

Applied Minerals, Inc.
Form 10-Q
November 14, 2011

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 September 30, 2011

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 Filer	Non-accelerated o Filer	Smaller Reportingx 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 November 9, 2011 was 79,072,854.

DOCUMENTS INCORPORATED BY REFERENCE: None.

APPLIED MINERALS, INC. AND SUBSIDIARY
(An Exploration Stage Company)

THIRD QUARTER 2011 REPORT ON FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

		Page(s)
Item 1.	Consolidated Financial Statements	
	Consolidated Balance Sheets at September 30, 2011 (unaudited) and December 31, 2010	3
	Consolidated Statements of Operations (unaudited) for the Three Months and Nine Months Ended September 30, 2011 and 2010	5
	Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended September 30, 2011 and 2010	7
	Condensed Notes to the Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	20
Item 4.	Controls and Procedures	20

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	21
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	21
Item 3.	Defaults Upon Senior Securities	21
Item 5.	Other Information	21
Item 6.	Exhibits	21
Signatures		

Certification under Sarbanes-Oxley Act of 2002

PART I. FINANCIAL INFORMATION

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

	September 30, 2011 (Unaudited)	December 31, 2010
Current Assets		
Cash and cash equivalents	\$2,158,034	\$1,642,340
Accounts receivable	765	61,275
Mining supplies inventory	-0-	3,503
Deposits and prepaids	249,828	178,738
Total Current Assets	2,408,627	1,885,856
Property and Equipment		
Land and tunnels	523,729	523,729
Land improvements	164,758	164,758
Buildings	432,997	432,997
Mining equipment	940,129	588,523
Milling equipment	336,146	333,483
Laboratory equipment	67,728	67,728
Office furniture and equipment	34,643	27,419
Vehicles	86,623	75,013
Less: Accumulated Depreciation	(665,334)	(481,364)
Total Property and Equipment	1,921,419	1,732,286
Other Assets		
Assets held for sale	445,180	450,042
Deferred financing cost	133,165	146,939
Total Other Assets	578,345	596,981
TOTAL ASSETS	\$4,908,391	\$4,215,123

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

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

	September 30, 2011 (Unaudited)	December 31, 2010
Current Liabilities		
Accounts payable and accrued liabilities	\$426,998	\$266,139
Liabilities from discontinued operations	-0-	1,152
Stock awards payable	130,000	80,000
Current portion of notes payable	200,557	206,209
Current portion of leases payable	38,931	167,956
Total Current Liabilities	796,486	721,456
Long-Term Liabilities		
Long-term portion of notes payable	361,571	361,295
Long-term portion of leases payable	-0-	10,094
Convertible debt (PIK Notes)	3,250,786	4,683,624
Total Long-Term Liabilities	3,622,647	5,055,013
TOTAL LIABILITIES	4,408,843	5,776,469
Commitments and Contingencies	-0-	- 0 -
Stockholders' Equity (Deficit)		
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, 75,696,531 and 69,704,393 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	75,697	69,704
Additional paid-in capital	37,522,715	29,860,041
Accumulated deficit prior to the exploration stage	(20,009,496)	(20,009,496)
Accumulated deficit during the exploration stage	(17,141,678)	(11,533,915)
Total Applied Minerals, Inc. stockholders' equity (deficit)	447,238	(1,613,666)
Non-controlling interest	52,310	52,320
Total Stockholders' Equity (Deficit)	499,548	(1,561,346)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$4,908,391	\$4,215,123

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

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

	For the three months ended		For the nine months ended		For the Period January 1, 2009 (Beginning of Exploration Stage) through September 30, 2011
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	
REVENUES	\$22,804	\$- 0 -	\$85,971	\$- 0 -	\$85,971
COST OF SALES	5,595	- 0 -	38,561	- 0 -	38,561
Gross Profit	17,209	- 0 -	47,410	- 0 -	47,410
OPERATING (INCOME)					
EXPENSES:					
Exploration costs	815,243	778,752	2,126,273	1,773,358	5,733,228
General and administrative	1,087,913	484,720	3,101,387	1,757,913	10,275,648
(Gain) loss from disposition of land and equipment	-0-	- 0 -	(1,000)	- 0 -	(4,523)
Loss on impairment of equipment	-0-	- 0 -	-0-	2,270	55,122
Total Operating Expenses	1,903,156	1,263,472	5,226,660	3,533,541	16,059,475
Net Operating Loss	(1,885,947)	(1,263,472)	(5,179,249)	(3,533,541)	(16,012,065)
OTHER INCOME (EXPENSE):					
Interest income	343	132	849	547	2,254
Interest expense	(96,168)	(40,894)	(353,559)	(164,845)	(912,159)
Sale of clay samples	-0-	- 0 -	-0-	3,750	10,943
Refund of insurance premium	-0-	- 0 -	-0-	6,370	20,156
Gain on stock award forfeiture	-0-	- 0 -	-0-	145,000	145,000
Gain (loss) on revaluation of stock awards	48,000	14,000	(50,000)	(22,000)	(222,500)
Net proceeds (expenses) from legal settlement	-0-	- 0 -	-0-	28,547	(173,325)
Amortization of deferred financing costs	(4,592)	- 0 -	(13,775)	- 0 -	(16,836)
Amortization of convertible debt discount	-0-	- 0 -	-0-	(2,194)	(365,341)

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

Gain on settlement of debt	-0-	- 0 -	-0-	- 0 -	333,502
Other income (expense)	1,248	2	(6,272)	(291)	(4,658)
Total Other Income (Expense)	(51,169)	(26,760)	(422,757)	(5,116)	(1,182,964)
Loss from exploration stage, before income taxes	(1,937,116)	(1,290,232)	(5,602,006)	(3,538,657)	(17,195,029)
Provision (benefit) for income taxes	-0-	- 0 -	-0-	- 0 -	-0-
Net Loss from Exploration Stage Before Discontinued Operations	(1,937,116)	(1,290,232)	(5,602,007)	(3,538,657)	(17,195,029)
Net income (loss) from discontinued operations	-0-	11,002	(5,772)	245,680	53,382
Net loss from exploration stage after discontinued operations	(1,937,116)	(1,279,230)	(5,607,778)	(3,292,977)	(17,141,647)
Net gain (loss) attributable to the non-controlling interest	(8)	3	15	(10)	(31)
Net Loss Attributable to Applied Minerals, Inc	\$(1,937,124)	\$(1,279,227)	\$(5,607,764)	\$(3,292,987)	\$(17,141,678)

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

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

	For the three months ended September 30, 2011		For the nine months ended September 30, 2011	
	2010	2010	2010	2010
Earnings Per Share Information (Basic and Diluted):				
Net loss per share before discontinued operations attributable to Applied Minerals, Inc. common shareholders				
	\$(0.03) \$(0.02) \$(0.08) \$(0.05
Discontinued operations attributable to Applied Minerals, Inc. common shareholders				
	-0-	- 0 -	-0-	- 0 -
Net Loss Per Share Attributable to Applied Minerals, Inc. common shareholders				
	\$(0.03) \$(0.02) \$(0.08) \$(0.05
Weighted Average Shares Outstanding (basic and diluted)				
	75,688,625	69,236,813	73,010,225	68,042,487

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

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

	For the nine months ended September 30,		For the Period January 1, 2009 (Beginning of Exploration Stage) through September 30, 2011
	2011	2010 (Restated)	
Cash flows from operating activities:			
Net loss	\$(5,607,778)	\$(3,292,977)	\$(17,141,647)
Adjustments to reconcile net loss to net cash used in operations:			
Depreciation	183,971	111,756	470,563
Amortization of deferred financing costs	-0-	- 0 -	3,061
Amortization of discount – PIK Notes	13,775	2,194	381,309
Issuance of PIK Notes in payment of interest	221,881	119,287	742,867
Stock issued for director and consulting services	125,091	43,080	207,420
Fair value of warrants and options issued to consultants and directors	1,503,852	149,235	2,239,755
Loss on revaluation of stock awards	50,000	22,000	222,500
Gain on stock award forfeiture	-0-	(145,000)	(145,000)
(Gain) Loss on disposition of assets	(1,000)	- 0 -	(4,523)
Loss on impairment of assets	-0-	2,270	62,019
Change in operating assets and liabilities:			
(Increase) Decrease in:			
Accounts receivable	60,510	- 0 -	(721)
Mining supplies inventory	3,503	(6,820)	-0-
Deposits and prepaids	(71,090)	64,063	32,478
Increase (Decrease) in:			
Accounts payable and accrued expenses	160,859	391,120	332,039
Net cash used by discontinued operations	(1,152)	5,175	603,539
Net cash used by operating activities	(3,357,578)	(2,534,617)	(11,994,341)
Cash flows from investing activities:			
Purchases of land improvements	-0-	(43,108)	(72,923)
Purchases of equipment and vehicles	(199,266)	(59,887)	(381,950)
Proceeds from sale of assets	1,000	100,000	151,000
Net cash provided by discontinued operations	-0-	- 0 -	434,670

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

Net cash provided by investing activities	(198,266)	(2,995)	130,797
Cash flows from financing activities:			
Payments on notes payable	(179,251)	(72,762)	(491,872)
Payments on leases payable	(134,211)	(75,933)	(387,249)
Proceeds from insurance settlement	-0-	- 0 -	115,000
Proceeds from notes payable	-0-	- 0 -	124,129
Proceeds from PIK notes payable	-0-	1,500,000	9,600,000
Proceeds from sale of common stock	4,385,000	- 0 -	4,385,000
Payments for legal settlement	-0-	(170,000)	(170,000)
Net cash used by discontinued operations	-0-	(26,225)	(56,431)
Net cash provided by financing activities	4,071,538	1,155,080	13,118,577
Net increase (decrease) in cash	515,694	(1,382,532)	1,255,033
Cash and cash equivalents at beginning of period	1,642,340	1,584,866	903,001
Cash and cash equivalents at end of period	\$2,158,034	\$202,334	\$2,158,034

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

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

	For the nine months ended September 30,		For the Period January 1, 2009 (Beginning of Exploration Stage) through September 30, 2011
	2011	2010	
Cash Paid For:			
Interest	\$43,162	\$52,138	\$71,642
Income Taxes	\$1,465	\$- 0 -	\$2,015
Supplemental Disclosure of Non-Cash Investing and Financing Activities:			
Conversion of debt and			
accrued interest to common stock	\$1,654,725	\$2,343,922	\$8,094,568
Equipment financed on lease	\$-0-	\$197,000	\$197,000
Equipment financed with note payable	\$198,838	\$-0-	\$198,838

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

APPLIED MINERALS, INC. AND SUBSIDIARY
(An Exploration Stage Mining Company)
Condensed Notes to the Consolidated Financial Statements
September 30, 2011 and 2010

NOTE 1 – BASIS OF PRESENTATION AND GOING CONCERN

The interim financial statements as of September 30, 2011, and for the periods ended September 30, 2011 and 2010, and cumulative from inception of the exploration stage through September 30, 2011, 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 September 30, 2011 and the results of its operations and its cash flows for the periods ended September 30, 2011 and 2010, and cumulative from inception of the exploration stage through September 30, 2011. These results are not necessarily indicative of the results expected for the year ending December 31, 2011. 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, 2010, as amended, filed with the Securities and Exchange Commission ("SEC") for additional information, including significant accounting policies.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Applied Minerals, Inc. ("The Company") has incurred material recurring losses from operations. At September 30, 2011, the Company had aggregate accumulated deficits prior to and during the exploration stage of \$37,151,174, in addition to limited cash and unprofitable operations. For the nine months ended September 30, 2011 and 2010, the Company sustained net losses before discontinued operations of \$5,602,007 and \$3,538,657, respectively. For the three months ended September 30, 2011 and 2010, the Company sustained net losses before discontinued operations of \$1,937,116 and \$1,290,232, respectively. These factors indicate that the Company may be unable to continue as a going concern for a reasonable period of time. The financial statements do not include any adjustments relating to the recoverability and reclassification of recorded asset amounts or the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is contingent upon its ability to obtain generate revenue and cash flow to meet its obligations on a timely basis and/or management's ability to raise financing through the sale of equity and/or the disposition of certain non-core assets. If successful, this will mitigate the factors that raise substantial doubt about the Company's ability to continue as a going concern.

Operating results for the nine months period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The consolidated financial information as of December 31, 2010 included herein has been derived from the Company's audited consolidated financial statements as of, and for the fiscal year ended December 31, 2010, 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, consolidated 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

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 September 30, 2011 and December 31, 2010 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.

APPLIED MINERALS, INC. AND SUBSIDIARY
(An Exploration Stage Mining Company)
Condensed Notes to the Consolidated Financial Statements
September 30, 2011 and 2010

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 September 30, 2011 and 2010, all costs associated with the Company's mine have been expensed.

Non-Controlling Interest

The Company owns 53% of the outstanding stock of Park Copper and Gold Mining Company Limited ("Park Copper"), an Idaho corporation that holds several patented and unpatented mining claims near or adjacent to the Company's property in North Idaho. The financial information related to Park Copper is consolidated into the Company's financial statements, which includes an accounting for non-controlling interest.

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 January 2010, the FASB issued further guidance under ASC No. 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 requires disclosures about the transfers of investments between levels in the fair value hierarchy and disclosures relating to the reconciliation of fair value measurements using significant unobservable inputs (level 3 investments). ASC 820 is effective for the fiscal years and interim periods beginning after December 15, 2010. The Company adopted the update on January 1, 2011. The pronouncement did not have a material impact on the Company's consolidated financial statements.

Restatements

Certain amounts in the 2010 financial statements have been restated to conform to the 2011 presentation to more appropriately account for expenses related to deferred financing costs. This restatement had no effect on previously reported results of accumulated deficit.

NOTE 4 – DISCONTINUED OPERATIONS

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

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

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 September 30, 2011 and December 31, 2010 attributed to the discontinued operation are as follows:

	September 30, 2011	December 31, 2010
Property and equipment	\$445,180	\$450,042
Total assets from discontinued operations	\$445,180	\$450,042

Liabilities at September 30, 2011 and December 31, 2010 attributed to the discontinued operations are as follows:

	September 30, 2011	December 31, 2010
Accounts payable and accrued liabilities	\$- 0 -	\$1,152
Total liabilities from discontinued operations	\$- 0 -	\$1,152

APPLIED MINERALS, INC. AND SUBSIDIARY
 (An Exploration Stage Mining Company)
 Condensed Notes to the Consolidated Financial Statements
 September 30, 2011 and 2010

NOTE 4 – DISCONTINUED OPERATIONS (CONTINUED)

Income (loss) after discontinued operations for the three and nine months ended September 30, 2011 and 2010 was calculated as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2011	2010	2011	2010
Revenues from discontinued operations	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -
Cost of goods sold	- 0 -	- 0 -	- 0 -	- 0 -
General and administrative expenses	- 0 -	(1,823)	(910)	(5,469)
Gain on write off of accruals	- 0 -	12,825	- 0 -	12,825
Collection of previously recorded bad debt	- 0 -	- 0 -	- 0 -	238,324-
Loss on disposal of assets	- 0 -	- 0 -	- 0 -	- 0 -
Loss on impairment of assets	- 0 -	- 0 -	(4,862)	- 0 -
Income (loss) from discontinued operations	- 0 -	11,002	(5,772)	245,680
Income tax liability	- 0 -	- 0 -	- 0 -	- 0 -
Net income (loss) from discontinued operations	\$ - 0 -	\$ 11,002	\$(5,772)	\$ 245,680

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 unissued, 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 September 30, 2011, the Company realized a gain on the revaluation of the remaining stock award. For the nine months ended September 30, 2011, the Company realized a loss on the revaluation of the remaining stock award. The value of the outstanding stock awards at September 30, 2011 and December 31, 2010 were \$130,000 and \$80,000, respectively.

NOTE 6 - NOTE PAYABLE

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

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 at September 30, 2011, payable \$5,556 monthly, including interest	\$ 165,401
Less: Current Portion	(53,469)
Note payable, long-term portion	\$111,932

The following is a schedule of the future minimum note payments as of September 30, 2011:

2011	\$ 12,904
2012	54,727
2013	60,063
2014	37,707

During the current quarter ending September 30, 2011, the Company's interest payments totaled \$2,673.

APPLIED MINERALS, INC. AND SUBSIDIARY
(An Exploration Stage Mining Company)
Condensed Notes to the Consolidated Financial Statements
September 30, 2011 and 2010

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 APIC. 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

During the nine months ended September 30, 2011, PIK Notes representing principal and accrued interest of \$1,654,725 were converted by the Company into 1,654,725 shares of 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 are being amortized over the term of the debt. The Company amortizes 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 are immediately expensed. During the nine months ended September 30, 2011, total expense related to deferred financing costs was \$13,775. As of September 30, 2011 and December 31, 2010, there was \$133,165 and \$146,939, respectively 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 (See Note 12).

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 September 30, 2011 and December 31, 2010, 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 September 30, 2011 and December 31, 2010, 75,696,531 and 69,704,393 shares were issued and outstanding, respectively.

During the nine months ended September 30, 2011, the Company issued a total of 119,043 shares of restricted, common stock to directors and consultants as payment of fees. The value of such was recorded at \$123,141. During the nine months ended September 30, 2011, a warrant holder received 5,570 shares of the Company's common stock through a cashless exercise for consulting fees valued at \$1,950. Also during the nine months ended September 30, 2011, the Company sold a total of 4,212,500 shares of common stock at pricing between \$1.25 and \$1.53 per share, collecting a total of \$4,385,000. A portion of these shares were purchased by a related party (See Note 10).

Pursuant to the disclosure requirements set forth under GAAP, the following schedule presents a reconciliation of the beginning and ending balances of the equity attributable to the Company and the non-controlling owners, and the effect of the changes in the equity attributable to the Company.

Non-controlling Interest

The Company applied non-controlling interest accounting for the period ended September 30, 2011, which requires it to clearly identify the non-controlling interest in the balance sheets and statements of operations. The Company discloses three measures of net income (loss): net income (loss) from discontinued operations, net income (loss) from exploration stage, and net income (loss) attributable to non-controlling interest. The operating cash flows in the consolidated statements of cash flows reflect net loss.

Non-Controlling Interest:

Beginning balance, December 31, 2010	\$52,320
Net (loss) gain attributable to non-controlling interest	(10)
Ending balance, September 30, 2011	\$52,310

APPLIED MINERALS, INC. AND SUBSIDIARY
(An Exploration Stage Mining Company)
Condensed Notes to the Consolidated Financial Statements
September 30, 2011 and 2010

NOTE 9 – OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK

Outstanding Stock Warrants

The warrants issued during the nine months ended September 30, 2011 may be exercised by the warrant holder either by payment of cash per warrant, or through a cashless exercise whereby the warrant holder may exercise the warrant without exchange of cash, at a predefined rate of conversion where the warrant holder would typically receive less than the total number of underlying common shares within the warrant if a cashless exercise occurs. The formula for the cashless exercise is $[(A - B) * (X)]$ divided by A where A is the volume-weighted average price on the trading day immediately preceding the date of the exercise; B is the exercise price of the warrant; and X is the number of shares of common stock issuable upon the exercise of the warrant.

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. 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 significant assumptions relating to the valuation of the Company's warrants for the nine months ended September 30, 2011 were as follows:

2011

Dividend Yield	0%
Expected Life	5 – 10 years
Expected Volatility	81% - 100%
Risk Free Interest Rate	2.96%

A summary of the status and changes of the warrants are as follows:

	September 30, 2011	
	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2010	580,187	\$0.84
Issued	853,590	\$1.06
Exercised	(10,000)	\$(0.35)
Forfeited	- 0 -	- 0 -
Expired	- 0 -	- 0 -
Outstanding at September 30, 2011	1,423,777	\$0.98
Exercisable at September 30, 2011	1,041,101	

During the nine months ended September 30, 2011, the Company granted 853,590 warrants to purchase the Company's common stock with an average exercise price of \$1.06. Of the 853,590 warrants granted, 470,914 vested during the nine months ended September 30, 2011, and the remaining 382,676 warrants will vest over 10 months, or through

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

August 1, 2012. The intrinsic value of the outstanding warrants at September 30, 2011 was \$463,143.

A summary of the status of the warrants outstanding at September 30, 2011 is presented below:

		Warrants Outstanding			Warrants Exercisable		
Exercise Price	Number Outstanding	Weighted Average	Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$0.35	90,000		3.50 years	\$0.35	90,000	\$0.35	
\$0.78	213,402		4.33 years	\$0.78	106,701	\$0.78	
\$0.80	264,668		4.25 years	\$0.80	264,668	\$0.80	
\$1.00	340,000		4.00 years	\$1.00	340,000	\$1.00	
\$1.15	461,340		9.50 years	\$1.15	230,670	\$1.15	
\$2.00	54,367		9.50 years	\$1.15	9,062	\$2.00	
	1,423,777				1,041,101		

At September 30, 2011, the total compensation of \$415,143 for unvested shares is to be recognized over the next 10 months on a weighted average basis. Compensation expense of \$625,392 has been recognized for the vesting of warrants to non-related parties in the accompanying statements of operations for the nine months ended September 30, 2011.

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. AND SUBSIDIARY
(An Exploration Stage Mining Company)
Condensed Notes to the Consolidated Financial Statements
September 30, 2011 and 2010

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 nine months ended September 30, 2011 and 2010 were as follows:

	2011	2010
Dividend Yield	0%	0%
Expected Life	5 – 10 years	1.5 years
Expected Volatility	81% - 105%	120%
Risk Free Interest Rate	2.02 – 3.75%	0.4%

A summary of the status and changes of the options granted under stock option plans and other agreements for the period ended September 30, 2011 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2010	7,593,277	\$0.70
Granted	4,105,134	\$1.06
Exercised	- 0 -	- 0 -
Forfeited	- 0 -	- 0 -
Expired	- 0 -	- 0 -
Outstanding at September 30, 2011	11,698,411	\$0.83
Exercisable at September 30, 2011	7,295,029	

During the nine months ended September 30, 2011, the Company issued 4,105,134 options to purchase the Company's common stock with an average exercise price of \$1.06. Of the 4,105,134 options granted, the options will vest either monthly or quarterly as follows:

Shares	Frequency	Vesting Information	
		Begin Date	End Date
300,481	Quarterly	March 1, 2011	February 28, 2012
2,904,653	Monthly	January 1, 2012	December 31, 2012
900,000	Monthly	September 15, 2011	September 14, 2014

A summary of the status of the options outstanding at September 30, 2011 is presented below:

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

Options Outstanding				Options Exercisable		
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	2.75 years	\$0.69	75,000	\$0.69	
\$0.70	7,358,277	8.00 years	\$0.70	6,809,669	\$0.70	
\$0.83	3,205,134	4.50 years	\$0.83	225,360	\$0.83	
\$0.90	100,000	4.00 years	\$0.90	100,000	\$0.90	
\$1.00	60,000	4.75 years	\$1.00	45,000	\$1.00	
\$1.90	900,000	10.00 years	\$1.90	25,000	\$1.90	
	11,698,411			7,295,029		

At September 30, 2011, the total compensation of \$2,797,692 for unvested shares is to be recognized over the next three years on a weighted average basis.

Compensation expense of \$379,419 and \$52,342 has been recognized for vesting of options for the three months ended September 30, 2011 and 2010, respectively. Compensation expense of \$878,460 and \$149,235 has been recognized for vesting of options for the nine months ended September 30, 2011 and 2010, respectively. The intrinsic value of the outstanding options at September 30, 2011 was \$6,026,629.

APPLIED MINERALS, INC. AND SUBSIDIARY
(An Exploration Stage Mining Company)
Condensed Notes to the Consolidated Financial Statements
September 30, 2011 and 2010

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 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.

NOTE 11 – RELATED PARTIES

The Company is a related party to IBS Capital (“IBS”), an entity whose principal, David Taft, is a Company director. During the nine months ended September 30, 2011, IBS purchased 3,900,000 shares of the Company’s common stock for prices between \$1.25 to \$1.52 per share, for a total of \$4,135,000. In addition, IBS received \$20,000 cash for director fees associated with Mr. Taft’s participation on the Company’s board of directors. During the year ended December 31, 2010, the Company received \$1,500,000 from IBS in exchange for convertible debt. During the nine months ended September 30, 2011, the Company issued 551,575 shares of its common stock to IBS in conjunction with the conversion of convertible debt issued in May 2010, along with related accrued interest. In

November 2010, the Company issued 349,287 shares of the Company's common stock to IBS as part of a forbearance agreement related to the class action lawsuit as described below.

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 6,583,278 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. Also during the year ended December 31, 2009, the Company received \$40,000 from MA in exchange for convertible debt. All debt and accrued interest has been converted to 107,347 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 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.

NOTE 12 – SUBSEQUENT EVENTS

During October 2011, the Company exercised its option to mandatorily convert the principal plus accrued interest related to the convertible debt (PIK Notes) 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.

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. ("the Company") was originally formed for the purpose of exploring and developing the Atlas Mine, a consolidation of several patented mining claims located in the Coeur d'Alene Mining District near Mullan, Idaho. During 1980 the Company became inactive as a result of a decline in silver prices. In September 1997, the Company became active again through the establishment of a contract mining business, which was the Company's sole source of revenue until it was discontinued in December 2008 due to adverse economic changes in the mining industry. In 2001 we leased and then, in 2005, acquired the Dragon Mine, a halloysite clay property located in the Tintic District of Utah, for the purpose of marketing the unique chemical and morphological characteristics of the clay to a number of advanced application markets.

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 ($Al_2Si_2O_5(OH)_4 \cdot nH_2O$) 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, commercial 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.

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 September 30, 2011 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 in accordance with the FASB ASC 750-10-60, "Income Taxes." In accordance with FASB ASC 750-10-60, 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 September 30, 2011 Compared to Three Months Ended September 30, 2010

Revenue for the three months ended September 30, 2011 was approximately \$22,800, compared to \$0 generated during the same period in 2010. The increase was due to the sale of Dragonite™ to a customer for use as a reinforcing additive in certain plastic applications.

Gross profit for the three months ended September 30, 2011 was approximately \$17,200 compared to \$0 in gross profit generated during the same period in 2010. The increase was due to the recognition of revenue for the period in 2011.

Total operating expenses for the three months ending September 30, 2011 were approximately \$1,903,200 compared to approximately \$1,263,500 of expenses incurred during the same period in 2010, an increase of \$639,700 or 50.6%. The increase was due primarily to a \$36,491, or 4.7%, increase in exploration expense and a \$603,193, or 124.4%, increase in general and administrative expense.

Exploration costs incurred during the three months ended September 30, 2011 were approximately \$815,200 compared to approximately \$778,800 of costs incurred during the same period in 2010, an increase of approximately \$36,400, or 4.7%. 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 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 were a \$123,500, or 87.0%, increase in wage and employee benefits expense due to an increase in the size and general activity of the Company's workforce, and the Company's decision to offer its employees health insurance coverage; a \$68,700, or 180.0%, increase in contract testing expenses related to increased activity of the Company's polymer R&D program; a \$25,100, or 65.6%, increase in depreciation expense related to an expansion of our fleet of mining equipment; a \$24,700, or 162.2%, increase in utility expense related to an increase in drilling and processing activity at the Dragon Mine; a \$21,100, or 567.8%, increase in equipment repair and maintenance expense due primarily to the overhaul of certain critical mining equipment; and a \$19,400, or 122.0%, increase in freight and postage expense due to an increase in the shipment of product and product samples, partially offset by a \$244,200, or 63.2%, decline in consulting expense due to a decrease in the utilization of certain outside consultants used to survey the Dragon Mine and test its mineralization, and an \$8,600, or 90.0%, decline in contract labor expense.

General and administrative expenses incurred during the three months ended September 30, 2011 totaled approximately \$1,087,900 compared to approximately \$484,700 of expense incurred during the same period in 2010, an increase of approximately \$603,200 or 124.4%. The increase was driven primarily by the incurrence of approximately \$513,600 of expense related to the issuance of warrants and options as compensation to Material Advisors, LLC, certain directors and employees, and consultants, a \$50,300 in wage and employee benefit expense due to the addition of an additional member of the management team and increase in the wage rate of another employee, and a \$35,200 increase in shareholder expense related primarily to the holding of an in-person shareholders' meeting that was not held during the comparable period last year. Included in wage and wage-related expense is a \$9,500 penalty incurred by the Company related to a workers' compensation policy, the amount of which the Company is challenging. General and administrative expense includes approximately \$250,000 paid to Material Advisors, LLC as part of the annual fee it is paid per the terms of a management agreement it has with the Company. Of the amount paid to Material Advisors, LLC, approximately \$131,000 was expended on the salaries of certain of its partners and \$119,000 was spent on items related to the management of the Company, which includes the salary of the Company's Chief Financial Officer.

Net loss from exploration stage before discontinued operations for the three-month period ending September 30, 2011 was approximately \$1,937,100 compared to a loss of approximately \$1,290,200 incurred during the same period in 2010, an increase of approximately \$646,900 or 50.1%. The increase in the loss from exploration stage before discontinued operations was due primarily to a \$36,400 increase in exploration expense (as previously described), a \$603,200 increase in general and administrative expense (as previously described), a \$55,300 increase in interest expense due to a higher average debt balance carried during the quarter as compared to the 2010 period and the incurrence of \$4,600 of expense related to the amortization of deferred financing, partially offset by \$17,200 of gross profit, a \$34,000 increase in the gain from the revaluation of stock awards, and a \$1,300 increase in other income.

Net loss from discontinued operations for the three months ended September 30, 2011 was \$0 compared to a loss of \$11,000 for the same period in 2010, decrease in net loss of approximately \$11,000. The decrease in net loss from discontinued operations was due primarily to the elimination of an impairment charge recognized in the comparable period in 2010.

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

Revenue for the nine months ended September 30, 2011 was approximately \$86,000, compared to \$0 of revenue generated during the same period in 2010. The increase was due to the sale of Dragonite™ to two customers for use as a reinforcing additive in plastic applications.

Gross profit for the nine months ended June 30, 2011 was approximately \$47,400 compared to \$0 of gross profit generated during the same period in 2010. The increase was due to the recognition of revenue for the period in 2011.

Exploration costs incurred during the nine months ended September 30, 2011 totaled approximately \$2,126,300 compared to \$1,773,400 of expense incurred during the comparable period in 2010, an increase of approximately \$352,900 or 20.0%. 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 driven, primarily, by management's decision to expand its drilling and testing program to additional areas of the Dragon Mine property, the results of which have indicated the presence of saleable clay mineral and an iron ore deposit.

The primary drivers of the increase in exploration costs were a \$325,300, or 82.2%, increase in wage and employee benefit expense related to an increase in the size and general activity of the Company's workforce and the Company's decision to offer its employees health care coverage; the incurrence of \$79,200 of explosive and ground support expense related to certain underground drilling activity at the mine; a \$74,000 increase in depreciation expense related to an expansion of our fleet of mining equipment; the incurrence of \$62,400 of building construction expense related to the expansion of the Company's mining-related facilities; a \$60,400, or 125.2%, in utility expense due to the increased exploration and material processing activity at the mine; a \$57,700, or 283.1%, increase in equipment repair and maintenance expense due primarily to the overhaul of certain critical mining equipment; a \$55,500, or 47.6%, increase in contract testing expenses related to increased activity of the Company's polymer R&D program; all partially offset by a \$324,100, or 48.0%, decrease in consulting expense due to a decrease in the utilization of certain outside consultants used to survey the Dragon Mine and test its mineralization; a \$33,200, or 78.6%, decline in equipment rental and lease expense due primarily to the termination of certain equipment lease agreements; and a \$28,900 decline in freight and postage expense.

General and administrative expense incurred during the nine months ended September 30, 2011 totaled approximately \$3,101,400 compared to approximately \$1,757,900 of general and administrative expense incurred during the comparable period in 2010, an increase of approximately \$1,343,500 or 76.4%. The increase was driven primarily by an \$1,280,100, or 857.8%, increase in the expensing of options issued to Material Advisors, LLC, certain directors and employees, and consultants; a \$107,800, or 76.4%, increase in wage and employee benefit expense due primarily to the hiring of an additional member of the management team and the increase in the wage rate of an employee; all partially offset by a \$105,600, or 43.1%, decline in legal service-related expense due to a reduction in the need of outside legal counsel). General and administrative expense includes approximately \$750,000, which was paid to Material Advisors, LLC as part of the annual fee it is paid per the terms of a management agreement it has with the Company. Of the amount paid to Material Advisors, LLC, approximately \$392,300 was expended on the salaries of certain of its partners and \$357,700 was expended on expenses related to the management of the Company, which includes the salary of the Company's Chief Financial Officer.

Net loss from exploration stage before discontinued operations for the nine months ended September 30, 2011 was approximately \$5,602,000 compared to a loss of approximately \$3,538,700 incurred during the comparable period in 2010, an increase of \$2,063,300 or 58.3%. The increase in net loss of exploration stage before discontinued operations was due primarily to an approximately \$352,900 increase in exploration expense (as previously described), an approximately \$1,343,500 increase in general and administrative expense (as previously described), a \$186,000, or 112.9%, increase in interest expense due to the carrying of a larger debt balance during the period, the absence of

\$145,000 related to a stock award forfeiture, the absence of a \$28,500 net gain on the settlement of a lawsuit, a \$28,000 increase in the loss related to the revaluation of stock awards, the incurrence of \$13,800 of expense related to the amortization of deferred financing costs, the absence of a \$6,400 insurance refund, a \$6,000 increase in other expense, and the elimination of \$3,800 of clay samples; all offset by \$47,400 of gross profit from the sale of halloysite clay the absence of \$2,200 of amortization of convertible debt discount, and \$1,000 gain from the disposition of land and equipment.

Net loss from discontinued operations for the nine months ended September 30, 2011 was approximately \$5,800 compared to income of approximately \$245,700 realized during the same period in 2010, a decline in net income of approximately \$240,500. The decline in net income from discontinued operations was due primarily to the collection, during the June 2010 period, of \$245,000 of a receivable previously written off, partially offset by the incurrence of a write-off of \$4,800 of certain assets associated with discontinued operations during the June 2011 period.

LIQUIDITY AND CAPITAL RESOURCES

From December 2008 through September 2011, our activities have been financed primarily through the sale of convertible debt and equity securities. During the nine months ended September 30, 2011, we raised \$4,385,000 of cash through the sale of common stock. We may need to raise additional capital during the remainder of 2011, 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 September 30, 2011, the Company had a total accumulated deficit of approximately \$37,151,174. For the nine months ended September 30, 2011 and 2010, the Company sustained net losses from exploration stage before discontinued operations of approximately \$5,602,000 and \$3,538,700, 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 September 30, 2011 was approximately \$3,357,600 compared to \$2,534,600 of cash used during the same period in 2010. The approximate \$823,000 increase in cash used during the period was due primarily to an increase in the net loss realized of approximately \$2,314,800, and a \$300,900 increase in cash used by a change in operating assets and liabilities, partially offset by a \$1,354,600 increase in the fair value of warrants and options issued to Material Advisors, LLC, certain directors and consultants; the elimination of a \$145,000 gain related to a stock award forfeiture; a \$102,600 increase in payment of non-cash PIK Note interest; an \$82,000 increase in stock compensation granted to certain directors and consultants; a \$72,200 increase in depreciation expense; a \$28,000 increase in the loss related to the revaluation of stock awards; and an \$11,300 increase in the amortization of the discount on the PIK Notes.

Cash used by investing activities during the nine months ended September 30, 2011 was approximately \$198,300 compared to a use of \$3,000 of cash during the same period in 2010. The \$195,300 increase in cash used during the period was driven by a \$139,400 increase in the purchase of vehicles and equipment and a \$99,000 decline in proceeds generated from the sale of assets, partially offset by the elimination of \$43,100 of land improvements.

Cash generated through financing activities during the nine months ended September 30, 2011 was approximately \$4,071,500 compared to \$1,155,100 of cash generated during the same period in 2010. The \$2,916,400 increase in cash generated during the period was driven primarily through the sale of \$4,385,000 of common stock to certain qualified investors, the elimination of a \$170,000 legal settlement payment; and the elimination of \$26,200 of cash used by discontinued operations partially offset by the absence of the sale of \$1,500,000 of PIK-Election Convertible Notes, which took place during the comparable period in 2010, and a \$164,800 increase in payments of notes and leases payable.

At September 30, 2011, the Company had, as part of its liabilities, approximately \$3,250,800 face value of 10% PIK-Election Convertible Notes due 2018. On October 25, 2011 we converted the above principal and accrued interest of approximately \$114,400 into 3,365,170 shares of common stock.

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 September 30, 2011, management identified a material weakness in internal control over financial reporting, which management considers an integral component of disclosure controls and procedures. We have identified the material weakness as the untimely recording of certain invoices sent to the Company's New York office, which, in turn, have had to be delivered to its Idaho office, which is responsible for processing all invoices. We are in the midst of consolidating our back-office operations into our New York location, which, we believe, will eliminate the possibility of the untimely recording of invoices.. 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 September 30, 2011 and December 31, 2010, and results of its operations and cash flows for the period ended September 30, 2011 and 2010, 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. The steps that have been, or will be, taken by the Company to improve its internal controls include, but are not limited to, the implementation of controls to ensure all invoices received by the New York and Utah locations are forwarded to the Idaho office 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 nine months ended June 30, 2011, the Company issued 4,212,500 shares of its common stock in exchange for \$4,385,000.

During the nine months ended September 30, 2011, the Company issued 78,418 shares of its common stock to consultants for services valued at \$71,433.

During the nine months ended September 30, 2011, the Company issued 12,500 shares of its common stock as payment of a director's fee valued at \$20,000.

During the nine months ended September 30, 2011, the Company issued 124,481 warrants to purchase common stock to a consultant for services valued at \$30,000 using the Black-Scholes model.

During the nine months ended September 30, 2011, the Company issued 461,340 warrants to purchase common stock to a consultant for services valued at \$250,000 using the Black-Scholes model.

During the nine months ended September 30, 2011, the Company issued 213,402 warrants to purchase common stock to an employee for compensation valued at \$50,000 using the Black-Scholes model.

During the nine months ended September 30, 2011, the Company issued 200,481 options to purchase common stock, valued at \$50,000 using the Black-Scholes model, to a director for assuming the chairmanship of an executive committee.

During the nine months ended September 30, 2011, the Company issued 54,367 options to purchase common stock, valued at \$31,250 using the Black-Scholes model, to an employee.

During the nine months ended September 30, 2011, the Company issued 900,000 options to purchase common stock, valued at \$720,000 using the Black-Scholes model, to an employee.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

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: November 11,
2011

/s/ ANDRE ZEITOUN

By: Andre Zeitoun
Chief Executive Officer

Dated: November 11,
2011

/s/ CHRISTOPHER T. CARNEY

By: Christopher T. Carney
Interim Chief Financial Officer
