

Applied Minerals, Inc.  
Form 10-Q  
August 16, 2010

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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 June 30, 2010

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

For the transition period from to

Commission File Number 000-31380

APPLIED MINERALS INC  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

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

110 Greene Street – Suite 1101, New York, NY  
(Address of principal executive offices)

10012  
(Zip Code)

(800) 356-6463  
(Issuer's Telephone Number, Including Area Code)

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

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.

YESX NO

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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
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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 NOX

The number of shares of the registrant’s common stock, \$0.001 par value per share, outstanding as of August 12, 2010 was 69,235,463.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Company)

SECOND QUARTER 2010 REPORT ON FORM 10-Q

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## PART I. FINANCIAL INFORMATION

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,231,185	\$ 1,584,866
Trade accounts receivable	3,750	- 0 -
Mining supplies inventory	22,444	- 0 -
Investments – available for sale	5,565	5,565
Deposits and prepaids	119,548	145,542
<b>Total Current Assets</b>	<b>1,382,492</b>	<b>1,735,973</b>
<b>Property and Equipment</b>		
Land and tunnels	523,729	523,729
Land improvements	94,029	94,029
Buildings	445,197	445,197
Mining equipment	601,328	432,670
Milling equipment	132,693	98,047
Laboratory equipment	67,728	67,728
Office furniture and equipment	31,087	37,522
Vehicles	77,663	75,163
Less: Accumulated Depreciation	(405,023 )	(382,753 )
<b>Total Property and Equipment</b>	<b>1,568,431</b>	<b>1,391,332</b>
<b>Other Assets</b>		
Assets from discontinued operations being held for sale	778,056	878,003
<b>Total Other Assets</b>	<b>778,056</b>	<b>878,003</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,728,979</b>	<b>\$ 4,005,308</b>

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$1,228,878	\$1,047,541
Stock awards payable	94,000	203,000
Current portion of notes payable	10,548	72,762
Current portion of leases payable	148,350	15,690
<b>Total Current Liabilities</b>	<b>1,481,776</b>	<b>1,338,993</b>
<b>Long-Term Liabilities</b>		
Long-term portion of leases payable	61,026	22,832
<b>Total Long-Term Liabilities</b>	<b>61,026</b>	<b>22,832</b>
<b>Other Liabilities</b>		
Convertible debt (PIK Notes), net of discount	1,512,033	2,234,473
Liabilities from discontinued operations	87,033	98,406
<b>Total Other Liabilities</b>	<b>1,599,066</b>	<b>2,332,879</b>
<b>TOTAL LIABILITIES</b>	<b>3,141,868</b>	<b>3,694,704</b>
Commitments and Contingencies	- 0 -	- 0 -
<b>Stockholders' Equity</b>		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, none issued or outstanding	- 0 -	- 0 -
Common stock, \$0.001 par value (120,000,000 shares authorized, 69,223,478 and 69,781,351 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively)	69,223	69,781
Additional paid-in capital	28,979,790	26,965,507
Accumulated deficit prior to the exploration stage	(20,009,496)	(20,009,496)
Accumulated deficit during the exploration stage	(8,503,372 )	(6,766,200 )
Accumulated other comprehensive loss	(1,327 )	(1,327 )
<b>Total Applied Minerals, Inc. stockholders' equity</b>	<b>534,818</b>	<b>258,265</b>
Non-controlling interest	52,293	52,339
<b>Total Stockholders' Equity</b>	<b>587,111</b>	<b>310,604</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$3,728,979</b>	<b>\$4,005,308</b>

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,		For the Period January 1, 2009 (Beginning of Exploration Stage) through June 30, 2010
	2010	2009	2010	2009	
REVENUES	\$- 0 -	\$- 0 -	\$- 0 -	\$- 0 -	\$- 0 -
COST OF SALES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Gross Profit	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
<b>OPERATING (INCOME) EXPENSES:</b>					
Exploration costs	465,393	352,685	994,606	555,617	2,294,359
General and administrative	623,060	1,232,472	1,273,193	2,399,025	5,957,107
(Gain) loss from disposition of land and equipment	- 0 -	- 0 -	- 0 -	- 0 -	(410 )
Loss on impairment of equipment	2,270	- 0 -	2,270	- 0 -	44,312
Total Operating Expenses	1,090,723	1,585,157	2,270,069	2,954,642	8,295,368
Net Operating Loss	(1,090,723)	(1,585,157)	(2,270,069)	(2,954,642)	(8,295,368)
<b>OTHER INCOME (EXPENSE):</b>					
Interest income	184	18	415	26	863
Interest expense	(64,413 )	(78,750 )	(123,951 )	(107,917 )	(434,505 )
Sale of clay samples	3,750	6,000	3,750	6,000	9,750
Refund of insurance premium	6,370	- 0 -	6,370	13,489	20,156
Gain on stock award forfeiture	- 0 -	- 0 -	145,000	- 0 -	145,000
Gain (loss) on revaluation of stock awards	(19,000 )	(91,000 )	(36,000 )	(122,500 )	(186,500 )
Net proceeds from legal settlement	- 0 -	- 0 -	28,547	- 0 -	147,460
Amortization of convertible debt discount	- 0 -	- 0 -	(2,194 )	- 0 -	(367,341 )
Other income (expense)	(293 )	1,373	(293 )	1,373	10,562
Total Other Income (Expense)	(73,402 )	(162,359 )	21,644	(209,529 )	(654,555 )
Loss from exploration stage, before income taxes	(1,164,125)	(1,747,516)	(2,248,425)	(3,164,171)	(8,949,923)
Provision for income taxes	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
Net Loss from Exploration Stage Before Discontinued Operations	(1,164,125)	(1,747,516)	(2,248,425)	(3,164,171)	(8,949,923)



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Net income (loss) from discontinued operations	(3,704 )	(142,461 )	234,678	(189,628 )	170,004
Net loss from exploration stage after discontinued operations	(1,167,829)	(1,889,977)	(2,013,747)	(3,353,799)	(8,779,919)
Net income (loss) attributable to the non-controlling interest	(6 )	14	(13 )	29	(41 )
Net Loss Attributable to Applied Minerals, Inc.	\$(1,167,835)	\$(1,889,963)	\$(2,013,760)	\$(3,353,770)	\$(8,779,960)

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
 (Formerly Atlas Mining Company and Subsidiary)  
 (An Exploration Stage Mining Company)  
 (Continued)  
 CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
 (Unaudited)

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Earnings Per Share Information (Basic and Diluted):				
Net loss per share before discontinued operations attributable to Applied Minerals, Inc. common shareholders	\$(0.02)	\$(0.04)	\$(0.03)	\$(0.06)
Discontinued operations attributable to Applied Minerals, Inc. common shareholders	(0.00)	(0.00)	(0.00)	(0.00)
Net Loss Per Share Attributable to Applied Minerals, Inc. common shareholders	\$(0.02)	\$(0.04)	\$(0.03)	\$(0.06)
Weighted Average Shares Outstanding (basic and diluted)	67,273,239	59,284,124	68,045,625	59,275,796

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APPLIED MINERALS, INC. AND SUBSIDIARY  
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 (An Exploration Stage Mining Company)  
 CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
 (Unaudited)  
 (continued)

	For the six months ended June 30,		For the Period January 1, 2009 (Beginning of Exploration Stage) through June 30, 2010
	2010	2009	
Net Loss	\$(2,013,760)	\$(3,353,770)	\$(8,779,960)
Other Comprehensive Income (Loss):			
Change in market value of investments	- 0 -	(1,506 )	139
Comprehensive Loss	(2,013,760)	(3,355,276)	(8,779,821)
Comprehensive loss attributable to non-controlling interest	- 0 -	- 0 -	- 0 -
Comprehensive Loss Attributable to Applied Minerals, Inc.	\$(2,013,760)	\$(3,355,276)	\$(8,779,821)

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the six months ended June 30,		For the Period January 1, 2009 (Beginning of Exploration Stage) through June 30, 2010
	2010	2009	
Cash flows from operating activities:			
Net loss	\$(2,013,760)	\$(3,353,770)	\$(8,779,960)
Adjustments to reconcile net loss to net cash used in operations:			
Depreciation	72,510	62,094	196,243
Amortization of discount – PIK Notes	2,194	- 0 -	367,535
Issuance of PIK Notes in payment of interest	117,552	91,875	400,139
Stock issued for director services	15,000	10,000	27,250
Fair value of warrants and options issued to consultants and directors	96,893	81,947	498,127
Loss on revaluation of stock awards	36,000	122,500	186,500
Gain on stock award forfeiture	(145,000 )	- 0 -	(145,000 )
Loss on impairment of assets	2,270	- 0 -	44,312
Loss (Gain) on disposition of assets	- 0 -	131,653	(410 )
Change in operating assets and liabilities:			
(Increase) Decrease in:			
Accounts receivable	(3,750 )	(5,956 )	(3,706 )
Inventory	(22,444 )	- 0 -	(22,444 )
Deposits and prepaids	25,994	165,879	162,758
Increase (Decrease) in:			
Accounts payable and accrued expenses	181,337	135,736	486,993
Net cash used by discontinued operations	3,825	276,848	490,505
Net cash used by operating activities	(1,631,379)	(2,281,194)	(6,086,158)
Cash flows from investing activities:			
Purchases of land improvements	- 0 -	- 0 -	(2,194 )
Purchases of equipment and vehicles	(55,014 )	- 0 -	(177,594 )
Proceeds from sale of assets	100,000	- 0 -	100,000
Net cash provided by discontinued operations	- 0 -	386,743	432,170
Net cash provided by investing activities	44,986	386,743	352,382
Cash flows from financing activities:			

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Payments on notes payable	(62,214 )	(103,086 )	(229,417 )
Payments on leases payable	(26,146 )	(115,259 )	(147,393 )
Proceeds from notes payable	- 0 -	- 0 -	124,129
Proceeds from PIK notes payable	1,500,000	2,850,000	6,550,000
Payments for legal settlement	(170,000 )	- 0 -	(170,000 )
Net cash used by discontinued operations	(8,928 )	(41,831 )	(65,359 )
Net cash provided (used) by financing activities	1,232,712	2,589,824	6,061,960
Net increase (decrease) in cash	(353,681 )	695,373	328,184
Cash and cash equivalents at beginning of period	1,584,866	903,001	903,001
Cash and cash equivalents at end of period	\$1,231,185	\$1,598,374	\$1,231,185

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
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 (An Exploration Stage Mining Company)  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (continued)

	For the six months ended June 30,		For the Period January 1, 2009 (Beginning of Exploration Stage) through June 30, 2010
	2010	2009	
Cash Paid For:			
Interest	\$ 16,322	\$ 7,242	\$ 33,909
Income Taxes	\$ - 0 -	\$ - 0 -	\$ - 0 -
Supplemental Disclosure of Non-Cash Investing and Financing Activities:			
Conversion of debt and accrued interest to common stock	\$ 2,343,922	\$ - 0 -	\$ 6,439,843

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

APPLIED MINERALS, INC. AND SUBSIDIARY  
(Formerly Atlas Mining Company and Subsidiary)  
(An Exploration Stage Mining Company)  
Condensed Notes to the Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE 1 – BASIS OF PRESENTATION AND GOING CONCERN

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. Applied Minerals, Inc. (“The Company”) has incurred material recurring losses from operations. At June 30, 2010, the Company had aggregate accumulated deficits prior to and during the exploration stage of \$28,512,868, in addition to limited cash and unprofitable operations. For the period ended June 30, 2010 and 2009, the Company sustained net losses before discontinued operations of \$2,248,425 and \$3,164,171, respectively. 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 reclassification 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 six months period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The consolidated financial information as of December 31, 2009 included herein has been derived from the Company’s audited consolidated financial statements as of, and for the fiscal year ended December 31, 2009.

NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS

The Company was originally 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 the 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 again, delivering contract mining services to other mining companies. Historically, the Company’s contract mining operation has been its sole source of revenue and income.

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. Park Copper holds mining claims in northern Idaho.

In July 2001, the Company began leasing the Dragon Mine from Conjecture Silver Mines, Inc. of Spokane, Washington. The Company issued 100,000 shares of its common stock for each year of the lease for the years 2002 through 2005 and exercised the right to purchase the mine on August 18, 2005 for \$500,000 in cash. The property is located in Juab County, Utah and consists of thirty-eight (38) patented mining claims on approximately 230 acres.

APPLIED MINERALS, INC. AND SUBSIDIARY  
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Condensed Notes to the Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS (CONTINUED)

The Company operated a contract mining business under the trade name of Atlas Fausett Contracting (“AFC”). AFC was engaged in exploration and mine development as well as preparatory work such as site evaluation, feasibility studies, trouble-shooting and consultation. AFC’s projects included all types of underground mine development, rehabilitation, and diamond drilling. On December 31, 2008, the Company discontinued its contract mining efforts due to economic conditions and the desire to concentrate efforts on commercializing the halloysite clay deposit at the Dragon Mine. There are no plans to resume the contract mining business.

In October 2007, management announced its intention to cease development at the Dragon Mine until both a resource survey and an appropriate processing system could be obtained. During 2008, the Company hired a geological firm it believes is capable of conducting the necessary resource survey and identifying an appropriate processing system. As of the date of this report, such consulting has resulted in the production of a measured resource of certain portions of the Dragon Mine property. Additionally, the geological assessment is ongoing and certain mining activities have been restarted.

In October 2009, the shareholders of the Company voted to change the name of the Company from Atlas Mining Company to Applied Minerals, Inc. and to change its state of incorporation. The Company is incorporated under the laws of the state of Delaware.

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.

Accounting Method and Use of Estimates

The Company’s financial statements are prepared using the accrual basis of accounting in accordance with principles generally accepted in the United States of America.

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 in 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.



APPLIED MINERALS, INC. AND SUBSIDIARY  
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Condensed Notes to the Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unaudited Interim Financial Statements

The interim financial statements as of June 30, 2010, and for the periods ended June 30, 2010 and 2009, and cumulative from inception of the exploration stage through June 30, 2010, are unaudited. However, in the opinion of management, the interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary to present the Company's financial position as of June 30, 2010 and the results of its operations and its cash flows for the periods ended June 30, 2010 and 2009, and cumulative from inception of the exploration stage through June 30, 2010. These results are not necessarily indicative of the results expected for the year ending December 31, 2010. The accompanying financial statements and condensed notes thereto do not reflect all disclosures required under accounting principles generally accepted in the United States of America. Refer to the Company's audited financial statements as of December 31, 2009, filed with the Securities and Exchange Commission ("SEC") for additional information, including significant accounting policies.

Legal Costs

In the normal course of business, the Company will incur costs to engage and retain external legal counsel to advise management on regulatory, litigation and other matters. Such legal costs are expensed as the related services are received.

Mining Exploration and Development Costs

Land and mining property acquisitions are carried at cost. The Company expenses prospecting and mining exploration costs. At the point when a property is determined to have proven and probable reserves, subsequent development costs are capitalized as capitalized development costs. Capitalized development costs will include acquisition costs and property development costs. When these properties are developed and operations commence, capitalized costs will be charged to operations using the units-of-production method over proven and probable reserves. Upon abandonment or sale of a mineral property, all capitalized costs relating to the specific property are written off in the period abandoned or sold and a gain or loss is recognized.

At June 30, 2010 and 2009, and cumulative from inception of the exploration stage through June 30, 2010, all costs associated with the Company's mine have been expensed.

Mining Supplies Inventory

Mining supplies, consisting primarily of lumber, explosives and other mining exploration supplies, are carried at cost and charged to exploration expense when used.



APPLIED MINERALS, INC. AND SUBSIDIARY  
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Condensed Notes to the Consolidated Financial Statements  
June 30, 2010 and 2009

## NOTE 4 – DISCONTINUED OPERATIONS

At December 31, 2008, the Company permanently discontinued its contract mining operations.

The Company has identified assets attributed to the discontinued operations that are being held for sale or have been identified as part of the discontinued operation and have been identified as such. Assets at June 30, 2010 and December 31, 2009 attributed to the discontinued operation are as follows:

	June 30, 2010	December 31, 2009
Property and equipment	\$778,065	\$878,003
Total assets from discontinued operations	\$778,065	\$878,003

During January 2010, management selected certain of the property and equipment originally included in discontinued operations, and placed them back into operations.

Liabilities at June 30, 2010 and December 31, 2009 attributed to the discontinued operations are as follows:

	June 30, 2010	December 31, 2009
Accounts payable and accrued liabilities	\$11,475	\$7,650
Leases payable	75,558	90,756
Total liabilities from discontinued operations	\$87,033	\$98,406

Income (loss) after discontinued operations for the three months ended June 30, 2010 and 2009 was calculated as follows:

	For the three months ended June 30,	
	2010	2009
General and administrative expenses	\$(3,704 )	\$(10,808 )
Loss on disposal of assets	- 0 -	(131,653 )
Income (loss) from discontinued operations	(3,704 )	(142,461 )
Income tax liability	- 0 -	- 0 -
Net income (loss) from discontinued operations	\$(3,704 )	\$(142,461 )



APPLIED MINERALS, INC. AND SUBSIDIARY  
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Condensed Notes to the Consolidated Financial Statements  
June 30, 2010 and 2009

## NOTE 4 – DISCONTINUED OPERATIONS (CONTINUED)

During the six months ended June 30, 2010, the Company received payments in settlement of one previously recorded bad debts from discontinued operations. Income (loss) after discontinued operations for the six months ended June 30, 2010 and 2009, and cumulative from inception of the exploration stage through June 30, 2010 was calculated as follows:

	For the six months ended June 30,		For the Period January 1, 2009 (Beginning of Exploration Stage) Through June 30, 2010
	2010	2009	
Revenues from discontinued operations	\$- 0 -	\$- 0 -	\$- 0 -
Cost of goods sold	- 0 -	- 0 -	- 0 -
General and administrative expenses	(10,829 )	(57,975 )	(47,183 )
Collection of previously recorded bad debt	245,507	- 0 -	447,872
Loss on disposal of assets	- 0 -	(131,653 )	(148,138 )
Loss on impairment of assets	- 0 -	- 0 -	(82,547 )
Income (loss) from discontinued operations	234,678	(189,628 )	170,004
Income tax liability	- 0 -	- 0 -	- 0 -
Net income (loss) from discontinued operations	\$234,678	\$(189,628 )	\$170,004

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 carryforwards under IRC Section 382, a valuation allowance has been recorded to fully offset the Company's deferred tax asset.

## NOTE 5 – STOCK AWARD PAYABLE

In 2007, the Company agreed to grant 350,000 shares in total to a former CEO and Executive Vice President as part of their employment agreements. These shares have not been issued and are recorded as a liability on the balance sheet entitled stock awards payable. The Company reviews the value of the stock award payable and adjusts the carrying value to the 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.

In January 2010, as part of a settlement of a class action lawsuit, the former CEO forfeited all rights to his stock awards as part of the final settlement offer. Therefore, the value of his stock award was written down to \$0, creating a gain on stock award forfeiture of \$145,000.

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Condensed Notes to the Consolidated Financial Statements  
June 30, 2010 and 2009

NOTE 5 – STOCK AWARD PAYABLE (CONTINUED)

For the six months ended June 30, 2010, the Company realized a loss on the revaluation of the remaining stock award. The value of the outstanding stock awards at June 30, 2010 and December 31, 2009 were \$94,000 and \$203,000, respectively.

NOTE 6 – CONVERTIBLE DEBT (PIK NOTES)

Between December 31, 2008 and May 17, 2010, the Company sold 10% Convertible Notes due December 15, 2018. The notes convert into common stock at between \$0.35 and \$1.00 per share. 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. The notes include terms whereby interest payable may be paid in either cash or by converting the interest owed the note holder into additional Convertible Notes. If the interest payment is converted into Convertible Notes, the terms of the notes emulate the originally issued Convertible Note.

Conversion Feature

All notes described 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 PIK Notes, except for those issued on May 17, 2010, may be converted, at the option of the Company, when the average closing bid price or market price of the Company's common stock for the preceding five (5) days is above the conversion price. The Notes issued on May 17, 2010 cannot be converted by the Company for one year from the date of issuance.

In May 2010, the Company sold \$1,500,000 face amount of 10% PIK-Election Convertible Notes due December 2018. The Notes convert into common stock of the Company at \$1.00 per share. The principal is due December 15, 2018 subject to earlier acceleration or conversion of the May 2010 Notes. The May 2010 Notes bear interest at 10% per annum payable semi-annually, either in cash or in-kind, on June 15 and December 15 of each year commencing June 15, 2010. As of June 30, 2010 the Company had accrued interest on the May 2010 Notes of \$6,300.

In October 2009, the Company sold \$2,000,000 of 10% Convertible Notes due December 15, 2018. The October 2009 Notes convert into common stock at \$1.00 per share. The principal is due December 15, 2018 subject to earlier acceleration or conversion of the notes. The October 2009 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 December 15, 2009.

On November 13, 2009, the Company converted PIK Notes issued in December 2008, April 2009, and May 2009 representing principal and accrued interest of \$4,106,403 into 10,513,809 shares of common stock. Upon conversion, the \$363,110 unamortized discount was expensed. In February 2010 and June 2010, convertible debt issued during July 2009 and October 2009, with face value plus accrued and converted interest totaling \$2,343,922, was mandatorily converted into 2,457,500 shares of the Company's common stock. Upon conversion, the \$2,193 of unamortized discount was expensed.





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NOTE 7 – STOCKHOLDERS’ EQUITY

During the six months ended June 30, 2010, the Company issued a total of 23,085 shares of restricted, common stock to directors as payment of director fees. The value of such was recorded at \$15,000. The Company also issued a total of 5,625 shares of common stock to a consultant for services provided, which were valued at \$4,500. In addition, the Company exercised its ability to mandatorily convert portions of its convertible debt and unpaid interest of \$2,343,922 into 2,457,500 shares of common stock.

During the six months ended June 30, 2010, as a result of a legal settlement, William Jacobson relinquished ownership of 3,044,083 shares of common stock and returned such shares to the Company in exchange for \$170,000 in cash. Upon receipt of the certificates, the shares were canceled and returned to unissued, authorized capital and the Company paid Jacobson the agreed upon \$170,000 in cash.

Non-Controlling Interest

The Company applied non-controlling interest accounting for the period ended June 30, 2010, which requires it to clearly identify the non-controlling interest in the balance sheets and statements of operations. The Company discloses three measures of net income (loss): net income (loss) from discontinued operations, net income (loss) from exploration stage, and net income (loss) attributable to non-controlling interest. The operating cash flows in the consolidated statement of cash flows reflect net loss.

NON-CONTROLLING INTEREST

Beginning balance, December 31, 2009	\$52,339
Net Loss attributable to non-controlling interest	(46 )
Ending balance, June 30, 2010	\$52,293

NOTE 8 – OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK

Outstanding Stock Warrants

A summary of the status and changes of the warrants are as follows:

	June 30, 2010	
	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2009	260,000	\$0.75
Issued	- 0-	- 0-
Exercised	- 0-	- 0-
Forfeited	0-	- 0-
Expired	- 0-	- 0-

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Outstanding at June 30, 2010	260,000	\$0.75
Exercisable at June 30, 2010	260,000	\$0.75

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## NOTE 8 – OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK (CONTINUED)

A summary of the status of the warrants outstanding at June 30, 2010 is presented below:

Exercise Price	Warrants Outstanding			Weighted Average Exercise Price	Warrants Exercisable	
	Number Outstanding	Weighted Average	Remaining Contractual Life		Number Exercisable	Weighted Average Exercise Price
\$0.35	100,000		4.00 years	\$0.35	100,000	\$0.35
\$1.00	160,000		4.50 years	\$1.00	160,000	\$1.00
	260,000				260,000	

## Outstanding Stock Options

A summary of the status and changes of the options granted under stock option plans and other agreements for the period ended June 30, 2010 is as follows:

	June 30, 2010	
	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2009	7,533,277	\$0.70
Granted	60,000	1.00
Exercised	- 0-	- 0-
Forfeited	(41,667 )	0.90
Expired	- 0-	- 0-
Outstanding at June 30, 2010	7,551,610	\$0.75
Exercisable at June 30, 2010	4,168,722	\$0.70

During the six months ended June 30, 2010, the Company granted 60,000 options to purchase the Company's common stock with an exercise price of \$1.00. Such options will vest in equally over four quarters beginning October 1, 2010 through September 30, 2011. The fair value of the options granted during the period was \$25,140.

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## NOTE 8 – OPTIONS AND WARRANTS TO PURCHASE COMMON STOCK (CONTINUED)

A summary of the status of the options outstanding at June 30, 2010 is presented below:

Exercise Price	Options Outstanding			Weighted Average Exercise Price	Options Exercisable	
	Number Outstanding	Weighted Average	Remaining Contractual Life		Number Exercisable	Weighted Average Exercise Price
\$0.65-\$0.71	75,000		3.00 years	\$0.69	75,000	\$0.69
\$0.70	7,358,277		8.25 years	\$0.70	4,035,389	\$0.70
\$0.90	58,333		4.25 years	\$0.90	58,333	\$0.90
\$1.00	60,000		5.00 years	\$1.00	- 0 -	\$1.00
	7,551,610				4,168,722	

At June 30, 2010, the total compensation of \$252,911 for unvested shares is to be recognized over the next 1.25 years on a weighted average basis.

Compensation expense of \$96,893 and \$81,947 has been recognized for vesting of options to employees, directors, and non-related parties in the accompanying statements of operations for the six months ended June 30, 2010 and 2009, respectively.

At June 30, 2010 vested options of 4,168,722 and non-vested options of 3,382,889 had an aggregate intrinsic value of \$1,788,570.

## NOTE 9 – COMMITMENTS AND CONTINGENCIES

## COMMITMENTS

## Material Advisors

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 has been nominated to be a member of the Company’s Board of Directors.



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NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 is 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 granted Manager non-qualified stock options to purchase, for \$0.70 per share, up to 6,583,277 shares of the Company's common stock.

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.

On March 9, 2010, the Board of Directors, after a review of the performance of Material Advisors decided to extend the term of the Management Agreement ("Agreement") between the Company and the Manager from December 31, 2010 through December 31, 2011. The terms and conditions of the Agreement are summarized in a Current Report on Form 8-K filed on January 7, 2009. Material Advisors is paid \$83,333.33 per month per the terms of the Agreement.

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 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 the Company, NanoClay & 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. The plaintiff's counsel is currently evaluating all claims.

NOTE 10 – RELATED PARTIES

The Company, through its director, David Taft, is a related party to IBS Capital (“IBS”). During the six months ended June 30, 2010, the Company received \$500,000 in exchange for convertible debt purchased by IBS. The original debt plus approximately \$2,000 of interest that was converted into additional May 2010 Notes and approximately \$1,000 of accrued interest remained payable to IBS as of June 30, 2010. During the six months ended June 30, 2009, The Company received \$500,000 in exchange for convertible debt purchased by IBS. On November 13, 2009, the outstanding debt and accrued interest totaling \$526,628 was converted into 1,053,258 shares of the Company’s common stock.

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NOTE 10 – RELATED PARTIES (CONTINUED)

Forbearance Agreement

The Company and certain of its former officers were defendants in a class action In Re Atlas Mining Company Securities Litigation (the “Class Action”), whose settlement has been approved by the court. As an accommodation to facilitate the settlement of the Class Action, the following persons (the “Forbearing Shareholders”) entered into a Forbearance Agreement whereby they agreed not to submit claims for damages relating to shares that they own or control and that would otherwise be eligible to participate in the settlement: David Taft; The IBS Turnaround (QP) Fund (A Limited Partnership), the IBS Turnaround Fund (A Limited Partnership), The IBS Opportunity Fund (BVI), Ltd. (the prior three hereafter collectively “IBS”); Andre Zeitoun (the Company’s CEO), Chris Carney (the Company’s Interim CFO), and Eric Basroon (an employee of Material Advisors LLC). The Forbearance Agreement provided that:

Prior to the time that the Forbearing Shareholders entered into the Forbearance Agreement, certain members of the Board of Directors, without taking formal action as a Board, acknowledged that the Forbearing Shareholders were accommodating the Company in a manner not required and should be compensated “as if” they had submitted claims as class members in the Settlement and this acknowledgement was communicated to the Forbearing Shareholders.

The Board subsequently appointed a committee of disinterested directors to determine whether compensation should be paid, the amount of any such compensation, and whether to pay compensation in cash or Common Stock. The committee consists of John Levy, Morris Weiss, and Evan Stone.

On March 29, 2010, the committee adopted resolutions designed to treat the Forbearing Shareholders as if they had participated in the settlement.

To achieve this goal, damages of each Forbearing Shareholder were computed using the formula for determining damages in the Class Action. Damages per share are lesser of \$0.84 or the difference between the purchase price and \$0.80. The damages for each Forbearing Shareholders are approximately as follows: Taft - \$0; IBS - \$3,564,657; Zeitoun - \$479,411; Carney - \$231,735; and Basroon - \$89,250. The aggregate damages for all of the Forbearing Shareholders are approximately \$4,365,053.

The amount payable as compensation to the Forbearing Shareholders in the aggregate will be an amount equal to the Net Settlement Fund in the Class Action (approximately \$800,000) multiplied by the fraction in which the numerator is the aggregate damages of the Forbearing Shareholders and the denominator is the sum of (i) the aggregate damages of the Forbearing Shareholders and (ii) the dollar amount of claims actually submitted by shareholders against the Net Settlement Fund in the Class Action (this amount is different from the total damages of all shareholders other than the Forbearing Shareholders).

The deadline for submitting claims in the Class Action was May 6, 2010. The plaintiff’s counsel is currently evaluating all claims. The amount payable to the Forbearing Shareholders varies depending on the dollar amount of claims actually submitted in the Class Action, the higher the dollar amount of claims submitted in the Class Action, the lower the amount payable to the Forbearing Shareholders. By way of example, if no claims at all were submitted



by shareholders in the Class Action, the amount payable to all of the Forbearing Shareholders would be \$800,000; if \$3,000,000 in claims are submitted in the Class Action, the amount payable to the Forbearing Shareholders would be \$474,136.

The committee of disinterested directors has determined that compensation to the Forbearing Shareholders will be paid in Common Stock of the Company. The shares will be valued at the market price of the Company's Common Stock as of the closing price on the first date on which the distribution agent in the Class Action sends or delivers distributions from the Net Settlement Fund to shareholders who have submitted claims.

#### Forbearance Agreement (Continued)

If the Forbearing Shareholders had not entered into the Forbearance Agreement, they believe that the Company may not have been able to settle the Class Action on the favorable terms that it did. The damages suffered by the Forbearing Shareholders, based on an estimate of total damages provided by counsel to the plaintiffs in the Class Action, represented a majority of the total damages of the class. The plaintiff's counsel required a representation by the Company that any damages paid by the Company to the Forbearing Shareholders not exceed amounts granted to the class. The Forbearing Agreement had the effect of making the entire Net Settlement Fund available to other shareholders. The Forbearing Shareholders believe that if they did not enter into the Forbearance Agreement, plaintiffs would have insisted on a significantly higher settlement amount and this in all likelihood would have forced the Company to raise additional capital by selling stock at, what they believed to be, unfavorable terms at the time.

#### NOTE 11 – SUBSEQUENT EVENTS

##### Lease for purchase of equipment

In July 2010 the Company entered into a capital lease to purchase one piece of mining equipment for a total purchase price of \$29,800. The lease will begin on July 30, 2010. Such lease will be paid in equal installments of \$3,800 per month. Per the terms of the lease agreement, if the Company decides to purchase the equipment within forty-five (45) days of the commencement of the lease, 100% of the lease payments that have been paid will be applied to the purchase price. If the Company decides to purchase the equipment forty-five (45) days after the commencement of the lease agreement, 80% of the lease payments that have been paid will be applied to the purchase price.

## NOTE REGARDING FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB 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

Historically, our primary source of revenue had been generated by Contract Mining operations. However, on December 31, 2008, we discontinued our Contract Mining efforts due to economic conditions and the desire to concentrate efforts on commercializing the halloysite clay deposit at the Dragon Mine. The discontinuation of the Contract Mining segment reclassified the Company as an exploration stage company.

We are a natural resources company principally engaged in the exploration of our resource property, the Dragon Mine, located in the state of Utah.

### 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 expenses for the six months ending June 30, 2010 and 2009 were \$994,606 and 555,617, 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.

Halloysite clay has been identified a value-added filler for use in polymer-based nanocomposites. The global nanocomposites market is expected to grow to \$4.0 billion by 2015. According to BCC Research, clay-filled 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. In February 2010, The Department of the Navy gave us notice that it intends to license to us a revocable, nonassignable, co-exclusive license to practice the (i) field of use of building materials which means the use of halloysite microtubules for the elution of any and all substances from them as a biocide and (ii) the field of use of paint which means the use of halloysite microtubules for the elution of any and all substances in paints, sealers, fillers, varnishes, shellac, polyurethane coatings, and any and all “paint-like” coatings applied in liquid form to any and all surfaces for the beautification or protection of surfaces in structures or components thereof, including but not limited to, buildings, marine structures (including boats), furniture and other normally “painted” materials in the United States. We believe both the building products and paint industries provide attractive market opportunities in which to utilize the licenses described above. 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, an application opportunity we are considering pursuing.

In 2009, the Company entered into a development agreement with Yuri M. Lvov, Ph.D., a professor of chemistry at Louisiana Tech 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 the Dragon Mine halloysite as part of an anti-corrosion paint application in addition to the development of other emerging applications. In 2009, the Company entered into a consulting agreement with Amit Dharia, PhD, President of Transmit Technology Group, LLC of Austin, TX. Dr. Dharia has over 23 years of experience in the plastics industry focused primarily on R&D and new product development. Dr. Dharia is advising the Company with regard to its pursuit of opportunities within the polymer composite market. In May 2010, the Company entered into a consulting agreement with Yash Khanna of Innoplast Solutions. Dr. Khanna has over 34 years of highly diversified experience within the plastics industry focused primarily on new product development and marketing. Messrs. Dharia and Khanna are consulting the Company on the development, commercialization and marketing of polymer-based applications that utilize the Company’s halloysite clay to enhance performance.

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 mineral 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.

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 these 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. The Company signed a Memorandum of Understanding with KaMin upon which a binding toll manufacturing contract is to be developed.

### Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates since the end of our 2009 fiscal year. For detailed information on our critical accounting policies and estimates, see our financial statements and notes thereto included in this Report and our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

We have identified below some of our accounting policies that we consider critical to our business operations and the understanding of our results of operations. This is neither a complete list of all of our accounting policies, nor does it include all the details surrounding the accounting policies we have identified. There are other accounting policies that are significant to our company. For a more detailed discussion on the application of these and our other accounting policies, see “Note 3 – Summary of Significant Accounting Policies” included in this Report and “Note 3 – Summary of Significant Accounting Policies” included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

### 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.

### Impairment of Assets

FASB ASC 360-10-50 requires that long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. The Company records losses due to impairment of assets held in continuing operations, and losses on assets held for sale from impairment, which is included in net loss from discontinued operations.

### Mining Exploration and Development Costs

Land and mining property acquisitions are carried at cost. We expense prospecting and mining exploration costs. At the point when a property is determined to have proven and probable reserves, subsequent development costs are capitalized as capitalized development costs. Capitalized development costs will include acquisition costs and property development costs. When these properties are developed and operations commence, capitalized costs will be charged to operations using the units-of-production method over proven and probable reserves. Upon abandonment or sale of a mineral property, all capitalized costs relating to the specific property are written off in the period abandoned or sold and a gain or loss is recognized. At June 30, 2010 and 2009, all costs associated with the Dragon Mine have been expensed.

### Stock Options and Warrants

We have adopted the provisions of FASB ASC 505-50 and FASB ASC 718-10-50 where compensation expense is recorded for all share-based awards granted to either non-employees, or employees and directors on or after January 1, 2006. Accordingly, compensation expense has been recognized for vesting of options and warrants to consultants and directors in the accompanying statements of operations.

We account for the issuance of equity instruments (including options and warrants) to acquire goods and services based on the fair value of the goods and services or the fair value of the equity instrument at the time of issuance, whichever is more reliably measurable.



## 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 in December 2008 and classified it as “discontinued” on its financial statements. The Company’s remaining operation, the exploration of its Dragon Mine property, has yet to produce any material revenue and, as such, the Company generated no revenue or gross profit for the three and six months ended June 30, 2010 and 2009.

Total operating expenses for the three months ending June 30, 2010 were \$1,090,723 compared to \$1,585,157 for the same period ending 2009, a decrease of \$494,434 or 31.2%. The decrease was due primarily to a \$609,412, or 49.4%, decrease in general and administrative expense, partially offset by a \$112,708, or 32.0% increase in exploration costs.

Exploration costs during the quarter were \$465,393 versus \$352,685, an increase of \$112,708, for the comparable period in 2009. The majority of our exploration expenses during the quarter was related to the continued geological surveying of our Dragon Mine property and the mineralogical analysis of the material mined from the property. The 32.0% increase in exploration costs was related, primarily, to management’s decision to expand its drilling and testing program to additional areas of the Dragon Mine property, testing of which has indicated the presence of saleable clay mineral. The primary drivers of the increase in exploration costs were a \$48,933 increase in wage and wage related expense, a \$25,960 increase in equipment rent and leasing expense and a \$43,806 increase in contract material testing costs.

General and administrative expense for the three months ended June 30, 2010 was \$623,060 versus \$1,232,472 for the comparable period in 2009. The decrease was driven primarily by a \$488,624 reduction in legal expenses related to the elimination or reduction of costs associated with the resolution of a class action lawsuit, the implementation of an improved corporate governance infrastructure, and work related to bringing the Company into compliance with SEC filings requirements. Management believes quarterly legal expense may decline further as the need for SEC and corporate governance-related legal advice diminishes. The decline general and administrative expense was also driven by a \$102,408 decrease in professional consulting fees incurred during the three months ended June 30, 2010, partially offset by a \$41,755 increase in expense related to our shareholder communications and annual meeting.

Net loss before discontinued operations for the three-month period ending June 30, 2010 was \$1,164,125 compared to \$1,747,516 for the comparable period in 2009, a decrease of \$583,391 or 33.4%. The decrease in loss in before discontinued operations was due primarily to a \$609,412 decline in general and administrative expense (previously described), a \$14,337 decline in interest expense and a \$72,000 decline in the loss attributable to the revaluation of certain stock awards, partially offset by a \$112,708 increase in exploration costs (previously described).

Net loss from discontinued operations for the three months ended June 30, 2010 was \$3,704 compared to a net loss of \$142,461 for the comparable period in 2009. The \$138,757 decline in net loss from discontinued operations was due primarily to a loss of \$131,653 on the disposition of certain assets related to discontinued operations that took place during the three months ended June 30, 2009.

Total operating expenses for the six months ending June 30, 2010 were \$2,270,069 compared to \$2,954,642 for the comparable period in 2009, a decrease of \$684,573 or 23.2%. The decrease was due primarily to a \$1,125,832, or 46.9%, decrease in general and administrative expense, partially offset by a \$438,989, or 79.0%, increase in exploration costs.

Exploration costs during the six months ended June 30, 2010 were \$994,606 versus \$555,617, an increase of \$438,989, during the comparable period in 2009. The majority of our exploration expenses during the quarter were related to the continued geological surveying of our Dragon Mine property and the mineralogical analysis of the



material mined from the property. The 79.0% increase in exploration costs was related, primarily, to management's decision to expand its drilling and testing program to additional areas of the Dragon Mine property, testing of which has indicated the presence of saleable clay mineral. The primary drivers of the increase in exploration costs were a \$128,840 increase in wage and wage related expense, a \$96,773 increase in consulting and professional services, a \$78,266 increase in contract material a \$37,776 increase in equipment rental and lease expense, a \$25,182 increase in utilities expense, a \$21,488 increase in drilling material expense and a \$18,424 increase license and fee expense.

General and administrative expenses incurred during the six months ended June 30, 2010 totaled \$1,273,193 versus \$2,399,025 during the comparable period in 2009. The decrease was driven primarily by a \$936,576 reduction in legal expenses, which resulted from the elimination or reduction of costs associated with the resolution of a class action lawsuit, the implementation of an improved corporate governance infrastructure, and work related to bringing the Company into compliance with SEC filings requirements. The decline was also driven by a \$159,850 decrease in professional consulting fees, a \$76,349 decrease in insurance expense and a \$44,473 decrease in wages paid.

Net loss before discontinued operations for the six months ending June 30, 2010 was \$2,248,425 compared to \$3,164,171 for the comparable period in 2009, a decrease of \$915,746 or 28.9%. The decrease in loss in before discontinued operations was due primarily to a \$1,125,832 decline in general and administrative expense (previously described), a \$145,000 gain on a stock award forfeiture that took place during the period, an \$86,500 decrease in a loss realized on the revaluation of certain stock awards and the reception of \$28,547 of legal settlement proceeds related to the resolution of a class action lawsuit, partially offset by a \$438,989 increase in exploration costs (previously described).

Net income from discontinued operations for the six months ended June 30, 2010 was \$234,678 compared to a net loss of \$189,628 for the comparable period in 2009. The \$424,306 decline in net loss from discontinued operations was due primarily to the collection of a previously categorized bad debt totaling \$245,507 and the absence of a \$131,653 loss recognized on the disposition of assets associated with discontinued operations during the six months ended June 30, 2009.

## 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/or the sale of non-core assets to generate the cash flow needed to fund our operations.

The Company has incurred material recurring losses from operations. At June 30, 2010, the Company had a total accumulated deficit of \$28,512,868, in addition to limited cash and unprofitable operations. For the three months ended June 30, 2010 and 2009, the Company sustained net losses before discontinued operations of \$1,164,125 and \$1,747,516, respectively. 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 generate revenue and cash flow to meet its obligations on a timely basis and management's ability to raise financing and/or dispose of certain non-core assets as required. If successful, this will mitigate the factors that raise substantial doubt about the Company's ability to continue as a going concern.

Cash used by operating activities was \$1,631,379 during the six months ended June 30, 2010 versus \$2,281,194 for the comparable period in 2009. The \$649,815 decrease in cash used during the period was due primarily to a decrease in the net loss realized during the six months ended June 30, 2010 of \$1,340,010, partially offset by a non-cash gain of \$145,000 realized on the forfeiture of certain stock awards, a \$131,651 decline in an add-back related to the disposition of non-core assets, a \$139,885 decline in cash generated by deposits and prepaids and a \$273,023 decline in cash generated by discontinued operations.

Cash provided by investing activities during the six months ended June 30, 2010 was \$44,986 versus \$386,743 during the comparable period in 2009. During the six months ended June 30, 2010, the Company used \$55,014 to purchase equipment related to the exploration of its Dragon Mine, generated \$100,000 through the sale of non-core equipment and vehicles. During the comparable period in 2009, \$386,743 was generated through the sale of equipment related to the Company's discontinued operations.

Cash generated through financing activities was \$1,232,712 during the six months ended June 30, 2010 versus \$2,589,824 during the comparable period in 2009. The \$1,357,112 decrease in cash generated during the period was driven primarily by a \$1,350,000 reduction in proceeds raised through the sale of 10% PIK-Election Convertible Notes due 2018.

At June 30, 2010, the Company had, as part of its long-term liabilities, \$1,512,033 face value of 10% PIK-Election Convertible Notes due 2018. The Company may sell similar notes in the future to raise cash to fund its operations.

## 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 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

3.  
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 June 30, 2010, 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 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 Applied Minerals Inc.'s disclosure controls and procedures were ineffective.

Notwithstanding the existence of these material weaknesses, Applied Minerals, Inc. believes that the condensed consolidated financial statements in this quarterly report on Form 10-Q fairly present, in all material respects, Applied Minerals, Inc.'s financial condition as of June 30, 2010 and December 31, 2009, and results of its operations and cash flows for the period ended June 30, 2010 and 2009, in conformity with United States generally accepted accounting principles (GAAP).

(b) Changes in Internal Controls.

Management continues to both assess its internal controls and implement changes to strengthen them. The steps that have been, or will be, taken by the Company to improve its internal controls include, but are not limited to, the communication of all equity transactions to the accounting function in a timely manner, the requirement of board approval of all equity transactions, the implementation of controls to ensure all invoices received by the New York and Utah locations are forwarded to the Idaho office in a timely manner, and the implementation of controls to ensure that the accounting function is informed of services or goods received before period end but not yet invoiced.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Various lawsuits, claims, proceedings and investigations are pending involving us as described below in this section. 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.

#### Forbearance Agreement

The Company and certain of its former officers were defendants in a class action In Re Atlas Mining Company Securities Litigation (the "Class Action"), whose settlement has been approved by the court. As an accommodation to facilitate the settlement of the Class Action, the following persons (the "Forbearing Shareholders") entered into a Forbearance Agreement whereby they agreed not to submit claims for damages relating to shares that they own or control and that would otherwise be eligible to participate in the settlement: David Taft; The IBS Turnaround (QP) Fund (A Limited Partnership), the IBS Turnaround Fund (A Limited Partnership), The IBS Opportunity Fund (BVI), Ltd. (the prior three hereafter collectively "IBS"); Andre Zeitoun (the Company's CEO), Chris Carney (the Company's Interim CFO), and Eric Basroon (an employee of Material Advisors LLC). The Forbearance Agreement provided that:

Prior to the time that the Forbearing Shareholders entered into the Forbearance Agreement, certain members of the Board of Directors, without taking formal action as a Board, acknowledged that the Forbearing Shareholders were accommodating the Company in a manner not required and should be compensated "as if" they had submitted claims as class members in the Settlement and this acknowledgement was communicated to the Forbearing Shareholders.

The Board subsequently appointed a committee of disinterested directors to determine whether compensation should be paid, the amount of any such compensation, and whether to pay compensation in cash or Common Stock. The committee consists of John Levy, Morris Weiss, and Evan Stone.

On March 29, 2010, the committee adopted resolutions designed to treat the Forbearing Shareholders as if they had participated in the settlement.

To achieve this goal, damages of each Forbearing Shareholder were computed using the formula for determining damages in the Class Action. Damages per share are lesser of \$0.84 or the difference between the purchase price and \$0.80. The damages for each Forbearing Shareholders are approximately as follows: Taft - \$0; IBS - \$3,564,657; Zeitoun - \$479,411; Carney - \$231,735; and Basroon - \$89,250. The aggregate damages for all of the Forbearing Shareholders are approximately \$4,365,053.

The amount payable as compensation to the Forbearing Shareholders in the aggregate will be an amount equal to the Net Settlement Fund in the Class Action (approximately \$800,000) multiplied by the fraction in which the numerator is the aggregate damages of the Forbearing Shareholders and the denominator is the sum of (i) the aggregate damages of the Forbearing Shareholders and (ii) the dollar amount of claims actually submitted by shareholders against the Net Settlement Fund in the Class Action (this amount is different from the total damages of all shareholders other than the Forbearing Shareholders).



The deadline for submitting claims in the Class Action was May 6, 2010. The plaintiff's counsel is currently evaluating all claims. The amount payable to the Forbearing Shareholders varies depending on the dollar amount of claims actually submitted in the Class Action, the higher the dollar amount of claims submitted in the Class Action, the lower the amount payable to the Forbearing Shareholders. By way of example, if no claims at all were submitted by shareholders in the Class Action, the amount payable to all of the Forbearing Shareholders would be \$800,000; if \$3,000,000 in claims are submitted in the Class Action, the amount payable to the Forbearing Shareholders would be \$474,136.

The committee of disinterested directors has determined that compensation to the Forbearing Shareholders will be paid in Common Stock of the Company. The shares will be valued at the market price of the Company's Common Stock as of the closing price on the first date on which the distribution agent in the Class Action sends or delivers distributions from the Net Settlement Fund to shareholders who have submitted claims.

If the Forbearing Shareholders had not entered into the Forbearance Agreement, they believe that the Company may not have been able to settle the Class Action on the favorable terms that it did. The damages suffered by the Forbearing Shareholders, based on an estimate of total damages provided by counsel to the plaintiffs in the Class Action, represented a majority of the total damages of the class. The plaintiff's counsel required a representation by the Company that any damages paid by the Company to the Forbearing Shareholders not exceed amounts granted to the class. The Forbearing Agreement had the effect of making the entire Net Settlement Fund available to other shareholders. The Forbearing Shareholders believe that if they did not enter into the Forbearance Agreement, plaintiffs would have insisted on a significantly higher settlement amount and this in all likelihood would have forced the Company to raise additional capital by selling stock at, what they believed to be, unfavorable terms at the time.

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

During the second quarter of 2010, we sold stock not registered under the Securities Act as listed below. Management at the time deemed such sales to be exempt under Section 4(2) of the Securities Act and indicated that all sales were made to accredited investors.

On May 17, 2010, the Company sold to accredited investors \$1,500,000 principal amount of 10% PIK-Election Convertible Notes due 2018 ("the Notes") at a conversion price of \$1.00 per share and entered into a Registration Rights Agreement in connection with the shares to be issued upon conversion of the Notes.

On May 26, 2010, the Company issued 5,625 registered shares as payment for consulting services valued at \$4,500.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## 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.

APPLIED MINERALS INC

Dated: August 16, 2010

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

Dated: August 16, 2010

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

