ATLAS MINING CO
Form 10QSB
May 16, 2006

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 Act of 1934

For the quarterly period ended March 31, 2006

|_| 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	82-0096527
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

630 East Mullan Avenue, Osburn, Idaho	83849
(Address of principal executive offices)	(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 /_/

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

The number of shares outstanding of each of the issuer's classes of common equity as of May 12, 2006 was as follows: 49,327,652 shares of Common Stock.

Transitional Small Business Disclosure Format: YES /_/ NO /X/

ATLAS MINING COMPANY
SECOND QUARTER 2006 REPORT ON FORM 10-QSB
TABLE OF CONTENTS

Atlas Mining Company and Subsidiary
Consolidated Balance Sheets

ASSETS

	March 31, 2006	December 31, 2005

	(unaudited)	
Current Assets		
Cash	$ 1,195,953	$ 2,215,930
Accounts receivable (net of allowance of $0)	211,251	40,174
Investments - available for sale	19,538	19,538
Advances	701	750
Deposits and prepaids	71,731	100,454
Total Current Assets	1,499,175	2,376,846
Property and Equipment		
Land and tunnels	1,005,159	1,005,159
Buildings and equipment	188,192	188,192
Mining equipment	422,509	244,499
Milling equipment	247,714	247,714
Office equipment	26,689	26,689
Vehicles	116,578	111,259
Less: Accumulated depreciation	(264,943)	(229,311)
Total Property and Equipment	1,741,897	1,594,200
Other Assets		
Long-term Note Receivable	50,000	50,000
Mining supplies	9,000	9,000
Total Other Assets	59,000	59,000
Total Assets	$ 3,300,072	$ 4,030,045

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

Atlas Mining Company and Subsidiary
Consolidated Balance Sheets

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2006	December 31, 2005

	(unaudited)	
Current Liabilities		
Accounts payable and accrued liabilities	$ 205,424	$ 101,532
Current portion of long-term debt	15,995	25,973
Total Current Liabilities	221,419	127,505
Long-Term Liabilities		
Notes payable	39,683	49,661
Less: current portion of long-term debt	(15,995)	(25,973)
Total Long-Term Liabilities	23,688	23,688
Minority Interest	52,797	52,797
Stockholders' Equity (Deficit)		
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, 48,925,687 and 48,852,892 shares issued and outstanding, respectively	13,653,660	13,598,660
Additional Paid in Capital	16,850	-
Cost of treasury stock, 1,313,022 in 2005 and 2004	(131,221)	(131,221)
Accumulated Deficit	(10,537,294)	(9,641,558)
Accumulated other comprehensive income (loss)	174	174
Total Stockholders' Equity (Deficit)	3,002,168	3,826,055
Total Liabilities and Stockholders' Equity	$ 3,300,072	$ 4,030,045

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

4

Atlas Mining Company
Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended March 31, 2006	2005
Revenues - Contract Mining	$ 334,710	$ 143,373
Revenues - Mining Production	-	-
Revenues - Timber	-	-
Total Revenues	334,710	143,373
Cost of Sales - Contract Mining	174,281	150,147
Cost of Sales - Mining Production	-	-
Cost of Sales - Timber	-	-
Total Cost of Sales	174,281	150,147
Gross Profit (Loss)	160,429	(6,774)
Operating Expenses		
Exploration & development costs	610,767	165,579
Mining production costs	106,229	-
General & administrative	350,129	550,936
Total Operating Expenses	1,067,125	716,515
Net Operating Income (Loss)	(906,696)	(723,289)
Other Income(Expense)		
Interest income	11,501	167
Interest expense	(558)	(34,561)
Miscellaneous Income	15	-
Total Other Income(Expense)	10,958	(34,394)
Income (Loss) Before Income Taxes	(895,738)	(757,683)
Provision (Benefit) for Income Taxes	-	-
Net Income (Loss)	$ (895,738)	$ (757,683)
Net Income (Loss) Per Share	$ (0.02)	$ (0.02)
Weighted Average Shares Outstanding	48,907,448	40,840,731

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

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

	For the Three Months Ended March 31, 2006	2005
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (895,738)	$ (757,478)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operations:		
Depreciation	35,632	26,922
Stock issued for services	45,000	388,421
Compensation for Options	16,850	-
Minority Interest	-	3
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts receivable	(171,078)	139,260
Deposits and prepaids	28,724	19,017
Accounts payable and accrued expenses	95,418	(115,430)
Net Cash Provided(Used) by Operating Activities	(845,192)	(299,285)
Cash Flows from Investing Activities:		
Purchases of equipment	(183,329)	(83,898)
Payments for advances	49	-
Net Cash Provided (Used) by Investing Activities	(183,280)	(83,898)
Cash Flows from Financing Activities:		
Payments for notes payable	(1,505)	(52,153)
Proceeds from issuance of common stock	10,000	561,999
Net Cash Provided (Used) by Financing Activities	8,495	509,846
Increase (Decrease) in Cash	(1,019,977)	126,663
Cash and Cash Equivalents at Beginning of Period	2,215,930	206,635
Cash and Cash Equivalents at End of Period	$ 1,195,953	$ 333,298

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

6

Atlas Mining Company
Consolidated Statements of Cash Flows (Continued)
(Unaudited)

	For the Three Months Ended March 31, 2006	2005
Cash Paid For:		

Interest	$ 558	$ 34,561
Income Taxes	$ -	$ -
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Stock issued for services	$ 45,000	$ 388,421

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

Atlas Mining Company and Subsidiary
Notes to the Consolidated Financial Statements
March 31, 2006

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, 2006, 384,465 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Revenue Recognition

Revenue is recognized when earned. The Company's revenue recognition policies are in compliance the Securities and Exchange Commission Staff Accounting Bulletin No. 101 and 104. The Company sells contract mining services, mined halloysite clay and raw timber.

Revenue for contract mining services is recognized once a contract with a fixed and determinable fee has been established the services have been rendered and collection is reasonably assured.

Revenue for mined halloysite clay is recognized upon shipment and customer acceptance once a contract with a fixed and determinable fee has been established and collection is received or the resulting receivable is deemed probable. Certain of the Company's sales contracts call for a fixed price per ton plus a percentage of future sales revenue on the resale of product. Revenues are recorded at the time of sale based upon the fixed price per ton upon shipment. Revenues from the future resale of the product are recognized upon receipt as amounts are not determinable.

Revenue for harvested raw timber is recognized once it has been shipped to the mill, a contract with a fixed and determinable fee has been established and collection is received or the resulting receivable is deemed probable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Bad Debts

Bad debts on receivables are charged to expense in the year the receivable is determined uncollectible, therefore, no allowance for doubtful accounts is included in the financial statements. Amounts determined as uncollectible are not significant to the overall presentation of the financial statements.

d. Basis of Consolidation

The Company's investments representing a 50% or greater interest are consolidated. The consolidated financial statements presented reflect the accounts of Atlas Mining Company and Park Copper & Gold. At both March 31, 2006 and December 31, 2005 the Company held a 53% ownership interest in Park Copper & Gold. The Company recorded no liability for the 47% non-controlling interest as Park Copper & Gold had a stockholders deficit at the time of merger. Further, the net loss for Park Copper & Gold for the periods ended March 31, 2006 and December 31, 2005 applicable to the 47% non-controlling interest were not allocated to the non-controlling interest as there is no obligation of the non-controlling interest to share in such losses. All significant inter-company transactions between the parent and subsidiary have been eliminated in consolidation.

e. Earnings (Loss) Per Share

The computation of earnings per share of common stock is based on the weighted average number of shares outstanding at the date of the financial statements.

	Net Loss (Numerator)	Shares (Denominator)	Per-Share Amount
For the quarter ended March 31, 2006:			
Basic EPS			
Net loss to common shareholders	$ (895,738)	48,907,448	$ (0.02)
For the year ended March 31, 2005:			
Basic EPS			
Net loss to common shareholders	$ (757,683)	40,840,731	$ (0.02)

At March 31, 2006 and 2005 the Company had 4,664,000 and 5,684,000 common stock equivalents that were not included in the calculation of earning per share as their effect was anti-dilutive.

10

Atlas Mining Company and Subsidiary
Notes to the Consolidated Financial Statements
March 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

g. Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss, tax credit carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

h. Available for Sale Investments

Management determines the appropriate classification of marketable equity security investments at the time of purchase and reevaluates such designation as of each balance sheet date. Unrestricted marketable equity securities have been classified as available for sale. Available for sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as a net amount in accumulated other comprehensive income. Realized gains and losses and declines in value judged to be other-than-temporary on available for sale securities are included in investment income or loss. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available for sale are included in investment income.

The following is a summary of available for sale equity securities which are concentrated in companies in the mining industry:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2006	$ 19,364	$ 174	$ -	$ 19,538
December 31, 2005	$ 19,364	$ 174	$ -	$ 19,538

Atlas Mining Company and Subsidiary
Notes to the Consolidated Financial Statements
March 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Mining Supplies

Mining supplies, consisting primarily of bits, steel, and other mining related equipment, are stated at the lower of cost (first-in, first-out) or market. In addition, equipment repair parts and maintenance items are also included at cost.

j. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

k. 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	39 years
Mining equipment	2-8 years
Office and shop furniture and equipment	5-8 years
Vehicles	5 years

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, 2006 and December 31, 2005, no impairments were recognized. Depreciation expense for the quarters ended March 31, 2006 and 2005 totaled $35,632 and $26,922, respectively.

l. Financial Instruments

The recorded amounts of financial instruments, including cash equivalents, receivables, investments, accounts payable and accrued expenses, and long-term debt approximate their market values as of March 31, 2006 and 2005. The Company has no investments in derivative financial instruments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. 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 March 31, 2006, all mine costs have been expensed. During the quarter ended March 31, 2006, the Company recognized no revenue from the sale of halloysite clay.

n. Stock Options

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, 2005 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006, and (b) compensation expense for all share-based awards granted on or after January 1, 2006. Accordingly, compensation expense of $16, 850 has been recognized for grants of options to employees and directors in the accompanying statements of operations for the period ended March 31, 2006. In accordance with the modified-prospective transition method, the Company's financial statements for the prior year have not been restated to reflect, and do not include, the impact of SFAS 123R. Had compensation cost for the Company's stock option plans and agreements been determined based on the fair value at the grant date for awards in 2005 consistent with the provisions of SFAS No. 123R, the Company's net loss and basic net loss per common share would have been increased to the pro forma amounts indicated below:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Stock Options Continued

		2005
Net Loss	As reported	$ (757,683)
Deduct: Total stock-based employee compensation expense determined under fair value based method		(16,850)

	Proforma	$ (774,533)
Basic earnings per share		
	As reported	$ (0.02)
	Proforma	$ (0.02)

o. Recently Enacted Accounting Standards

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143" ("FIN 47"). FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event.

Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. This Interpretation is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN 47 did not have a material impact on the Company's financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154") which replaces Accounting Principles Board Opinions No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28." SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company is currently evaluating the effect that the adoption of SFAS 154 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In October 2005, the FASB issued FSP FAS 13-1, "Accounting for Rental Costs Incurred During a Construction Period" ("FSP FAS 13-1") which requires companies to expense rental costs associated with ground or building operating leases that are incurred during the construction period. FSP FAS 13-1 is effective in first reporting period beginning after December 15, 2005. The Company does not expect that this pronouncement will have a material effect on its financial statements.

NOTE 2 -GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company is dependent upon raising capital to continue operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management has sold shares of its restricted stock in the past year to help support its financing activities and reduced the Company's debt. The Company has continued to obtain additional work in the contracting entity and intends to bring the Dragon Mine into production. The Company believes these actions will help to solidify their continued operations. Management feels the elimination of it debts, the revenue stream from contracting and halloysite clay sales, and the sale of stock will provide sufficient cash flows to continue as a going concern.

NOTE 3 - LONG-TERM LIABILITIES

Long- term liabilities are detailed in the following schedules as of March 31, 2006 and December 31, 2005:

	March 31, 2006	December 31, 2005
Note payable to a lending company, due in Monthly installments of $688, including interest at 7.59%. The note matures in March 2010 and is collateralized by a vehicle.	$ 28,384	$ 29,888
Note payable to an insurance company, due in monthly installments of $2,825. The note matures in July 2006.	11,299	19,773
Total Notes Payable	$ 39,683	$ 49,661
Less Current Portion	(15,995)	(25,973)
Total Long-Term Liabilities	$ 23,688	$ 23,688

NOTE 3 - LONG-TERM LIABILITIES (Continued)

Future minimum principal payments on notes payable are as follows:

2006	$ 15,995
2007	6,688
2008	7,214
2009	7,781
2010	2,005
Thereafter	-
Total	$ 39,683

NOTE 4 -RELATED PARTY TRANSACTIONS

During 2006 and 2005, an officer loaned the Company $0 and $1,670, respectively. The loan was repaid to the officer during the 3rd quarter of 2005.

NOTE 5 -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.

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, 2006, no options have been granted under this plan.

NOTE 5 - COMMON STOCK (Continued)

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 $0.13 per share under the non-qualified stock option plan. The options vested 43% on January 1, 2005, and 14% on January 1, 2006 -2009.

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

	March 31, 2006			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at beginning of period	3,500,000	$ 0.13	3 years	$ 2,940,000
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at end of Period	3,500,000	$ 0.13	2.75 years	$ 4,480,000
Vested and expected to vest in the future	3,500,000	$ 0.13	2.75 years	$ 4,480,000
Exercisable at end of period	2,000,000	$ 0.13	2.75 years	$ 2,635,000
Weighted average fair value of options granted	-	-	-	-

The Company had 2,000,000 non vested options at the beginning of the period with a weighted average grant date fair value of $0.269. At March 31, 2006 the Company had 1,500,000 non vested options with a weighted average grant date fair value of $0.269 resulting in unrecognized compensation expense $178,800 which is expected to be expensed over a weighted-average period of 1.4 years.

Atlas Mining Company and Subsidiary
Notes to the Consolidated Financial Statements
March 31, 2006

NOTE 5 - COMMON STOCK (Continued)

The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005 was $0 and $0 respectively. Intrinsic value is measured using the fair market value at the date of exercise (for shares exercised) or at March 31, 2006 and 2005 (for outstanding options), less the applicable exercise price.

Common Stock

During the quarter ended March 31, 2006 the Company sold a total of 20,000 shares of restricted common stock at a price of $0.50 per share for a total of $10,000 cash. The sale resulted from a redemption of an outstanding warrant.

During the quarter ended March 31, 2006 the Company issued 50,000 shares of stock at a price of $0.90 in payment of $45,000 worth of services provided to the company.

Stock Warrants

The Company has issued warrants to non-employees under various agreements expiring through January 2007. A summary of the status of warrants granted at March 31, 2006, and changes during the period then ended is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,184,000	0.46
Granted	-	-
Exercised	20,000	0.50
Forfeited	-	-
Expired	-	-
Outstanding at end of period	1,164,000	0.46
Exercisable at end of period	1,164,000	0.46

A summary of the status of the warrants outstanding at March 31, 2006 is presented below:

Range of Exercise	Number	Weighted -Average Remaining Contractual	Weighted Average Exercise	Number	Weighted -Average Exercise

Prices	Outstanding	Life	Price	Exercisable	Price
$0.25	154,000	0.75 years	$0.25	154,000	$0.25
$0.40	750,000	0.83 years	$0.52	750,000	$0.52
$0.50	260,000	0.75 years	$0.50	260,000	$0.50
	1,164,000			1,164,000	

NOTE 6 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 2005 to 2006 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.

Segment Reporting

	For the Year Ended March 31, 2006	For the Year Ended March 31, 2005
Contract Mining:		
Net Revenue	$ 334,710	$ 143,373

Operating Expenses		
Cost of Sales	174,281	150,147
General & Administrative	157,529	247,921
Total Operating Expenses	331,810	398,068
Net Operating Profit (Loss)	2,900	(254,695)
Capital Expenditures:	5,318	2,517
Depreciation:	2,302	133
Total Assets:	$ 110,840	$ 27,917

Atlas Mining Company and Subsidiary
Notes to the Consolidated Financial Statements
March 31, 2006

Mining Production:		
Net Revenue	-	-
Operating Expenses		
Cost of Sales	-	-
Mining Production Costs	106,229	-
Exploration & Development Costs	610,767	165,579
General & Administrative	157,529	247,921
Total Operating Expenses	874,525	413,500
Net Operating (Loss)	(874,525)	(413,500)
Capital Expenditures:	178,011	81,381
Depreciation:	33,330	26,789
Total Assets:	2,783,822	1,015,706
Timber:		
Net Revenue	-	-
Operating Expenses		
Cost of Sales	-	-
General & Administrative	35,071	55,094
	35,071	55,094
Net Operating (Loss)	(35,071)	(55,094)
Capital Expenditures:	-	-
Depreciation:	-	-
Total Assets:	405,410	405,410

Consolidated on Financial Statements:		
Total Revenues	334,710	143,373
Operating Expenses		
Total Cost of Sales	174,281	150,147
Exploration & development costs	610,767	165,579
Mining production costs	106,229	-
Total General & Administrative	350,129	550,936
Total Operating Expenses	1,241,406	866,662
Net Operating (Loss)	(906,696)	(723,289)
Capital Expenditures:	183,329	83,898
Depreciation:	35,632	26,922
Total Assets	3,300,072	1,449,033

NOTE 7 SUBSEQUENT EVENTS

The Company issued 8,000 shares of stock on April 7, 2006 at a price of $1.69 in payment of $13,520 for payment on the purchase of a mining property.

The Company issued 340,500 shares of stock on May 11, 2006 at a price of $2.00 for $681,000 in cash.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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 most 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, 2006 and December 31, 2005 were $610,767 and $760,347 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.
During 2005 we have worked to develop and bring the Dragon Mine into a production stage.

Our halloysite clay marketing efforts include contacting potential customers and distributors, which we have done. Each buyer may have a different use for the product and the price and quantity will vary as a result. The sale of product cannot be formalized until we have verified our ability to provide the quality and quantities as required by the potential buyers. From results of the product samples distributed we have numerous potential buyers. In March, 2006 we activated Nano Clay and Technologies, Inc., a wholly owned subsidiary, and hired Dr Ron Price as its President and Chief Executive Officer, to pursue these activities.

21

Until the Dragon mine is producing in a profitable manner we are not aggressively trying to develop other properties. However it is our intent to look for other properties that can be acquired, developed and mined with minimal costs, and environmental problems.

We have a mining plan and reclamation bond approved by the proper state authorities, have filed and received Mine Safety and Health Administration (MSHA) registration, and County permitting where applicable. In the future, we may pursue additional acquisitions and exploration of other properties for metals and industrial minerals, development of which will require submission of new mining and reclamation plans to the proper state and federal authorities.

Timber

We will continue to harvest timber on our property. Timber harvesting will be dependent upon lumber prices and weather. We normally do not log much in the winter months.

RESULTS OF OPERATIONS

Revenues for the three month period ending March 31, 2006 were

$334,710 and $143,373 for the same period ending March 31, 2005, or an increase of 133%. The main difference was caused by the increase in contracting revenues of $191,337 for this period compared to the previous year.

Gross profit (loss) for the three month period ending March 31, 2006 was $160,429 compared to ($6,774) for the same period ending March 31, 2005, a difference of $167,203. This was due to the increased revenues for the three month period ending March 31, 2006 over the same period ended March 31, 2005.

Total operating expenses for the three month period ending March 31, 2006 was $960,831 compared to $716,515 for the same period ending March 31, 2005 or an increase of 34%. Although the company recognized less administrative costs and professional fees in the period ended March 31, 2006 compared to the same period ended March 31, 2005, more Exploration and development costs were incurred.

Our net profit (loss) for the three month period ending March 31, 2006 was ($895,738) compared to ($757,683) for the same period ending March 31, 2005, or an increase of 18%. As mentioned above, the company experienced more Exploration and development expenses for the period ended March 31, 2006 compared to the same period ended March 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

To date our activities have been financed primarily through the sale of equity securities, borrowings, and revenues from Atlas Fausett Contracting and logging operations. We intend to continue pursuing contract mining work and logging of our timber properties to help pay for our operations. For the three month periods ended March 31, 2006 and March 31, 2005 contract mining accounted for 100% of the revenue. Our current asset and debt structure is explained below.

Our total assets as of March 31, 2006 were $3,300,072 compared to $4,030,045 as of December 31, 2005, or a decrease of $729,973. For the three month period ended March 31, 2006 the company has decreased its current assets by $877,671, but increased its fixed assets by $147,697 through acquisitions of additional equipment for mining.

Total liabilities were $297,904 as of March 31, 2005, compared to $203,990 as of December 31, 2005. The company was able to reduce its debts during the past year from approximately $1,400,000 to the above amounts. The following debts are still outstanding.

We have a note payable to a lending company for a vehicle due in monthly installments of $688, including interest of 7.59% with a balance of $28,384. We have a note payable to an insurance company for insurance premiums with a monthly installment of $2,825, and a balance of $11,299. Accounts payable and accrued expenses due as of March 31, 2006 were $205,424 and are the result of daily operations and accrued taxes. We also carry a liability of $52,797 to the minority interest in a subsidiary.

22

If we do not reduce our debts, we would be obligated to pay an average of $2,317 per month or $27,811 for the next fiscal year.

We may need to obtain additional funding to pursue our business strategy during the next fiscal year. If so, we anticipate seeking additional funding through additional private placements, joint venture agreements, production financing, and/or pre-sale loans, although we do not have any specific plans or agreements for such funding. Our inability to raise additional capital to fund operations through the remainder of this year and through the next fiscal year could have a detrimental effect on our ability to pursue our business plan, and possibly our ability to continue as a going concern.

Our principal sources of cash flow during the first quarter 2006 was from contracting activities which provided an average of $111,570 per month for the three month period ended March 31, 2006, and averaged $47,791 per month for the same period in 2005. In addition, we rely on our credit facilities and any public or private sales of equity for additional cash flow.

Cash flow from financing activities for the three month period ended March 31, 2006 was $8,495 compared to $509,846 for the same period in 2005, a difference of $501,351. The major factor for the difference was receipt of proceeds from issuance of common stock in 2005.

The Company used $183,280 from investing activities for the three month period ended March 31, 2006, compared to using $83,898 in the same period in 2005, a difference of $99,382. This was attributed to purchases of more equipment in the period ended March 31, 2006 compared to the same period in 2005.

Cash flow used by operating activities for the three month period ended March 31, 2006, was ($845,192) compared to ($299,285) for the same period in 2005, a difference of $545,907. In the three month period in 2006 net losses was more, Accounts receivables increased, and Accounts payable decreased, compared to the same period in 2005.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a 14(c) and 15d 14(c) as of a date within 90 days of the filing date of this quarterly report on Form 10-QSB (the "Evaluation Date"), have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to it would be made known to it by others within the Company, particularly during the period in which this quarterly report on Form 10-QSB was being prepared.

(b) Changes in Internal Controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

23

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On March 31, 2006, the Company issued 20,000 shares of common stock to an accredited investor for $10,000 for the redemption of an outstanding warrant.

Unless otherwise noted, the sales set forth above involved no underwriter's discounts or commissions and are claimed to be exempt from registration with the Securities and Exchange Commission pursuant to Section 4 (2) of the Securities Act of 1933, as amended, as transactions by an issuer not involving a public offering, the issuance and sale by the company of its securities to financially sophisticated individuals who are fully aware of the company's activities, as well as its business and financial condition, and who acquired said securities for investment purposes and understood the ramifications of same.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

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 Section 302 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer and Principal 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 and Principal Financial Officer

24

SIGNATURES

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

ATLAS MINING COMPANY

Dated: May 12, 2006 /s/ William Jacobson

By: William Jacobson
Chief Executive Officer,
Chief Financial Officer