, which did not occur in the same period in 2011.

Total operating expenses for the three months ending March 31, 2012 were approximately \$2,785,400 compared to approximately \$1,577,500 of expenses incurred during the same period in 2011, an increase of \$1,207,900 or 76.7%. The increase was due primarily to a \$1,102,800, or 121.5%, increase in general and administrative expense.

Exploration costs incurred during the three months ended March 31, 2012 were approximately \$775,000 compared to approximately \$670,900 of costs incurred during the same period in 2011, an increase of approximately \$104,100, or 15.5%. The majority of our exploration expenses during the quarter were 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 was related, primarily, to management's decision to further expand its drilling and testing program, for both clay and iron ore, to additional areas of the Dragon Mine property, the testing of which has indicated the presence of saleable clay mineral and an iron ore deposit. The primary drivers of the increase in exploration costs included a \$42,800, or 27.5%, increase in employee wages due to an increase in the general activity of the Company's workforce, the incurrence of \$41,100 of employee health insurance expense not incurred during the same period in 2011, a \$25,600, or 271.5%, increase in materials and supplies due to the increase in drilling and development activity at the mine, a \$19,700, or 78.2%, increase in contract testing of clay and iron drill samples, a \$16,100, or 110.6%, increase in equipment rental and lease expense related to an expansion of the Company's fleet of mining and mining-related equipment, and a \$14,700, or 22.6%, increase in depreciation expense related to the Company expanded fleet of equipment, offset by a \$41,600, or 32.6%, decline consulting services expense resulting from a decrease in the utilization of certain geologic-related services, and a \$11,200, or 45.9%, decline in explosive expense.

General and administrative expenses incurred during the three months ended March 31, 2012 totaled approximately \$2,010,400 compared to approximately \$907,700 of expense incurred during the same period in 2011, an increase of approximately \$1,102,700 or 121.5%. The increase was driven primarily by the incurrence of a one-time performance bonus payment of \$750,000 to Material Advisors, LLC, a \$233,500, or 50.7%, increase in expense related to the issuance of options to certain employees, a \$56,500, or 94.1%, in wage and benefits expense due to an addition to the Company's management team and the offering of a company-paid health insurance plan to management, a \$35,700 increase in travel and related expense due primarily to a change in the terms of the Management Agreement with Material Advisors, LLC (see Note 10), the incurrence of \$17,600 of rent expense related to the lease of the office of the principal executives (see Note 10), a \$16,300, or 60.3%, increase in D&O insurance premiums (a larger policy was purchased), and a \$13,100, or 51.2%, increase in audit and accounting service fees, partially offset by a \$24,000 decline in legal expenses related to the lower utilization of outside counsel.

Net loss from exploration stage before discontinued operations for the three-month period ending March 31, 2012 was approximately \$4,056,700 compared to a loss of approximately \$1,695,100 incurred during the same period in 2011,

an increase of approximately \$2,361,600 or 139.3%. The increase in the loss from exploration stage before discontinued operations was due primarily to a \$10,500 decline in gross profit (as previously described), a \$104,100 increase in exploration expense (as previously described), a \$1,102,700 increase in general and administrative expense (as previously described), a \$1,259,500 expense related to the revaluation of warrants associated with the financing executed in December 2011, and a \$20,000 increase in the loss related to the revaluation of stock awards, partially offset by a \$127,800 decrease in interest expense, and a \$5,500 decline in other expense.

Net loss from discontinued operations for the three months ended March 31, 2012 was approximately \$1,800 compared to a loss of \$900 for the same period in 2011, an increase in net loss of approximately \$900. The increase in net loss from discontinued operations was due primarily to the incurrence of property taxes not incurred in the comparable period in 2011.

#### LIQUIDITY AND CAPITAL RESOURCES

From December 2008 through March 2012, our activities have been financed primarily through the sale of convertible debt and equity securities. During the twelve months ended March 31, 2012, we raised \$14,185,000 of cash proceeds through the sale of common stock. We may need to raise additional capital during the remainder of 2012, through the sale of equity, debt or the disposal of certain non-core assets, to successfully fund our operations. If we cannot raise sufficient capital through the sale of equity securities, the assumption of debt or the monetization of certain assets, our ability to fund our operations may be severely impaired and we may be unable to operate our business.

The Company has incurred material recurring losses from operations. At March 31, 2012, the Company had a total accumulated deficit of approximately \$43,084,500. For the three months ended March 31, 2012 and 2011, the Company sustained net losses from exploration stage before discontinued operations of approximately \$4,056,700 and \$1,695,100, respectively. These factors indicate that the Company may be unable to continue as a going concern for a reasonable period of time. The Company's continuation as a going concern is contingent upon its ability to generate revenue and cash flow to meet its obligations on a timely basis and management's ability to raise financing and/or dispose of certain non-core assets as required. If successful, this will mitigate the factors that raise substantial doubt about the Company's ability to continue as a going concern.



Cash used by operating activities during the nine months ended March 31, 2012 was approximately \$2,058,900 compared to \$911,500 of cash used during the same period in 2010. The \$1,147,400 increase in cash used during the period was due primarily to an increase in the net loss realized of approximately \$2,362,500, and a \$284,400 increase in cash used by a change in operating assets and liabilities, partially offset by a \$1,259,500 non-cash loss on the revaluation of stock warrants, a \$212,200 increase in non-cash expense related to the fair value of options granted to certain employees and consultants, and a \$14,000 increase in depreciation expense.

Cash used by investing activities during the three months ended March 31, 2012 was approximately \$49,400 compared to a use of \$74,000 during the same period in 2011. The \$24,600 decrease in cash used during the period was driven by a \$24,600 decrease in the purchase of vehicles and equipment.

Cash used through financing activities during the three months ended March 31, 2012 was approximately \$70,500 compared to \$2,141,600 of cash generated during the same period in 2011. The \$2,212,100 decrease in cash generated during the period was driven primarily through the elimination of \$2,250,000 of cash proceeds raised through the sale of common stock during the comparable period in 2011.

#### OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements between the Company and any other entity that have, or are reasonably 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.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

#### ITEM 4. CONTROLS AND PROCEDURES

##### (a) Evaluation of Disclosure Controls and Procedures

During the evaluation of disclosure controls and procedures as of March 31, 2012, management identified material weaknesses in internal control over financial reporting, which management considers an integral component of disclosure controls and procedures. We have identified the following material weaknesses: (i) certain controls over equity were not effective to ensure that all transactions involving equity were recorded in an accurate and timely fashion; (ii) certain controls were not effective to ensure that all expenses were accurately categorized; (iii) the Company did not have adequate control over the recording and monitoring of purchase orders and accounts receivables; and (iv) the Company, given its relatively small size, did not have sufficient segregation of duties over a variety of financial processes. Management, with the participation of the principal executive officer and principal financial officer, is committed to remediating the material weaknesses identified above by implementing changes to the Company's internal control over financial reporting. Management has implemented, or is in the process of implementing, the following changes to the Company's internal control systems and procedures: (i) a search is being conducted for a permanent Chief Accounting Officer who has particular experience remediating the inadequate controls exhibited by the Company; (ii) a CPA firm was engaged in late 2011 to assume its bookkeeping function from its soon-to-be-closed Idaho office, which, we believe, will result in a significant improvement in the accurate and timely recording of transactions; and (iii) additional accounting personnel will be hired as the Company grows its business and generates the cash flow necessary to make such hires. As a result of the material weakness identified, management concluded that Applied Minerals Inc.'s disclosure controls and procedures were ineffective.

Notwithstanding the existence of these material weaknesses, Applied Minerals, Inc. believes that the condensed consolidated financial statements in this quarterly report on Form 10-Q fairly present, in all material respects, Applied Minerals, Inc.'s financial condition as of March 31, 2012 and December 31, 2011, and results of its operations and cash flows for the period ended March 31, 2012 and 2011, in conformity with United States generally accepted accounting principles (GAAP).

(b) Changes in Internal Controls.

Management continues to both assess its internal controls and implement changes to strengthen them. Steps have been, or will be, taken by the Company to implement the previously discussed changes in a timely manner.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In accordance with SFAS No. 5, Accounting for Contingencies, 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 are involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, which in our opinion will not have a material adverse effect on our financial condition, cash flows or results of operations. Currently, we have no lawsuits, claims, proceedings and investigations pending involving us.

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

During the second quarter of 2011, we sold stock not registered under the Securities Act as listed below. Management at the time deemed such sales to be exempt under Section 4(2) of the Securities Act and indicated that all sales were made to accredited investors.

During the three months ended March 31, 2012, the Company issued 3,937 shares of its common stock as payment of a director's fee valued at \$5,000.

During the three months ended March 31, 2012, the Company issued 18,827 shares of its common stock to consultants for services valued at \$26,000.

During the three months ended March 31, 2012, the Company issued 100,000 options to purchase common stock, valued at \$76,200 using the Black-Scholes model, to a director.

During the three months ended March 31, 2012, the Company issued 125,000 options to purchase common stock, valued at \$111,075 using the Black-Scholes model, to an employee.

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 Exhibits
31.1	Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to the 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 the 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

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 8, 2012

/s/ ANDRE ZEITOUN  
By: Andre Zeitoun  
Chief Executive Officer

Dated: May 8, 2012

/s/ CHRISTOPHER T. CARNEY  
By: Christopher T. Carney  
Interim Chief Financial Officer

---

