FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the Quarterly Period Ended March 31, 2016

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 number: 001-37515

Aqua Metals, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**47-1169572**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification no.)

1010 Atlantic Avenue
Alameda, California 94501
(Address of principal executive offices, including zip code)

(510) 479-7635
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 (as defined in Rule 12b-2 of the Act):

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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

As of May 18, 2016, there were 14,137,442 outstanding shares of the common stock of Aqua Metals, Inc.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AQUA METALS, INC.
Condensed Consolidated Balance Sheets

	March 31, 2016 (unaudited)	December 31, 2015 (Note 2)
ASSETS		
Current assets		
Cash and cash equivalents	$ 15,244,107	$ 20,140,667
Restricted cash	7,892,705	11,667,315
Prepaid expenses and other current assets	127,000	146,987
Total current assets	23,263,812	31,954,969
Non-current assets		
Property and equipment, net	15,020,131	8,808,387
Intellectual property, net	1,062,039	1,065,113
Equipment deposits	6,250,321	3,853,702
Other assets	1,593,989	1,593,531
Total non-current assets	23,926,480	15,320,733
Total assets	$ 47,190,292	$ 47,275,702
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 3,702,817	$ 3,192,113
Accrued expenses	1,211,786	80,518
Notes payable, current portion	118,496	44,966
Deferred rent, current portion	91,459	-
Total current liabilities	5,124,558	3,317,597
Deferred rent, non-current portion	1,097,412	1,071,129
Notes payable, non-current portion	9,253,806	9,221,786
Total liabilities	15,475,776	13,610,512
Commitments and contingencies	-	-
Stockholders' equity		
Common stock; $0.001 par; 50,000,000 shares authorized; 14,137,442 and 14,137,442 shares issued and outstanding March 31, 2016 and December 31, 2015, respectively	14,137	14,137
Additional paid-in capital	48,580,101	48,356,441
Accumulated deficit	(16,879,722)	(14,705,388)
Total stockholders' equity	31,714,516	33,665,190
Total liabilities and stockholders' equity	$ 47,190,292	$ 47,275,702

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

AQUA METALS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended March 31, 2016	2015
Operating expenses		
Operations and development costs	$ 883,367	$ 213,591
Business development and management costs	1,295,384	471,622
Total operating expenses	2,178,751	685,213
Loss from operations	(2,178,751)	(685,213)
Other expense (income)		
Increase in fair value of derivative liabilities	-	3,896,079
Interest expense	2,192	316,534
Interest income	(7,105)	(1,445)
Other income	(304)	(131)
Total other expense (income), net	(5,217)	4,211,037
Loss before income tax expense	(2,173,534)	(4,896,250)
Income tax expense	800	2,400
Net loss	$ (2,174,334)	$ (4,898,650)
Weighted average shares outstanding, basic and diluted	14,137,442	4,363,641
Basic and diluted net loss per share	$ (0.15)	$ (1.12)

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

AQUA METALS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended March 31, 2016	2015
Cash flows from operating activities:		
Net loss	(2,174,334)	$ (4,898,650)
Reconciliation of net loss to net cash used in operating activities		
Depreciation	77,762	3,846
Amortization of intellectual property	30,850	26,817
Fair value of warrants issued for consulting services	15,476	-
Stock option compensation	208,184	-
Increase in fair value of derivative liabilities	-	3,896,079
Amortization of debt discount	-	227,353
Amortization of deferred financing costs	8,997	-
Changes in operating assets and liabilities		
Inventory	-	(149,250)
Prepaid expenses and other current assets	(18,396)	(20,078)
Accounts payable	88,763	49,717
Accrued expenses	84,778	116,956
Deferred rent	77,941	-
Net cash used in operating activities	(1,599,979)	(747,210)
Cash flows from investing activities:		
Decrease in restricted cash	1,130,541	-
Purchases of property and equipment	(3,274,036)	(103,587)
Deposits	(1,121,302)	-
Intellectual property related expenditures	(27,776)	-
Net cash used in investing activities	(3,292,573)	(103,587)
Cash flows from financing activities:		
Payments on capital leases	(4,008)	-
Net cash used in financing activities	(4,008)	-
Net decrease in cash and cash equivalents	(4,896,560)	(850,797)
Cash and cash equivalents at beginning of period	20,140,667	4,536,601
Cash and cash equivalents at end of period	$ 15,244,107	$ 3,685,804
<u>Non-cash investing activities</u>		
Tenant improvement allowances	$ 78,184	$ -
<u>Non-cash financing activities</u>		
Capital lease	$ 100,562	$ -
<u>Supplemental disclosure of non-cash transactions</u>		
Increase in property and equipment resulting from increase in accounts payable	$ 1,790,234	$ -
Increase in property and equipment resulting from increase in accrued expenses	$ 1,046,490	$ -
Increase in deposits resulting from increase in accounts payable	$ 1,275,776	$ -
Decrease in restricted cash resulting from a decrease in accounts payable	$ 2,644,069	$ -

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

1. Organization

Organization

Aqua Metals, Inc. (the "Company") was incorporated in Delaware on June 20, 2014 and commenced operations on June 20, 2014 (inception). On January 27, 2015, the Company formed two wholly-owned subsidiaries, Aqua Metals Reno, Inc. ("AMR"), and Aqua Metals Operations, Inc. ("Subsidiaries"), both incorporated in Delaware. The Company has developed an innovative process for recycling lead acid batteries. The Company intends to manufacture the equipment it has developed, and will also operate lead acid battery recycling facilities. Construction of the first recycling facility is in process in McCarran, Nevada.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by such accounting principles for complete financial statements. In the opinion of management, all adjustments (which include normal recurring adjustments) considered necessary to present fairly each of the balance sheet as of March 31, 2016, the statements of operations for the three months ended March 31, 2016 and March 31, 2015, and the statements of cash flows for the three months ended March 31, 2016 and March 31, 2015, as applicable have been made. The condensed consolidated balance sheet as of December 31, 2015 has been derived from our audited financial statements as of such date, but does not include all disclosures required by U.S. GAAP. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the period ended December 31, 2015, which are included on Form 10-K filed with the Securities and Exchange Commission on March 28, 2016.

The results of operations for the three months ended March 31, 2016 are not necessarily indicative of results that may be expected for the year ended December 31, 2016.

Principles of consolidation

The condensed consolidated financial statements include the accounts of the Company and its Subsidiaries, both of which are wholly-owned subsidiaries. Significant inter-company accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of the condensed consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount and valuation of long-lived assets, the valuation of conversion features of convertible debt, valuation allowances for deferred tax assets, the determination of stock option expense and the determination of the fair value of stock warrants issued. Actual results could differ from those estimates.

Cash and cash equivalents

The Company considers all highly liquid instruments with original or remaining maturities of 90 days or less at the date of purchase to be cash equivalents. The Company maintains its cash balances in large financial institutions. Periodically, such balances may be in excess of federally insured limits.

Restricted cash

Restricted cash is comprised of funds held in escrow at Green Bank for the purpose of paying for the construction of the lead recycling plant building in McCarren, NV. The building is expected to be completed in the second quarter of 2016. As of March 31, 2016, $1,275,776 of the outstanding accounts payable balance and $1.0 million of accrued expenses is to be paid out of the escrowed funds.

Property and equipment

Property and equipment are stated at cost net of accumulated depreciation. Depreciation on property and equipment is calculated on the straight-line basis over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the life of the asset or the remaining term of the lease.

Intangible and other long-lived assets

The intangible asset consists of a patent application contributed to the Company by five founding stockholders, patent applications for technology developed by the Company and trademark applications. The useful life of the intangible assets has been determined to be ten years and the assets are being amortized. The Company periodically evaluates its intangible and other long-lived assets for indications that the carrying amount of an asset may not be recoverable. In reviewing for impairment, the Company compares the carrying value of such assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets' fair value and their carrying value. In addition to the recoverability assessment, the Company routinely reviews the remaining estimated lives of its long-lived assets. Any reduction in the useful life assumption will result in increased depreciation and amortization expense in the period when such determination is made, as well as in subsequent periods. The Company evaluates the need to record impairment during each reporting period. No impairment has been recorded. The Company determined that the estimated life of the intellectual property properly reflected the current remaining economic life of the asset.

Research and development

Research and development expenditures are expensed as incurred and consist of product development, regulatory support for technology, laboratory materials and supply costs and other technical support costs, including salaries and consultant fees.

Income taxes

The Company accounts for income taxes in accordance with the liability method of accounting for income taxes. Under the liability method, deferred assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. The provision for income taxes is comprised of the current tax liability and the changes in deferred tax assets and liabilities. The Company establishes a valuation allowance to the extent that it is more likely than not that deferred tax assets will not be recoverable against future taxable income.

The Company recognizes the effect of uncertain income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Convertible instruments

The Company accounts for hybrid contracts that feature conversion options in accordance with Accounting Standards Codification 815 "Derivative and Hedging Activities," ("ASC 815") and ASC 480 "Distinguishing Liabilities from Equity" ("ASC 480"), which require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria includes circumstances in which (i) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (ii) the hybrid instrument that embodies both the embedded derivative's instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (iii) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. The Company accounts for convertible instruments which have been determined to be free standing derivative financial instruments (when the Company has determined that the embedded conversion options should be bifurcated from their host instruments) in accordance with ASC 815. Under ASC 815, a portion of the proceeds received upon the issuance of the hybrid contract are allocated to the fair value of the derivative. The derivative is subsequently marked to market each reporting date based on current fair value, with the changes in fair value reported in condensed consolidated statements of operations. The convertible instruments were converted into common stock on August 5, 2015. The Company had no hybrid contracts as of March 31, 2016 or December 31, 2015.

Stock-based compensation

The Company recognizes compensation expense for stock-based compensation in accordance with ASC 718 "Compensation – Stock Compensation." For employee stock-based awards, the Company calculates the fair value of the award on the date of grant using the Black-Scholes-Merton method for stock options; the expense is recognized over the service period for awards to vest.

The estimation of stock-based awards that will ultimately vest requires judgement and to the extent actual results or updated estimates differ from the original estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class and historical experience.

Net loss per share

The Company reports net loss per share in accordance with the standard codification of ASC 260 "Earnings per Share" ("ASC 260"). Under ASC 260, basic earnings per share, which excludes dilution, is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could be exercised or converted into common shares, and is computed by dividing earnings available to common stockholders by the weighted average of common shares outstanding plus the dilutive potential common shares. Diluted earnings per share for all periods presented exclude the impact of convertible notes and warrants to purchase common stock, as the effect would be anti-dilutive. During a loss period, the assumed exercise of in-the-money stock warrants and other potentially diluted instruments has an anti-dilutive effect and, therefore, these instruments are excluded from the computation of dilutive earnings per share.

Potentially dilutive securities in the table below have been excluded from the computation of diluted net loss per share because the effect of their inclusion would have been anti-dilutive.

	Three months ended March 31,	
	2016	2015
Consulting warrants to purchase common stock	491,364	436,364
Options to purchase common stock	767,074	-
Financing, IPO and O-A warrants to purchase common stock	975,380	220,268
Total potential dilutive securities	2,233,818	656,632

Segment and Geographic Information

Operating segments are defined as components of an enterprise engaging in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company views its operations and manages its business in one operating segment, and the Company operates in only one geographic segment.

Recent accounting pronouncements

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The amendment to the standard is effective for the Company beginning on June 1, 2018. While the Company is currently assessing the impact of the new standard, it does not expect this new guidance to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 - Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. For public companies, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is in the process of evaluating the impact of this ASU on its financial statements.

There were no other recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2016 that are of significance or potential significance to the Company.

3. Property and equipment, net

Property and equipment, net, consisted of the following for the dates indicated:

Asset Class	Useful Life (Years)	March 31, 2016	December 31, 2015
Demonstration equipment	5	$ 297,347	$ 297,347
Shop equipment	5	170,329	58,638
Lab equipment	5	172,097	51,508
Computer equipment	3	93,999	71,519
Leasehold improvements	5-7	1,380,309	1,086,351
Office equipment	5	87,442	9,238
Building under construction	25	9,924,415	5,681,435
Equipment under construction	10	2,014,814	595,210
Land	-	1,047,503	1,047,503
		15,188,255	8,898,749
Less: accumulated depreciation		(168,124)	(90,362)
		$15,020,131	$ 8,808,387

Depreciation expense was $77,762 and $3,846 for the three months ended March 31, 2016 and March 31, 2015, respectively. Building under construction is the 136,750 square foot lead acid battery recycling plant being built in McCarran, Nevada. Equipment under construction is AquaRefining modules manufactured by the Company to be used in the McCarran, Nevada recycling plant.

Certain costs necessary to make the recycling facility ready for its intended use have been capitalized, including interest expense on notes payable. Capitalized interest totaled $151,667 and $0 for the three months ended March 31, 2016 and March 31, 2015.

4. Intellectual Property

On July 3, 2014, five of the founding stockholders contributed the rights to certain intellectual property to the Company in exchange for the issuance of 4,101,822 shares with a fair value of $1,059,000. This contribution was recorded as an intangible asset with an offset to additional paid-in capital for $637,158 and deferred taxes for $421,842.

Intellectual property, net, is comprised of the following as of the dates indicated:

	March 31, 2016	December 31, 2015
Intellectual property	$ 1,246,856	$ 1,219,080
Accumulated amortization	(184,817)	(153,967)
Intellectual property, net	$ 1,062,039	$ 1,065,113

Amortization expense was $30,850 and $26,817 for the three months ended March 31, 2016 and March 31, 2015, respectively.

5. Equipment Deposits

The Company's deposit balance is related to equipment which is expected to be installed at the plant in McCarran, NV during the second quarter of 2016.

6. Other Assets

The Company's other asset balance is made up of a security deposit for the Alameda headquarters lease, totaling $593,989 and a certificate of deposit totaling $1,000,000, held by Green Bank as collateral for the AMR construction note payable balance.

The lease deposit will be released in three installments. On June 17, 2017, $275,000 will be released, followed by $275,000 in June 2018 and the remainder will be released at the end of the lease term. The deposit with Green Bank will be released after AMR has three consecutive months of positive cash flow from operations.

7. Convertible notes

On October 31, 2014, the Company entered into a securities purchase agreement (the "Securities Purchase Agreement") with accredited investors (the "Investors"), pursuant to which the Company issued an aggregate of $6,000,000 principal amount of senior secured convertible notes (the "Convertible Notes"). In connection with the sale of the Convertible Notes (the "Bridge Financing"), the Company entered into a registration rights agreement (the "Registration Rights Agreement") and a security agreement (the "Security Agreement") with the Investors. The closing of the Bridge Financing was completed October 31, 2014. Upon issuance, the Convertible Notes bore simple interest at 6% per annum and upon the occurrence of any specified event of default, the Convertible Notes would bear interest at 12% per annum and were scheduled to mature on December 31, 2015.

The principal, $6,000,000 and interest, $279,678, of the Convertible Notes were converted into 2,511,871 shares of the Company's common stock at a conversion price of $2.50 per share on August 5, 2015 as part of the Company's Initial Public Offering ("IPO").

8. Deferred Rent

On August 7, 2015, the Company signed a lease for 21,697 square feet of mixed office and manufacturing space in Alameda, CA. The term of the lease is 76 months plus 6 months pre commencement date for tenant improvement construction. The total cost of the lease is $3,070,688 which is being amortized over 82 months. As of March 31, 2016 and December 31, 2015, the landlord had incurred $947,446 and $869,262, respectively, in tenant improvements. The tenant improvements cost has been included in owned assets and deferred rent and is being amortized over the life of the lease. Net deferred rent expense for the three months ending March 31, 2016 was $77,941. The March 31, 2016 short term deferred rent balance of $91,459 is included in current liabilities whereas the December 31, 2015 balance of negative $38,382 was included in prepaid expenses and other current assets. The remaining liability of $1,097,412 and $1,071,129 at March 31, 2016 and December 31, 2015, respectively, is classified as long term deferred rent.

9 Notes Payable

AMR entered into a $10,000,000 loan with Green Bank on November 3, 2015. The term of the loan is twenty-one years. The first twelve months interest only is payable and thereafter monthly payments of interest and principal are due. The interest rate will adjust on the first day of each calendar quarter equal to or greater of six percent (6%) or two percent (2%) per annum above the minimum prime lending rate charged by large U.S. money center commercial banks as published in the Wall Street Journal. The terms of the Loan Agreement contain various affirmative and negative covenants. Among them, AMR must maintain a minimum debt service coverage ratio of 1.25 to 1.0, a maximum debt-to-net worth ratio of 1.0 to 1.0 and a minimum current ratio of 1.5 to 1.0. AMR was in compliance with all covenants as of and for the three months ended March 31, 2016.

The net proceeds of the loan was deposited into an escrow account at Green Bank. The funds will be released as payment for the building being constructed in McCarran, NV to house AMR's lead acid recycling operation. Collateral for this loan is AMR's accounts receivable, goods, equipment, fixtures, inventory, accessions and a certificate of deposit in the amount of $1,000,000.

The loan is guaranteed by the United States Department of Agriculture Rural Development ("USDA"), in the amount of 90% of the principal amount of the loan. The Company paid a guarantee fee to the USDA in the amount of $270,000 at the time of closing and will be required to pay to the USDA an annual fee in the amount of 0.50% of the guaranteed portion of the outstanding principal balance of the loan as of December 31 of each year.

The March 31, 2016 and December 31, 2015 long term note balances are comprised of $68,303 and $1,336, respectively, due to Thermo Fisher Financial Service, respectively and $9,185,503 and $9,220,450, net of issuance costs, respectively, due to Green Bank.

The March 31, 2016 and December 31, 2015 short term note balances are comprised of $45,620 and $16,034, respectively, due to Thermo Fisher Financial Service and $72,876 and $28,932, respectively due to Green Bank.

The costs associated with obtaining the loan were recorded as a reduction to the carrying amount of the note and are being amortized as interest expense within the statements of operations over the twenty-one year life of the loan.

10. Stockholders' Equity

Warrant issued

A warrant to purchase 12,500 of the Company's common stock was issued on January 31, 2016 at an exercise price of $6.00 per share. The warrant was fully vested upon issuance and has a term of 1.25 years.

The following assumptions were used in the Black-Scholes-Merton pricing model to estimate the fair value of the warrant.

Expected stock volatility	80%
Risk free interest rate	0.97%
Expected years until exercise	1.25
Dividend yield	0.00%

The fair value was $15,476 and was recorded as increase to consulting expense and increase in additional paid in-capital.

Stock based compensation

The 2014 Stock Incentive Plan (the "2014 Plan") authorized a total of 1,363,637 shares for option grants. The 2014 Plan provides for the following types of stock-based awards: incentive stock options; non-statutory stock options; restricted stock; and performance-based stock. The 2014 Plan, under which equity incentives may be granted to employees and directors under incentive and non-statutory agreements requires that the option price may not be less than the fair value of the stock at the date the option is granted. Option awards may not have a term exceeding 10 years from the grant date. As of March 31, 2016, the Company had 596,563 shares available for future grants under the 2014 Stock Incentive Plan.

Options granted generally have a five-year term and vest over a three-year period; one third the first year, one third the second year and the remaining third vest on a monthly basis in the third year.

The stock-based compensation expense recorded was allocated as follows:

	Three months ended March 31, 2016	2015
Operations and development costs	$ 50,654	$ -
Business development and management costs	157,530	-
Total	$ 208,184	$ -

The following assumptions were used in the Black-Scholes-Merton pricing model to estimate the fair value of the? options.

Expected stock volatility	80%
Risk free interest rate	1.11% - 1.77%
Expected years until exercise	3.50
Dividend yield	0.00%

No stock options were exercised during the three months ended March 31, 2016.

11. Commitments and Contingencies

Purchase commitment

The Company issued a purchase order on September 18, 2015 to purchase equipment to be installed in the recycling plant being built in Nevada. An initial payment of $3,052,635 was made in September 2015 and recorded as equipment deposits on the condensed consolidated balance sheet. The balance due upon delivery and commission of the equipment is $3,052,635. Delivery and commission is not expected until the second quarter of 2016.

12. Subsequent Events

On May 18, 2016, the Company entered into definitive agreements with Interstate Battery System International, Inc. (“Interstate Battery”) and other investors for the sale of approximately $15.1 million of the Company’s equity and debt securities, including a $10 million investment by Interstate Battery. The Company also agreed to enter into a supply agreement with Interstate Battery pursuant to which Interstate Battery will supply the Company with used liquid acid batteries (“LABs”) as feedstock for its AquaRefineries. The investment transactions are subject to customary closing conditions and are expected to close on May 27, 2016.

At the closing of the investment transactions, the Company will enter into a supply agreement with Interstate Battery pursuant to which Interstate Battery will agree to sell to the Company, and the Company will agree to buy from Interstate Battery, used LABs. Interstate Battery will sell the Company used LABs on a cost-plus basis and the agreement subjects the Company and Interstate Battery to certain minimum purchase and sale requirements. The Company will grant Interstate Battery limited rights of first refusal to partly supply its future AquaRefineries. The Company’s agreement with Interstate Battery is for an initial term of 18 months and will be subject to automatic renewals thereafter unless either party elects to terminate the agreement. The agreement allows each party the right to seek early termination based on certain commercial contingencies. The supply agreement contains representations, warranties and indemnities that are customary to commercial agreements of this nature.

Pursuant to the investment agreements with Interstate Battery, Interstate Battery has agreed to:

· Purchase 702,247 shares of the Company’s common stock at $7.12 per share for the gross proceeds of approximately $5,000,000; and

· Loan the Company $5,000,000 pursuant to a secured convertible promissory in the original principal amount of $5,000,000. The note will bear interest at the rate of eight percent (8%) per annum, compounding monthly, and all interest shall be payable upon the earlier of maturity or conversion of the principal amount. The outstanding principal is convertible into the Company’s common shares at a conversion price of $7.12 per share. The Company’s obligations under the loan are secured by a second priority lien interest on its assets, other than the Company’s intellectual property. The loan will mature on May 18, 2019.

In connection with the agreements, the Company granted Interstate Battery warrants to purchase its common stock, including:

· a fully vested warrant to purchase 702,247 shares of the Company’s common stock, at an exercise price of $7.12 per share, expiring on May 18, 2018; and

· a warrant to purchase 1,605,131 shares of the Company’s common stock, at an exercise price of $9.00 per share, vesting on November 18, 2016 and expiring on May 18, 2019.

The Company granted Interstate Battery customary demand and piggyback registration rights, limited board observation rights over the next three years and limited preemptive rights allowing it to purchase its proportional share of certain any future equity issuances by the Company over the next three years.

The $7.12 per share price represents a slight premium to the 30-day volume-weighted average price of Aqua Metals’ common stock as of April 12, 2016, which was the day the parties agreed in principle to pricing. If Interstate converts its convertible note and exercises both warrants in their entirety, it will own slightly less than 20% of the common stock of Aqua Metals at an average price per share of approximately $7.93.

The Company has also entered into a definitive agreement with certain accredited investors to sell approximately $5.1 million of its common stock through National Securities Corporation as placement agent. Pursuant to this agreement, the Company has agreed to sell 719,333 of shares of its common stock, at the price of $7.12 per share, for the gross proceeds of approximately $5,121,650. The Company has granted the investors certain demand and piggyback registration rights, including its best efforts commitment to register their shares for resale on or before August 1, 2016. The Company has agreed to pay National Securities a commission of six percent (6%) on the sale of its common shares to the accredited investors. There are no commissions payable by the Company on the sale of its securities to Interstate Battery.

The Company has evaluated subsequent events through the date which the condensed consolidated financial statements were available to be issued.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and the related notes thereto contained elsewhere in this report. The information contained in this quarterly report on Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this report and in our other filings with the Securities and Exchange Commission, or SEC, including our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 28, 2016, or our Annual Report.

In this report we make, and from time to time we otherwise make, written and oral statements regarding our business and prospects, such as projections of future performance, statements of management’s plans and objectives, forecasts of market trends, and other matters that are 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. Statements containing the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimates,” “projects,” “believes,” “expects,” “anticipates,” “intends,” “target,” “goal,” “plans,” “objective,” “should” or similar expressions identify forward-looking statements, which may appear in documents, reports, filings with the SEC, news releases, written or oral presentations made by officers or other representatives made by us to analysts, stockholders, investors, news organizations and others, and discussions with management and other of our representatives.

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties, including those risks included in the section “Risk Factors” set forth in Part II, Item 1A of this report. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Any forward-looking statement speaks only as of the date on which such statement is made. Our forward-looking statements are based upon assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. Except as required by law, we do not undertake any obligation to update or keep current either (i) any forward-looking statement to reflect events or circumstances arising after the date of such statement or (ii) the important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or which are reflected from time to time in any forward-looking statement.

General

We were formed as a Delaware corporation on June 20, 2014 for the purpose of engaging in the business of recycling lead through a novel, proprietary and patent-pending process that we developed and named “AquaRefining”. Since our formation, we have focused our efforts on the development and limited testing of our AquaRefining process, the development of our business plan, the raise of our present working capital and the development of our initial lead acid battery, or LAB, recycling facility near Reno, Nevada. We have not commenced revenue-producing operations and, under our current plan of business, do not expect to do so until the third quarter of 2016.

Since our organization in 2014, we have engaged in the following financing transactions:

Convertible Note Placement. Prior to our initial public offering, we capitalized our operations with equity contributions and advances from our founders, our receipt of a $500,000 investment from Wirtz Manufacturing Co. Inc. and our receipt of $5.5 million of capital from our private placement sale of senior secured convertible promissory notes, which we refer to as our “convertible notes”, in October 2014. Pursuant to the terms of our investment agreement with Wirtz Manufacturing Co. Inc., Wirtz exchanged its investment in our company for a convertible note sold in the October 2014 private placement. As a result, we had issued and outstanding convertible notes in the aggregate principal amount of $6.0 million, with accrued and unpaid interest as of August 5, 2015 in the amount of $279,678. All principal and accrued interest under the convertible notes converted into shares of our common stock at the close of our initial public offering on August 5, 2015.

Initial Public Offering. On July 31, 2015, we conducted an initial public offering of 6.6 million shares of our common stock, at the public offering price of $5.00 per share. After the payment of underwriter discounts and offering expenses, and after giving effect to the underwriters’ exercise of its overallotment option on August 13, 2015 to purchase an additional 641,930 shares of our common stock at the offering price of $5.00 per share, we received net proceeds of approximately $32,862,172.

Pursuant to the terms of our convertible notes, all principal and interest under the convertible notes automatically converted into shares of our common stock upon the completion of the initial public offering at the conversion price of $2.50 per share. As of the close of our initial public offering, all principal and interest, including $6 million of principal and $279,678 of accrued interest, under the convertible notes automatically converted into 2,511,871 shares of our common stock.

Green Bank Loan. On November 3, 2015, Aqua Metals Reno, Inc., our wholly-owned subsidiary, entered into a Loan Agreement with Green Bank, N.A. pursuant to which Green Bank provided us with a loan in the amount of $10 million. The loan proceeds will be applied towards the development of our Tahoe Reno Industrial Center, or TRIC, facility. The loan accrues interest at an annual rate of the Wall Street Journal Prime Rate Index plus a margin of 2.00% per year, adjusted quarterly, with a floor rate of 6.00% per year. Interest-only payments are due monthly for the first twelve months. Thereafter, principal and interest are due monthly and are fully amortized over 20 years. The loan is collateralized by the real estate, plant and fixtures at the TRIC facility and a certificate of deposit of $1.0 million at Green Bank. Additionally, the terms of the Loan Agreement contain various affirmative and negative covenants. Among them, Aqua Metals Reno, Inc. must maintain a minimum debt service coverage ratio of 1.25 to 1.0, a maximum debt-to-net worth ratio of 1.0 to 1.0 and a minimum current ratio of 1.5 to 1.0.

The loan is guaranteed by the United States Department of Agriculture Rural Development, or USDA, in the amount of 90% of the principal amount of the loan. We paid a guarantee fee to USDA in the amount of $270,000 at the time of closing of the Loan Agreement and we will be required to pay to USDA an annual renewal fee in the amount of 0.50% of the guaranteed portion of the outstanding principal balance of the loan as of December 31 of each year.

Interstate Battery Partnership. On May 18, 2016, we entered into definitive agreements with Interstate Battery System International, Inc. ("Interstate Battery") and other investors for the sale of approximately $15.1 million of our equity and debt securities, including a $10 million investment by Interstate Battery, the largest independent battery distributor in North America. We have also agreed to enter into a supply agreement with Interstate Battery pursuant to which Interstate Battery will supply us with used LABs as feedstock for our AquaRefineries. The investment transactions are subject to customary closing conditions and are expected to close on May 27, 2016.

At the closing of the investment transactions, we will enter into a supply agreement with Interstate Battery pursuant to which Interstate Battery will agree to sell to us, and we will agree to buy from Interstate Battery, used LABs. Interstate Battery will sell us used LABs on a cost-plus basis and the agreement subjects us and Interstate Battery to certain minimum purchase and sale requirements. We will grant Interstate Battery limited rights of first refusal to partly supply our future AquaRefineries. Our agreement with Interstate Battery is for an initial term of 18 months and will be subject to automatic renewals thereafter unless either party elects to terminate the agreement. The agreement allows each party the right to seek early termination based on certain commercial contingencies. The supply agreement contains representations, warranties and indemnities that are customary to commercial agreements of this nature.

Pursuant to the investment agreements with Interstate Battery, Interstate Battery has agreed to:

- Purchase 702,247 shares of our common stock at $7.12 per share for the gross proceeds of approximately $5,000,000; and
- Loan us $5,000,000 pursuant to a secured convertible promissory in the original principal amount of $5,000,000. The note will bear interest at the rate of eight percent (8%) per annum, compounding monthly, and all interest shall be payable upon the earlier of maturity or conversion of the principal amount. The outstanding principal is convertible into our common shares at a conversion price of $7.12 per share. Our obligations under the loan are secured by a second priority lien interest on our assets, other than our intellectual property. The loan will mature on May 18, 2019.

In connection with the agreements, we granted Interstate Battery warrants to purchase our common stock, including:

- a fully vested warrant to purchase 702,247 shares of our common stock, at an exercise price of $7.12 per share, expiring on May 18, 2018; and
- a warrant to purchase 1,605,131 shares of our common stock, at an exercise price of $9.00 per share, vesting on November 18, 2016 and expiring on May 18, 2019.

We granted Interstate Battery customary demand and piggyback registration rights, limited board observation rights over the next three years and limited preemptive rights allowing it to purchase its proportional share of certain any future equity issuances by us over the next three years.

The $7.12 per share price represents a slight premium to the 30-day volume-weighted average price of Aqua Metals' common stock as of April 12, 2016, which was the day the parties agreed in principle to pricing. If Interstate converts its convertible note and exercises both warrants in their entirety, it will own slightly less than 20% of the common stock of Aqua Metals at an average price per share of approximately $7.93.

We have also entered into a definitive agreement with certain accredited investors to sell approximately $5.1 million of our common stock through National Securities Corporation as placement agent. Pursuant to this agreement, we have agreed to sell 719,333 of shares of our common stock, at the price of $7.12 per share, for the gross proceeds of approximately $5,121,650. We granted the investors certain demand and piggyback registration rights, including our best efforts commitment to register their shares for resale on or before August 1, 2016. We have agreed to pay National Securities a commission of six percent (6%) on the sale of our common shares to the accredited investors. There are no commissions payable by us on the sale of our securities to Interstate Battery.

Plan of Operations

Our plan of operations for the 12-month period following the date of this report is to construct and commence commercial operations at our initial recycling facility in TRIC. In May 2015, we purchased 11.73 acres of undeveloped land within TRIC for the purchase price of $1,047,503. We have commenced the construction of a 136,750 square foot lead acid battery, or LAB, recycling facility at our TRIC property.

As of the date of this report, we believe that interest in our first recycling facility and demand for our recycling capacity is strong. Consequently, we have implemented a plan to achieve production at the rate of 80 tons of recycled lead per day by the fourth quarter of

2016 and, over time, expand to 160 tons per day. Our TRIC facility is designed and is being constructed in order to accommodate a total of 32 AquaRefining modules and additional battery breaking and component separations equipment sufficient to support expansion to 160 tons of recycled lead per day.

Construction of the TRIC facility began on August 17, 2015 and is progressing with a completion expected in the second quarter of 2016. We expect to install our first AquaRefining modules in approximately the second quarter of 2016 and to install a total of 16 AquaRefining modules to support an initial lead production capacity of 80 tons per day by the close of the third quarter of 2016. In keeping with our modular approach, we intend to commence commercial LAB recycling operations shortly after the first AquaRefining module is delivered.

As of the date of this report, and after giving effect to the closing of the Interstate Battery investment transactions disclosed above, we believe that our cash is sufficient to achieve production at a rate of 80 tons of lead per day. Our goal is to increase our production of lead at our TRIC facility to 160 tons per day, subject to our receipt of required expansion funds, of which there can be no assurance.

Results of Operations

We were formed on June 20, 2014 and have not commenced revenue-producing operations. To date, our operations have consisted of the development and limited testing of our AquaRefining process, the development of our business plan, the raise of our present working capital and the development of our initial lead acid battery, or LAB, recycling facility near Reno, Nevada. The following table summarizes results of operations with respect to the items set forth below for the three months ended March 31, 2016 and 2015 together with the percentage change in those items.

	Three months ended March 31,			
	2016	2015	Favorable (Unfavorable)	% Change
Operations and development costs	$ 883,367	$ 213,591	$ (669,776)	-313.58%
Business development and management costs	1,295,384	471,622	(823,762)	-174.67%

Operations and development costs have more than quadrupled from the first quarter of 2015 to the first quarter of 2016. The increase is due to the increased level of operations following the completion of our initial public offering in August 2015. Salaries and personnel related expenses have increased by approximately $0.3 million as average headcount increased from three during the first three months of 2015 to thirteen during the first three months of 2016. Our research and development expenses increased by approximately $0.1 million commensurate with an increase in developmental activities over the prior year period. Other increases include professional services, depreciation, insurance, travel and general overhead costs due to our increased activities.

Business development and management costs have also increased significantly. Salary related expenses increased approximately $0.3 million between periods as average headcount increased by 60%, from five during the first three months of 2015 to eight during the first three months of 2016. Professional services have increased approximately $0.3 million, which include both third-party consulting and legal fees. The remaining increase is due to increased travel, insurance and general overhead costs due to our increased activities in the first quarter of 2016 as compared to the prior year period.

	Three months ended March 31,			
	2016	2015	Favorable (Unfavorable)	% Change
Other expense (income)				
Increase in fair value of derivative liabilities	-	3,896,079	3,896,079	-
Interest expense	2,192	316,534	314,342	99.31%
Interest income	(7,105)	(1,445)	5,660	-391.70%
Other income	(304)	(131)	173	-132.06%

We incurred approximately $3.9 million of expenses in the first quarter of 2015 relating to an increase in the fair value of derivative liabilities related to our then-outstanding convertible notes and related financing warrants. The convertible notes were converted at the time of our IPO in August 2015 and, at the same time the derivative liability associated with the financing warrant was reclassified to additional paid-in capital. Therefore, there is no expense related to the derivative liabilities during the first quarter of 2016. We incurred interest expense of approximately $0.3 million during the first quarter 2015 related to our convertible notes, which, as noted above, converted at the time of our IPO. Interest relating to the $10.0 million notes payable is being capitalized as part of the building cost of the TRIC facility.

Liquidity and Capital Resources

As of March 31, 2016, we had total assets of $47,190,292 and working capital of $18,139,254.

The following table summarizes our cash used in operating, investing and financing activities:

	Three months ended March 31,	
	2016	2015
Net cash used in operating activities	(1,599,979)	(747,210)
Net cash used in investing activities	(3,292,573)	(103,587)
Net cash used in financing activities	(4,008)	-

Net cash used in operating activities

Net cash used in operating activities for the three months ended March 31, 2016 and 2015 was $4.2 million and $0.7 million, respectively. Net cash used in operating activities during each of these periods consisted primarily of our net loss adjusted for noncash items such as depreciation, amortization, stock-based compensation charges, and noncash charges related to the mark-to-market valuation of our derivative liabilities (2015), as well as net changes in working capital.

Net cash used in investing activities

Net cash used in investing activities for the three months ended March 31, 2016 and 2015 was $0.6 million and $0.1 million, respectively. Net cash used in investing activities during each of these periods consists primarily of purchases of fixed assets related to the build out of our NV location and, to a lesser extent, our corporate headquarters.

Net cash used in financing activities

Net cash used in financing activities for the three months ended March 31, 2016 consists of lease payments on a capital lease.

As of the date of this report, and giving effect to the closing of the Interstate Battery investment transactions disclosed above, we believe that our working capital is sufficient to fund our current business plan, including the completion of our initial recycling facility at TRIC and attainment of production at the rate of 80 tons of recycled lead per day. However, we may require additional capital to achieve the aforementioned milestones, the receipt of which there can be no assurance. In time, we intend to increase our production of lead at our TRIC facility to 160 tons per day, subject to our receipt of required expansion funds, of which there can be no assurance. In addition, we will require additional capital in order to fund our proposed development of additional AquaRefining recycling facilities. We intend to seek additional funds through various financing sources, including the sale of our equity and debt securities, licensing fees for our technology, joint ventures with capital partners and project financing of our recycling facilities. In addition, we will consider alternatives to our current business plan that may enable to us to achieve revenue producing operations and meaningful commercial success with a smaller amount of capital. However, there can be no guarantees that such funds will be available on commercially reasonable terms, if at all. If such financing is not available on satisfactory terms, we may be unable to further pursue our business plan and we may be unable to continue operations.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based on this evaluation, management concluded that our disclosure controls and procedures were effective as of March 31, 2016.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three-month period ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are, from time to time, subject to various claims and legal actions during the ordinary course of business. We are not currently party to any material litigation or material legal proceedings.

Item 1A. Risk Factors

Investing in our common stock involves a very high degree of risk. You should carefully consider the risks described below and all of the other information in our filings with the SEC before making any investment decisions regarding our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we do not know of or that we currently deem immaterial may also negatively affect our business, financial condition, operating results, and prospects. In that case, the market price of our common stock could decline, and you could lose all or part of your investment. We have marked with an asterisk (*) those risks described below that reflect substantive changes from, or additions to, the risks described under Part 1, Item 1A "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission on March 28, 2016.

Risks Relating to Our Business

Since we have a limited operating history and have not commenced revenue-producing operations, it is difficult for potential investors to evaluate our business. We formed our corporation in June 2014 and have not commenced revenue-producing operations. To date, our operations have consisted of the development and limited testing of our AquaRefining process, the development of our business plan, the raise of our present working capital and the development of our initial LAB recycling facility near Reno, Nevada. Our limited operating history makes it difficult for potential investors to evaluate our technology or prospective operations. As an early stage company, we are subject to all the risks inherent in the initial organization, financing, expenditures, complications and delays in a new business. Investors should evaluate an investment in us in light of the uncertainties encountered by developing companies in a competitive environment. There can be no assurance that our efforts will be successful or that we will ultimately be able to attain profitability.

We may need additional financing to execute our business plan and fund operations, which additional financing may not be available on reasonable terms or at all. As of March 31, 2016, we had total assets of $47.2 million and working capital of $18.1 million. As of the date of this report, and after giving effect to the closing of the Interstate Battery investment transactions disclosed elsewhere in this report, we believe that we have working capital sufficient to fund our current business plan, including the completion of our initial recycling facility in TRIC and attainment of production at the rate of 80 tons of recycled lead per day. However, we may require additional capital over the next 12 months in order to meet these milestones, the receipt of which there can be no assurance. In time, we intend to increase our production of lead at our TRIC facility to 160 tons per day, subject to our receipt of required expansion funds, of which there can be no assurance. In addition, we will require additional capital in order to fund our proposed development of additional AquaRefining recycling facilities. We intend to seek additional funds through various financing sources, including the private sale of our equity and debt securities, licensing fees for our technology, joint ventures with capital partners and project financing of our recycling facilities. In addition, we will consider alternatives to our current business plan that may enable to us to achieve revenue producing operations and meaningful commercial success with a smaller amount of capital. However, there can be no guarantees that such funds will be available on commercially reasonable terms, if at all. If such financing is not available on satisfactory terms, we may be unable to further pursue our business plan and we may be unable to continue operations, in which case you may lose your entire investment.

Our business model is new and has not been proven by us or anyone else. We intend to engage in the business of producing recycled lead through a proprietary, patent-pending electro-chemical technology. While the production of recycled lead is an established business, to date all recycled lead has been produced by way of traditional smelting processes. To our knowledge, no one has successfully produced recycled lead in commercial quantities other than by way of smelting. We have tested our AquaRefining process on a small scale and to a limited degree, however there can be no assurance that we will be able to produce lead in commercial quantities at a cost of production that will provide us with an adequate profit margin. The uniqueness of our AquaRefining process presents potential risks associated with the development of a business model that is untried and unproven.

***While the testing of our AquaRefining process has been successful to date, there can be no assurance that we will be able to replicate the process, along with all of the expected economic advantages, on a large commercial scale**.* As of the date of this report, we have built and operated both a small-scale unit of our AquaRefining process and a full size production prototype. Through the operation of such units we have successfully produced 99.99% pure lead on a limited scale. While we believe that our development and testing to date has proven the concept of our AquaRefining process, we have not undertaken the build-out or operation of a large-scale facility capable of recycling LABs and producing lead in large commercial quantities. We have commenced the development of our initial LAB recycling facility in TRIC which we expect to complete in the second quarter of 2016 and at which point we expect to install a total of 16 AquaRefining modules to support an initial lead production capacity of 80 ton per day by the close of the third quarter of 2016. However, there can be no assurance that as we commence large scale manufacturing or operations at our TRIC facility that we will not incur unexpected costs or hurdles that might restrict the desired scale of our intended operations or negatively impact our projected gross profit margin.

***Our intellectual property rights may not be adequate to protect our business**.* We currently do not hold any patents for our products. To date, we have filed eight U.S. patent applications, of which six are provisional applications, relating to certain elements of the technology underlying our AquaRefining process and related apparatus and chemical formulations. Although we expect to continue filing, where applicable, patent applications related to our technology, no assurances can be given that any patent will be issued on our patent applications or any other application that we may file in the future or that, if such patents are issued, they will be sufficiently broad to adequately protect our technology. In addition, we cannot assure you that any patents that may be issued to us will not be challenged, invalidated, or circumvented.

Even if we are issued patents, they may not stop a competitor from illegally using our patented processes and materials. In such event, we would incur substantial costs and expenses, including lost time of management in addressing and litigating, if necessary, such matters. Additionally, we rely upon a combination of trade secret laws and nondisclosure agreements with third parties and employees having access to confidential information or receiving unpatented proprietary know-how, trade secrets and technology to protect our proprietary rights and technology. These laws and agreements provide only limited protection. We can give no assurance that these measures will adequately protect us from misappropriation of proprietary information.

***Our processes may infringe on the intellectual property rights of others, which could lead to costly disputes or disruptions**.* The applied science industry is characterized by frequent allegations of intellectual property infringement. Though we do not expect to be subject to any of these allegations, any allegation of infringement could be time consuming and expensive to defend or resolve, result in substantial diversion of management resources, cause suspension of operations or force us to enter into royalty, license, or other agreements rather than dispute the merits of such allegation. If patent holders or other holders of intellectual property initiate legal proceedings, we may be forced into protracted and costly litigation. We may not be successful in defending such litigation and may not be able to procure any required royalty or license agreements on acceptable terms or at all.

***Our business strategy includes licensing arrangements and entering into joint ventures and strategic alliances. Failure to successfully integrate such licensing arrangements, joint ventures, or strategic alliances into our operations could adversely affect our business**.* We propose to commercially exploit our AquaRefining process, in part, by licensing our technology to third parties and entering into joint ventures and strategic relationships with parties involved in the manufacture and recycling of LABs. Licensing programs, joint ventures and strategic alliances may involve significant other risks and uncertainties, including distraction of management's attention away from normal business operations, insufficient revenue generation to offset liabilities assumed and expenses associated with the transaction, and unidentified issues not discovered in our due diligence process, such as product quality, technology issues and legal contingencies. In addition, we may be unable to effectively integrate any such programs and ventures into our operations. Our operating results could be adversely affected by any problems arising during or from any licenses, joint ventures or strategic alliances.

***If we are unable to manage future expansion effectively, our business, operations and financial condition may suffer significantly, resulting in decreased productivity**.* If our AquaRefining process proves to be commercially valuable, it is likely that we will experience a rapid growth phase that could place a significant strain on our managerial, administrative, technical, operational and financial resources. Our organization, procedures and management may not be adequate to fully support the expansion of our operations or the efficient execution of our business strategy. If we are unable to manage future expansion effectively, our business, operations and financial condition may suffer significantly, resulting in decreased productivity.

***Certain industry participants may have the ability to restrict our access to used LABs and otherwise focus significant competitive pressure on us**.* We believe that our primary competition will come from operators of existing smelters and other parties invested in the existing supply chain for smelting, both of which may resist the change presented by our AquaRefining process. Competition from such incumbents may come in the form of restricted access to used LABs. We believe that LAB manufacturers who also maintain their own smelting operations control approximately 50% of the market for used LABs. We will require access to used LABs at market prices in order to carry out our business plan. If those LAB manufacturers and others involved in the reverse supply chain for used LABs attempt to restrict our access to used LABs that may adversely affect our prospects and future growth. There can be no assurance that we will be able to effectively withstand the pressures applied by our competition.

We may experience significant fluctuations in raw material prices and the price of our principal product, either of which could have a material adverse effect on our liquidity, growth prospects and results of operations. Spent LAB's are our primary raw material and we believe that in recent years the cost of used LABS has been volatile at times. Our principal product, recycled lead, has also experienced price volatility from time to time as well. For example, the market price of lead on the London Metal Exchange, or LME, rose from a trading range of $1,000 to $1,200 per metric ton during 2005 to $2,200 per metric ton during 2014. In 2015, the LME market price for lead ranged from $1,554 to $2,139 per ton. The price per ton of lead on January 1, 2015 was $1,844 while the price on December 31, 2015 was $1,801 per ton. The price per ton of lead on March 31, 2016 was $1,704.50. While we intend to pursue supply and tolling arrangements and hedge transactions as appropriate to offset any price volatility, the volatile nature of prices for used LABs and recycled lead could have an adverse impact on our liquidity, growth prospects and results of operations.

The global economic conditions could negatively affect our prospects for growth and operating results. Our prospects for growth and operating results will be directly affected by the general global economic conditions of the industries in which our suppliers, partners and customer groups operate. We believe that the market price of our principal product, recycled lead, is relatively volatile and reacts to general global economic conditions. Lead prices decreased from $2,139 per ton on May 5, 2015 to a low of $1,554 per ton on November 23, 2015 because of fluctuations in the market. A month later, the price per ton increased back up to $1,801 per ton and, as noted above, the price per ton was $1,704.50 on March 31, 2016. Our business will be highly dependent on the economic and market conditions in each of the geographic areas in which we operate. These conditions affect our business by reducing the demand for LABs and decreasing the price of lead in times of economic down turn and increasing the price of used LABs in times of increasing demand of LABs and recycled lead. There can be no assurance that global economic conditions will not, at times, negatively impact our liquidity, growth prospects and results of operations.

We are subject to the risks of conducting business outside the United States. A part of our strategy involves our pursuit of growth opportunities in certain international market locations. We intend to pursue the development and ownership of recycling facilities in certain foreign jurisdictions, including Mexico, China and India, among others countries, however it is more likely that we will enter into licensing or joint venture arrangements with local partners who will be primarily responsible for the day-to-day operations. Any expansion outside of the US will require significant management attention and financial resources to successfully develop and operate any such facilities, including the sales, supply and support channels, and we cannot assure you that we will be successful or that our expenditures in this effort will not exceed the amount of any resulting revenues. Our international operations expose us to risks and challenges that we would otherwise not face if we conducted our business only in the United States, such as:

- increased cost of enforcing our intellectual property rights;
- heightened price sensitivities from customers in emerging markets;
- our ability to establish or contract for local manufacturing, support and service functions;
- localization of our LABs and components, including translation into foreign languages and the associated expenses;
- compliance with multiple, conflicting and changing governmental laws and regulations;
- foreign currency fluctuations;
- laws favoring local competitors;
- weaker legal protections of contract terms, enforcement on collection of receivables and intellectual property rights and mechanisms for enforcing those rights;
- market disruptions created by public health crises in regions outside the United States;
- difficulties in staffing and managing foreign operations, including challenges presented by relationships with workers' councils and labor unions;
- issues related to differences in cultures and practices; and
- changing regional economic, political and regulatory conditions.

Government regulation and environmental, health and safety concerns may adversely affect our business. Our operations in the United States will be subject to the Federal, State and local environmental, health and safety laws applicable to the reclamation of lead acid batteries. Depending on how any particular operation is structured, our facilities will probably have to obtain environmental permits or approvals to operate, including those associated with air emissions, water discharges, and waste management and storage. We may face opposition from local residents or public interest groups to the installation and operation of our facilities. Failure to secure (or significant delays in securing) the necessary approvals could prevent us from pursuing some of our planned operations and adversely affect our business, financial results and growth prospects. In addition to permitting requirements, our operations are subject to environmental health, safety and transportation laws and regulations that govern the management of and exposure to hazardous materials such as the lead and acids involved in battery reclamation. These include hazard communication and other occupational safety requirements for employees, which may mandate industrial hygiene monitoring of employees for potential exposure to lead. Failure to comply with these requirements could subject our business to significant penalties (civil or criminal) and other sanctions that could adversely affect our business.

The nature of our operations involve risks, including the potential for exposure to hazardous materials such as lead, that could result in personal injury and property damage claims from third parties, including employees and neighbors, which claims could result in significant costs or other environmental liability. Our operations also pose a risk of releases of hazardous substances, such as lead or acids, into the environment, which can result in liabilities for the removal or remediation of such hazardous substances from the properties at which they have been released, liabilities which can be imposed regardless of fault, and our business could be held liable for the entire cost of cleanup even if we were only partially responsible. Like any manufacturer, we are also subject to the possibility that we may receive notices of potential liability in connection with materials that were sent to third-party recycling, treatment, and/or disposal facilities under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and comparable state statutes, which impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination, and for damages to natural resources. Liability under CERCLA is retroactive, and, under certain circumstances, liability for the entire cost of a cleanup can be imposed on any responsible party.

As our business expands outside of the United States, our operations will be subject to the environmental, health and safety laws of the countries where we do business, including permitting and compliance requirements that address the similar risks as do the laws in the United States, as well as international legal requirements such as those applicable to the transportation of hazardous materials. Depending on the country or region, these laws could be as stringent as those in the US, or they could be less stringent or not as strictly enforced. In some countries in which we are interested in expanding our business, such as Mexico and China, the relevant environmental regulatory and enforcement frameworks are in flux and subject to change. Compliance with these requirements will cause our business to incur costs, and failure to comply with these requirements could adversely affect our business.

In the event we are unable to present and operate our AquaRefining process and operations as safe and environmentally responsible, we may face opposition from local governments, residents or public interest groups to the installation and operation of our facilities.

Control by management may limit your ability to influence the outcome of director elections and other transactions requiring stockholder approval. As of the date of this report, our directors and executive officers beneficially own approximately 24.7% of our outstanding common stock. As a result, in addition to their board seats and offices, such persons will have significant influence over corporate actions requiring stockholder approval, including the following actions:

- to elect or defeat the election of our directors;
- to amend or prevent amendment of our certificate of incorporation or bylaws;
- to effect or prevent a merger, sale of assets or other corporate transaction; and
- to control the outcome of any other matter submitted to our stockholders for vote.

Such persons' stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

Risks Related to Owning Our Common Stock

Prior to the completion of our initial public offering in July 2015, there was no public trading market for our common stock. Our common stock has traded on the Nasdaq Capital Market, under the symbol "AQMS", since July 31, 2015. Since that date, our common stock has been relatively thinly traded. There can be no assurance that we will be able to successfully develop a liquid market for our common shares. The stock market in general, and early stage public companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. If we are unable to develop a market for our common shares, you may not be able to sell your common shares at prices you consider to be fair or at times that are convenient for you, or at all.

We are an "emerging growth company" under the JOBS Act of 2012 and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors. We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"), and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to:

- not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act;
- reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements;
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments; and
- extended transition periods available for complying with new or revised accounting standards.

We have chosen to "opt out" of the extended transition periods available for complying with new or revised accounting standards, but we intend to take advantage of all of the other benefits available under the JOBS Act, including the exemptions discussed above. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We will remain an "emerging growth company" for up to five years, although we will lose that status sooner if our revenues exceed $1 billion, if we issue more than $1 billion in non-convertible debt in a three-year period, or if the market value of our common stock that is held by non-affiliates exceeds $700 million as of any June 30.

Our status as an "emerging growth company" under the JOBS Act may make it more difficult to raise capital as and when we need it. Because of the exemptions from various reporting requirements provided to us as an "emerging growth company," we may be less attractive to investors and it may be difficult for us to raise additional capital as and when we need it. Investors may be unable to compare our business with other companies in our industry if they believe that our reporting is not as transparent as other companies in our industry. If we are unable to raise additional capital as and when we need it, our financial condition and results of operations may be materially and adversely affected.

We have not paid dividends in the past and have no immediate plans to pay dividends. We plan to reinvest all of our earnings, to the extent we have earnings, in order to develop our recycling centers and cover operating costs and to otherwise become and remain competitive. We do not plan to pay any cash dividends with respect to our securities in the foreseeable future. We cannot assure you that we would, at any time, generate sufficient surplus cash that would be available for distribution to the holders of our common stock as a dividend. Therefore, you should not expect to receive cash dividends on our common stock.

Shares eligible for future sale may adversely affect the market for our common stock. Of the 14,137,442 shares of our common stock outstanding as of the date of this report, approximately 10,730,215 shares are held by "non-affiliates" and are freely tradable without restriction pursuant to Rule 144. Any substantial sale of our common stock pursuant to Rule 144 or pursuant to any resale prospectus may have a material adverse effect on the market price of our common stock.

Our charter documents and Delaware law may inhibit a takeover that stockholders consider favorable. Provisions of our certificate of incorporation and bylaws and applicable provisions of Delaware law may delay or discourage transactions involving an actual or potential change in control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. The provisions in our certificate of incorporation and bylaws:

- limit who may call stockholder meetings;
- do not permit stockholders to act by written consent;

- do not provide for cumulative voting rights; and
- provide that all vacancies may be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum.

In addition, Section 203 of the Delaware General Corporation Law may limit our ability to engage in any business combination with a person who beneficially owns 15% or more of our outstanding voting stock unless certain conditions are satisfied. This restriction lasts for a period of three years following the share acquisition. These provisions may have the effect of entrenching our management team and may deprive you of the opportunity to sell your shares to potential acquirers at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock.

Our bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with the Company. Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us or any our directors, officers or other employees arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or bylaws, or (iv) any action asserting a claim against us or any our directors, officers or other employees governed by the internal affairs doctrine. This forum selection provision in our bylaws may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or any our directors, officers or other employees.

Item 6. Exhibits

Exhibit No.	Description	Method of Filing
3.1	First Amended and Restated Certificate of Incorporation of the Registrant	Incorporated by reference from the Registrant's Registration Statement on Form S-1 filed on July 22, 2015.
3.2	Amended and Restated Bylaws of the Registrant	Incorporated by reference from the Registrant's Registration Statement on Form S-1 filed on June 9, 2015.
3.3	Certificate of Amendment to First Amended and Restated Certificate of Incorporation of the Registrant	Incorporated by reference from the Registrant's Registration Statement on Form S-1 filed on June 9, 2015.
31.1	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed electronically herewith
31.2	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed electronically herewith
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).	Filed electronically herewith
101.INS	XBRL Instance Document	Filed electronically herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed electronically herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed electronically herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed electronically herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed electronically herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed electronically herewith

SIGNATURES

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

AQUA METALS, INC.

Date: May 19, 2016	By:	*/s/ Stephen R. Clarke* Stephen R. Clarke, President and Chief Executive Officer
Date: May 19, 2016	By:	*/s/ Thomas Murphy* Thomas Murphy, Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

Section 302 Certification

I, Stephen R. Clarke, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Aqua Metals, Inc.;

2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fiscal quarter presented in this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 19, 2016

By: /s/ Stephen R. Clarke
Stephen R. Clarke, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

Section 302 Certification

I, Thomas Murphy, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Aqua Metals, Inc.;

2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fiscal quarter presented in this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 19, 2016

By: /s/ Thomas Murphy
Thomas Murphy, Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Aqua Metals, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Stephen R. Clarke, President and Chief Executive Officer, and Thomas Murphy, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By:	/s/ Stephen R. Clarke	Dated: May 19, 2016
	Stephen R. Clarke	
Title:	President and Chief Executive Officer	
By:	/s/ Thomas Murphy	Dated: May 19, 2016
	Thomas Murphy	
Title:	Chief Financial Officer	

This certification is made solely for the purposes of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.