

Applied Minerals, Inc.
Form 10-Q
August 15, 2016
Table Of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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

For the transition period from to

Commission File Number 000-31380

APPLIED MINERALS,
INC.

(Exact name of
registrant as specified in
its charter)

Delaware 82-0096527
(State (I. R. S.
or Employer
other Identification

jurisdictionNo.)
of
incorporation
or
organization)

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

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

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

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

YES NO

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

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

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

YES NO

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of August 15, 2016 was 108,376,049.

Table Of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Company)

SECOND QUARTER 2016 REPORT ON FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

	Page(s)
Item 1. <u>Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2016 (unaudited) and December 31, 2015</u>	3
<u>Condensed Consolidated Statements of Operations (unaudited) for the Three and Six Months Ended June 30, 2016 and 2015</u>	4
<u>Condensed Consolidated Statements of Stockholders' Deficit (unaudited) for the Six Months Ended June 30, 2016</u>	5
<u>Condensed Consolidated Statements of Cash Flows (unaudited) for the Six Months Ended June 30, 2016 and 2015</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4. <u>Controls and Procedures</u>	22

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	23
Item 1A <u>Risk Factors</u>	23
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23

Item 3. <u>Defaults Upon Senior Securities</u>	23
Item 4. <u>Mine Safety Disclosures</u>	23
Item 5. <u>Other Information</u>	23
Item 6. <u>Exhibits</u>	24
<u>Signatures</u>	25

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

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited)	December 31, 2015
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$2,174,748	\$1,803,131
Accounts receivable	487,893	176,205
Deposits and prepaid expenses	170,914	322,922
Other current receivables	- 0 -	94,647
Total Current Assets	2,833,555	2,396,905
Property and Equipment, net	4,653,188	5,206,825
Other Assets		
Deposits	269,342	269,202
Assets Held for Sale	1,000	445,180
Total Other Assets	270,342	714,382
TOTAL ASSETS	\$7,757,085	\$8,318,112
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current Liabilities		
Accounts payable and accrued liabilities (excluding accrued PIK Note interest)	\$526,525	\$742,745
Accrued PIK Note interest	919,913	880,407
Current portion of notes payable	49,040	210,429
Total Current Liabilities	1,495,478	1,833,581
Long-Term Liabilities		
Long-term portion of notes payable	22,535	33,688
PIK Notes payable, net of \$16,632,757 and \$17,572,885 debt discount, respectively	19,727,804	17,051,636
PIK Note derivative	3,856,834	5,138,857
Total Long-Term Liabilities	23,607,173	22,224,181

<i>Total Liabilities</i>	25,102,651	24,057,762
Commitments and Contingencies (Note 10)		
Stockholders' Deficit		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, none issued and outstanding		
Common stock, \$0.001 par value, 200,000,000 shares authorized, 108,376,049 and 97,144,736 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	108,376	97,145
Additional paid-in capital	68,221,368	66,106,631
Accumulated deficit prior to the exploration stage	(20,009,496)	(20,009,496)
Accumulated deficit during the exploration stage	(65,665,814)	(61,933,930)
<i>Total Stockholders' Deficit</i>	(17,345,566)	(15,739,650)
<i>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</i>	\$7,757,085	\$8,318,112

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

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

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the three months ended		For the six months ended	
	June 30, 2016	2015	June 30, 2016	2015
REVENUES	\$ 1,112,467	\$ 65,848	\$ 2,114,095	\$ 228,595
OPERATING EXPENSES:				
Production costs	220,970	3,934	476,670	6,170
Exploration costs	584,150	1,291,197	1,111,878	2,618,478
General and administrative	1,066,927	1,247,466	2,250,136	2,429,775
Depreciation expense	338,333	326,684	674,420	652,905
Total Operating Expenses	2,210,380	2,869,281	4,513,104	5,707,328
Operating Loss	(1,097,913)	(2,803,433)	(2,399,009)	(5,478,733)
OTHER INCOME (EXPENSE):				
Interest expense, net, including amortization of deferred financing cost and debt discount	(1,356,841)	(1,092,595)	(2,729,261)	(2,121,222)
Gain (loss) on revaluation of PIK Note derivative	(742,509)	1,313,110	1,291,406	1,220,369
Other income (expense)	11,904	(145,958)	104,980	(543,755)
Total Other Income (Expense)	(2,087,446)	74,557	(1,332,875)	(1,444,608)
Net Loss	\$(3,185,359)	\$(2,728,876)	\$(3,731,884)	\$(6,923,341)
Net Loss Per Share (Basic and Diluted)	\$(0.03)	\$(0.03)	\$(0.04)	\$(0.07)
Weighted Average Shares Outstanding (Basic and Diluted)	97,889,350	95,653,519	97,566,480	95,381,825

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

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

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

(Unaudited)

	Common Stock			Accumulated	Accumulated	Total
	Shares	Amount	Additional	Deficit	Deficit	Stock-
			Paid-In	Prior to	During	holder's
			Capital	Exploration	Exploration	holder's
				Stage	Stage	Deficit
Balance, December 31, 2015	97,144,736	\$97,145	\$66,106,631	\$(20,009,496)	\$(61,933,930)	\$(15,739,650)
Shares issued for directors fees and other services	178,980	179	94,164	- 0 -	- 0 -	94,343
Shares issued to employees for compensation	118,994	119	26,461	- 0 -	- 0 -	26,580
Shares issued in private placement	10,933,339	10,933	1,629,067	- 0 -	- 0 -	1,640,000
Stock-based compensation expense for consultants and directors	- 0 -	- 0 -	365,045	- 0 -	- 0 -	365,045
Net loss	- 0 -	- 0 -	- 0 -	- 0 -	(3,731,884)	(3,731,884)
Balance, June 30, 2016	108,376,049	\$108,376	\$68,221,368	\$(20,009,496)	\$(65,665,814)	\$(17,345,566)

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

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

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended	
	June 30, 2016	2015
Cash Flows from Operating Activities:		
Net loss	\$ (3,731,884)	\$ (6,923,341)
Adjustments to reconcile net loss to net cash used in operations		
Depreciation	674,420	652,905
Amortization of discount - PIK Notes	949,513	507,116
Amortization of deferred financing costs	3,750	3,750
Issuance of PIK Notes in payment of interest	1,732,289	578,813
Stock issued for director fees and other services	94,343	215,961
Stock-based compensation expense for consultants and directors	365,045	207,598
Stock issued for employee compensation	26,580	- 0 -
Shares issued for liquidated damages	- 0 -	541,011
Gain on revaluation of PIK Note derivative	(1,291,406)	(1,220,369)
Gain on sale of property	(108,764)	- 0 -
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(311,688)	88,620
Other current receivables	94,647	- 0 -
Deposits and prepaid expenses	151,868	133,949
Increase (decrease) in:		
Accounts payable and accrued liabilities	(176,715)	482,812
Net cash used in operating activities	(1,528,002)	(4,731,175)
Cash Flows From Investing Activities:		
Sale of property	552,944	- 0 -
Purchases of property and equipment	(120,783)	(17,995)
Net cash provided by (used in) investing activities	432,161	(17,995)
Cash Flows From Financing Activities:		
Payments on notes payable	(172,542)	(203,440)
Proceeds from sale of common stock	1,640,000	- 0 -

Net cash provided by (used in) in financing activities	1,467,458	(203,440)
Net change in cash and cash equivalents	371,617	(4,952,610)
Cash and cash equivalents at beginning of period	1,803,131	10,701,666
Cash and cash equivalents at end of period	\$ 2,174,748	\$ 5,749,056

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

Table Of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

For the Six
Months Ended

June 30,
2016 2015

Cash Paid For:

Interest	\$4,204	\$5,974
Income Taxes	\$- 0 -	\$- 0 -

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

Table Of Contents

APPLIED MINERALS, INC.

(An Exploration Stage Mining Company)

Notes to the Condensed Consolidated Financial Statements

NOTE 1 – BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited, condensed, consolidated financial statements contain all adjustments necessary to present fairly the financial position of Applied Minerals, Inc. ("Applied Minerals" or "the Company" or "we") and its results of operations and cash flows for the interim periods presented. Such financial statements have been condensed in accordance with the applicable regulations of the Securities and Exchange Commission and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015, included in the Company's Annual Report filed on Form 10-K for such year. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for the entire year.

NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Applied Minerals is the owner of the Dragon Mine located in the Tintic Mining District of the State of Utah from where it produces halloysite clay and iron oxide. The Company is currently mining and selling its DRAGONITE™ and AMIRON™ products and is also in various phases of commercial scale trials with several organizations in various markets with respect to uses of its products.

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

NOTE 3 – LIQUIDITY

The Company has a history of recurring losses from operations and use of cash in operating activities. For the six months ended June 30, 2016, the Company's net loss was \$3,731,884 and cash used in operating activities was \$1,528,002. At June 30, 2016, the Company had working capital of \$1,338,077, which includes \$919,913 of accrued PIK Note interest, which the Company expects to pay in-kind and \$167,841 of payables for which the Company believes it has a statute of limitations defense. In addition, during the six months ended June 30, 2016, the Company commenced generating revenue under a take-or-pay supply agreement for AMIRON iron oxide and reduced exploration costs related to activities at the Dragon mine. Based on the Company's cash balance at June 30, 2016 and its cash usage expectations, it believes it will have sufficient liquidity to fund its operations for at least the next 12 months.

On June 24, 2016, the Company raised \$1.64 million through the private placement of 10,933,333 units at \$0.15 per unit. Attached to each unit sold was one share of common stock and a five-year warrant to purchase 0.3 shares of the Company's common stock. As a result of the sale, the Company issued 10,933,333 shares of common stock and warrants to purchase 3,280,000 shares of common stock at \$0.25 per share. The warrants have a term of five years and do not contain a provision that allows for a cashless exercise.

NOTE 4 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Exploration-Stage Company

From 1997 through 2008, the Company's sole source of revenue and income was derived from its contract mining business through which it provided shaft sinking, underground mine development and mine labor services. At December 31, 2008, the Company discontinued its contract mining efforts due to economic conditions and the desire to concentrate its efforts on the commercialization of the halloysite clay deposit at the Dragon Mine. Effective January 1, 2009, the Company was, and still is, classified as an exploration company as the existence of proven or probable reserves have not been demonstrated and no significant revenue has been earned from the mine. Under the SEC's Industry Guide 7, a mining company is considered an exploration stage company until it has declared mineral reserves determined in accordance with the guide and staff interpretations thereof.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. In these condensed consolidated financial statements, the PIK Note derivative liability, stock compensation and impairment of long-lived assets involve extensive reliance

on management's estimates. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Table Of ContentsReceivables

Trade receivables are reported at outstanding principal amounts, net of an allowance for doubtful accounts. Management evaluates the collectability of receivable account balances to determine the allowance, if any. Management considers the other party's credit risk and financial condition, as well as current and projected economic and market conditions, in determining the amount of the allowance. Receivable balances are written off when management determines that the balance is uncollectable. No allowance was required at June 30, 2016 and 2015.

Property and Equipment

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

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

Depreciation expense for the three months ended June 30, 2016 and 2015 totaled \$338,333 and \$326,684, respectively. Depreciation expense for the six months ended June 30, 2016 and 2015 totaled \$674,420 and \$652,905, respectively. The Company currently does not capitalize any amounts to its mineral resources and therefore does not have any depletion expense.

Fair Value

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

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

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

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

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

	Fair value measurement using inputs			Carrying amount	
	Level 1	Level 2	Level 3	June 30, 2016	December 31, 2015
Financial instruments:					
Series 2023 PIK Note Derivative	\$-0-	\$-0-	\$230,329	\$230,329	\$262,764
Series A PIK Note Derivative	\$-0-	\$-0-	\$3,626,505	\$3,626,505	\$4,876,093

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

Balance at December 31, 2015	\$5,138,857
Issuance of additional PIK Notes	9,383
Net unrealized gains included in net (loss)	(1,291,406)
Balance at June 30, 2016	\$3,856,834

The recorded value of certain financial assets and liabilities, which consist primarily of cash and cash equivalents, receivables, other current assets, and accounts payable and accrued expenses approximates the fair value at June 30, 2016 and December 31, 2015 based upon the short-term nature of the assets and liabilities. Based on borrowing rates currently available to the Company for loans with similar terms, and the remaining short-term period outstanding, the carrying value of notes payable other than PIK Notes approximates fair value. Estimated fair values of the PIK Notes Payable approximate \$23,463,323 and \$21,789,259, respectively, at June 30, 2016 and December 31, 2015 (based on Level 2 inputs).

Table Of Contents

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

Series 2023 PIK Note derivative liability	Fair Value Measurements Using Inputs		
	June 30, 2016		December 31, 2015
Market price and estimated fair value of stock	\$0.18	\$ 0.28	
Exercise price	\$1.28	\$ 1.36	
Term (years)	7.08	7.58	
Dividend yield	\$-0-	\$ -0-	
Expected volatility	86.0%	72.9	%
Risk-free interest rate	1.30%	2.12	%

Series A PIK Note derivative liability	Fair Value Measurements Using Inputs		
	June 30, 2016		December 31, 2015
Market price and estimated fair value of stock	\$0.18	\$ 0.28	
Exercise price	\$0.83	\$ 0.92	
Term (years)	7.08	7.58	
Dividend yield	\$-0-	\$ -0-	
Expected volatility	86.0%	72.9	%
Risk-free interest rate	1.30%	2.12	%

Impairment of Long-lived Assets

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

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

Revenue Recognition

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

Mining Exploration and Development Costs

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

Income taxes

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

The Company is subject to U.S. federal income tax as well as income tax of certain state jurisdictions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company follows the provision of ASC Topic 740-10, "Income Taxes", relating to recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. It also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and requires increased disclosures. This guidance provides that the tax effects from an uncertain tax position can be recognized in our financial statements, only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. As of June 30, 2016, no amounts are included in the financial

statements for unrecognized tax benefits.

10

Table Of Contents

Stock Options and Warrants

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

Per share data

Loss per share for the three months ended June 30, 2016 and 2015, respectively, is calculated based on 97,889,350 and 95,653,519 weighted average outstanding shares of common stock. Loss per share for the six months ended June 30, 2016 and 2015, respectively, is calculated based on 97,556,480 and 95,381,825 weighted average outstanding shares of common stock.

At June 30, 2016 and 2015, respectively, the Company had outstanding options and warrants to purchase 24,276,950 and 18,929,402 shares of Company common stock, and had notes payable which were convertible into 38,676,225 and 31,590,709 shares, respectively, of the Company common stock, none of which were included in the diluted computation as their effect would be anti-dilutive.

Environmental Matters

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

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

Based upon management's current assessment of its environmental responsibilities, it does not believe that any reclamation or remediation liability exists at June 30, 2016.

Recent Accounting Pronouncements

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting, that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition in the income statement of the income tax effects of vested or settled awards. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes and not classify the award as a liability that requires valuation on a mark-to-market basis. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The guidance is effective in 2017 with early adoption permitted. The Company is currently evaluating the effect that the new guidance will have on its financial statement and related disclosures.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 with early adoption permitted. Under Accounting Standards Update 2016-02, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee's obligation to make lease payments arising from a lease measured on a discounted basis, and a right-to-use asset, which is an asset that represents the lessee's right to use or control the use of a specified asset for the lease term. The Company is currently evaluating the effect that the new guidance will have on its financial statements and related disclosures.

In November 2015, FASB issued Accounting Standards Update 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. Accounting Standards Update 2015-17 simplifies current guidance and requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet. Accounting Standards Update 2015-17 can be applied either prospectively or retrospectively and is effective for periods beginning after December 15, 2016, with early adoption permitted. The Company does not anticipate the new guidance will have a material effect on its financial statements and related disclosures.

In April 2015, the FASB issued an ASU 2015-03, which requires that debt issuance costs be presented in the balance sheet as a direct reduction to the carrying amount of the associated debt liability, consistent with debt discounts. Currently debt issuance costs are recognized as an asset. The ASU is effective for the Company in the first quarter of 2017 and is required to be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its financial statements and related disclosures.

In May 2014, the FASB issued new accounting guidance, Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, on revenue recognition. The new standard provides for a single five-step model to be applied to all revenue contracts with customers as well as requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. Accounting Standards Update No. 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted for fiscal years and interim periods within those years beginning after December 15, 2016, the original effective date of the standard. The Company does not anticipate the new guidance will have a material effect on its financial

statements and related disclosures.

Comparative Information

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

NOTE 5 - INCOME TAX

Income tax provisions or benefits for interim periods are computed based on the Company's estimated annual effective tax rate. Based on the Company's historical losses and its expectation of the continuation of losses for the foreseeable future, the Company has determined that it is more likely than not that deferred tax assets will not be realized and, accordingly, has provided a full valuation allowance as of June 30, 2016 and December 31, 2015.

Table Of Contents**NOTE 6 - NOTES PAYABLE**

Notes payable at June 30, 2016 and December 31, 2015 consist of the following:

	June 30, 2016	December 31, 2015
Note payable for mining equipment, payable \$950 monthly, including interest (a)	\$- 0 -	\$3,714
Note payable for equipment, payable \$1,339 monthly, including interest (b)	35,226	42,235
Note payable for mine site vehicle, payable \$628 monthly (c)	9,426	13,196
Note payable to an insurance company, payable \$9,055 monthly, including interest (d)	8,804	60,953
Note payable to an insurance company, payable \$18,609 monthly, including interest (e)	18,119	124,019
	71,575	244,117
Less: Current Portion	(49,040)	(210,429)
Notes Payable, Long-Term Portion	\$22,535	\$33,688

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

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

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

(d) The Company signed a note payable with an insurance company dated October 21, 2015 for liability insurance, due in monthly installments, including interest at 11.845%.

(e) The Company signed a note payable with an insurance company dated October 17, 2015 for liability insurance, due in monthly installments, including interest at 3.000%.

The following is a schedule of the principal maturities on these notes as of June 30, 2016:

July 2016 - June 2017	\$49,040
July 2017 - June 2018	18,554
July 2018 - June 2019	3,981
Total Notes Payable	\$71,575

During the three and six months ended June 30, 2016, the Company's interest payment related to these notes totaled \$2,909 and \$4,204, respectively. During the three and six months ended June 30, 2015, the Company's interest payments related to these notes totaled \$1,776 and \$5,974, respectively.

NOTE 7 – CONVERTIBLE DEBT (PIK NOTES)

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

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

Derivative Liability	\$2,055,000 established at inception due to existence of anti-dilution provisions; revalued every quarter using Monte Carlo model	below) occurs \$9,212,285 established at inception due to existence of anti-dilution provisions; revalued every quarter using Monte Carlo model
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Table Of Contents

As of June 30, 2016, the liability components of the PIK Notes on the Company's balance sheet are listed in the following table:

	Series 2023 Notes	Series A Notes	Total
PIK Note Payable, Gross	\$13,400,958	\$22,977,103	\$36,378,061
Less: Discount	(1,791,109)	(14,841,648)	(16,632,757)
Less: Deferred Financing Cost	(6,650)	(10,850)	(17,500)
PIK Note Payable, Net	\$11,603,199	\$8,124,605	\$19,727,804
PIK Note Derivative Liability	\$230,329	\$3,626,505	\$3,856,834

As of December 31, 2015, the liability components of the PIK Notes on the Company's balance sheet are listed in the following table:

	Series 2023 Notes	Series A Notes	Total
PIK Note Payable, Gross	\$12,762,816	\$21,882,955	\$34,645,771
Less: Discount	(1,854,894)	(15,717,991)	(17,572,885)
Less: Deferred Financing Cost	(7,828)	(13,422)	(21,250)
PIK Note Payable, Net	\$10,900,094	\$6,151,542	\$17,051,636
PIK Note Derivative Liability	\$262,764	\$4,876,093	\$5,138,857

Series A Notes

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

Below are key terms of the Series A Notes:

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

Exercise Price- initially \$0.92 per share and will be (i) adjusted from time to time pursuant anti-dilution provisions and (ii) reduced by \$0.10 per share if the Company elects to exercise its Extension Option.

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

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

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

Liquidated Damages- The company is required to pay the noteholders 1% of the principal amount of the Series A Notes if a Registration statement is not filed and effective within 90 days of the inception date (and further damages for every 30 days thereafter). The Company has accrued \$200,000 as Other Expense as of December 31, 2014 due to a delay in such filing.

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

These Series A Notes were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. In addition to the customary anti-dilution provisions the notes contain a down-round provision whereby the conversion price would be adjusted downward in the event that additional shares of the Company’s common stock or securities exercisable, convertible or exchangeable for the Company’s common stock were issued for cash consideration (e.g. a capital raise) at a price less than the conversion price.

Therefore, the estimated fair value of the conversion feature of \$9,212,285 (based on observable inputs using a Monte Carlo model) was bifurcated from the Series A Notes and accounted for as a separate derivative liability, which resulted in a corresponding amount of debt discount on the Series A Notes. In addition, an additional debt discount of \$7,348,486 was recorded as a result of the difference between the \$12,500,000 of cash received and the \$19,848,486 of principal on the Series A Notes. This combined debt discount of \$16,560,771 is being amortized using the effective interest method over the 4-year term of the Notes as Interest Expense, while the PIK Note Derivative is carried at fair value (using a Monte Carlo model) until the Notes are converted or otherwise extinguished. Any changes in fair value are recognized in earnings.

Table Of Contents

In May 2015, November 2015 and May 2016, the Company issued \$992,424, \$1,042,045, and \$1,094,148, respectively, in additional PIK Notes to the holders to pay the semi-annual interest.

At June 30, 2016, the fair value of the Series A PIK Note Derivative was estimated to be \$3,626,505, which includes the value of the additional PIK Notes issued in May 2015, November 2015, and May 2016 for the semi-annual interest payments due. The change in the fair value of the derivative represents a decrease in valuation of \$5,585,780 from the November 3, 2014 inception date.

Series 2023 Notes

In August 2013, the Company received \$10,500,000 of financing through the private placement of 10% mandatory convertible Notes due 2023 ("Series 2023 Notes"). The principal amount of the Notes is due on maturity. The Company can elect to pay semi-annual interest on the Series 2023 Notes with additional PIK Notes containing the same terms as the Series 2023 Notes, except interest will accrue from issuance of such notes. The Company can also elect to pay interest in cash. In February 2016, August 2015 and February 2015, the Company issued \$638,141, \$607,753 and \$578,812, respectively, in additional PIK Notes to the holders to pay the semi-annual interest. In February 2014 and August 2014, the Company issued \$525,000 and \$551,250, respectively, in additional PIK Notes to the holders to pay the semi-annual interest.

The Series 2023 Notes convert into the Company's common stock at a conversion price of \$1.40 per share, which is subject to customary anti-dilution adjustments; these anti-dilution adjustments reduced the conversion price to \$1.36 after the issuance of the Series A Notes and then to \$1.28 after the issuance of 10,933,333 units for proceeds of \$1.64 million on June 24, 2016. As of issuance, principal amount of the Series 2023 Notes were convertible into 7,500,000 shares of the common stock, into 7,720,588 shares after the issuance of the Series A Notes and 8,203,125 shares of common stock after the issuance of the 10,933,333 units.. The holders may convert the Series 2023 Notes at any time. The Series 2023 Notes are mandatorily convertible after one year when the weighted average trading price of a share of the common stock for the preceding ten trading days is in excess of the conversion price. The Series 2023 Notes contain customary representations and warranties and several covenants. The proceeds are being used for general corporate purposes. No broker was used and no commission was paid in connection with the sale of the Series 2023 Notes. As of December 31, 2015, the Company was in compliance with the covenants.

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

amortized using the effective interest method over the 10-year term of the Series 2023 Notes as Interest Expense, while the PIK Note Derivative is carried at fair value (using a Monte Carlo model) until the Series 2023 Notes are converted or otherwise extinguished. Any changes in fair value are recognized in earnings.

At June 30, 2016, the fair value of the PIK Note Derivative was estimated to be \$230,329, which includes the value of the additional PIK Notes issued in February 2016, August 2015, February 2015, August 2014 and February 2014 for the semi-annual interest payments due. The change in the fair value of the derivative represents a decrease in valuation of \$1,824,671 from the August 2, 2013 inception date.

NOTE 8 - STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue 10,000,000 shares of nonconvertible preferred stock, \$0.001 par value per share. At June 30, 2016 and December 31, 2015, no shares of preferred stock were outstanding.

Common Stock

The Company is authorized to issue up to 200,000,000 shares, \$0.001 par value per share. At June 30, 2016 and December 31, 2015, 108,376,049 and 97,144,736 shares were issued and outstanding, respectively.

During the six months ended June 30, 2016, the Company issued a total of 185,959 shares of common stock valued at \$45,094 to directors and consultants as payments of fees. An additional 118,994 shares, valued at \$26,580, were issued to employees in lieu of cash compensation.

During the six months ended June 30, 2016, the Company issued 10,933,339 units valued at \$1,640,000 as part of a private placement. Each unit consisted of one share of common stock and one warrant to purchase 0.3 shares of common stock at \$0.25 per share. The Company received \$1,640,000 in proceeds and no commissions were paid.

Table Of Contents**NOTE 9 - OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK**Outstanding Stock Warrants

A summary of the status of the warrants outstanding and exercisable at June 30, 2016 is presented below:

Exercise Price	Warrants Outstanding and Exercisable		
	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
\$ 0.25	3,283,283	5.00	\$ 0.25
\$ 1.15	461,340	4.83	\$ 1.15
\$ 2.00	54,367	0.09	\$ 2.00
	3,798,990	4.91	\$ 0.38

No warrants were issued during 2015 or the first quarter of 2016. On June 24, 2016 the Company sold 10,933,333 units at \$0.15 per unit. The sale of the units included the issuance of warrants to purchase 3,283,283 shares of common stock. Each warrant has an exercise price of \$0.25 per share and a term of five years. The intrinsic value of the outstanding warrants was \$0 at June 30, 2016.

Outstanding Stock Options

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

On May 11, 2016, the Board of Directors has adopted the 2016 Long Term Incentive Plan (the “Plan”). The Plan, administered by the Compensation Committee of the Board allows for the following types of incentive awards: stock options, stock appreciation rights, restricted stock, performance shares, performance units or other stock-based award. Such awards may be issued to employees, consultants and non-employee directors. The aggregate number of shares of common stock that may be issued or used for reference purposes with respect to which awards may be granted under the Plan shall not exceed two million.

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

The significant assumptions relating to the valuation of the Company's options issued for the six months ended June 30, 2016 and 2015 were as follows on a weighted average basis:

	2016	2015
Dividend Yield	0 %	0 %
Expected Life (years)	5.0	5.6
Expected Volatility	83.4 %	51.0 %
Risk Free Interest Rate	1.20 %	1.47 %

A summary of the status and changes of the options granted under stock option plans and other agreements for the six months ended June 30, 2016 is as follows:

	June 30, 2016		
	Shares	Weighted Average Exercise Price	Weighted Average Contractual Life *
Outstanding at beginning of period	17,806,472	\$ 1.00	
Issued	2,671,488	0.26	
Exercised	- 0 -	- 0 -	
Forfeited	- 0 -	- 0 -	

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Outstanding at end of period	20,477,960	\$ 0.92	4.54
Exercisable at end of period	19,271,284	\$ 0.92	4.50

* Measured in years

Table Of Contents

During the six months ended June 30, 2016, the Company granted 2,671,488 options to purchase the Company's common stock with a weighted average exercise price of \$0.26 and the following vesting schedule. The weighted-average grant-date fair value of options granted during the first half of 2016 was \$0.10.

Compensation expense of \$238,064 and \$107,660 has been recognized for the vested options for the three months ended June 30, 2016 and 2015, respectively, and \$365,045 and \$207,598 for the six months ended June 30, 2016 and 2015, respectively. The aggregate intrinsic value of the outstanding options at June 30, 2016 was \$0. At June 30, 2016, \$328,745 of unamortized compensation expense for unvested options is expected to be recognized over the next 1.27 years on a weighted average basis.

NOTE 10 - COMMITMENTS AND CONTINGENCIES**Commitments**

The following table summarizes our contractual obligations as of June 30, 2016 that require us to make future cash payments:

	Payment due by period		
	Total	< 1 year	1 - 3 years
Contractual Obligations:			
Rent obligations	\$78,783	\$78,783	\$- 0 -
Total	\$78,783	\$78,783	\$- 0 -

Contingencies

In accordance with ASC Topic 450, when applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. We may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, which could have a material adverse effect on our financial condition, cash flows or results of operations.

Table Of Contents

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

Forward-looking Statements

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

Overview

Applied Minerals, Inc. (the "Company" or "we" or "us") is focused primarily on (i) the development, marketing and sale of our halloysite clay-based DRAGONITE™ line of products for use to improve the performance of end-products in application markets such as flame retardant additives for plastics, nucleation, thermosets and adhesives, reinforcement, molecular sieves and catalysts, ceramics, binders, cosmetics, controlled release carriers and environmental remediation and (ii) the development, marketing and sale of our AMIRON™ line of iron oxide products for pigmentary and technical applications.

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

Halloysite is an aluminosilicate clay that possesses a tubular morphology with a hollow lumen (pore). Traditionally, halloysite has been used to manufacture porcelain, bone china and catalysts used in the petroleum cracking process.

A significant amount of academic and industrial research has been performed on the commercial uses of halloysite clay beyond porcelain products and ceramic-based catalysts. This research has identified a wide array of application areas in which the unique morphology of halloysite can be utilized to either enhance the performance of existing applications or create new high-performance ones. Since 2009, management has been primarily focused on developing halloysite-based products, marketed under the DRAGONITE™ trade name, for advanced applications, such as, but not limited to, reinforcement additives for polymer composites, flame retardant additives for polymers, controlled release carriers for paints and coatings, strength reinforcement additives for cement, concrete, mortars and grouts, rheology additives for drilling fluids, environmental remediation media, and carriers of agricultural agents. The clays used in these advanced applications sell for significantly higher prices than those used in more traditional applications.

In addition to the development of its halloysite resource, management has also developed a line of iron oxide-based products for the pigmentary and technical markets. The Dragon Mine has a resource of 3.3 million tons of natural iron oxide mineralized material, which is comprised primarily of goethite and hematite. The resource possesses a high-quality natural iron oxide. High-quality iron oxides have commercial uses in a number of high-value applications within the pigmentary and technical markets. The Company's AMIRON product line includes semi-transparent and opaque pigments for the construction, concrete, paints and coatings, and plastics and rubber industries. AMIRON's technical oxides, due to their particularly high surface area of 25 m²/g – 125 m²/g and reactivity, can be used as the media for the removal of toxins from waste and drinking water, as a catalyst for desulfurization, and a foundry sand additive.

The Company has a mineral processing plant with a capacity of up to 45,000 tons per annum that is currently dedicated to the processing of its AMIRON product. The Company has a smaller processing facility with a capacity of 5,000 – 10,000 tons per annum that is currently dedicated to its halloysite resource.

In late 2015, the Company entered into a \$5 million take-or-pay supply agreement for its AMIRON product. The \$5 million portion of the take-or-pay agreement is expected to be completed by June 2017. In July, 2016 the Company received an order for 5 tons of DRAGONITE from a leading zeolite/molecular sieve manufacturer, which plans to carry out a commercial-scale trial of a halloysite-based molecular sieve product. The Company is involved in a number of advanced-stage product development projects with customers that operate within industries that include, but are not limited to, catalysts and oilfield services. The Company has engaged leading special material distribution organizations, HORN, Brandt Technologies and KODA Distribution Group for the U.S. and Fimatec LTD for Korea. During the six months ended June 30, 2016, the Company's Board of Directors established an Operations Committee to which it appointed Mario Concha and Robert Betz. The purpose of the Operations Committee is to advise the Company's management team on how best to execute its operations, marketing and sales strategies.

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

Critical Accounting Policies and Estimates

A complete discussion of our critical accounting policies and estimates is included in our Form 10-K for the year ended December 31, 2015. There have been no material changes in our critical accounting policies and estimates during the six-month period ended June 30, 2016 compared to the disclosures on Form 10-K for the year ended December 31, 2015.

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements, if any, and the impact of these pronouncements on our Condensed Consolidated Financial Statements, if any, see Note 4 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

Table Of Contents*Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015***Results of Operations**

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

	Three Months Ended June 30,		Variance	
	2016	2015	Amount	%
REVENUES	\$ 1,112,467	\$ 65,848	\$ 1,046,619	1,589.5 %
OPERATING EXPENSES:				
Production costs	220,970	3,934	217,036	55.2 %
Exploration costs	584,150	1,291,197	(707,047)	(54.8)%
General and administrative	1,066,927	1,247,466	(180,539)	(14.5)%
Depreciation expense	338,333	326,684	11,649	3.6 %
Total Operating Expenses	2,210,380	2,869,281	(658,901)	(23.0)%
Operating Loss	(1,097,913)	(2,803,433)	1,705,520	60.8 %
OTHER INCOME (EXPENSE):				
Interest expense, net, including amortization of deferred financing cost and debt discount	(1,356,841)	(1,092,595)	(264,246)	(24.2)%
(Loss) gain on revaluation of PIK Note derivative	(742,509)	1,313,110	(2,055,619)	(156.5)%
Other income (expense)	11,904	(145,958)	157,862	108.2 %
Total Other Income (Expense)	(2,087,446)	74,557	(2,162,003)	(2,899.8)%
NET LOSS	\$ (3,185,359)	\$ (2,728,876)	\$ (456,483)	(16.7)%

Revenue generated during the three months ended June 30, 2016 was \$1,112,467 compared to \$65,848 of revenue generated during the same period in 2015, an increase of 1,589.5%. This increase was due primarily to the sale of AMIRON iron oxide through a take-or-pay supply agreement entered into by the Company on November 2, 2015. During the three months ended June 30, 2016, the Company, through the take-or-pay supply agreement, generated \$1,022,468 of revenue. This agreement did not exist during the same period in 2015. Also contributing to the revenue increase during the quarter was \$57,200 of sales of DRAGONITE halloysite clay for use in a specialty zeolite

application that were not realized during the same period in 2015 and \$8,500 of sales of DRAGONITE to two customers for use as an additive in plastic applications. Partially offsetting the increase in revenue during the three months ended June 30, 2016, was the absence of \$28,000 in sales of DRAGONITE to a distributor located in Taiwan that occurred in the same period in 2015, and a \$12,000 decline in sales of DRAGONITE to a customer for use as a binder in a ceramic application due primarily to a timing difference.

Total operating expenses for the three months ended June 30, 2016 were \$2,210,380 compared to \$2,869,281 of operating expenses incurred during the same period in 2015, a decrease of \$658,901 or 23.0%. The decline in operating costs was driven by primarily by a \$707,047 decline in exploration costs and a \$180,539 decline in general and administrative expense, partially offset by a \$217,036 increase in product costs driven primarily by the effect of the Company's take-or-pay supply contract for its AMIRON iron oxide, which was not in effect during the same period in 2015.

Production costs incurred during the three months ended June 30, 2016 were \$220,970 compared to \$3,934 of costs incurred during the same period in 2015, an increase of \$217,036 or 55.2%. These costs consist primarily of the direct labor, energy and material expenditures required to produce saleable product. The increase in costs incurred during the quarter ended June 30, 2016 were associated, in large part, to the production of the Company's AMIRON iron oxide product related to the fulfillment of its take-or-pay supply contract, which was not in effect during the same period in 2015.

Exploration costs incurred during the three months ended June 30, 2016 were \$584,150 compared to \$1,291,197 of exploration costs incurred during the same period in 2015, a decrease of \$707,047 or 54.8%. Exploration costs are associated with the Company's activities at its Dragon Mine location, excluding costs associated with production. The decline was driven primarily by a \$395,402 decrease in wages and wage-related expense due to a reduction in headcount at the Company's Dragon Mine operation. This reduction in headcount resulted from the planned completion of certain underground exploration activities during the third quarter of 2015. Expenses related to underground development, such as materials and supplies, equipment rental, ground support expense and drilling supplies, declined by \$267,175 due to the aforementioned completion of underground development at the Dragon Mine. Professional services expense decreased by \$53,500 due to the elimination of geological consulting related to the completion of planned characterization of the Dragon Mine property. Outside lab expenses at the Dragon Mine decreased by approximately \$24,400 due to the Company's decision to establish a lab on-site during the first half of 2015.

Table Of Contents

General and administrative expenses incurred during the three months ended June 30, 2016 totaled \$1,066,927 compared to \$1,247,466 of expense incurred during the same period in 2015, a decrease of \$180,539, or 14.5%. The Company's selling and administrative expenses are associated primarily with its New York operations.

The largest component of the Company's general and administrative expense includes wage, wage-related and equity-based expense. Wage expense for the three months ended June 30, 2016 totaled \$432,289, a decline of \$27,400 compared to the same period in 2015. This decline was driven by a decline of \$68,100 in wages related to staff reductions and of \$33,000 related to a reduction in wages of certain employees, partially offset by \$74,000 of additional wages related to the hiring of a Director of Sales during the period. Wage-related expense for the three months ended June 30, 2016 increased by approximately \$16,000. The increase was related primarily to a \$7,500 increase in workers' compensation expense due to a timing difference in recognizing the expense and a \$7,800 increase in employee health care expense.

Equity-based expense totaled \$238,064 during the quarter, an increase of \$130,404 when compared to the same period in 2015. The increase was driven primarily by an increase in the number of equity-based options outstanding at June 30, 2016 compared to the number outstanding at June 30, 2015. Equity-based compensation expense for employees for the three months ended June 30, 2016 was \$162,901, an increase of \$87,770 when compared to the similar period in 2015, which was due primarily the payment of equity-based rather than cash bonuses. Equity-based compensation for directors was \$75,163 during the three months ended June 30, 2016, an increase of \$59,160 when compared to the same period in 2015, which was driven by the directors' decision to take a larger portion of their compensation in equity-based grants. These increases were partially offset by a decline in equity-based compensation expenses for consultants. Total compensation for the Company's directors (cash and equity) for the three months ended June 30, 2016 was \$125,650, a decline of \$4,460 when compared to the same period in 2015.

Expenses associated with professional services totaled \$36,538 during the three months ended June 30, 2016, a decline of \$148,802 when compared to the same period in 2015. The decrease was driven primarily by a \$47,500 reduction in expense related to the utilization of outside legal firms, the elimination of \$39,500 of consulting expense related to product development, a \$39,700 decline in accounting expenses and the absence of a \$24,700 expense related to the valuation of fixed assets incurred during 2015.

Expense incurred for shareholder services totaled \$16,400 during the period, a decline of \$59,700, driven primarily by a reduction in fees paid for investor relations services. Expenses incurred for property taxes, licenses and fees increased by \$37,200 during the period due, in large part, to the timing of the recognition of the expenses.

Operating loss incurred during the three months ended June 30, 2016 was \$1,097,913 compared to a loss of \$2,803,433 incurred during the same period in 2015, a decrease of \$1,705,520 or 60.8%. The decrease in operating loss during the quarter was due to a 1,589.5% increase in revenue and a 23.0% decrease in operating expense. The

Company's performance under its take-or-pay supply agreement during the quarter and its focus on the reduction of non-revenue related operating expense were the primary drivers of the decline in operating loss.

Net loss for the three-month period ending June 30, 2016 was \$3,185,359 compared to a loss of \$2,728,876 incurred during the same period in 2015, an increase of \$456,483, or 16.7%. The increase in net loss was due primarily to a \$2,055,619 decline in the gain on revaluation of PIK Note derivative, a \$264,246 increase in interest expense due to an increase in the principal amount of the Company Series 2023 and Series A PIK Notes, and selling expense of \$15,900 related to the sale of non-core real estate, partially offset by a \$1,705,520 increase in operating income, the absence of \$145,600 in PIK Note penalty expenses incurred during the three months ended June 30, 2015, and a \$27,500 dividend payment received from the Company workers' comp insurance provider.

Table Of Contents*Six Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015***Results of Operations**

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

	Six Months Ended June		Variance	
	2016	2015	Amount	%
REVENUES	\$2,114,095	\$228,595	\$1,885,500	824.8%
OPERATING EXPENSES:				
Production costs	476,670	6,170	470,500	76.3 %
Exploration costs	1,111,878	2,618,478	(1,506,600)	(57.5)%
General and administrative	2,250,136	2,429,775	(179,639)	(7.4)%
Depreciation expense	674,420	652,905	21,515	3.3 %
Total Operating Expenses	4,513,104	5,707,328	(1,194,224)	(20.9)%
Operating Loss	(2,399,009)	(5,478,733)	(3,079,724)	(56.2)%
OTHER INCOME (EXPENSE):				
Interest expense, net, including amortization of deferred financing cost and debt discount	(2,729,261)	(2,121,222)	(608,039)	(28.7)%
Gain on revaluation of PIK Note derivative	1,291,406	1,220,369	71,037	5.8 %
Other income (expense)	104,980	(543,755)	648,735	119.3%
Total Other Income (Expense)	(1,332,875)	(1,144,608)	(188,267)	(16.4)%
NET LOSS	\$ (3,731,884)	\$ (6,923,341)	\$ 3,191,457	46.1 %

Revenue generated during the six months ended June 30, 2016 was \$2,114,095, compared to \$228,595 of revenue generated during the same period in 2015, an increase of 824.8%. This increase was due primarily to the performance under a take-or-pay supply contract the Company has for its AMIRON iron oxide. During the six months ended June 30, 2016, the take-or-pay supply agreement accounted for \$1,864,772 in sales of AMIRON, which did not occur during the same period in 2015. DRAGONITE sold for use in a molecular sieve application increased by \$171,600 during the period. These increases were partially offset by the absence of \$79,200 in sales of AMIRON to a

distributor, the absence of \$39,000 in sales of DRAGONITE to an injection molder of plastic components and the absence of \$28,500 of sales of DRAGONITE to Taiwan-based distributor.

Total operating expenses for the six months ended June 30, 2016 were \$4,513,104 compared to \$5,707,328 of operating expenses incurred during the same period in 2015, a decrease of \$1,194,224 or 20.9%. The decline in operating costs was driven primarily by a decline of \$1,506,600 in explorations costs and a \$179,639 decline in general and administrative expense, partially offset by an increase of \$470,500 in production costs.

Production costs incurred during the six months ended June 30, 2016 were \$476,670 compared to \$6,170 of costs incurred during the same period in 2015, an increase of \$470,500 or 76.3%. These costs consist primarily of the direct labor, energy and material expenditures required to produce saleable product. The increase in costs incurred during the six months ended June 30, 2016 were associated, in large part, to the production of the Company's AMIRON iron oxide product related to the fulfillment of its take-or-pay supply contract, which was not in effect during the same period in 2015.

Exploration costs incurred during the six months ended June 30, 2016 were \$1,111,878 compared to \$2,618,478 incurred during the same period in 2015, a decrease of \$1,506,600 or 57.5%. Exploration costs are associated with the Company's activities at its Dragon Mine location, excluding costs associated with production. The decline was driven primarily by a \$856,000 decrease in wages and wage-related expense due to a reduction in headcount at the Company's Dragon Mine operation. This reduction in headcount resulted from the planned completion of certain underground exploration activities. Expenses related to underground development, such as materials and supplies, equipment rental, ground support expense and drilling supplies, declined by \$411,833 due to the aforementioned completion of underground development at the Dragon Mine. Professional and consulting services expense decreased by \$208,442 due primarily to the elimination of geological consulting work related to the completion of planned characterization of the Dragon Mine property and the elimination of the use of outside labs for geological testing purposes.

General and administrative expenses incurred during the six months ended June 30, 2016 totaled \$2,250,136 compared to \$2,429,775 of expense incurred during the same period in 2015, a decrease of \$179,639, or 7.4%. The Company's selling and administrative expenses are associated primarily with its New York operations.

Table Of Contents

The largest component of the Company's general and administrative expense includes wage, wage-related and equity-based compensation to employees, directors and consultants. Wages for the six months ended June 30, 2016 totaled \$1,076,180, an increase of \$156,664 when compared to the same period in 2015. The increase was due primarily to \$112,500 in performance bonus payments paid to the Company's CFO, General Counsel and a third employee that were not paid during 2015, \$145,500 in wages paid to two new sales employees who were not employees during the same period in 2015, a \$75,000 bonus payment paid to the Company's CEO during the period that was paid in the fourth quarter of 2014, and \$25,000 of wages paid to the Company's General Counsel during the period that were paid in the fourth quarter of 2014, partially offset by \$138,600 of wages not paid to employees during the period who left the Company during 2015 and \$62,300 in reductions in wage expense for certain existing employees.

Expense associated with equity grants totaled \$365,045 during the period, an increase of \$157,197 when compared to the same period in 2015. The increase was driven primarily by an increase in the number of equity-based options outstanding at June 30, 2016 compared to the number outstanding at June 30, 2015. Equity-based compensation expense for employees for the six months ended June 30, 2016 was \$229,358, an increase of \$64,077 when compared to the same period in 2015, which was due primarily to the payment of equity-based rather than cash-based bonuses. Equity-based compensation expense for directors was \$127,747 during the six months ended June 30, 2016, an increase of \$95,596 when compared to the same period in 2015, which was driven by the directors' decision to take a larger portion of their compensation in equity-based grants. Total compensation for the Company's directors, both equity-based and cash-based, for the six months ended June 30, 2016 was \$245,360, a decline of \$720 when compared to the same period in 2015. The increases in equity-based compensation expense for both employees and directors were partially offset by a relatively small decline in equity-based compensation expenses for consultants.

Expenses associated with professional services totaled \$95,238 during the period, a decline of \$221,490. The decline was driven primarily by a \$79,800 decrease in fees associated with the utilization of outside legal firms, a \$70,800 decline in fees paid to a consulting firm used for product development, a \$36,800 decline in fees paid for accounting services due to a reduction in certain regulatory filings and the elimination of \$24,700 in expenses related to the valuation of certain of the Company's fixed assets by a consulting firm during the comparable period in 2015.

Expenses incurred for property taxes, licenses and related fees declined by \$26,200 during the period.

Operating loss incurred during the six months ended June 30, 2016 was \$2,399,009 compared to a loss of \$5,478,733 incurred during the same period in 2015, a decrease of \$3,079,724 or 56.2%. The decrease in operating loss during the quarter was due to an 824.8% increase in revenue and a 20.9% decrease in operating expense. The Company's performance under its take-or-pay supply agreement during late 2015 and its focus on the reduction of certain operating expenses, both at Utah and New York, were the primary drivers of the decline in operating loss.

Net Loss for the six-month period ending June 30, 2016 was \$3,731,884 compared to a loss of \$6,923,341 incurred during the same period in 2015, a decrease of \$3,191,457, or 46.1%. The decline in net loss was due primarily to the \$3,079,724, or 56.2%, decline in operating loss, a \$541,100 penalty expense related to the Company's Series A PIK Notes in 2015, a \$71,037 increase in gain on revaluation of PIK Note derivative, a \$108,400 net gain on the sale of non-core real estate assets and an annual dividend of \$27,435 received from the Company workers' compensation insurance policy. These gains were partially offset by a \$608,039 increase in interest expense and sales expense of \$32,187 incurred from the sale of the Company's non-core real estate. The increase in interest expense over the six months ended June 30, 2015 was due to an increase in the outstanding balance of PIK Note over the period. This increase was due to the Company's decision to pay the interest due on its PIK Notes in additional PIK Notes.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a history of recurring losses from operations and the use of cash in operating activities. For the six months ended June 30, 2016, the Company's net loss was \$3,731,884 and cash used in operating activities was \$1,528,002. At June 30, 2016, the Company had working capital of \$1,338,077. The calculation of working capital took into account the following items that reduced working capital but that the Company does not believe that it will have to pay in cash: \$919,913 of accrued PIK Note interest, which the Company expects to pay in-kind and \$167,841 of payables for which the Company believes it has a statute of limitations defense. Based on the Company's current cash balance and its cash usage expectations, it believes it will have sufficient liquidity to fund its operations for at least the next 12 months.

Cash used in operating activities during the first six months of 2016 was \$1,528,002 compared to \$4,731,175 of cash used during the same period in 2015. The primary driver behind the \$3,203,173 reduction in cash used by operating activities was the \$3,191,457 reduction in the Company's net loss. As described before, the decrease in net loss was driven primarily by an 824.8% increase in revenue and a 20.9% decrease in operating expenses. The change in operating assets and liabilities partially offset the reduction in cash used by operating activities during the period.

Cash provided by investing activities during 2016 was \$432,161 compared to \$17,995 used during the same period in 2015. The increase in cash generated by investing activities during the period resulted from \$552,944 of proceeds generated from the sale of non-core land owned by the Company in Idaho, partially offset by the purchase of certain capital equipment during the period.

Cash provided by financing activities during 2016 was \$1,467,458 compared to \$203,440 of cash used during the same period in 2015. On June 24, 2016 the Company raised \$1.64 million through the sale of 10,933,333 units at \$0.15 per unit. Attached to each unit sold was one share of common stock and a warrant to purchase 0.3 shares of the Company's common stock. As a result of the sale, the Company issued 10,933,333 shares of common stock and warrants to purchase 3,280,000 shares of common stock at \$0.25 per share. The warrants have a term of five years and do not contain a provision that allows for a cashless exercise.

Table Of Contents

Total assets at June 30, 2016 were \$7,757,085 compared to \$8,318,112 at December 31, 2015, a decrease of \$561,027 due primarily to the sale of assets held for sale, the depreciation of property, plant and equipment and a reduction in prepaid assets, partially offset by an increase in cash from the Company's recent capital raise and an increase in accounts receivable resulting from the Company's performance under its take-or-pay supply contract. Total liabilities were \$25,102,651 at June 30, 2016, compared to \$24,057,762 at December 31, 2015. The increase in liabilities was driven primarily by the increase in the outstanding balances of the Series 2023 and Series A PIK Notes.

ISSUANCE OF CONVERTIBLE DEBT

For information with respect to issuance of convertible debt, see Note 7 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report.

OFF-BALANCE SHEET ARRANGEMENTS

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

The following table summarizes our contractual obligations as of June 30, 2016 that require us to make future cash payments:

	Payment due by period		
	Total	< 1 year	1 - 3 years
Contractual Obligations:			
Rent obligations	\$78,783	\$78,783	\$- 0 -
Total	\$78,783	\$78,783	\$- 0 -

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

Table Of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS.

Except for the below, there were no additions or material changes to the Company's risk factors disclosed in Item 1A of Part I in the Company's 2015 Annual Report on Form 10-K.

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

On June 24, 2016, the Company entered into investment agreements for the sale of Units at \$.15 per Unit. Each Unit consisted of one share of Common Stock and one five-year warrant to purchase 0.3 share of Common Stock. 3.33 Warrants can be exercised to acquire one whole share of Common Stock for \$0.25.

A total of 10,933,333 Units were sold in the offering for an aggregate of \$1,640,000. There were 15 purchasers of the Units. The purchasers included John Levy and Robert Betz, directors of the Company, each of whom invested \$50,000, and three funds managed by David Taft, a director of the Company. The funds invested a total of \$200,000.

In connection with the Offering, the Company entered into registration rights agreements with each of the purchasers.

The Company, has an option to acquire the warrants; *provided*, that, the following conditions are met: (a) the average VWAP for the 20 consecutive trading days immediately preceding the date on which the call notice is given is equal or greater than \$.60 and (b) a registration statement covering the resale of shares issuable upon exercise of the warrants is effective.

The sale of the unit was exempt under Section 4(2) of the Securities Act of 1933

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

The 2016 Annual Meeting of Shareholders will be held on December 7, 2016.

Table Of Contents

ITEM 6. EXHIBITS

(a) Exhibits.

The following exhibits are included in this report:

Exhibit Number	Description of Exhibit
10.1	2016 Long-Term Incentive Plan
31.1	Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Principal Executive Officer
31.2	Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, of the Principal Financial Officer
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Principal Executive Officer
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Principal Financial Officer
95	Mine Safety Disclosure
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

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

Table Of Contents

SIGNATURES

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

APPLIED MINERALS, INC.

Dated: August 15, 2016 /s/ ANDRE ZEITOUN
By: Andre Zeitoun
Chief Executive Officer

Dated: August 15, 2016 /s/ CHRISTOPHER T. CARNEY
By: Christopher T. Carney
Chief Financial Officer