ATLAS MINING CO
Form 10QSB
May 15, 2007

**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, DC 20549**

**FORM 10-QSB**

(Mark One)

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

For the quarterly period ended March 31, 2007

o 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<br>(State or other jurisdiction of incorporation or organization) | 82-0096527<br>(I.R.S. Employer Identification No.) |
| 630 East Mullan Avenue, Osburn, Idaho<br>(Address of principal executive offices) | 83849<br>(Zip Code) |

(208) 556-1181
Issuer's telephone number, including area code

Former name, former address and formal 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. YES x NO o

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

The number of shares outstanding of each of the issuer's classes of common equity as of May 14, 2007 was as follows: 53,086,043 shares of Common Stock.

Transitional Small Business Disclosure Format: YES x NO o

**ATLAS MINING COMPANY**
**FIRST QUARTER 2007 REPORT ON FORM 10-QSB**
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## PART I. FINANCIAL INFORMATION

**Item 1. Consolidated Financial Statements**

**Atlas Mining Company and Subsidiary**

Consolidated Balance Sheets

| **ASSETS** | March 31, 2007 (unaudited) | December 31, 2006 |
|---|---|---|
| Current Assets | | |
| Cash | $ 1,818,272 | $ 217,102 |
| Accounts receivable (net of allowance of $0) | 1,223,565 | 887,494 |
| Investments - available for sale | 5,520 | 3,794 |
| Advances | 193 | 618 |
| Mining supplies | - | 2,000 |
| Deposits and prepaids | 185,585 | 170,731 |
| Total Current Assets | 3,233,135 | 1,281,739 |
| Property and Equipment | | |
| Land and tunnels | 1,225,412 | 1,225,412 |
| Land improvements | 85,472 | 83,987 |
| Buildings | 367,879 | 291,214 |
| Mining equipment | 1,160,805 | 972,060 |
| Milling equipment | 785,284 | 586,979 |
| Laboratory equipment | 74,174 | 74,174 |
| Office equipment | 12,506 | 1,300 |
| Vehicles | 192,065 | 150,952 |
| Less: Accumulated depreciation | (483,196) | (408,145) |
| Total Property and Equipment | 3,420,401 | 2,977,933 |
| Other Assets | | |
| Long-term Note Receivable | 20,000 | 50,209 |
| Total Other Assets | 20,000 | 50,209 |
| Total Assets | $ 6,673,536 | $ 4,309,881 |

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

**Atlas Mining Company and Subsidiary**

Consolidated Balance Sheets

**LIABILITIES AND STOCKHOLDERS' EQUITY**

| | March 31, 2007 (unaudited) | December 31, 2006 |
|---|---|---|
| Current Liabilities | | |
| Accounts payable and accrued liabilities | $ 448,404 | $ 359,527 |
| Current portion of notes payable | 173,058 | 229,304 |
| Current portion of leases payable | 50,886 | 49,537 |
| Total Current Liabilities | 672,348 | 638,368 |
| Long-Term Liabilities | | |
| Notes payable | 494,295 | 432,786 |
| Leases payable | 50,886 | 62,776 |
| Less: current portion of long-term debt | (223,944) | (278,841) |
| Total Long-Term Liabilities | 321,237 | 216,721 |
| Minority Interest | 52,289 | 52,287 |
| Commitments and Contingencies | - | - |
| Stockholders' Equity | | |
| Preferred stock, $1.00 par value, 10,000,000 shares authorized, noncumulative, nonvoting, nonconvertible, none issued or outstanding | - | - |
| Common stock, no par value, 60,000,000 shares authorized, 53,080,451 and 51,275,539 shares issued and outstanding, respectively | 17,549,186 | 15,209,933 |
| Accumulated Deficit | (11,708,039) | (11,642,427) |
| Accumulated other comprehensive loss | (213,485) | (165,001) |
| Total Stockholders' Equity | 5,627,662 | 3,402,505 |
| Total Liabilities and Stockholders' Equity | $ 6,673,536 | $ 4,309,881 |

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

**Atlas Mining Company**
Consolidated Statements of Operations
(Unaudited)

| | For the Three Months Ended March 31, 2007 | For the Three Months Ended March 31, 2006 |
|---|---|---|
| REVENUES: | | |
| - Contract Mining | $ 2,002,270 | $ 334,710 |
| - Mining Production | - | - |
| - Timber | - | - |
| Total Revenues | 2,002,270 | 334,710 |
| | | |
| COST OF SALES: | | |
| - Contract Mining | 1,092,003 | 174,281 |
| - Mining Production | - | - |
| - Timber | - | - |
| Total Cost of Sales | 1,092,003 | 174,281 |
| | | |
| Gross Profit (Loss) | 910,267 | 160,429 |
| | | |
| OPERATING EXPENSES: | | |
| Exploration & development costs | 481,868 | 610,767 |
| Mining production costs | 250,259 | 106,229 |
| General & administrative | 267,760 | 379,408 |
| | | |
| Total Operating Expenses | 999,887 | 1,096,404 |
| | | |
| Net Operating Income (Loss) | (89,620) | (935,975) |
| | | |
| Other Income(Expense) | | |
| Interest income | 30,859 | 11,501 |
| Interest expense | (6,851) | (4,159) |
| | | |
| Total Other Income(Expense) | 24,008 | 7,342 |
| | | |
| Income (Loss) Before Income Taxes | (65,612) | (928,633) |
| | | |
| Provision (Benefit) for Income Taxes | - | - |
| | | |
| Net Income (Loss) | $ (65,612) | $ (928,633) |
| | | |
| Net Income (Loss) Per Share | $ NIL | $ (0.02) |
| | | |
| Weighted Average Shares Outstanding | 52,911,456 | 48,907,448 |

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

**Atlas Mining Company**
Consolidated Statements of Other Comprehensive Loss
(Unaudited)

| | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | | 2007 | | 2006 |
| **Net Loss** | $ | (65,612) | $ | (928,633) |
| **Other Comprehensive Loss:** | | | | |
| Change in Market Value of Investments | | (48,484) | | - |
| **Net Comprehensive Loss** | $ | (114,096) | $ | (928,633) |
| **Comprehensive Loss Per Share:** | | | | |
| Basic | $ | NIL | $ | (0.02) |
| Diluted | $ | NIL | $ | (0.02) |

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

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**Atlas Mining Company and Subsidiary**
Consolidated Statements of Cash Flows
(Unaudited)

| | For the Three Months Ended March 31, 2007 | 2006 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net Income (Loss) | $ (65,612) | $ (928,603) |
| Adjustments to Reconcile Net Loss to Net Cash | | |
| Provided by Operations: | | |
| Depreciation | 75,051 | 25,154 |
| Stock issued for services | - | 45,000 |
| Valuation of Options and Warrants | 188,395 | 16,850 |
| Minority Interest | (2) | - |
| Change in Operating Assets and Liabilities: | | |
| (Increase) Decrease in: | | |
| Accounts receivable | (336,071) | (171,078) |
| Mining supplies | 2,000 | - |
| Deposits and prepaids | (14,854) | 5,872 |
| Increase (Decrease) in: | | |
| Accounts payable and accrued expenses | 88,877 | 103,892 |
| Net Cash Provided (Used) by Operating Activities | (62,216) | (902,913) |
| Cash Flows from Investing Activities: | | |
| Purchases of equipment | (517,519) | (210,370) |
| Issuance of notes receivable | (20,000) | - |
| Payments for advances | 425 | 49 |
| Net Cash Provided (Used) by Investing Activities | (537,094) | (210,321) |
| Cash Flows from Financing Activities: | | |
| Payments on notes payable | (102,873) | (9,978) |
| Payments on leases payable | (11,890) | (7,127) |
| Proceeds from leases payable | - | 100,363 |
| Proceeds from notes payable | 164,384 | - |
| Proceeds from issuance of common stock | 2,150,859 | 10,000 |
| Net Cash Provided (Used) by Financing Activities | 2,200,480 | 93,258 |
| Increase (Decrease) in Cash | 1,601,170 | (1,019,976) |
| Cash and Cash Equivalents at Beginning of Period | 217,102 | 2,215,929 |
| Cash and Cash Equivalents at End of Period | $ 1,818,272 | $ 1,195,953 |

| | | | | |
|---|---|---|---|---|
| Cash Paid For: | | | | |
| Interest | $ | 6,851 | $ | 4,159 |
| Income Taxes | $ | - | $ | - |
| | | | | |
| Supplemental Disclosure of Non-Cash Investing and Financing Activities: | | | | |
| Receipt of stock in payment of notes receivable | $ | 50,209 | $ | - |
| Stock issued for services | $ | - | $ | 45,000 |

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

**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a. Organization

Atlas Mining Company, ("the Company") was incorporated in the state of Idaho on March 4, 1924. The Company was formed for the purpose of exploring and developing the Atlas mine, a consolidation of several patented mining claims located in Coeur d'Alene Mining District near Mullan, Idaho. The Company eventually became inactive as a result of low silver prices.

In September 1997, the Company became active and purchased substantially all of the operating equipment and mining supplies from Fausett International, Inc., a related party. The purchase price totaled $1,416,099, which consisted of $50,000 cash, 875,000 shares of the Company's common stock valued at $350,000 and a note payable of $1,016,094. After the purchase, the Company commenced contracting operations through the trade name, Atlas Fausett Contracting. Through Atlas Fausett Contracting, the Company provides shaft sinking, underground mine development and contracting primarily to companies in the mining and civil industries. The Company also pursues property acquisitions and resource development projects. In 2002, the Company settled out the debt to Fausett International and returned the majority of the unusable equipment; however the Company continues to pursue contracting activities.

In 1997 and 1998, the Company was to exchange 844,560 shares of its common stock for all of the outstanding shares of Sierra Silver Lead Mines, Inc. (Sierra), an Idaho corporation. As of March 31, 2007, 383,932 shares of the Company's common stock had not been exchanged. The Company was unable to locate some of the shareholders of Sierra. Therefore, the Company agreed to transfer the stock to an Atlas Mining Company Trust account in trust for the unlocated shareholders of Sierra Silver. The acquisition of Sierra has been recorded as a purchase. The purchase price totaled $276,157. All of the assets and liabilities of Sierra were transferred to the Company and Sierra ceased to exist.

In April 1999, the Company exchanged 741,816 shares of its common stock and paid cash of $15,770 for all of the outstanding shares of Olympic Silver Resources, Inc. (Olympic), a Nevada corporation. Olympic holds the rights to the San Acacio Mine in Zacatecas, Mexico. The purchase price totaled $228,566. The acquisition has been recorded as a purchase and all of the assets and liabilities were transferred to the Company. In 2001, the Company did not renew the rights to the property due to increased carrying costs.

In 1998 and 1999, the Company exchanged 71,238 shares of its common stock for 53% of the outstanding shares of Park Copper and Gold Mining, Ltd. (Park Copper), an Idaho corporation. The purchase price totaled $72,825. The acquisition was recorded as a purchase.

**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In July 2001, Atlas Mining Company began leasing the Dragon Mine from Conjecture Silver Mines, Inc. in Spokane, Washington. Conjecture Mines has since been merged into Chester Mines, Inc. at the same location. We initially paid 400,000 shares of our common stock, valued at $100,000, for a one-year lease. Under the terms of the lease agreement, we had the right to renew the lease annually in exchange for 100,000 additional shares of our common stock, or the option to purchase the property for $500,000 if we had $1,000,000 in sales from the mine in a 12-month period. We exercised the option to purchase the Dragon Mine on August 18, 2005 for $500,000. The property consists of 38 patented mining claims on approximately 230 acres.

b. Interim Financial Reporting

The accompanying condensed financial statements of the Company have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. These condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the results of operations of the Company for the periods presented. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Form 10-KSB for the year ended December 31, 2006. The results of operations for the three months ended March 31, 2007, are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007.

c. Earnings (Loss) Per Share

The computation of earnings (loss) per share of common stock is based on the weighted average number of shares outstanding at the date of the financial statements. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus the common stock equivalents which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the year. Common stock equivalents at March 31, 2007 consisted of 3,773,333 in options. Common stock equivalents at March 31, 2006 consisted of 3,500,000 in options and 1,164,000 in warrants. Common stock equivalents at March 31, 2007 and 2006 were considered but were not included in the computation of loss per share at March 31, 2007 and 2006 because they would have been anti-dilutive.

**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

| | Net Loss (Numerator) | Shares (Denominator) | Per-Share Amount |
|---|---|---|---|
| For the quarter ended March 31, 2007: | | | |
| Basic EPS | | | |
| Net loss to common shareholders | $ (65,612) | 52,911,456 | $ NIL |
| For the quarter ended March 31, 2006: | | | |
| Basic EPS | | | |
| Net loss to common shareholders | $ (928,603) | 48,907,448 | $ (0.02) |

d. Available for Sale Investments

The shares are evaluated quarterly using the specific identification method. Any unrealized holding gains or losses are reported as Other Comprehensive Income and as a separate component of stockholder's equity. Realized gains and losses are included in earnings. Marketable Securities-Available for Sale are as follows:

| | |
|---|---|
| Balance, January 1, 2006 | $ 3,754 |
| Marketable securities received | 41,823 |
| Net unrealized losses | (41,783) |
| Balance, January 1, 2007 | $ 3,794 |
| Marketable securities received | 50,209 |
| Net unrealized losses | (48,483) |
| Balance, March 31, 2007 | $ 5,520 |

e. Property and Equipment

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

| | Estimated Useful Life |
|---|---|
| Building | 30 years |
| Mining equipment | 2-8 years |
| Office and shop furniture and equipment | 5-8 years |
| Vehicles | 5 years |

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**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In accordance with Financial Accounting Standards Board Statement No. 144, the Company records impairment of long-lived assets to be held and used or to be disposed of when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount. At March 31, 2007 and December 31, 2006, no impairments were recognized. Depreciation expense for the quarters ended March 31, 2007 and 2006 totaled $75,051 and $25,154, respectively.

f. Stock Options and Warrants

The Company has stock option plans that provide for stock-based employee compensation, including the granting of stock options, to certain key employees. The plans are more fully described in Note 5. Prior to January 1, 2006, the Company applied APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations in accounting for awards made under the Company's stock-based compensation plans. Under this method, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

During the periods presented in the accompanying financial statements, the Company has adopted the provisions of SFAS No. 123R using the modified-prospective transition method and the disclosures that follow are based on applying SFAS No. 123R. Under this transition method, compensation expense recognized during the three months ended March 31, 2007 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2007, and (b) compensation expense for all share-based awards granted on or after January 1, 2007. Accordingly, compensation expense of $188,395 and $0 has been recognized for vesting of options to employees and directors in the accompanying statements of operations for the period ended March 31, 2007 and 2006, respectively.

g. Concentration of Risk

The Company maintains cash balances in two checking accounts at two separate financial institutions. At March 31, 2007 and December 31, 2006, total cash balances were $1,818,272 and $217,102, respectively. Such funds exceed Federal Deposit Insurance Corporation limits, and amounts exceeding $100,000 are not insured.

**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company receives 90% of contract service revenue from two customers. For the period ended March 31, 2007, customers who account for 10% or more of revenues are presented as follows:

| Customers | % of Revenues |
|---|---|
| Customer A | 77% |
| Customer B | 23% |

## NOTE 2 - NOTES PAYABLE

Notes payable are detailed in the following schedules as of March 31, 2007 and December 31, 2006:

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| Note payable to a company, due in monthly installments of $2,135 including interest at 9.75%. The note matures in March 2008 and is collarteralized by equipment | $ 26,233 | $ 31,905 |
| Note payable to a company, due in monthly installments of $1,605, including interest at 5.41%. The note matures in May 2009 and is collarterized by equipment. | 40,718 | 44,944 |
| Note payable to a company, due in monthly installments of $676, including interest at 1.35%. The note matures in June 2008 and is collateralized by equipment. | 10,073 | 12,096 |
| Note payable to a company, due in monthly installments of $13,000, including interest at 10%. The note matures in February 2007 and is collateralized by equipment. | - | 16,716 |
| Note payable to a company, due in annual installments of $15,573, including interest at 5%. The note matures in August 2001 and is collateralized by equipment. | 61,225 | 61,225 |
| Note payable to a company, due in monthly installments of $7,500, including interest at 25.9%. The note matures in January 2007 and is collateralized with equipment. | 21,564 | 48,250 |
| Note payable to a company, due in monthly installments of $479, including interest at 0%. The note matures in December 2008 and is collateralized with equipment. | 14,383 | 15,822 |
| | 22,146 | 23,697 |

| | | | | |
|---|---|---|---|---|
| Note payable to a company, due in monthly installments of $688, including interest at 7.59%. The note matures in March 2010 and is collateralized by a vehicle. | | | | |
| Note payable to a private party, due in annual installments of between $15,000 to $54,000. The note matures in April 2009 and is collateralized with mineral rights. | | 100,677 | | 100,677 |
| Note payable to a company, due in monthly installments of $3,518, including interest at 22.66%. The note matures in February 2012 and is collateralized with equipment. | | 124,526 | | 0 |
| Note payable to a company, due in monthly installments of $1,075, including interest at 0%. The note matures in March 2010 and is collateralized by a vehicle. | | 38,713 | | 0 |
| Note payable to an insurance company, due in monthly installments of $12,767. The note matures in July 2007. | | 35,115 | | 77,454 |
| Total Notes Payable | $ | 495,373 | $ | 432,786 |
| Less Current Portion | | (173,058) | | (229,304) |
| Total Long Term Liabilities | $ | 322,315 | $ | 203,482 |

**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 2 - NOTES PAYABLE (continued)**

| Future minimum principal payments on notes payable are as follows: | | |
|---|---|---|
| 2007 | | $ 174,194 |
| 2008 | | 145,848 |
| 2009 | | 69,682 |
| 2010 | | 47,301 |
| 2011 | | 50,428 |
| Thereafter | | 6,842 |
| | Total | $ 494,295 |

**NOTE 3 - STOCK OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK**

Stock Options

In 1998, the Company adopted a non-qualified stock option plan authorizing the granting to officers, directors, or employees options to purchase common stock. Options are granted by the Administrative Committee, which is elected by the Board of Directors. The number of options granted under this plan and any other plans active may not exceed 10% of the currently issued and outstanding shares of the Company's common stock. The term of each option granted is determined by the Committee, but cannot be for more than five years from the date the option is granted. The option price per share with each option granted will be fixed by the Administrative Committee on the date of grant.

**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 3 - STOCK OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK (continued)**

The Company adopted an incentive stock option plan in 1998. The stock option plan permits the Company to grant to key employees options to purchase shares of stock in the Company at the direction of the Committee. The price of shares purchased must be equal to or greater than fair market value of the common stock at the date. At March 31, 2007, no options have been granted under this plan.

The Company is authorized to issue stock options under one existing stock option plan approved by stockholders. The fair value of each of the Company's stock option awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. Expected volatility is based on an average of historical volatility of the company's stock. The risk-free interest rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. The Company uses historical data to estimate forfeitures within its valuation model.

The expected term of awards granted is derived from historical experience under the Company's stock-based compensation plans and represents the period of time that awards granted are expected to be outstanding.

During 2004, the company's board of directors approved an option to the Company's CEO to acquire up to 3.5 million shares of common stock over a five year period at $0.18 per share under the non-qualified stock option plan. The options vested 43% on January 1, 2005, and 14% on January 1, 2006 -2009.

The significant weighted average assumptions relating to the valuation of the Company's CEO's Stock Options for the year ended December 31, 2006 were as follows:

| | 2006 |
|---|---|
| Dividend Yield | 0% |
| Expected Life | 3 years |
| Expected Volatility | 59% |
| Risk-Free Interest Rate | 4.94% |

During 2006, the Company's board of directors approved an option to the CEO of the Company's wholly owned subsidiary, Nano Clay and Technologies, Inc., to acquire up to one million shares of common stock over a two year period. The first 500,000 shares are exercisable at $1.51 per share, and the remaining 500,000 shares are exercisable at 85% of the common stock price on given anniversary dates. These options were issued under the non-qualified stock option plan. The options vested 25% on July 14, 2006, and will continue to vest in 25% increments on January 14, 2007, July 14, 2007, and January 14, 2008.

**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 3 - STOCK OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK (continued)**

A summary of the status of the options granted under the Company's 1998 stock option plan and other agreements and changes for the quarter ended March 31, 2007 and the year ended December 31, 2006 are as follows:

| | March 31, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of period | 3,773,333 | $ 0.49 | 3,773,333 | $ 0.49 |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Forfeited | - | - | - | - |
| Expired | - | - | - | - |
| Outstanding at end of Period | 3,773,333 | $ 0.49 | 3,773,333 | $ 0.49 |
| Exercisable at end of Period | 1,773,333 | $ 0.59 | 1,523,333 | $ 0.59 |

A summary of the status of the options outstanding at March 31, 2007 is presented below:

| Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $ 0.18 | 2,773,333 | 3.75 years | $ 0.18 | 1,273,333 | $ 0.18 |
| $ 1.5911 | 1,000,000 | 1.50 years | $ 1.59 | 500,000 | $ 1.59 |
| | 3,773,333 | | | 1,773,333 | |

The Company had 1,518,333 non-vested options at the beginning of the period with a weighted average grant date fair value of $0.62. At March 31, 2007 the Company had 1,268,333 non-vested options with a weighted average grant date fair value of $0.74.

<u>Stock Warrants</u>

During 2005, the Company granted warrants to purchase up to 1,174,000 of its common shares at between $0.25 to $0.50 per share expiring in January 2007 with a calculated weighted average fair value of $0.44 each for services. The fair value of each option granted is estimated on the date granted using the Black-Scholes option pricing model. Assumptions used to compute the weighted-average grants during the year ended December 31, 2005 include risk-free interest rates of 3.25%, expected dividend yields of 0%, expected life of 2 years, and expected volatility 76.36%.

**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 3 - STOCK OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK (continued)**

Stock Warrants (continued)

Also during 2005, the Company granted warrants to purchase up to 474,000 of its common shares at $0.50 per share, with 470,000 shares expiring in January 2007 and 4,000 shares expiring in February 2007, with a calculated weighted average fair value of $0.27 each. The fair value of each option granted is estimated on the grant date using the Black-Scholes option pricing model. Assumptions used to compute the weighted-average grants during the year ended December 31, 2005 include risk-free interest rates of 4.22%, expected dividend yields of 0%, expected life of 2 years, and expected volatility ranging from 79.75% to 107.77%.

A summary of the status of the warrants granted at March 31, 2007 and December 31, 2006, and changes during the periods then ended is presented below:

| | March 31, 2007 | | | December 31, 2006 | | |
|---|---|---|---|---|---|---|
| | Shares | | Weighted Average Exercise Price | Shares | | Weighted Average Exercise Price |
| Outstanding at beginning of period | 304,000 | $ | 0.50 | 1,580,980 | $ | 0.45 |
| Granted | - | | - | - | | - |
| Exercised | (304,000) | | 0.50 | (1,256,980) | | 0.38 |
| Forfeited | - | | - | - | | - |
| Expired | - | | - | (20,000) | | 0.50 |
| Outstanding at end of Period | - | | - | 304,000 | $ | 0.50 |
| Exercisable at end of Period | - | | - | 304,000 | $ | 0.50 |

At the period ended March 31, 2007, there were no stock warrants outstanding.

**NOTE 4 – STOCKHOLDERS' EQUITY**

During the year ended December 31, 2006, the Company recognized the following transactions related to common stock:

1. 50,000 shares of restricted stock at $0.90 per share were issued in payment for services.
2. 8,000 shares of restricted stock at $1.25 per share were issued for payment on a note payable.
3. 40,500 shares of stock were issued to selected employees at $1.40 per share as a year end stock bonus.
4. 726,667 shares of restricted stock were issued as a result of stock options being exercised at $0.18 per share.
5. 1,256,980 shares of restricted stock were sold for cash through the exercise of warrants at a price ranging between $0.25 to $0.50 per share.
6. 340,500 shares of restricted stock were sold for cash at $2.00 per share.

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**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 4 – STOCKHOLDERS' EQUITY (continued)**

During the quarter ended March 31, 2007 the Company sold a total of 304,000 shares of restricted common stock at a price ranging between $0.25 to $0.50 per share for a total of $150,858 cash. The sale resulted from a redemption of an outstanding warrant.

Also during the quarter ended March 31, 2007, the Company sold a total of 1,481,482 shares of restricted stock at a price of $1.35 per share for a total of $2,000,001 cash. The sale resulted from the exercise of a stock subscription agreement. An additional 19,430 shares were sold for cash at $.50 per share.

**NOTE 5 – SEGMENT REPORTING**

The Company's Chief Operating Decision-maker, as defined in SFAS No. 131, is considered to be Atlas's CEO. The Chief Operating Decision-maker reviews separate financial information for the contract mining business segment, the mining production business segment and the timber business segment. Each of the Company's business segments offer and distribute distinct services to different customer segments. The contract mining segment provides mining services and specialized civil construction services in various locations for mine operators, exploration companies and the construction and natural resources industries. Other activities include site evaluation, feasibility studies, trouble-shooting and consultation prior to the undertaking of exploration and mine development. The mining production segment is located at the Dragon Mine in Juab County, Utah which contains a deposit of high quality halloysite clay. The Company is in the process of extracting this clay to sell to outside parties. The Company holds property with harvestable timber in Northern Idaho. Timber harvesting is contracted out to a qualified logger, who is able to negotiate with local timber mills on the price for the timber. The Company primarily uses the timber to generate revenues and cash flows for other operations. The Company therefore considers that it has three reportable segments under SFAS 131 during 2006 to 2007 as follows: (i) contract mining, (ii) mining production, and (iii) timber.

The Chief Operating Decision-maker evaluates performance and allocates resources based on revenues produced from operations. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. It is the Company's policy that trade between the segments is entered into at an arms-length basis.

**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 5 – SEGMENT REPORTING (continued)**

| **Segment Reporting** | | | | |
|---|---|---|---|---|
| | For the Period Ended March 31, | | | |
| | 2007 | | 2006 | |
| **Contract Mining:** | | | | |
| Net Revenue | $ | 2,002,270 | $ | 334,710 |
| Operating Expenses | | | | |
| Cost of Sales | | 1,092,003 | | 174,281 |
| General & Administrative | | 112,240 | | 172,168 |
| Total Operating Expenses | | 1,204,243 | | 346,449 |
| Net Operating Profit (Loss) | $ | 798,027 | $ | (11,739) |
| | | | | |
| Capital Expenditures: | | 50,311 | | 5,318 |
| Depreciation: | | 30,133 | | 3,124 |
| Total Assets: | | 3,016,285 | | 198,320 |
| | | | | |
| **Mining Production:** | | | | |
| Net Revenue | $ | - | $ | - |
| Operating Expenses | | | | |
| Cost of Sales | | - | | - |
| Mining Production Costs | | 250,259 | | 106,229 |
| Exploration & Development Costs | | 481,868 | | 610,767 |
| General & Administrative | | 112,241 | | 172,169 |
| Total Operating Expenses | | 844,368 | | 889,165 |
| Net Operating (Loss) | $ | (844,368) | $ | (889,165) |
| | | | | |
| Capital Expenditures: | | 467,208 | | 250,052 |
| Depreciation: | | 44,918 | | 22,030 |
| Total Assets: | | 3,251,841 | | 2,796,210 |
| | | | | |
| **Timber:** | | | | |
| Net Revenue | $ | - | $ | - |
| Operating Expenses | | | | |
| Cost of Sales | | - | | - |
| General & Administrative | | 42,359 | | 35,071 |
| | | 42,359 | | 35,071 |
| Net Operating (Loss) | $ | (42,359) | $ | (55,094) |
| | | | | |
| Capital Expenditures: | | - | | - |
| Depreciation: | | - | | - |
| Total Assets: | | 405,410 | | 405,410 |

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**Atlas Mining Company and Subsidiary**
Notes to the Consolidated Financial Statements
March 31, 2007

**NOTE 5 – SEGMENT REPORTING (continued)**

**Consolidated on Financial Statements:**

| | For the Period Ended March 31, | |
|---|---|---|
| | 2007 | 2006 |
| Total Revenues | $ 2,002,270 | $ 334,710 |
| Operating Expenses | | |
| Total Cost of Sales | 1,092,003 | 174,281 |
| Exploration & development costs | 481,868 | 610,767 |
| Mining production costs | 250,259 | 106,229 |
| Total General & Administrative | 266,840 | 379,408 |
| Total Operating Expenses | 2,091,430 | 1,270,670 |
| Net Operating (Loss) | $ (89,160) | $ (928,603) |
| Capital Expenditures: | 517,519 | 210,370 |
| Depreciation: | 75,051 | 25,154 |
| Total Assets | 6,673,536 | 3,399,940 |

**NOTE 6 – SUBSEQUENT EVENTS**

In April 2007, one Park Copper shareholder exchanged his Park Copper stock for 1,000 shares of restricted Atlas stock.

In April 2007, the Company entered into an agreement with SNS Silver Corp to provide diamond drilling services on the surface of the customer's property located in Big Creek, Idaho. Management estimates that the contract will continue through June 2010 and is estimated to exceed $3 million in gross revenues over the life of the contract.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

We are a natural resources company engaged in the acquisition and exploration of our resource properties in the states of Idaho and Utah and in New Foundland, Canada. We also provide contract mining services and specialized civil construction services for mine operators, exploration companies and the construction and natural resource industries through our trade name "Atlas Fausett Contracting."

Our primary source of revenue is generated by our Atlas Fausett Contracting operations. However, we also have exploration targets and timber. As a result, we are providing Management's discussion on our plan of operation.

### Contract Mining

Our contract mining generates more than 99% of our revenues. This may decrease as we are able to increase operations on our owned properties, and we will adjust our resources accordingly. At this time, we anticipate that our contracting will remain a significant portion of our business.

### Property Exploration

We intend to continue our exploration activities for halloysite clay and other minerals, and intend to acquire commercially feasible properties that can be put into production with minimal environmental problems and with limited financial resources. We do not intend to seek out and acquire other properties unless they fit into the parameters we have set. Further, we will limit our acquisitions based on our ability to conduct our feasibility surveys and other exploration
work on these properties, and until we have been able to bring our existing acquisitions into a income generating stage.

In August 2001, we acquired the Dragon Mine in Juab, Utah and began our clay exploration. Our exploration and development expenses for the period ending March 31, 2007 and 2006 were $481,868 and $610,767 respectively on the halloysite clay project.

The halloysite clay is considered a non-toxic material, and we feel we can produce a sellable product with minimal environmental consequences using proper containment and processing techniques. The intended processing will be the crushing, drying, and packaging of the product for shipment. In 2003 and 2006 we completed diamond drilling programs to verify location of clay beds at the Dragon Mine. With that information we have been able to formulate development and mining plans.