

Comstock Mining Inc.
Form 10-Q
November 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 000-32429

(Exact name of registrant as specified in its charter)

NEVADA	1040	65-0955118
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

P.O. Box 1118
Virginia City, NV 89440
(Address of principal executive offices)
(775) 847-5272

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares of Common Stock, \$0.000666 par value, of the registrant outstanding at November 14, 2011 was 28,202,752.

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Statement Regarding Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. All statements contained in this report on Form 10-Q, other than statements of historical facts, are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements about matters such as: future prices and sales of and demand for our products; future industry market conditions; future changes in our production capacity and operations; future production, operating and overhead costs; operational and management restructuring activities (including implementation of methodologies and changes in the board of directors); future employment and contributions of personnel; tax and interest rates; capital expenditures and their impact on us; nature and timing of restructuring charges and the impact thereof; productivity, business process, rationalization, restructuring, investment, acquisition, consulting, operational, tax, financial and capital projects and initiatives; contingencies; environmental compliance and changes in the regulatory environment; offerings, sales and other actions regarding debt or equity securities; and future working capital, costs, revenues, business opportunities, debt levels, cash flows, margins, earnings and growth. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “plan,” “should,” “intend,” “may,” “will,” “would,” similar expressions identify forward-looking statements, but are not the exclusive means of doing so.

These statements are based on assumptions and assessments made by our management in light of their experience and their perception of historical and current trends, current conditions, possible future developments and other factors they believe to be appropriate. Forward-looking statements are not guarantees, representations or warranties and are subject to risks and uncertainties that could cause actual results, developments and business decisions to differ materially from those contemplated by such forward-looking statements. Some of those risks and uncertainties include the risk factors set forth in this report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and the following: global economic and capital markets uncertainty; the speculative nature of gold or mineral exploration, including risks of diminishing quantities or grades of qualified resources and reserves; operational or technical difficulties in connection with exploration or mining activities; contests over our title to properties; potential inability to obtain requisite permits or zoning clearance; potential inability to continue to comply with government regulations and / or listing requirements; adoption of or changes in legislation or regulation adversely affecting our business opportunities that may be presented to or pursued by us; deficiencies in our internal controls; changes in the United States or other monetary or fiscal policies or regulations; interruptions in our production capabilities due to unexpected equipment failures; fluctuation of prices for gold or certain other commodities (such as silver, copper, diesel fuel and electricity); changes in generally accepted accounting principles; geopolitical events; potential inability to implement our business strategies; potential inability to commence production; potential inability to grow revenues organically; potential inability to attract and retain key personnel; interruptions in delivery of critical supplies and equipment, raw materials due to credit or other limitations imposed by vendors; assertion of claims, lawsuits and proceedings against us; and work stoppages or other labor difficulties. Occurrence of such events or circumstances could have a material adverse effect on our business, financial condition, results of operations or cash flows or the market price of our securities. All subsequent written and oral forward-looking statements by or attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. All forward-looking statements included in this report are based on information available to us as of the filing date of this report. We undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

COMSTOCK MINING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS	September 30, 2011	December 31, 2010
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,957,566	\$ 25,383,309
Available-for-sale securities	2,950,348	4,410,237
Prepaid expenses and other current assets	606,270	2,042,276
Total current assets	16,514,184	31,835,822
MINERAL RIGHTS AND PROPERTIES, PLANT AND EQUIPMENT, Net	8,972,307	4,224,597
RECLAMATION BOND DEPOSIT	721,748	721,748
RETIREMENT OBLIGATION ASSET	307,896	339,357
OTHER ASSETS	54,225	-
TOTAL ASSETS	\$ 26,570,360	\$ 37,121,524
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,607,645	\$ 819,817
Accrued expenses	3,938,337	3,977,369
Long-term debt obligations – current portion	53,567	771,530
Total current liabilities	5,599,549	5,568,716
LONG-TERM LIABILITIES:		
Long-term debt obligations	1,013,773	680,881
Derivative liability - contingent dividend payment	1,995,100	4,873,192
Long-term reclamation liability	1,403,185	1,332,730
Total long-term liabilities	4,412,058	6,886,803
Total liabilities	10,011,607	12,455,519
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS' EQUITY:		
Common stock, \$.000666 par value, 3,950,000,000 shares authorized, 28,002,349 and 21,154,663 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	18,650	14,089
Convertible Preferred Stock; 50,000,000 shares authorized 7.5% Series A-1 convertible preferred stock; \$.000666 par value, 1,500,000 shares authorized, 21,775 shares issued and outstanding		

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at September 30, 2011 and December 31, 2010	15	15
7.5% Series A-2 convertible preferred stock, \$.000666 par value, 250,000 shares authorized, 6,672 and 8,382 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	4	5
7.5% Series B convertible preferred stock, \$.000666 par value, 600,000 shares authorized, 31,224 and 35,749 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	21	24
Additional paid-in capital	140,898,376	139,906,683
Accumulated deficit	(124,358,313)	(115,254,811)
Total stockholders' equity	16,558,753	24,666,005
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$26,570,360	\$37,121,524

See accompanying notes to condensed consolidated financial statements.

COMSTOCK MINING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,	
	2011	2010
REVENUE - HOTEL	\$ 179,071	\$—
COST AND EXPENSES		
Hotel operating costs	219,159	—
Depreciation and amortization	54,837	31,828
Reclamation, exploration and test mining expenses	2,256,590	570,616
General and administrative	1,007,832	583,156
Consultants and professional fees	273,461	471,824
Total cost and expenses	3,811,879	1,657,424
LOSS FROM OPERATIONS	(3,632,808)	(1,657,424)
OTHER INCOME (EXPENSE)		
Change in fair value of debt beneficial conversion feature	—	(15,939,913)
Change in fair value of warrants	—	(1,391,826)
Change in fair value of contingent dividend payment	1,661,584	—
Interest expense	(14,494)	(1,093,831)
Interest income	11,304	—
Total other income (expense), net	1,658,394	(18,425,570)
NET LOSS	(1,974,414)	(20,082,994)
DIVIDENDS ON CONVERTIBLE PREFERRED STOCK	(1,156,150)	—
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	\$(3,130,564)	\$(20,082,994)
Net loss per common share – basic	\$(0.12)	\$(1.05)
Net loss per common share – diluted	\$(0.12)	\$(1.05)
Weighted average common shares outstanding — basic	25,306,243	19,169,218
Weighted average common shares outstanding — diluted	25,306,243	19,169,218

See accompanying notes to condensed consolidated financial statements.

COMSTOCK MINING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Nine Months Ended September 30,	
	2011	2010
REVENUE - HOTEL	\$299,246	\$—
COST AND EXPENSES		
Hotel operating costs	319,154	—
Depreciation and amortization	122,119	178,884
Reclamation, exploration and test mining expenses	7,492,079	2,331,869
General and administrative	3,302,356	1,535,503
Consultants and professional fees	1,147,698	855,673
Total cost and expenses	12,383,406	4,901,929
LOSS FROM OPERATIONS	(12,084,160)	(4,901,929)
OTHER INCOME (EXPENSE)		
Change in fair value of debt beneficial conversion feature	—	(16,793,767)
Change in fair value of warrants	—	(2,056,449)
Change in fair value of contingent dividend payment	2,878,092	—
Interest expense	(38,869)	(3,014,408)
Interest income	65,354	—
Gain on sale of mineral rights	—	300,000
Other, net	—	(169,247)
Total other income (expense), net	2,904,577	(21,733,871)
LOSS BEFORE INCOME TAXES	(9,179,583)	(26,635,800)
INCOME TAX BENEFIT	76,081	—
NET LOSS	(9,103,502)	(26,635,800)
DIVIDENDS ON CONVERTIBLE PREFERRED STOCK	(3,585,929)	—
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	\$(12,689,431)	\$(26,635,800)
Net loss per common share – basic	\$(0.54)	\$(1.41)
Net loss per common share – diluted	\$(0.54)	\$(1.41)
Weighted average common shares outstanding — basic	23,400,424	18,907,926
Weighted average common shares outstanding — diluted	23,400,424	18,907,926

See accompanying notes to condensed consolidated financial statements.

COMSTOCK MINING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2011	2010
OPERATING ACTIVITIES:		
Net loss	\$(9,103,502)	\$(26,635,800)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	122,119	178,884