

ATLAS MINING CO
Form 10-Q
August 14, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period
ended March 31, 2009

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

For the transition period
from to

Commission File
Number 000-31380

ATLAS MINING COMPANY
(Exact name of registrant as specified in its charter)

Idaho
(State or other jurisdiction of incorporation or
organization)

82-0096527
(I.R.S. Employer Identification No.)

110 Greene Street – Ste 101, New York, NY
(Address of principal executive offices)

10012
(Zip Code)

(208) 556-1181
(Issuer's Telephone Number, Including Area Code)

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

N/A

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

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YES NO X

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

Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	X
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO X

The number of shares of the registrant’s common stock, no par value per share, outstanding as of March 31, 2009 was 59,284,121.

DOCUMENTS INCORPORATED BY REFERENCE: None.

ATLAS MINING COMPANY AND SUBSIDIARY
FIRST QUARTER 2009 REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ATLAS MINING COMPANY AND SUBSIDIARY
(An Exploration Stage Company)
Consolidated Balance Sheets

	March 31, 2009 (Unaudited)	December 31, 2008
Current Assets		
Cash and cash equivalents	\$ 69,366	\$ 903,001
Accounts receivable	71	44
Investments – available for sale	3,920	5,426
Deposits and prepaids	190,152	282,306
Total Current Assets	263,509	1,190,776
Property and Equipment		
Land and tunnels	523,729	523,729
Land improvements	91,835	91,835
Buildings	445,197	445,197
Mining equipment	389,492	389,492
Milling equipment	99,855	99,855
Laboratory equipment	75,968	75,968
Office furniture and equipment	37,753	37,962
Vehicles	65,763	65,763
Less: Accumulated depreciation	(318,223)	(287,040)
Total Property and Equipment	1,411,369	1,442,761
Other Assets		
Assets from discontinued operations being held for sale	1,536,344	1,872,577
Total Other Assets	1,536,344	1,872,577
TOTAL ASSETS	\$ 3,211,222	\$ 4,506,114

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

ATLAS MINING COMPANY AND SUBSIDIARY
(An Exploration Stage Company)
Consolidated Balance Sheets

	March 31, 2009 (Unaudited)	December 31, 2008
Current Liabilities		
Accounts payable and accrued liabilities	\$1,000,604	\$741,885
Stock awards payable	84,000	52,500
Current portion of notes payable	67,777	115,836
Current portion of leases payable	13,531	41,004
Total Current Liabilities	1,165,912	951,225
Long-Term Liabilities		
Long-term portion of leases payable	35,121	118,765
Total Long-Term Liabilities	35,121	118,765
Other Liabilities		
Convertible debt	1,000,000	1,000,000
Liabilities from discontinued operations	245,949	239,128
Total Other Liabilities	1,245,949	1,239,128
TOTAL LIABILITIES	2,446,982	2,309,118
Commitments and Contingencies	- 0 -	- 0 -
Stockholders' Equity		
Preferred stock, \$1.00 par value, 10,000,000 shares authorized, noncumulative, nonvoting, nonconvertible, none issued or outstanding	- 0 -	- 0 -
Common stock, no par value, 60,000,000 shares authorized, 59,284,121 and 59,215,628 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	22,187,494	22,155,543
Accumulated deficit prior to exploration stage	(20,009,496)	(20,009,496)
Accumulated deficit during the exploration stage	(1,463,187)	- 0 -
Accumulated other comprehensive loss	(2,972)	(1,466)
Total Atlas Mining Company stockholders' equity	711,839	2,144,581
Noncontrolling interest in subsidiary	52,401	52,415
Total Stockholders' Equity	764,240	2,196,996

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$3,211,222	\$4,506,114
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The accompanying condensed notes are an integral part of these consolidated financial statements.

ATLAS MINING COMPANY AND SUBSIDIARY
(An Exploration Stage Company)
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

	For the three months ended March 31,		For the Period January 1, 2009 (Beginning of Exploration Stage) Through March 31, 2009
	2009	2008 (Restated)	
REVENUES	\$ - 0 -	\$ - 0 -	\$ - 0 -
COST OF SALES	- 0 -	- 0 -	- 0 -
Gross Profit (Loss)	- 0 -	- 0 -	- 0 -
OPERATING EXPENSES:			
Exploration & development costs	139,961	64,287	139,961
Mining production costs	62,971	401,181	62,971
General & administrative	1,166,552	873,689	1,166,552
Total Operating Expenses	1,369,484	1,339,157	1,369,484
Net Operating Income (Loss)	(1,369,484)	(1,339,157)	(1,369,484)
OTHER INCOME (EXPENSE):			
Interest income	10	24,718	10
Interest expense	(29,167)	(85)	29,167
Refund of insurance premium	13,488	- 0 -	13,488
Gain (loss) on revaluation of stock awards	(31,500)	80,500	(31,500)
Special investigation fees and expenses	- 0 -	(281,124)	- 0 -
Gain on sale of assets	619	- 0 -	619
Total Other Income (Expenses)	(46,550)	(175,991)	(46,550)
Loss from exploration stage, before income taxes	(1,416,034)	(1,515,148)	(1,416,034)
Provision (benefit) for income taxes	- 0 -	- 0 -	- 0 -
Net Loss from Exploration Stage Before Discontinued Operations	(1,416,034)	(1,515,148)	(1,416,034)
Net income (loss) from discontinued operations	(47,167)	534,503	(47,167)

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Net loss from exploration stage after discontinued operations	(1,463,201)	(980,645)	(1,463,201)
Add: Net loss attributable to the noncontrolling interest	14	- 0 -	14
Net Loss Attributable to Atlas Mining Company	\$(1,463,187)	\$(980,645)	\$(1,463,187)
Earnings Per Share - Basic and Diluted:			
Net loss per share before discontinued operations attributable to Atlas Mining Company common shareholders	\$(0.02)	\$(0.03)	\$(0.02)
Discontinued operations attributable to Atlas Mining Company common shareholders	- 0 -	0.01	- 0 -
Net Loss Per Share Attributable to Atlas Mining Company common shareholders	\$(0.02)	\$(0.02)	\$(0.02)
Weighted Average Shares Outstanding, basic and diluted	59,267,378	54,212,094	59,267,378
Amounts attributable to Atlas Mining Company common shareholders:			
Net loss from exploration stage after income taxes	\$(1,416,034)	\$(1,515,148)	\$(1,416,034)
Discontinued operations, net of tax	(47,167)	534,503	(47,167)
Net Loss	\$(1,463,201)	\$(980,645)	\$(1,463,201)

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

ATLAS MINING COMPANY AND SUBSIDIARY
 (An Exploration Stage Company)
 Consolidated Statements of Operations and Comprehensive Loss
 (Unaudited)

	For the three months ended March 31,		For the Period January 1, 2009 (Beginning of Exploration Stage) Through March 31, 2009
	2009	2008 (Restated)	
Net Loss	\$(1,463,201)	\$(980,645)	\$(1,463,201)
Other Comprehensive Income:			
Change in market value of investments	(1,506)	540	(1,506)
Comprehensive Loss	(1,464,707)	(980,105)	(1,464,707)
Comprehensive loss attributable to the noncontrolling interest	- 0 -	- 0 -	- 0 -
Comprehensive Loss Attributable to Atlas Mining Company	\$(1,464,707)	\$(980,105)	\$(1,464,707)

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

ATLAS MINING COMPANY AND SUBSIDIARY
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
(Unaudited)

	For the three months ended March 31,		For the Period January 1, 2009 (Beginning of Exploration Stage) Through March 31, 2009
	2009	2008 (Restated)	
Cash flows from operating activities:			
Net loss	\$(1,463,187)	\$(980,645)	\$(1,463,187)
Adjustments to reconcile net loss to net cash used by operations:			
Depreciation	31,196	109,469	31,196
Stock issued for director fees	10,000	40,000	10,000
Valuation of options	21,951	378,751	21,951
(Gain) loss on revaluation of stock awards	31,500	(80,500)	31,500
Gain on sale of assets	(619)	- 0 -	(619)
Change in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(27)	- 0 -	(27)
Accounts receivable – related party	- 0 -	1,618	- 0 -
Deposits and prepaids	92,154	66,521	92,154
Reimbursed advances	- 0 -	445	- 0 -
Increase in:			
Accounts payable and accrued expenses	258,719	- 0 -	258,719
Net cash used by operating activities	(1,018,313)	(506,190)	(1,018,313)
Cash flows from investing activities:			
Proceeds from sale of assets	800	- 0 -	800
Purchases of equipment	- 0 -	(50,209)	- 0 -
Net cash provided by used in investing activities	800	(50,209)	800
Cash flows from financing activities:			
Payments on notes payable	(48,059)	(92,340)	(48,059)
Payments on leases payable	(111,117)	(53,886)	(111,117)
Net cash used in financing activities	(159,176)	(146,226)	(159,176)

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Net cash provided by (used in) discontinued operations	343,054	(41,849)	343,054
Increase (decrease) in cash	(833,635)	(702,625)	(833,635)
Cash and cash equivalents at beginning of period	903,001	1,210,621	903,001
Cash and cash equivalents at end of period	\$69,366	\$507,996	\$69,366

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

ATLAS MINING COMPANY AND SUBSIDIARY
 (An Exploration Stage Company)
 Consolidated Statements of Cash Flows
 (Unaudited)

	For the three months ended March 31,		For the Period January 1, 2009 (Beginning of Exploration Stage) Through March 31, 2009
	2009	2008 (Restated)	
Cash paid for:			
Interest	\$ 7,242	\$ 31,404	\$ 7,242
Income taxes	\$ - 0 -	\$ - 0 -	\$ - 0 -

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

ATLAS MINING COMPANY AND SUBSIDIARY
(An Exploration Stage Company)
Condensed Notes to the Consolidated Financial Statements
March 31, 2009 and 2008

NOTE 1 – BASIS OF PRESENTATION AND GOING CONCERN

The foregoing unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and the notes thereto included on Form 10-K for the period ended December 31, 2008. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred material recurring losses from operations. At December 31, 2008, the Company had accumulated deficits prior to the exploration stage of \$20,009,496, in addition to limited cash and unprofitable operations. For the period ended March 31, 2009 and 2008, the Company sustained net losses before discontinued operations of \$1,416,034 and \$1,515,148. These factors indicate that the Company may be unable to continue as a going concern for a reasonable period of time. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is contingent upon its ability to obtain financing and to generate revenue and cash flow to meet its obligations on a timely basis and management's ability to raise equity financing as required. If successful, this will mitigate these factors that raise substantial doubt about the Company's ability to continue as a going concern.

Operating results for the three months period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The consolidated financial information as of December 31, 2008 included herein has been derived from the Company's audited consolidated financial statements as of, and for the fiscal year ended, December 31, 2008.

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 discontinued operations presentation. These reclassifications had no effect on previously reported results of accumulated deficit.

NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Atlas Mining Company, ("the Company") was incorporated in the state of Idaho on March 4, 1924. The Company is currently focused on the commercialization of its Dragon Mine halloysite property located in Juab County, Utah. Management believes the clay resource found at the Dragon Mine property possesses, among other things, certain structural and mineralogical characteristics that may possibly add functionality to applications such as, but not limited to, the controlled release of biological and chemical agents, polymer-related strengtheners and fire retardants, oil field drilling minerals, catalyst carriers, filtration technologies, hydrogen storage for fuel cells and cosmetics.

In 2008, a geological consulting firm was engaged by the Company to both conduct a resource survey of the Dragon Mine property and develop an appropriate methodology by which to process the mine's future mineral production. As of the date of this report, the work of the geological consultant is ongoing. Beginning in 2009, the Company

commenced distributing samples to potential customers as part of a preliminary marketing program.

In late 2008, due to both a general downturn in mining activity worldwide and a desire to focus the Company's resources on the commercialization of the Dragon Mine property, management discontinued its contract mining operation that, historically, had been its primary source of revenue and cash flow generation. Management has engaged a firm to dispose of certain assets related to its discontinued contract mining operation.

ATLAS MINING COMPANY AND SUBSIDIARY
(An Exploration Stage Company)
Condensed Notes to the Consolidated Financial Statements
March 31, 2009 and 2008

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed, consolidated financial statements represent the consolidation of the Company and all companies that the Company directly controls either through majority ownership or otherwise.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. In these financial statements assets and liabilities involve extensive reliance on management's estimates. Actual results could differ from those estimates.

Noncontrolling Interests in Consolidated Financial Statements

On January 1, 2009, the Company adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51." The Company had changes as a result of the adoption of SFAS No. 160 to its consolidated financial statements. SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and the accounting for the deconsolidation of a subsidiary. SFAS No. 160 also clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. The gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. In addition, SFAS No. 160 includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest at March 31, 2009.

Stock-Based Compensation

The Company adopted SFAS 123 (revised 2004), Share-Based Payment ("SFAS 123(R)"), which requires the measurement and recognition of compensation expense for all share-based awards made to employees and directors, including employee stock options and shares issued through its employee stock purchase plan, based on estimated fair values.

The estimated fair value of grants of stock options and warrants to nonemployees of the Company is charged to expense, if applicable, in the financial statements. The Company did not issue any options or warrants during the three months ended March 31, 2009.

Recent Accounting Pronouncements

Fair Value Option for Financial Assets and Liabilities

The Company had adopted the provisions of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115" ("SFAS 159"), at the beginning of its first quarter of fiscal 2008. The adoption of the provisions of SFAS 159 did not have a significant impact on the Company's consolidated financial position, results of operations or cash flows, as the Company has currently chosen not to elect the fair value option for any items not already measured at fair value in accordance with U.S. GAAP. SFAS 159 permits companies to make an election to carry certain eligible financial assets and liabilities at fair value on an instrument-by-instrument basis, even if fair value measurement has not historically been required for such assets and liabilities.

ATLAS MINING COMPANY AND SUBSIDIARY
(An Exploration Stage Company)
Condensed Notes to the Consolidated Financial Statements
March 31, 2009 and 2008

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUING)

Derivative Instrument and Hedging Disclosures

The Company adopted SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133” (“SFAS 161”) beginning in its first quarter of fiscal 2009. As SFAS 161 does not change the accounting for derivative instruments and as the Company currently does not hold any derivative instruments, its adoption did not have a material impact on the Company’s consolidated financial statements. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance and cash flows.

International Financial Reporting Standards

In November of 2008, the SEC released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board (“IASB”). Under the proposed roadmap, the Company may be required in fiscal 2015 to prepare financial statements in accordance with IFRS. However, the SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. The Company is currently assessing the impact that this potential change would have on its consolidated financial statements, and it will continue to monitor the development of the potential implementation of IFRS.

Subsequent Events

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (“SFAS 165”), to establish general standards of accounting for and the disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. It requires disclosure of the date through which the Company has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. The adoption of SFAS 165 did not have a material impact on the Company’s consolidated financial statements.

FASB Accounting Standards Codification

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification (“Codification”) and the Hierarchy of Generally Accepted Accounting Principles (“SFAS 168”) - a replacement of FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. Under the provisions of SFAS 168, the Codification will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The rules and interpretive releases of the SEC under authority federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The provisions of SFAS 168 are effective for financial statements issued for interim and annual periods ending after September 15, 2009. Management is currently reviewing the provisions of SFAS 168 to determine the impact on the Company’s disclosures in the consolidated financial statements.

ATLAS MINING COMPANY AND SUBSIDIARY
 (An Exploration Stage Company)
 Condensed Notes to the Consolidated Financial Statements
 March 31, 2009 and 2008

NOTE 4 – DISCONTINUED OPERATIONS

At December 31, 2008, the Company permanently discontinued its contract mining operations. There are no plans to resume the contract mining business.

Under SFAS No. 144, “Accounting for the Impairment of Disposal of Long-Lived Assets,” the Company has identified assets attributed to the discontinued operation that are being held for sale or have been identified as part of the discontinued operation and have been identified as such. Assets at March 31, 2009 and December 31, 2008 attributed to the discontinued operation are as follows:

	March 31, 2009	December 31, 2008
Accounts receivable	\$- 0 -	\$336,237
Mining supplies	40,544	40,544
Property and equipment	1,495,800	1,495,796
Total assets from discontinued operations	\$1,536,344	\$1,872,577

On April 15, 2009, the Company entered into an agreement for appointment of agent for the sale of assets with AAMCOR LLC (“the Agreement”). Under the Agreement, the Company agreed to (i) sell certain of the equipment of its discontinued contract mining business to AAMCOR for \$300,000 in cash plus a potential share in proceeds of resale of such items, and (ii) appointed AAMCOR exclusive agent to sell certain other non-core equipment deemed unnecessary for development of the Company’s Dragon Mine property.

Liabilities at March 31, 2009 and December 31, 2008 attributed to the discontinued are as follows:

	March 31, 2009	December 31, 2008
Accounts Payable and Accrued Liabilities	\$2,550	\$105,468
Leases Payable	243,399	133,660
Total liabilities from discontinued operations	\$245,949	\$239,128

ATLAS MINING COMPANY AND SUBSIDIARIES
 (An Exploration Stage Company)
 Condensed Notes to the Consolidated Financial Statements
 March 31, 2009 and 2008

NOTE 4 – DISCONTINUED OPERATIONS (CONTINUED)

Income (loss) after discontinued operations for the periods ended March 31, 2009 and 2008 was calculated as follows:

	Period ended March 31,	
	2009	2008
Income (loss) from discontinued operations	\$(47,167)	\$534,503
Income tax liability	- 0 -	- 0 -
Net income (loss) from discontinued operations	\$(47,167)	\$534,503

The Company does not believe there is an effect of income taxes on discontinued operations. Due to ongoing operating losses, the uncertainty of future profitability and limitations on the utilization of net operating loss carry-forwards under IRC Section 382 a valuation allowance has been recorded to fully offset the Company's deferred tax asset.

NOTE 5 – STOCK AWARD PAYABLE

The Company has issued certain options that represent shares in excess of shares authorized for issuance. These options have been recorded as a liability on the balance sheet, titled stock awards payable. The Company reviews the value of stock award payable and adjusts the carrying value to market based on the closing price of the Company's common stock on the last day of the quarter. Any adjustment made to the carrying value of the stock award is recorded as a gain or loss on revaluation of stock awards. For the period ended March 31, 2009, the Company realized a loss on the revaluation of stock awards totaling \$31,500. At March 31, 2009, the value of Mr. Dumont's stock award payable was \$60,000, and value of Mr. Gaensbauer's stock award payable was \$24,000 for a total of \$84,000.

NOTE 6 – CONVERTIBLE DEBT

On December 30, 2008, the Company sold \$1,000,000 of 10% Convertible Notes due December 15, 2018. The notes convert into common stock at \$0.35 per share. The principle is due December 15, 2018 subject to earlier acceleration or conversion of the notes. The notes bear interest at the rate of 10% per annum payable (including by issuance of additional in kind notes) semi-annually in arrears on June 15th and December 15th of each year, commencing June 15, 2009. For the three months ended March 31, 2009, the Company recorded \$29,167 in accrued interest.

The Notes as discussed above may be converted at the option of the noteholder at any time there is sufficient authorized unissued common stock of the Company available for conversion. The Notes will be mandatorily converted when (i) sufficient common stock is available for conversion of all notes in the Series, (ii) the average closing bid price or market price of the Company's common stock for the preceding five (5) trading days is above the conversion price and (iii) a registration statement is effective and available for resale of all of the converted shares or the noteholders may sell such shares under Rule 144 under the Securities Act.

ATLAS MINING COMPANY AND SUBSIDIARY
 (An Exploration Stage Company)
 Condensed Notes to the Consolidated Financial Statements
 March 31, 2009 and 2008

NOTE 7 – STOCKHOLDERS' EQUITY

Preferred Stock

The Company is authorized to issue 10,000,000 shares of noncumulative, non-voting, nonconvertible preferred stock, \$1.00 par value per share. At March 31, 2009 and December 31, 2008, no shares of preferred stock were outstanding.

Common Stock

The Company is authorized to issue 60,000,000 shares of common stock, no par value per share. At the periods ended March 31, 2009 and December 31, 2008, 59,284,121 and 59,215,628 shares were issued and outstanding, respectively.

At December 31, 2008, the Company did not have sufficient authorized unissued common stock available for conversion of all common stock equivalents.

During the quarter ended March 31, 2009, the Company issued 68,493 shares of restricted stock at a price of \$0.15 per share for director fees for a fair value of \$10,000.

Pursuant to the disclosure requirement under SFAS No. 160, the following schedule presents a reconciliation of the beginning and ending balances of the equity attributable to the Company and the noncontrolling owners, and the effect of the changes in the equity attributable to the Company.

	Atlas Mining Company Shareholders						
	Total	Comprehensive Income (Loss)	Accumulated Deficit During the Exploration Stage	Accumulated Deficit Prior to the Exploration Stage	Accumulated Other Comprehensive Loss	Common Stock	Non-controlling Interest
Beginning Balance	\$2,196,996	\$ - 0 -	\$ - 0 -	\$(20,009,496)	\$ (1,466)	\$22,155,543	\$ 52,415
Stock issued for services	10,000					10,000	
Employee based stock compensation	21,951					21,951	
Comprehensive Income:							
Net Income (Loss)	(1,463,201)	(1,463,201)	(1,463,187)				(14)
Other comprehensive loss, net of tax:							
Change in Market Value of Investments	(1,506)	(1,506)			(1,506)		

Ending Balance	\$764,240	\$ (1,464,707)	\$(1,463,187)	\$(20,009,496)	\$ (2,972)	\$22,187,494	\$ 52,401
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ATLAS MINING COMPANY AND SUBSIDIARY
(An Exploration Stage Company)
Condensed Notes to the Consolidated Financial Statements
March 31, 2009 and 2008

NOTE 8 – OPTIONS TO PURCHASE COMMON STOCK

A summary of the status and changes of the options granted under the Company's 1998 Non-qualified Stock Option Plan and other agreements for the period ended March 31, 2009 is as follows:

	March 31, 2009	Weighted Average Exercise Price
	Shares	
Outstanding at December 31, 2008	625,000	\$0.70
Granted	- 0 -	- 0 -
Exercised	- 0 -	- 0 -
Forfeited	- 0 -	- 0 -
Expired	- 0 -	- 0 -
Outstanding at end of period	625,000	\$0.70
Exercisable at end of period	325,000	\$0.70

A summary of the status of the options outstanding at March 31, 2009 is presented below:

Range of Exercise Price	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.65 - \$0.71	75,000	4.25 years	\$ 0.69	75,000	\$ 0.69
\$0.70	550,000	4.58 years	\$ 0.70	250,000	\$ 0.70
	625,000			325,000	

At March 31, 2009, the total compensation cost of \$59,996 for unvested shares is to be recognized over the next 0.25 years on a weighted average basis.

Compensation expense of \$21,951 and \$378,751 has been recognized for vesting of options to employees and directors in the accompanying statements of operations for the periods ended March 31, 2009 and 2008, respectively.

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NOTE 9 – COMMITMENTS AND CONTINGENCIES

LITIGATION

In accordance with SFAS No. 5, “Accounting for Contingencies,” when applicable, the Company records accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. In addition to the matters described herein, the Company is involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, which in management’s opinion will not have a material adverse effect on the financial condition, cash flows or results of operations.

Securities Litigation

The Company, certain of its directors and former officers and employees, its prior auditor, Chisolm, Bierwolf & Nilson, LLC, and Nano Clay and Technologies, Inc., its defunct, wholly owned subsidiary, are defendants in a class action filed on October 11, 2007 In Re Atlas Mining Company Securities Litigation pending in the United States District Court for the District of Idaho, Civil Action No. 07-428-N-EJL(D. Idaho) (the “Class Action”). The Class Action was filed on behalf of purchasers of the Company’s publicly traded common stock during the period January 19, 2005 through October 8, 2007. The First Amended Complaint (“Complaint”) alleges that the Company damaged purchasers by making material misstatements in publicly disseminated press releases and Securities and Exchange Commission filings regarding the extent of the halloysite deposit on Company property, the availability and quality of halloysite for sale, and claimed sales of halloysite. The Complaint also alleges that the Company improperly manipulated reported earnings with respect to purported halloysite sales and misrepresentations by the individual defendants as to its financial statements. The plaintiffs seek remedies under Section 10(b) of the Securities and Exchange Act and Rule 10b-5 thereunder and for violations of Section 20(a) of the Exchange Act.

On July 2, 2009, the Company entered into a Settlement Agreement (“Class Action Settlement Agreement”) with the lead plaintiffs in the class action Under the terms of the Class Action Settlement Agreement the Company will pay plaintiffs \$1,250,000 (which includes fees to plaintiff’s counsel), to be funded by the proceeds of an insurance policy issued by Navigators Insurance Co.(as provided below), in exchange for release of all claims against Company, Nano Clay & Technologies, Inc., and William T. Jacobson, Robert Dumont, Ronald Price and Barbara Suveg (the “Individual Defendants”). The Company will also fund up to \$75,000 to fund expenses in connection with notification to class members. The Class Action Settlement Agreement is the settlement agreement contemplated by the Memorandum of Understanding (“MOU”) described in its prior response and the terms of it are consistent with the terms of such MOU. The Settlement Agreement is subject to a number of conditions including successful completion of confirmatory due diligence by the lead plaintiffs and final court approval.

Insurance Litigation

Atlas Mining Company v. Navigators Insurance Company et al.

Our complaint, filed in federal district court in Idaho, seeks coverage (“Coverage Claim”) for claims in connection with the securities litigation described above under (A) a primary \$5,000,000 D&O liability insurance policy issued by Navigators Insurance Company (“Navigators”) on October 1, 2007 (“Navigators \$5,000,000 Policy”), and (B) a \$5,000,000 excess D&O liability policy issued by RSUI Indemnity Company (“RSUI”) effective October 1, 2007. The Company has asserted claims for declaratory judgment, specific performance, and breach of contract, as well as claims alleging bad faith, against Navigators and RSUI. The Company also has asserted claims of negligence and fraud against a broker involved with the alleged issuance of the policies. This case was removed to federal court. Navigators, RSUI,

and the broker are vigorously defending the lawsuit and have filed answers in federal court, arguing in part that such policies are not effective and pleading other affirmative defenses, such as accord and satisfaction.

ATLAS MINING COMPANY AND SUBSIDIARY
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NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Insurance Litigation (Continued)

Navigators Insurance Co. v. Atlas Mining Company, et. al.

This is an interpleader complaint filed by Navigators in federal district court in Idaho with respect to our coverage claims and those of certain of our former officers and directors arising from the securities litigation described above. The interpleader complaint alleges that Navigators issued a D&O liability policy to the Company for the period October 17, 2006 and October 17, 2007 that afforded \$2 million in limits. Navigators alleges that, based on the current rate of expenditures, the defense and investigation costs alone will soon exceed the policy's \$2 million limit of liability, excess of applicable retentions, and the Company disagrees with certain of its former officers and directors on the appropriate priority of payments under the policy. As such, Navigators alleges that it was subject to multiple competing demands for the limits of the Policy. Based on such allegations, Navigators is seeking a court order permitting Navigators to tender \$2 million into the registry of the Court and to be discharged from liability. The Company filed a Motion to Dismiss on June 17, 2008, citing Navigators' failure to advance defense costs under such policy and arguing that Navigators is not subject to multiple liability under the policy. The parties have filed several consent motions to stay the proceedings in this action. The court entered an indefinite stay on December 11, 2008 that will remain in effect until any party seeks to re-open the matter because (a) the parties have reached an agreement to resolve the matter, (b) the Coverage Action is resolved, or (c) a party seeks to terminate the stay and renew litigation.

Settlement Of Insurance Cases

Related to the Class Action Settlement, effective July 8, 2009, the Company entered into a Settlement Agreement and Release with Navigators, RSUI Indemnity Company and RSUI Group, Alexander, Morford & Woo, Inc., and the individual defendants listed above in settlement of the insurance litigation. Pursuant to this agreement (i) Navigators will deliver \$1,250,000 into a court registry, which will then be used upon final court approval of the Class Action Settlement to fund the \$1,250,000 payment to class action plaintiffs, (ii) Navigators will deliver \$750,000 to the Company for defense and investigative costs in connection with the Class Action and related matters, which Atlas will use in part to pay the individual defendants their costs in the class action and (iii) all claims under the insurance litigation will be released upon final court approval of the Class Action Settlement.

Issuance of Wells Notice

On March 6, 2009, the Company was informed that the Securities and Exchange Commission had issued a formal order of investigation of facts with respect to possible violations of the securities laws by the Company and its officers, directors and affiliates for the period of August 2002 through 2006. On July 7, 2009, the staff of the Commission sent the Company a "Wells Notice," which is a notice that the staff intends to recommend to the Commission that enforcement proceedings be commenced against the Company for violations of registration provisions of Section 5 of the Securities Act, the reporting provisions of Section 13(a) of the Securities Exchange Act and the rules thereunder as well as Rule 12b-20, and the internal control provisions of Section 13(b)(2) of the Securities Exchange Act. The Wells Notice also referenced section 12(j) of the Securities Exchange Act, which would involve deregistration. However, the Company committed to the staff that it would bring the Company current in its Section 13(a) filings and the filing of this quarterly report on Form 10-Q brings the Company current. The staff indicated that if the Company were current it would not make a recommendation related to Section 12(j), and the Company believes that this filing has mooted the issue. The Company is cooperating with the investigation and has submitted an offer of settlement to the staff.

ATLAS MINING COMPANY AND SUBSIDIARY
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Condensed Notes to the Consolidated Financial Statements
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NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

COMMITMENTS

Material Advisors LLC

On December 30, 2008, the Company entered into a Management Agreement with Material Advisors LLC, a management services company (“Manager”). The Management Agreement has a term ending on December 31, 2010 with automatic renewal for successive one-year periods unless either Manager or Company provides 90 days prior notice of cancellation to the other party or pursuant to the termination provisions of the Management Agreement. Under the Management Agreement Manager will perform or engage others, including Andre Zeitoun, a principal of Manager, Chris Carney and Eric Basroon (“Management Personnel”), to perform senior management services including such services as are customarily provided by a chief executive officer but not (unless otherwise agreed) services customarily provided by a chief financial officer. Pursuant to the Management Agreement, Andre Zeitoun will serve as Company’s Chief Executive Officer and will be appointed as a member of the Company’s Board of Directors.

The services provided by Manager will include, without limitation, consulting with the Board of Directors of the Company and the Company’s management on business and financial matters. Manager will be paid an annual fee of \$1,000,000 per year, payable in equal monthly installments of \$83,333. Manager will be solely responsible for the compensation of the Management Personnel, including Mr. Zeitoun and the Management Personnel will not be entitled to any direct compensation or benefits from the Company (including, in the case of Mr. Zeitoun, for service on the Board). The Company will grant Manager non-qualified stock options to purchase, for \$0.70 per share (the “\$0.70 Option”) a number of shares of the Company equal to 10% of the outstanding common stock of the Company on a fully diluted basis (which shall vest in equal monthly installments over three years).

Under certain very specific instances related to a going private transaction, the \$0.70 option will be cancelled and replaced by a non-qualified option (the “Going Private Option”) accompanied by a tandem stock appreciation right (the “SAR”). The term of the \$0.70 Option, the Going Private Option and the SAR will be 10 years. During their terms, the Going Private Option and the SAR will be fully exercisable. If Company declares a dividend or distribution at any time while the \$0.70 option is unvested, Manager will be entitled to receive an amount equal to the dividend or distribution that would be paid on the shares underlying the \$0.70 Option, payable in the same form as such dividend or distribution on the same vesting schedule as the \$0.70 Option. Manager will have the right to participate in a going private transaction for up to 20% of the equity on terms and conditions, which are as favorable to Manager as the terms and conditions available to any other person who invests in the going private entity.

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NOTE 10 – SUBSEQUENT EVENTS

Convertible Notes April 2009

Between April 7, and April 9, 2009, the Company sold to accredited investors \$1,500,000 principal amount of Series 10% PIK-Election Convertible Notes due 2018 (the “Notes”) at a conversion price of \$0.35 per share (the “Conversion Price”) and entered into a Registration Rights Agreement in connection with the shares of common stock to be issued upon conversion of the Notes. The principal under the Notes is due December 15, 2018 subject to earlier acceleration or conversion of the Notes as described below. The Notes bear interest at the rate of 10% per annum payable (including by issuance of additional in kind notes) semi-annually in arrears on June 15th and December 15th of each year commencing June 15, 2009.

Convertible Notes May 2009

On May 1, 2009, the Company entered into agreements to sell to accredited investors \$1,350,000 principal amount of Series 10% PIK-Election Convertible Notes due 2018 (the “Notes”) at a conversion price of \$0.50 per share (the “Conversion Price”) and entered into a Registration Rights Agreement in connection with the shares of common stock to be issued upon conversion of the Notes. The principal under the Notes is due December 15, 2018 subject to earlier acceleration or conversion of the Notes as described below. The Notes bear interest at the rate of 10% per annum payable (including by issuance of additional in kind notes) semi-annually in arrears on June 15th and December 15th of each year commencing June 15, 2009.

Convertible Notes July 2009

On July 29, 2009, the Company entered into an agreement to sell to an accredited investor \$200,000 principal amount of Series 10% PIK-Election Convertible Notes due 2018 (the “Notes”) at a conversion price of \$0.65 per (the “Conversion Price”) and entered into a Registration Rights Agreement in connection with the shares of common stock to be issued upon conversion of the Notes. The principal under the Notes is due December 15, 2018 subject to earlier acceleration or conversion of the Notes as described below. The Notes bear interest at the rate of 10% per annum payable (including by issuance of additional in kind notes) semi-annually in arrears on June 15th and December 15th of each year commencing June 15, 2009.

The Notes (April, May and July 2009) may be converted at the option of the Noteholder at any time there is sufficient authorized unissued common stock of the Company available for conversion. The Notes will be mandatorily converted when (i) sufficient common stock is available for conversion all notes in the Series, (ii) the average closing bid price or market price of the Company’s common stock for the preceding five (5) trading days is above the Conversion Price and (iii) a registration statement is effective and available for resale of all of the converted shares or the Noteholders may sell such shares under Rule 144 under the Securities Act.

Sale of Non-Core Assets

Between April 1 and April 10, 2009, the Company sold certain equipment from its discontinued contract mining business. On April 15, 2009, the Company entered into an agreement for appointment of agent for the sale of assets with AAMCOR LLC (“the Agreement”). Under the Agreement, the Company agreed to (i) sell certain of the equipment of its discontinued contract mining business to AAMCOR for \$300,000 in cash plus a potential share in proceeds of resale of such items, and (ii) appointed AAMCOR exclusive agent to sell certain other non-core equipment deemed unnecessary for development of the Company’s Dragon Mine property.

ATLAS MINING COMPANY AND SUBSIDIARY
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NOTE 10 – SUBSEQUENT EVENTS (CONTINUED)

Jacobson Settlement Agreement

On April 26, 2009, the Company entered into a release and settlement agreement with William T. Jacobson, formerly Chairman and CEO of the Company and certain members of his family. The Company agreed to pay (i) up to \$293,000 in defense of the class action litigation, *Benson v. Atlas Mining Company* (“Class Action Litigation”) and (ii) \$170,000 upon complete resolution of the Class Action Litigation, amounts to be funded by the proceeds of insurance policies. William Jacobson waived any claims under any potentially applicable insurance policy issued to the Company and agreed to transfer to the Company 3,044,083 shares of Company common stock within three business days by the court of a settlement of certain class action litigation, which is still pending. The agreement provides for mutual releases of all claims.

Class Action Settlement Agreement

On July 2, 2009, the Company entered into a Settlement Agreement (“Class Action Settlement Agreement”) with the lead plaintiffs in the class action *In Re Atlas Mining Company Securities Litigation* pending in the United States District Court for the District of Idaho, Civil Action No. 07-428-N-EJL(D. Idaho).

Under the terms of the settlement agreement, the Company will pay plaintiffs \$1,250,000 (which includes fees to plaintiff’s counsel), to be funded by the proceeds of an insurance policy, in exchange for release of all claims against the Company, NanoClay & Technologies Inc., and the individual defendants William T. Jacobson, Robert Dumont, Ronald Price and Barbara Suveg. The Company will also fund up to \$75,000 to fund expenses in connection with notification to class members. The settlement agreement is the agreement contemplated by the memorandum of understanding entered into by the Company and the lead plaintiffs dated May 1, 2009 described in the 8-K filed by the Company on May 4, 2009 (“the MOU”) and the terms of it are consistent with such MOU.

Related to the Class Action Settlement effective July 8, 2009, Atlas entered into a Settlement Agreement and Release with Navigators, RSUI Indemnity Company and RSUI Group, Alexander, Morford & Woo, Inc., and the individual defendants listed above in settlement of the insurance litigation *Atlas Mining Co. v. Navigators Insurance Co. et al.*, No. 1:08-cv-00359-EJL (D. Idaho) and *Navigators Insurance Co. v. Atlas Mining Co., et. al.*, Case No. 2:08-cv-00216-EJL (D. Idaho). Pursuant to this agreement (i) Navigators will deliver \$1,250,000 into a court registry, which will then be used upon final court approval of the Class Action Settlement to fund the \$1,250,000 payment to class action plaintiffs, (ii) Navigators will deliver \$750,000 to the Company for defense and investigative costs in connection with the Class Action and related matters, which Atlas will use in part to pay the individual defendants their costs in the class action and (iii) all claims under the insurance litigation will be released upon final court approval of the Class Action Settlement.

Also, related to the class action settlement, the Company has entered into a settlement agreement with Robert Dumont, a former President, CEO and director of the Company, mutually releasing all claims related to Dumont’s employment by the Company in consideration of the Company’s payment to Dumont of up to \$258,000 for Dumont’s attorneys’ fees and expenses related to the class action (to be funded from the insurance proceeds described above), insurance litigation, and other matters which the Company will fund with monies it receives from Navigators in connection with the insurance litigation settlement.

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Condensed Notes to the Consolidated Financial Statements
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NOTE 10 – SUBSEQUENT EVENTS (CONTINUED)

Issuance of Wells Notice

On March 6, 2009, the Company was informed that the Securities and Exchange Commission had issued a formal order of investigation of facts with respect to possible violations of the securities laws by the Company and its officers, directors and affiliates for the period of August 2002 through 2006. On July 7, 2009, the staff of the Commission sent the Company a "Wells Notice," which is a notice that the staff intends to recommend to the Commission that enforcement proceedings be commenced against the Company for violations of registration provisions of Section 5 of the Securities Act, the reporting provisions of Section 13(a) of the Securities Exchange Act and the rules thereunder as well as Rule 12b-20, and the internal control provisions of Section 13(b)(2) of the Securities Exchange Act. The Wells Notice also referenced section 12(j) of the Securities Exchange Act, which would involve deregistration. However, the Company committed to the staff that it would bring the Company current in its Section 13(a) filings and the filing of this quarterly report on Form 10-Q brings the Company current. The staff indicated that if the Company were current it would not make a recommendation related to Section 12(j), and the Company believes that this filing has mooted the issue. The Company is cooperating with the investigation and has submitted an offer of settlement to the staff.

NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

OVERVIEW

We operate a Contract Mining business and are engaged in the development of our resource property, the Dragon Mine, located in the state of Utah.

Historically our primary source of revenue has been generated by our Contract Mining operations. On December 31, 2008 we discontinued our Contract Mining business due to adverse economic conditions and the desire to concentrate our efforts on the commercialization of the halloysite clay deposit at the Dragon Mine.

Property Exploration

We intend to continue our exploration activities the Dragon Mine. We do not intend to seek out and acquire other properties.

In August 2001 we acquired the Dragon Mine in Juab, Utah and began our clay exploration activities. Our exploration and development expenses for the quarters ending March 31, 2009 and 2008 were \$139,961 and \$64,287, respectively, on the halloysite clay property.

The activities at our Dragon Mine property, located in Juab County, Utah, were suspended in October 2007 when previous management determined that both a resource survey and an appropriate processing facility were needed before the property could be successfully commercialized. In 2008, a geological consulting firm was hired by us to both carry out a detailed geological review of the property and develop an appropriate method by which to process the mineral resource. This work is ongoing as of the date of this report. Beginning in 2009, we began processing material from the mine and distributing samples to potential customers as part of a preliminary marketing program. The geological consulting firm referred to above has sub-contracted with a firm with expertise in the development of mineral processing to identify an appropriate processing system for the Company. Any subsequent reference to a geological consulting firm may be assumed to include the firm currently being contracted to identify the processing system.

Management believes that the clay resource found at the Dragon Mine property possesses, among other things, certain structural and mineralogical characteristics that may possibly add functionality to applications such as, but not limited to, the controlled release of biological and chemical agents, polymer-related strengtheners and fire retardants, oil field drilling minerals, catalyst carriers, filtration technologies, hydrogen storage for fuel cells and cosmetics. For certain of the aforementioned applications, management believes the Dragon Mine resource has the potential to serve as a more effective alternative to the materials upon which these current technologies are established. Other

above-mentioned applications are being developed to specifically utilize the structural characteristics of the clay resource.

The Dragon Mine property contains halloysite, kaolinite, alunite and other minerals located underground and in waste piles that are the result of previous mining operations. The geological resource survey being conducted on the Dragon Mine has involved the assessment of approximately 10,000 feet of borehole drill cores and the analysis of samples taken from the five waste piles located at the mine site. The survey has included X-ray diffraction analysis to determine the levels of halloysite, kaolinite and other minerals found in the resource. Initial studies have indicated that conventional processing may be used to separate the halloysite and kaolinite fractions from alunite and other minerals found in the Dragon Mine resource. The geology of the deposit shows alterations of feldspar identified along side the presence of monzanite, halloysite and kaolinite. Purer halloysite found at the mine has been identified along side the presence of iron ore. The morphology of the halloysite identified at the Dragon Mine, as determined by Scanning Electron Microscopy (“SEM”) analysis, demonstrates the existence of both lath-like and tubular formations. The kaolinite present at the Dragon Mine has been determined to possess a highly crystalline structure.

NaturalNano, Inc. (OTC: NNAN), in conjunction with Cascade Engineering and its subsidiary, Noble Polymers, has developed Pleximer™, a halloysite nanotube concentrate used to create stronger, lighter, environmentally friendlier and lower-cost polymer-based nanocomposites. According to NaturalNano’s 2008 annual report, Pleximer™ is being marketed to the global nanocomposites market that, in the estimation of BCC Research, is expected to grow from \$273 million in 2005 to \$4.0 billion by 2015. According to BCC Research, clay-based nanocomposites are expected to represent 47% of the nanocomposites market by 2010. The U.S. Department of the Navy, represented by the Naval Research Lab (NRL”), has patented a technology that provides for the controlled release of active agents using inorganic tubules such as halloysite clay. The U.S. Navy’s technology has been licensed by at least two companies that are developing controlled-release applications for the fields of electromagnetic shielding/strength enhancement, cosmetics, fragrances, agriculture, ink and paper, electronics, fabrics and textiles, local drug delivery and mold-resistant building products. The U.S. Navy has also patented a technology that permits a controlled release of an active agent as an anti-scaling treatment for environments such as oil wells.

As of the date of this report, a study is being conducted to identify the applications for which the Dragon Mine resource may provide functionality. Processed clay samples have been distributed to potential customers who have requested halloysite and/or halloysite-kaolinite mixtures. A number of advanced applications to which the Company plans to market its resource are currently using plate-like structured clays that must undergo expensive exfoliation process to achieve proper functionality. The tubular morphology of the Dragon Mine resource does not require such an exfoliation process to achieve similar or, in many instances, greater functionality. Management, therefore, believes that it may be able to deliver its processed mineral to market at price points lower than those of competing clays, without sacrificing performance.

In addition to certain advanced applications previously mentioned, we believe the Dragon Mine resource may also be marketed to certain established, low-tech applications such as, but not limited to, fine porcelain, bone china, high-performance advanced technical ceramics, paint fillers, suspension agents, animal feed, cement hardeners, and food and pharmaceutical additives. Markets, such as fine porcelain and bone china, would likely require the Dragon Mine clay resource be processed for increased brightness and reduced presence of titanium whereas applications, such as a cement hardener, would require a relatively unprocessed version of the Dragon Mine resource. Management, as part of its overall business strategy, will continually assess the economic feasibility of pursuing potential markets.

Management believes that both existing and potential applications that utilize the Dragon Mine resource will require varying grades of clay to satisfy the unique technical requirements of each application. Some applications may require pure halloysite, composed of tubular and/or lath-shaped particles while other applications may require a grade of clay consisting of a specific halloysite-kaolinite ratio. The determination of the appropriate grade of clay will likely require significant technical cooperation between the Company and the developer of the related application. As previously mentioned, the Company has hired a consulting firm to identify a processing system capable of producing the grades of clay required by potential applications. The identification of such a system is ongoing.

On May 11 2009, the Company entered into a development support agreement related to a research project at Louisiana Tech University whose principal investigator is with Yuri M. Lvov, Ph.D., a professor of chemistry at Louisiana Tech the University and the T.C. Pipes Eminent Endowed Chair on Micro and Nanosystems at the Institute for Micromanufacturing (LaTech). The scope of the agreement includes, among other things, the development of new anticorrosion additives based on the encapsulation of current standard protective agents in halloysite nanotubes in addition to the development of other related emerging applications. The Company's support agreement commits the Company to fund up to \$30,000 per year for three years. The funding will be principally accomplished through the supply of halloysite clay. The support agreement could lead to distribution rights if the research project is successful.

RESULTS OF OPERATIONS

Due to a general downturn in worldwide mining activity resulting from a decline in commodity prices, the Company permanently ceased its contract mining operations and classified them as "discontinued" on its financial statements. The Company's remaining operation, the exploration of its Dragon Mine property, has yet to produce any revenue and, as such, the Company generated no revenue and gross profit for the three months ended March 31, 2009 and 2008.

Total operating expenses for the three-month period ending March 31, 2009 were \$1,369,484 compared to \$1,339,157 for the same period ending 2008, an increase of 2.2%. The increase was due primarily to a \$292,863, or 33.5%, increase in general and administrative expense, partially offset by a \$262,536, or 56.4%, decline in exploration, development and mining production costs.

The increase in general and administrative expense was due, in large part, to additional expenses related to the hiring of Material Advisors in January 2009 as Company management, the appointment of Morris Weiss as Chief Restructuring Officer in November 2008 and certain legal expenses associated with the improvement of the Company's corporate governance.

The decline in exploration, development and mining production costs was driven, primarily, by a \$338,210 decline in underground production expense, partially offset by an increase of \$75,674 in exploration and development costs incurred by the geological consulting firm hired by the Company to both conduct a resource survey and develop a mineral processing system.

The net loss from continuing operations for the three month period ending March 31, 2009 was \$1,416,034 compared to \$1,515,148 for the same period ending March 31, 2008, a decrease of approximately 6.5%. The decrease was due primarily to a \$281,124 decline in expenses related to a special investigation that ended in August 2008, partially offset by \$24,708 decline in interest income and a \$112,000 decline in the gain on the revaluation of stock awards.

The special investigation was conducted by a committee formed by the Board of Directors to (i) review and investigate the conduct of our prior management and any issues arising therefrom and (ii) review and evaluate our business, financial condition, assets, strategy, prospects and management and recommend to the Board of Directors various alternatives to improve our performance and prospects. The investigation was completed in August 2008 and resulted in the elimination of any further related expense.

The decline in interest income during the quarter was the result of an associated decline in the Company's cash balance over the same period. The decline in the gain on the revaluation of stock awards during the quarter is related to the increase in the price of the Company's common shares that were awarded to former CEO, Robert Dumont, and former Executive Vice President, John Gaensbauer.

Net loss from discontinued operations for the three months ended March 31, 2009 was \$47,167 as compared to net income from discontinued operations of \$534,503 for the three months ended March 31, 2008. The \$581,670 decline in income from discontinued operations was due primarily to a decline in contract mining activity for the three months ended March 31, 2009 compared to the same period in 2008.

LIQUIDITY AND CAPITAL RESOURCES

To date our activities have been financed through the sale of equity securities, borrowings, and, for the periods up through December 31, 2008, revenues from our contract mining operations. Until we are able to commercialize our Dragon Mine property, we intend to rely on public or private sales of equity securities and the utilization of certain credit facilities to generate the cash flow needed to fund our operations. There can be no assurance we will be able to sell equity or incur additional debt. Accordingly, if we are not able to commercialize the Dragon Mine property before additional capital is required and we are unable to sell equity or incur additional debt or commercialize we may be unable to continue as a going concern.

The Company has incurred material recurring losses from operations. At December 31, 2008, the Company had accumulated deficits prior to the exploration stage of \$20,009,496, in addition to limited cash and unprofitable operations. For the period ended March 31, 2009 and 2008, the Company sustained net losses before discontinued operations of \$1,416,034 and \$1,515,148. These factors indicate that the Company may be unable to continue as a going concern for a reasonable period of time. The Company's continuation as a going concern is contingent upon its ability to obtain financing and to generate revenue and cash flow to meet its obligations on a timely basis and management's ability to raise equity financing as required. If successful, this will mitigate these factors that raise substantial doubt about the Company's ability to continue as a going concern.

Cash used by operating activities was \$1,018,313 during the three months ended March 31, 2009 versus \$506,190 of cash used during the comparable period in 2008. The primary reason for the \$512,123 increase in cash used during the first quarter of 2009 was an increase in net loss during the quarter of \$482,542, partially offset by both \$336,233 of cash generated through the collection of receivables at the discontinued contract mining operation and \$289,544 of increases in accrued liabilities also related to the discontinued contract mining operation.

Cash of \$800 was generated by investing activities during the three months ended March 31, 2009 versus cash of \$50,209 used by investing activities during the comparable period. The primary difference was due to certain capital expenditures related to the development of the Dragon Mine development-related equipment during the three-month period ended March 31, 2008 that were not made during the comparable period in 2009.

Cash used by financing activities was \$159,176 during the three-month period ended March 31, 2009 versus \$146,226 of cash used during the comparable period in 2008. The \$12,950 difference was due primarily to an increase in payments made on leases payables during the three-month period ended March 31, 2009.

At March 31, 2009, the Company had, as part of its long-term liabilities, \$1,000,000 face value of 10% Convertible PIK Notes due December 2018. The Company may sell similar notes in the future to raise cash to fund its operations.

As part of the Company's decision to discontinue its contract mining operations, it is currently marketing for sale certain pieces of equipment related to the contract mining division. The potential net proceeds from the disposal of this equipment would be used, in part, to fund the operations of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

During the evaluation of disclosure controls and procedures as of March 31, 2009, management identified material weaknesses in internal control over financial reporting, which management considers an integral component of disclosure controls and procedures. Material weaknesses identified include ineffective oversight of related party transactions, accounting for securities available for sale, accounting for options, lack of appropriate accounting procedures and personnel, journal entry approval and procedures, and management's assessment of internal control over financial reporting. As a result of the material weaknesses identified, management concluded that Atlas Mining Company's disclosure controls and procedures were ineffective.

Notwithstanding the existence of these material weaknesses, Atlas Mining Company believes that the condensed consolidated financial statements in this quarterly report on Form 10-Q fairly present, in all material respects, Atlas Mining Company's financial condition as of March 31, 2009 and December 31, 2008, and results of its operations and cash flows for the quarters ended March 31, 2009 and 2008, in conformity with United States generally accepted accounting principles (GAAP).

(b) Changes in Internal Controls.

We have begun to implement changes in its internal control procedures. The changes have been made as there has been an addition to the accounting staff and segregation of duties and reassignment of accounting functions has taken place. These changes in internal controls are viewed to have a positive impact to our disclosure controls and, thus, creating a stronger control environment.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In accordance with SFAS No. 5, Accounting for Contingencies, when applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. In addition to the matters described herein, we are involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, which in our opinion will not have a material adverse effect on our financial condition, cash flows or results of operations.

Securities Litigation

The Company, certain of its directors and former officers and employees, its prior auditor, Chisolm, Bierwolf & Nilson, LLC, and Nano Clay and Technologies, Inc., its defunct, wholly owned subsidiary, are defendants in a class action filed on October 11, 2007 In Re Atlas Mining Company Securities Litigation pending in the United States District Court for the District of Idaho, Civil Action No. 07-428-N-EJL(D. Idaho) (the "Class Action"). The Class Action was filed on behalf of purchasers of the Company's publicly traded common stock during the period January 19, 2005 through October 8, 2007. The First Amended Complaint ("Complaint") alleges that the Company damaged purchasers by making material misstatements in publicly disseminated press releases and Securities and Exchange Commission filings regarding the extent of the halloysite deposit on Company property, the availability and quality of halloysite for sale, and claimed sales of halloysite. The Complaint also alleges that the Company improperly manipulated reported earnings with respect to purported halloysite sales and misrepresentations by the individual defendants as to its financial statements. The plaintiffs seek remedies under Section 10(b) of the Securities and Exchange Act and Rule 10b-5 thereunder and for violations of Section 20(a) of the Exchange Act.

On July 2, 2009, the Company entered into a Settlement Agreement ("Class Action Settlement Agreement") with the lead plaintiffs in the class action Under the terms of the Class Action Settlement Agreement the Company will pay plaintiffs \$1,250,000 (which includes fees to plaintiff's counsel), to be funded by the proceeds of an insurance policy issued by Navigators Insurance Co.(as provided below), in exchange for release of all claims against Company, Nano Clay & Technologies, Inc., and William T. Jacobson, Robert Dumont, Ronald Price and Barbara Suveg (the "Individual Defendants"). The Company will also fund up to \$75,000 to fund expenses in connection with notification to class members. The Class Action Settlement Agreement is the settlement agreement contemplated by the Memorandum of Understanding ("MOU") described in its prior response and the terms of it are consistent with the terms of such MOU. The Settlement Agreement is subject to a number of conditions including successful completion of confirmatory due diligence by the lead plaintiffs and final court approval.

Insurance Litigation

Atlas Mining Company v. Navigators Insurance Company et al.

Our complaint, filed in federal district court in Idaho, seeks coverage ("Coverage Claim") for claims in connection with the securities litigation described above under (A) a primary \$5,000,000 D&O liability insurance policy issued by Navigators Insurance Company ("Navigators") on October 1, 2007 ("Navigators \$5,000,000 Policy), and (B) a \$5,000,000 excess D&O liability policy issued by RSUI Indemnity Company ("RSUI") effective October 1, 2007. The Company has asserted claims for declaratory judgment, specific performance, and breach of contract, as well as claims alleging bad faith, against Navigators and RSUI. The Company also has asserted claims of negligence and fraud against a broker involved with the alleged issuance of the policies. This case was removed to federal court. Navigators, RSUI, and the broker are vigorously defending the lawsuit and have filed answers in federal court, arguing in part that such policies are not effective and pleading other affirmative defenses, such as accord and satisfaction.

Navigators Insurance Co. v. Atlas Mining Company, et. al.

This is an interpleader complaint filed by Navigators in federal district court in Idaho with respect to our coverage claims and those of certain of our former officers and directors arising from the securities litigation described above. The interpleader complaint alleges that Navigators issued a D&O liability policy to the Company for the period October 17, 2006 and October 17, 2007 that afforded \$2 million in limits. Navigators alleges that, based on the current rate of expenditures, the defense and investigation costs alone will soon exceed the policy's \$2 million limit of liability, excess of applicable retentions, and the Company disagrees with certain of its former officers and directors on the appropriate priority of payments under the policy. As such, Navigators alleges that it was subject to multiple competing demands for the limits of the Policy. Based on such allegations, Navigators is seeking a court order permitting Navigators to tender \$2 million into the registry of the Court and to be discharged from liability. The Company filed a Motion to Dismiss on June 17, 2008, citing Navigators' failure to advance defense costs under such policy and arguing that Navigators is not subject to multiple liability under the policy. The parties have filed several consent motions to stay the proceedings in this action. The court entered an indefinite stay on December 11, 2008 that will remain in effect until any party seeks to re-open the matter because (a) the parties have reached an agreement to resolve the matter, (b) the Coverage Action is resolved, or (c) a party seeks to terminate the stay and renew litigation.

Settlement Of Insurance Cases

Related to the Class Action Settlement, effective July 8, 2009, the Company entered into a Settlement Agreement and Release with Navigators, RSUI Indemnity Company and RSUI Group, Alexander, Morford & Woo, Inc., and the individual defendants listed above in settlement of the insurance litigation. Pursuant to this agreement (i) Navigators will deliver \$1,250,000 into a court registry, which will then be used upon final court approval of the Class Action Settlement to fund the \$1,250,000 payment to class action plaintiffs, (ii) Navigators will deliver \$750,000 to the Company for defense and investigative costs in connection with the Class Action and related matters, which Atlas will use in part to pay the individual defendants their costs in the class action and (iii) all claims under the insurance litigation will be released upon final court approval of the Class Action Settlement.

Issuance of Wells Notice

On March 6, 2009, the Company was informed that the Securities and Exchange Commission had issued a formal order of investigation of facts with respect to possible violations of the securities laws by the Company and its officers, directors and affiliates for the period of August 2002 through 2006. On July 7, 2009, the staff of the Commission sent the Company a "Wells Notice," which is a notice that the staff intends to recommend to the Commission that enforcement proceedings be commenced against the Company for violations of registration provisions of Section 5 of the Securities Act, the reporting provisions of Section 13(a) of the Securities Exchange Act and the rules thereunder as well as Rule 12b-20, and the internal control provisions of Section 13(b)(2) of the Securities Exchange Act. The Wells Notice also referenced section 12(j) of the Securities Exchange Act, which would involve deregistration. However, the Company committed to the staff that it would bring the Company current in its Section 13(a) filings and the filing of this quarterly report on Form 10-Q brings the Company current. The staff indicated that if the Company were current it would not make a recommendation related to Section 12(j), and the Company believes that this filing has mooted the issue. The Company is cooperating with the investigation and has submitted an offer of settlement to the staff.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits.

The following exhibits are included in this report:

Exhibit Number	Description of Exhibits
31.1	Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer
31.2	Certification pursuant to Rule 13a-14 of the Securities Exchange Act, as adopted pursuant to the Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer

SIGNATURES

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

ATLAS MINING COMPANY

Dated: August 14, 2009

/s/ ANDRE ZEITOUN
By: Andre Zeitoun
Chief Executive Officer

Dated: August 14, 2009

/s/ CHRISTOPHER T. CARNEY
By: Christopher T. Carney
Interim Chief Financial Officer
