METALLINE MINING CO
Form 10-Q
September 11, 2008

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED July 31, 2008.

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

FOR THE TRANSITION PERIOD OF __________ TO __________.

Commission File Number: 001-33125
METALLINE MINING COMPANY
(Exact name of registrant as specified in its charter)

Nevada	**91-1766677**
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

1330 E. Margaret Ave., Coeur d Alene, ID 83815
(Address of principal executive offices, including zip code)
Registrant s telephone number: **(208) 665-2002**

Indicate by check mark whether the registrant (1) 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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company:

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting Company o

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

As of August 29, 2008, there were 39,677,027 shares of the Registrant s $.01 par value Common Stock (Common Stock), Registrant s only outstanding class of voting securities, outstanding.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

METALLINE MINING COMPANY
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JULY 31, 2008
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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METALLINE MINING COMPANY
(AN EXPLORATION STAGE COMPANY)
CONSOLIDATED BALANCE SHEETS

	July 31, 2008 (Unaudited)	October 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,082,319	$ 1,434,487
Marketable securities		7,900,000
Value-added tax receivable	917,866	401,341
Other receivables	26,725	23,993
Prepaid expenses	40,658	17,827
Total Current Assets	5,067,568	9,777,648
PROPERTY CONCESSIONS		
Sierra Mojada District (Note 4)	4,839,743	4,536,111
EQUIPMENT		
Office and mining equipment, net of accumulated depreciation of $587,680 and 407,457, respectively (Note 5)	1,627,585	919,420
TOTAL ASSETS	$ 11,534,896	$ 15,233,179
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 343,892	$ 84,634
Accounts payable related parties (Note 7)		68,460
Income tax payable	56,058	55,331
Accrued liabilities and expenses	239,958	92,133
Other liabilities	82,701	100,766
Total Current Liabilities	722,609	401,324
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS EQUITY (Note 7)		
Common stock, $0.01 par value; 160,000,000 shares authorized, 39,677,027 and 39,144,977 shares issued and outstanding, respectively	396,770	391,450
Additional paid-in capital	51,352,635	49,273,440
Deficit accumulated during exploration stage	(40,247,885)	(34,746,393)

Other comprehensive loss	(689,233)	(86,642)
Total Stockholders Equity	10,812,287	14,831,855
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 11,534,896	$ 15,233,179

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

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METALLINE MINING COMPANY
(AN EXPLORATION STAGE COMPANY)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended July 31, 2008	Three months ended July 31, 2007	Nine months ended July 31, 2008	Nine months ended July 31, 2007	November 8, 1993 (Inception) to July 31, 2008
REVENUES	$	$	$	$	$
EXPLORATION AND PROPERTY HOLDING COSTS					
Exploration and property holding costs	927,369	963,245	2,315,044	2,100,838	15,149,167
Depreciation and asset write-off	50,092	40,874	156,295	183,520	639,618
TOTAL EXPLORATION AND PROPERTY HOLDING COSTS	977,461	1,004,119	2,471,339	2,284,358	15,788,785
GENERAL AND ADMINISTRATIVE EXPENSES					
Salaries and payroll expenses	467,434	266,733	1,574,977	598,745	11,401,459
Office and administrative expenses	91,550	86,769	380,662	346,158	2,371,895
Professional services	816,083	491,841	1,687,914	2,148,564	9,637,365
Directors fees	143,205	76,920	467,127	225,720	2,742,458
Depreciation	5,671	11,112	18,647	18,682	194,034
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	1,523,943	933,375	4,129,327	3,337,869	26,347,211
LOSS FROM OPERATIONS	(2,501,404)	(1,937,494)	(6,600,666)	(5,622,227)	(42,135,996)
OTHER INCOME (EXPENSES)					
Interest and investment income	16,932	172,112	139,285	309,893	824,249
Foreign currency transaction gain	697,637		1,023,511		1,121,518
Miscellaneous ore sales, net of expenses					134,242
VAT tax refunds					132,660
Miscellaneous income			17	2,814	82,352
Interest and financing expense					(289,230)
TOTAL OTHER INCOME (EXPENSE)	714,569	172,112	1,162,813	312,707	2,005,791

LOSS BEFORE INCOME TAXES	(1,786,835)	(1,765,382)	(5,437,853)	(5,309,520)	(40,130,205)
INCOME TAXES	23,447		63,639		117,680
NET LOSS	$ (1,810,282)	$ (1,765,382)	$ (5,501,492)	$ (5,309,520)	$ (40,247,885)
OTHER COMPREHENSIVE LOSS Foreign Currency translation adjustments	(404,143)		(602,591)		(689,233)
COMPREHENSIVE LOSS	$ (2,214,425)	$ (1,765,382)	$ (6,104,083)	$ (5,309,520)	$ (40,937,118)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.05)	$ (0.05)	$ (0.14)	$ (0.15)	
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	39,644,979	37,720,244	39,551,259	34,953,913	

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

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METALLINE MINING COMPANY
(AN EXPLORATION STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended July 31, 2008	Nine months ended July 31, 2007	Period from November 8, 1993 (Inception) to July 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (5,501,492)	$ (5,309,520)	$ (40,247,885)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and equipment write-off	175,071	202,202	835,790
Noncash expenses			126,864
Foreign currency transaction loss (gain)	(1,004,633)		(1,102,641)
Common stock issued for services		211,559	1,237,047
Common stock issued for compensation	82,840		1,059,946
Stock options issued for compensation	1,263,425	79,229	6,057,614
Common stock issued for directors fees	231,000	244,260	537,180
Stock options and warrants issued for directors fees			1,665,705
Stock options issued for services			849,892
Stock options issued for financing fees			276,000
Common stock issued for payment of expenses			326,527
Stock warrants issued for services	30,689	1,094,950	1,883,409
(Increase) decrease in:			
Accounts receivable		35,934	
Value added tax receivable	(462,436)	(313,425)	(855,671)
Other receivables	(1,234)	(37,794)	(24,906)
Prepaid expenses	(22,467)	(11,812)	(40,255)
Increase (decrease) in:			
Accounts payable	259,075	(213,230)	343,577
Accounts payable related parties	(68,460)	(63,540)	
Income tax payable	(2,811)		51,403
Accrued liabilities and expenses	134,771	(60,792)	226,585
Other liabilities	(23,431)	(10,000)	75,300
Net cash used by operating activities	(4,910,093)	(4,151,979)	(26,718,519)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments		(15,200,000)	(21,609,447)
Proceeds from investment sales	7,900,000	12,225,000	21,609,447
Equipment purchases	(788,249)	(298,103)	(2,325,086)
Mining property acquisitions		(27,708)	(4,632,037)
Net cash provided by (used by) investing activities	7,111,751	(3,300,811)	(6,957,123)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sales of common stock		5,671,893	33,379,207
Proceeds from sales of options and warrants			949,890
Proceeds from exercise of warrants	476,563	2,172,188	3,447,966
Proceeds from shareholder loans			30,000
Payment of note payable			(15,783)
Net cash provided by financing activities:	476,563	7,844,081	37,791,280
Effect of exchange rates on cash	(30,389)	(27,459)	(33,319)
Net increase in cash and cash equivalents	2,647,832	363,832	4,082,319
Cash and cash equivalents beginning of period	1,434,487	689,994	
Cash and cash equivalents end of period	$ 4,082,319	$ 1,053,826	$ 4,082,319

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

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METALLINE MINING COMPANY
(AN EXPLORATION STAGE COMPANY)
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Nine months ended July 31, 2008	Nine months ended July 31, 2007	Period from November 8, 1993 (Inception) to July 31, 2008
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid	$ 66,655	$	$ 66,655
Interest paid	$	$	$ 286,771
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Common stock issued for equipment	$	$	$ 25,000
Common stock options issued for financing fees	$	$	$ 276,000
Common stock options issued for non-cash options	$	$ 59,220	$ 59,220

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

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NOTE 1 ORGANIZATION AND DESCRIPTION OF BUSINESS

Metalline Mining Company (the Company) was incorporated in the State of Nevada on November 8, 1993 as the Cadgie Company for the purpose of acquiring and developing mineral properties. The Cadgie Company was a spin-off from its predecessor, Precious Metal Mines, Inc. On June 28, 1996, at a special directors meeting, the Company s name was changed to Metalline Mining Company. The Company s fiscal year-end is October 31.

The Company expects to engage in the business of mining. The Company currently owns several mining concessions in Mexico (collectively known as the Sierra Mojada Property). The Company conducts its operations in Mexico through its wholly owned subsidiary corporations, Minera Metalin S.A. de C.V. (Minera Metalin) and Contratistas de Sierra Mojada S.A. de C.V. (Contratistas).

The Company s efforts have been concentrated in expenditures related to exploration properties, principally in the Sierra Mojada project located in Coahuila, Mexico. The Company has not determined whether the exploration properties contain ore reserves that are economically recoverable. The ultimate realization of the Company s investment in exploration properties is dependent upon the success of future property sales, the existence of economically recoverable reserves, the ability of the Company to obtain financing or make other arrangements for development, and upon future profitable production. The ultimate realization of the Company s investment in exploration properties cannot be determined at this time, and accordingly, no provision for any asset impairment that may result, in the event the Company is not successful in developing or selling these properties, has been made in the accompanying financial statements.

The Company s management believes its properties can ultimately be sold or developed to enable the Company to continue its operations. However, there are inherent uncertainties in mining operations and management cannot provide assurances that it will be successful in this endeavor. Furthermore, the Company is in the exploration stage, as it has not realized any revenues from its planned operations.

NOTE 2 BASIS OF PRESENTATION

These unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-K as promulgated by the Securities and Exchange Commission (SEC). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended October 31, 2007. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented.

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company s financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions and could have a material effect on the reported amounts of the Company s financial position and results of operations.

Operating results for the three-month and nine-month periods ended July 31, 2008 are not necessarily indicative of the results that may be expected for the year ending October 31, 2008.

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NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the U.S. and have been consistently applied in the preparation of the financial statements.

Reclassifications

Certain reclassifications have been made to prior periods and to the inception to date consolidated financial statements to conform to current year presentation. Such reclassifications had no effect on net loss.

Concentration of Risk

The Company maintains its domestic cash and marketable securities in two commercial depository accounts. One of these accounts is insured by the Federal Deposit Insurance Corporation (FDIC) for up to $100,000. The other account consists of money market funds, certificates of deposit and US treasury securities, all of which are not FDIC insured. The Company also maintains cash in banks in Mexico. These accounts, which had U.S. dollar balances of $297,877 and $229,094 at July 31, 2008 and October 31, 2007, respectively, are denominated in pesos and are considered uninsured. At July 31, 2008, the Company s cash balances and marketable securities included $834,395 which was not federally insured.

Earnings Per Share

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 128 Earnings Per Share , which provides for calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Although there were common stock equivalents of 18,346,568 shares and 18,340,408 shares outstanding at July 31, 2008 and 2007, respectively, they were not included in the calculation of earnings per share because they would have been considered anti-dilutive.

Exploration Costs

In accordance with accounting principles generally accepted in the United States of America, the Company expenses exploration costs as incurred. Exploration costs expensed during the nine months ended July 31, 2008 and 2007 were $2,315,044 and $2,100,838, respectively. The exploration costs expensed to date during the Company s exploration stage amount to $15,149,167.

Foreign Operations

The accompanying balance sheet at July 31, 2008 contains Company assets in Mexico, including: $4,839,743 in mineral properties; $2,119,997 (before accumulated depreciation) of property and equipment; $917,866 in value-added tax receivable; and $297,877 of cash. Although this country is considered economically stable, it is always possible that unanticipated events in foreign countries could disrupt the Company s operations. The Mexican government does not require foreign entities to maintain cash reserves in Mexico.

IVA Tax Receivable

The Company records a receivable for value added (IVA) taxes recoverable from Mexican authorities on goods and services purchased by its Mexican subsidiaries. As of July 31, 2008, the Company has filed applications with the Mexican authorities to recover approximately $1,223,000 of IVA taxes paid by its Mexican subsidiaries from 2005 to 2008. The Company has recorded a receivable in the amount of $917,866 as of July 31, 2008 for IVA taxes paid since November 1, 2006. The Company has recorded an allowance on the IVA tax receivable for taxes paid prior to October 31, 2006 as collectability cannot be reasonably estimated. The Company continues to work extensively with Mexican authorities to recover these amounts. In April 2008, the Company received a payment of $23,844 from the Mexican authorities for an unknown tax period and has applied this payment against the IVA receivable. Any subsequent recovery of the taxes paid prior to October 31, 2006 will be recorded as reduction to exploration expense.

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NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Marketable Securities

The Company accounts for its marketable securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115) and classifies marketable securities as trading, available-for-sale, or held-to-maturity. At October 31, 2007, the Company held $7,900,000 of marketable securities in auction rate securities (ARS) which are floating rate securities with long-term nominal maturities of 25 to 30 years, but are marketed by financial institutions with maturity and interest rates at 7, 28, and 35 day intervals. In accordance with SFAS No. 115, these auction rate securities were classified as current available-for-sale securities. Marketable securities include investments with maturities greater than six months, but not exceeding twelve months and available for sale auction rate securities.

During the three months ended January 31, 2008, the Company sold all of its auction rate securities for no gain or loss and invested the proceeds in short-term US treasury securities. The Company does not anticipate investing in auction rate securities in the near future given the increased liquidity risk associated with failed auctions for these securities.

Income Taxes

Income taxes are provided based upon the liability method of accounting pursuant to SFAS No. 109, Accounting for Income Taxes (hereinafter SFAS No. 109). Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the more likely than not standard imposed by SFAS No. 109 to allow recognition of such an asset.

Effective November 1, 2007, the Company adopted Financial Accounting Standards Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48), an interpretation of Financial Accounting Standards Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that the Company recognize in its financial statements the impact of uncertain tax positions. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. See Note 11 for discussion of FIN 48 and impact it had on the Company s financial position and results of operations.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (U.S. GAAP), and expands disclosures about fair value measurements. This Standard addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under U.S. GAAP. Accordingly, this Standard does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (fiscal year 2009 for the Company). The Company does not expect the adoption of SFAS 157 will have a material impact on its financial position, results of operations, and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (SFAS 159). Under SFAS 159, a company may choose, at specified election dates, to measure eligible items at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (fiscal year 2009 for the Company). The Company is currently assessing the impact that SFAS 159 may have on its financial position, results of operations, and cash flows.

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NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)). SFAS 141(R) changes accounting for acquisitions that close beginning in 2009. More transactions and events will qualify as business combinations and will be accounted for at fair value under the new standard. SFAS 141(R) promotes greater use of fair values in financial reporting. Some of the changes will introduce more volatility into earnings. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008 (fiscal year 2010 for the Company). The Company is currently assessing the impact that SFAS 141(R) may have on its financial position, results of operations, and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160), an amendment of ARB No. 51. SFAS 160 will change the accounting and reporting for minority interests which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 (fiscal year 2010 for the Company). SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. The Company does not expect the adoption of SFAS 160 will have a material impact on its financial position, results of operations, and cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). FAS No. 161 enhances the disclosure requirements under FAS No. 133 pertaining to how and why an entity uses derivative instruments, how derivative instruments and related hedge items are accounted for under SFAS No. 133, and how derivative instruments and related hedge items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008 (fiscal year 2009 for the Company). The Company does not expect the adoption of SFAS 160 will have a material impact on its financial position, results of operations, and cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). This statement identifies sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. SFAS No. 162 moves the hierarchy of GAAP sources for non-governmental entities from the auditing literature to the accounting literature. This statement will become effective 60 days following approval by the Securities and Exchange Commission (SEC) of amendments made by the Public Company Accounting Oversight Board to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. Any effect of applying SFAS No. 162 should be reported as a change in accounting principle. The Company does not expect SFAS 162 will have a material impact on its financial position, results of operations, and cash flows.

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts - An interpretation of FASB Statement No. 60* (SFAS 163). This statement requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures about the insurance enterprise s risk-management activities. SFAS 163 requires that disclosures about the risk- management activities of the insurance enterprise be effective for the first period beginning after issuance. The Company does not expect SFAS 163 will have a material impact on its financial position, results of operations, and cash flows.

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NOTE 4 CONCESSIONS IN THE SIERRA MOJADA DISTRICT

Sierra Mojada Mining Concessions

The Company owns 16 mining concessions consisting of 19,408.41 hectares (about 47,958 acres) in the mining region known as the Sierra Mojada District located in Sierra Mojada, Coahuila, Mexico. The mining concessions are considered one prospect area and are collectively referred to as the Sierra Mojada Project.

The Company purchased eleven of the concessions from Mexican entities and/or Mexican individuals and the remaining five concessions were granted by the Mexican government. Each mining concession enables the Company to explore the underlying concession in consideration for the payment of semi-annual fee to the Mexican government and completion of certain annual assessment work. Annual assessment work in excess of statutory annual requirements can be carried forward and applied to future periods. The Company has completed sufficient work to meet future requirements for many years.

As of July 31, 2008, the Company owns the following mining concessions in the Sierra Mojada Distri