

United States Antimony Corp: Evidence Calls for Regulatory Scrutiny

Stock Pump Points to Substantial Downside

September 19, 2012

INTRODUCTON

In this report, we present a number of reasons why investors in United States Antimony Corp. ("UAMY" or the "company") should be especially cautious. We believe the company is currently violating both Regulation S-K disclosure requirements and AMEX listing requirements. Our evidence suggests the company's board does not consist of a "majority" of independent directors, that UAMY may be trading on the AMEX in violation of that exchange's rules. We also believe the company is pumping its stock price and in doing so may be violating Regulation FD by providing potentially material, non-public information on a selective disclosure basis. We believe these potential violations and the benefits of its AMEX listing have enabled a successful effort to inflate the company's market valuation beyond reasonable measure.

We urge the AMEX to halt trading in UAMY's shares pending resolution. Further, we urge FINRA and the SEC to investigate these potential violations and to mandate corrective action in an effort to protect public shareholders.

We have also discovered evidence that UAMY's business model is structurally flawed, rendering it noncompetitive in price relative to cheaper foreign sources of antimony. With a few price checks, we were able to verify that imported antimony prices are being sold in the U.S. at least 10 – 15% cheaper than UAMY's identical products. This structural price gap has persisted for many years, explaining why the company has never been able to earn a sustained profit.

We believe UAMY has an intrinsic worth best approximated by its current book value of \$0.20 per share, ~90% below current trading levels.

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Background

As a research firm rooted in the deepest soils of investigative diligence, Prescience Point goes to great lengths and commits substantial resources to verifying the claims companies make in their filings with the United States Securities and Exchange Commission (the “SEC”). To date, two of five of the companies we have exposed as engaging in fraudulent behavior have been halted from trading and delisted from major exchanges to the Pink Sheets (ABAT and APWR). In addition, the SEC is pursuing a detailed investigation into APWR to determine whether it or any of its personnel violated federal securities laws.

Consistent in nature with other troubled companies we’ve assessed in the past, a thorough analysis of UAMY’s accounts and filings reveals numerous red flags, including a history of never having produced sustained positive free cash flow, poor earnings quality, and a lack of disclosure and transparency.

A prior report published by Spruce Point Capital Management ([here](#)) does an excellent job of documenting other red flags, including:

- A promotional campaign that misrepresents the company’s earnings potential
- Failure to provide investors independently verified proven or probable reserves in Mexico, which is a primary focus of its potential upside
- Numerous undisclosed risks
- Extreme overvaluation relative to proven antimony producers
- A weak capital structure that disadvantages common shareholders in favor of preferred shareholders

In this report, we’ll shed light on these issues and additional causes for concern discovered during our own research process, including the following:

- Violations of Reg S-K
- Potential violations of AMEX listing requirements that mandate a majority of directors be independent
- Structural issues rendering UAMY’s business model as uncompetitive
- A troubling web of insider dealing and related party transactions
- Pumping the Stock Price and Potential Violations of Regulation FD
- Undisclosed and material litigation claiming UAMY abetted a fraud
- 5 year old internal control deficiencies that remain unresolved
- An auditor with its own audit deficiencies signing off on the company’s financials

UAMY is in Violation of Regulation S-K: Failure to Disclose >10% Customers

Regulation S-K spells out what companies are required to disclose in the nonfinancial portion of their filings with the Securities and Exchange Commission. As a part of the 1933 Securities Act, Reg S-K is meant to ensure buyers of securities receive complete and accurate information before they invest. The complete body of this regulation can be found [here](#).¹

¹ UAMY is not a ‘Smaller Reporting Company’ as defined by Reg-S-K; therefore, it does not qualify for the more lenient ‘scaled disclosure’ requirements afforded to such companies. Accordingly, UAMY does not check the ‘Smaller Reporting Company’ box in the cover pages of its HTML-format filings (see most recent 10-Q in HTML

Item 101(c)(1)(vii) of the regulation explicitly mandates that companies name the customers that represent 10% or more of the company's annual revenues. Specifically, they are required to disclose the following:

*The dependence of the (business) upon a single customer, or a few customers, the loss of any one or more of which would have a material adverse effect on the segment. **The name of any customer and its relationship, if any, with the registrant or its subsidiaries shall be disclosed if sales to the customer by one or more segments are made in an aggregate amount equal to 10 percent or more of the registrant's consolidated revenues and the loss of such customer would have a material adverse effect on the registrant and its subsidiaries taken as a whole.** The names of other customers may be included, unless in the particular case the effect of including the names would be misleading. For purposes of this paragraph, a group of customers under common control or customers that are affiliates of each other shall be regarded as a single customer.*

UAMY provides the following disclosure about its customers in its recent [10-Q](#):

During the six months ended June 30, 2012, approximately 86% of the Company's antimony revenues were generated by sales to three customers. Loss of any of the Company's key customers could adversely affect its business.

Its high customer concentration and absence of specific disclosures of those customers' names appears to be a clear violation of Reg S-K.

Absent and opaque disclosures appear to be a recurring theme for this business. In the next section we explore in greater detail why we believe the company may be hiding its customers' identities.

We Believe UAMY may be in Violation of AMEX Listing Requirements

In order to qualify for listing on the AMEX exchange, companies are required to meet specific listing requirements. The governing literature can be found [here](#). According to Section 802, "at least a majority of the directors... of each listed company must be independent directors..." Furthermore, the rules clearly state that executive officers, their family members, and board members who have done business with the company in amounts exceeding 5% of the organization's revenue in any of the most recent three fiscal years shall not be deemed independent.

Accordingly, it is clear that CEO John Lawrence and his son Vice President Russell Lawrence, as executive officers and relatives, do not qualify as independent directors. Because UAMY's board is currently composed of six members, the remainder of its directors must meet the AMEX's definition of independent in order for the company to be in compliance with the exchange's listing requirements.

format [HERE](#)), instead acknowledging its status as an 'Accelerated Filer'. However, it inexplicably claims 'Smaller Reporting Company' status in its XBRL-format filings (see most recent 10-Q in XBRL format [HERE](#)).

The company released an [8-k](#) in February 2012 announcing the appointment of its newest director Whitney Ferer. It describes him as “one of the largest traders of antimony metal and oxide in the United States.” UAMY describes itself in its [2011 10-K](#) as “the only significant US producer of antimony products.” We found it difficult to believe that one of the largest US traders in antimony is not also trading the antimony of the only significant US producer. Furthermore, we wondered whether the company might have something to hide by not disclosing its largest customers as mandated by Reg S-K.

We conducted an independent investigation into Mr. Ferer’s dealings with UAMY and received in the email provided below an attestation from Ferer himself to the fact that he has done business with United States Antimony for over 25 years. **It is very likely Mr. Ferer does not meet the AMEX’s definition of independence and that UAMY is trading on the AMEX in violation of that exchange’s rules.**

Mr. Ferer also sheds light on the structural issues facing UAMY that will continue to prevent it from making money in the future. **Put simply, antimony is cheaper to purchase from foreign sources, even when factoring in transportation costs.** This explains why, even by UAMY’s own admission, they only supply 4% of the U.S. market for antimony products: Few rational purchasers would buy UAMY’s antimony product at such a large premium being that it is a pure commodity with no differentiating factors.

Email Evidencing Board Member Ferer Likely Not “Independent”

From: Ferer, Whitney [REDACTED]
Date: Mon, Sep 17, 2012 at 8:33 PM
Subject: RE: follow-up questions for Mr. Whitney Ferer
To: [REDACTED], AFSCO [REDACTED], [REDACTED], "Ferer, Whitney [REDACTED]"

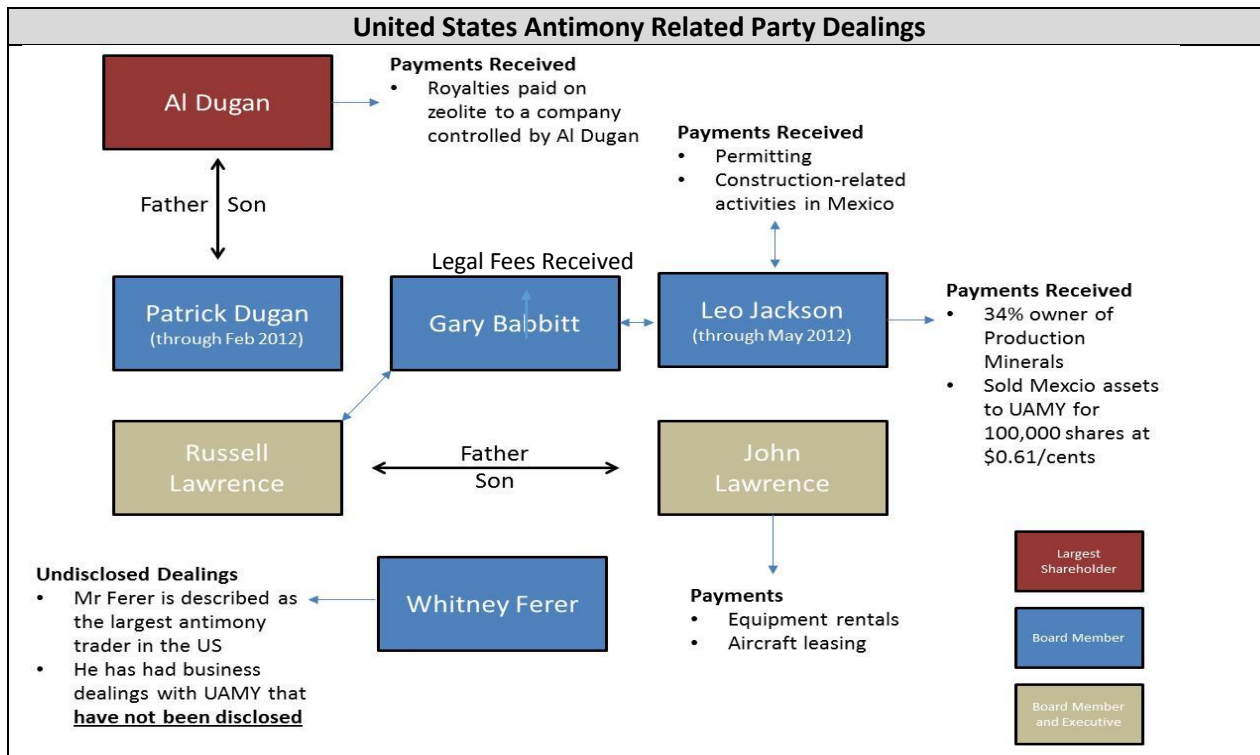
Mike,

It was a pleasure speaking with you last week. I do apologize for the manner of replying to you below but figured with all of your questions this might be the easiest way for you to track your question and the answers as stated.

1. You quoted the current world price at \$4.95/lb and indicated that to secure US refined/raw antimony would be at a premium in the range of \$5.50 - \$5.95/lb
 - o Would this include the margin for your services of facilitating our request? **Yes**
 - o Can you explain why the current cost differential exists? Is it a function of taxes, transportation costs, or purely a structural issue causing US producers to be less cost competitive (lower grades, higher refining costs, higher labor, etc?) **Good question and a little of all of those reasons rolled into one. Further there is only one USA producer remaining and they do produce a good quality Sb trioxide but they do rely upon North American (or potentially other) sources of ore/ concentrate, feedstock.**
 - o Can we expect this price differential to persist for the foreseeable future, or is there anything you’re aware of that might cause the price differential to narrow, or widen, in the future? **I believe that their production will remain at a premium and it should remain fairly constant as a premium within this range for at least the next 1-3 years.**
 2. How many US producers are currently in the market? **One.**
 - o This might sounds like a naive question, but it’s important for us if we are to have secure US suppliers, but how can a US producer stay in business with that differential being so wide? Should we be concerned over the long run that our US supply sources should be stable? **I actually think that is one of the best questions which should be asked and one that should come quickly to mind if anyone sat down long enough to access the problems with producing anything in the USA. I believe that the company is stronger today than they have ever been prior. They have undergone a lot of growing pains but I think they should be stable going forward for many years to come but as you can imagine in business, there are no guarantees.**
 - o I recall you saying you have a direct relationship with a particular US producer. Do you stand behind their product quality, consistency, and ability to deliver on time? In particular, can you say you’ve done business with them in sufficient enough size (we’re looking for at least a few hundred thousand dollars annually in purchase orders), that they’ll be able to handle our anticipated order requirements? **Basis the dollar amount you have indicated this would equate to be less than 1 truck load per year.**
- Yes, we have a good relationship with the company and have done business with them for over 25 years. They are dependable and should be able to deliver product on a timely basis, especially for the minimal quantities that you currently require.**

Complex Web of Insider Dealing

Our findings regarding Mr. Ferer are just one of many instances that reflect UAMY’s opaque business dealings. In the diagram below, we have outlined the complex web of insider and related-party dealings. **The key take-away is that every individual appears to be benefitting at the expense of shareholders.** For over 10 years, the CEO John Lawrence has benefitted from renting equipment and an airplane to the company. Moreover, for 7 years the CEO’s son Russell Lawrence has been a member of the board and received payments. Long-time board member, Leo Jackson, who recently resigned due to “health concerns” was also a beneficiary of the company’s Mexico growth aspirations. In 2006, he benefited from the sale of the 50% interest in United States Antimony, Mexico S.A. de C.V. "USAMSA." The 50% interest was acquired from Production Minerals, a company that was 34% owned by Mr. Jackson. Mr. Jackson has continued to extract fees from the on-going permitting and construction-related activities in Mexico, as have board members Russell Lawrence and Gary Babbitt. Further, Mr. Babbitt, a lawyer by training, has also been the beneficiary of company money by acting as legal counsel and receiving fees for his services.

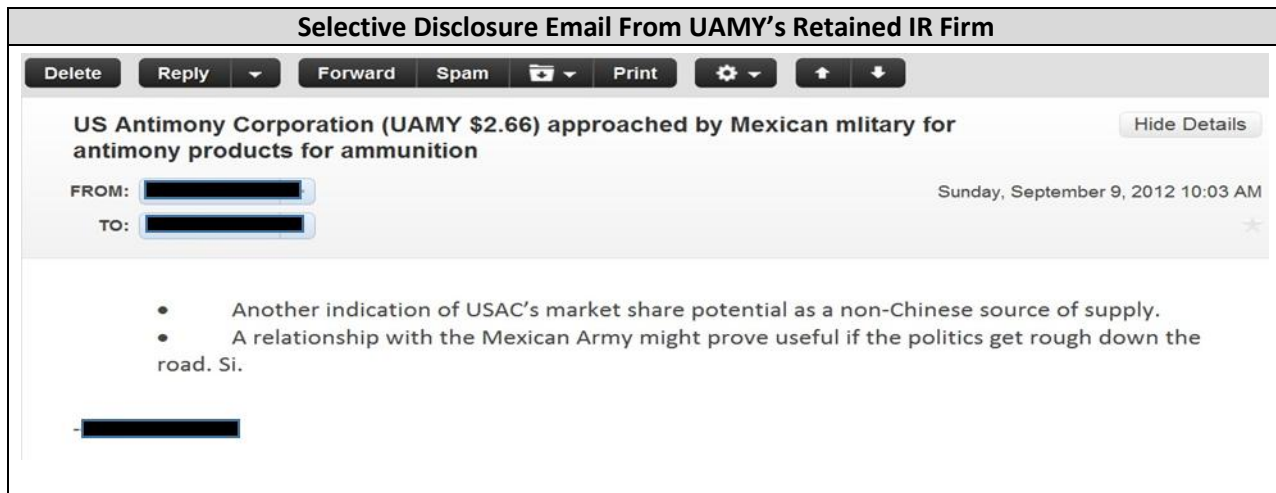


Pumping the Stock Price and Potential Violations of Regulation FD

The SEC adopted Regulation FD (“Reg FD”) to address the selective disclosure of information by publicly traded companies and other issuers. Reg FD provides that when an issuer discloses material nonpublic information to certain individuals or entities—generally, securities market professionals, such as stock analysts, or holders of the issuer’s securities who may well trade on the basis of the information—the issuer must make public disclosure of that information. In this way, the new rule aims to promote full and fair disclosure.

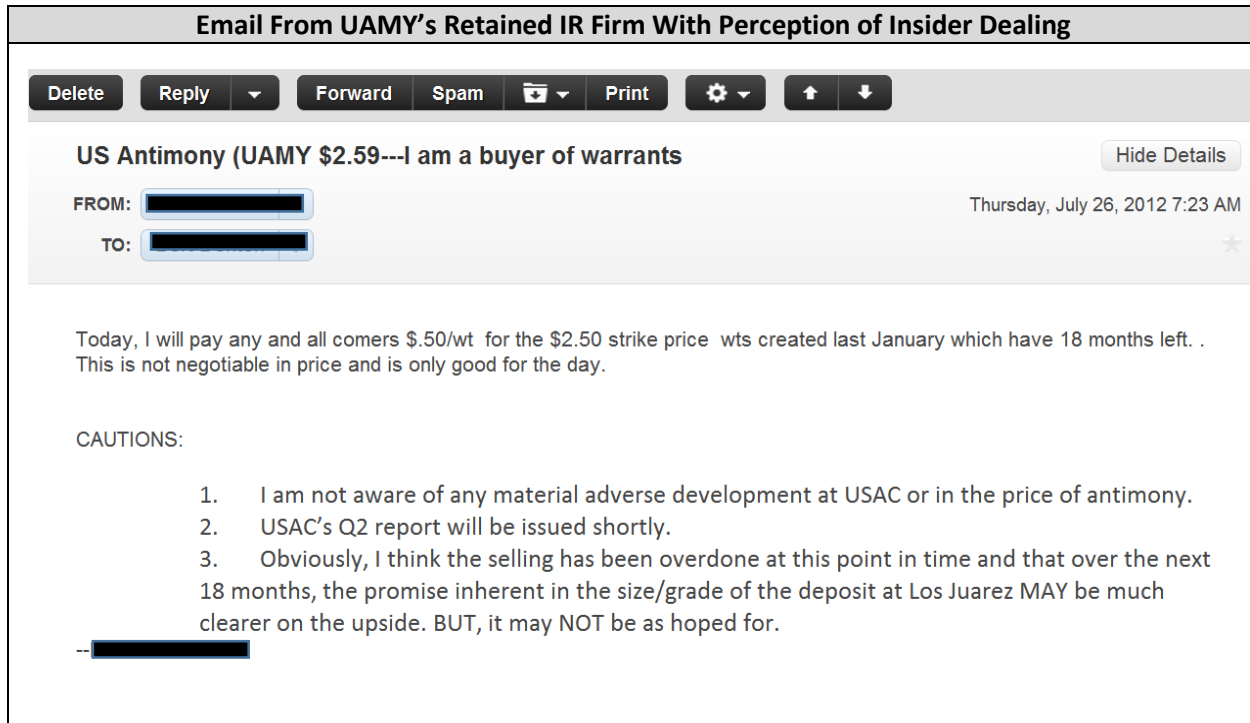
We have obtained evidence that the company’s IR firm is disbursing information to a select group of interested parties. To illustrate, we have provided a copy of an email dated September 9, 2012 from the company’s IR firm in which it leaks information of UAMY having been “approached by Mexican military for antimony products for ammunition.” Considering that UAMY has disclosed that it has a small customer base of high concentration, we believe this news could be deemed material and should be disclosed to all investors through an 8-k filing or publicly disseminated press release.

Indeed, UAMY’s stock price rose ~7% on the Monday following this weekend distribution. By Thursday’s close it had risen 10%; at its Friday peak following this announcement, the stock had risen 16%.



Another email recently distributed could be interpreted as selective disclosure of earnings ahead of a public announcement. On July 26, 2012, UAMY’s IR rep distributed an email announcing he would purchase UAMY’s warrants just days ahead of the company’s second quarter earnings, which were to be released on August 10, 2012.²

² UAMY 2nd Qtr Earnings: <http://finance.yahoo.com/news/u-antimony-reports-record-sales-152100503.html>



UAMY's stock price rose 9% on the day of this distribution. By the next day's close it had risen 15%; at its peak on the following day, the stock had risen 19%.

We are not certain as to whether UAMY's IR firm was in possession of material nonpublic information; and, we don't know whether the IR rep ended up transacting in UAMY warrants. Regardless, we do believe that this type of offer from someone investors perceive to be 'in the know' ahead of an important announcement has powerful positive signaling effects and that such communications can be very effective in pumping the stock price.

We believe UAMY's stock today trades at levels that defy comprehension relative to our assessment of its intrinsic worth.

Failed Promises to Show Proven or Probable Reserves

UAMY has been baiting its shareholders for years on the promise that its Mexican operations hold vast amounts of antimony, gold, and silver. However, we find it baffling that they refuse to pay any geological experts to validate what they actually have. Moreover, the company has a history of misleading investors with the promise of providing more information, only to go silent and provide no additional evidence of their holdings. For example, in an [8-k filing](#), UAMY announced that on April 19 and 20, 2012, Grupo Mexico, the largest mining corporation in Mexico, took samples at the Los Juarez mining concessions of USAMA. On April 27, 2012, Grupo Mexico informed the Company that it would begin diamond core drilling for silver, gold and antimony on the Grupo Mexico concession adjacent to the USAMSA property. After 5 months, the company

has offered no single update to shareholders about the samples that were taken by Grupo Mexico or the results of any holes that have been drilled. Likewise, on August 20th, the company [announced](#) that assay results from some rocks in Mexico would be expected “shortly.” Nearly a month has passed, and the company has offered no results. This further illustrates the pattern of opaque disclosures, and the company’s propensity for not following through on delivering tangible evidence of its antimony holdings to investors.

Another Potential Violation of Reg S-K: Material, Undisclosed Lawsuit Claims UAMY Abetted a Fraud

We believe UAMY has also made material omissions and misstatements in its disclosures regarding legal proceedings against the company. A search of the public record reveals that UAMY, its wholly-owned zeolite subsidiary, some business associates, and its CEO John Lawrence were named as co-defendants in a [case filed in 2010 alleging fraud, racketeering, and other legal infractions](#) and seeking potential damages amounting to many millions of dollars.

The plaintiff Compania Inversora Corporativa SA (“CIC”) is a Mexican holding company that has existed for over 50 years and operates a diversity of Mexican and international business ventures, collectively employing over 10,000 people. CIC claims that it was solicited to invest in a company that supposedly owned the mining rights over UAMY’s wholly-owned zeolite mining operation (“BRZ”) and told that its investment would go toward expanding the BRZ mine site and adding buildings and/or purchasing equipment. The lawsuit claims that CIC was sold a bad bill of goods and that its \$1 million investment never went toward expanding BRZ and was instead distributed to “former investors in a manner closely resembling a Ponzi scheme”. It states that it never received any securities or a return on its investment and that the business entity it invested in was later terminated without notice.

In another potential violation of Reg S-K (Item 103), UAMY makes an incomplete disclosure regarding the situation in its [2010 10-K](#) and makes no disclosures of the matter in any subsequent filing. UAMY’s 2010 10-K states only that UAMY “has been named in a lawsuit against one of its previous customers, currently we do not anticipate any contingent liabilities arising from these matters.”

However, Reg S-K requires providing investors with “the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought.” UAMY discloses none of these items, information any rational investor would desire for conducting normal-course due diligence.

Further, CIC’s lawsuit claims that UAMY CEO John Lawrence played a central role in selling CIC on the investment opportunity, that he met with the Plaintiff on multiple occasion, and that he was aware of and abetted the fraud being perpetuated. It also claims that UAMY/BRZ pocketed \$300,000 of its misappropriated funds. UAMY’s 2010 and subsequent 10-K’s, however, state the following:

“We are not aware of any involvement by our directors or executive officers during the past five years in legal proceedings that are material to an evaluation of the ability or integrity of any director or executive officer.”

We are not certain of the current status of this proceeding. However, we should note that every other filing subsequent to the 2010 10-K states that “USAC is not a party to any material pending legal proceedings, and no such proceedings are known to be contemplated.”

We believe that UAMY may have made material omissions and material misstatements in not being forthright in the disclosures it is required to make to investors.

Internal Control Deficiencies Unresolved for Over 5 Years

UAMY has a long history of material weaknesses in internal control over financial reporting. The following internal control deficiencies were noted in UAMY’s 2011 10-K and have remained unresolved for the past 5 years:

- The absence either internally or on its Board of Directors the expertise to produce financial statements to be filed with the SEC.
- The absence of proper segregation of duties within significant accounts and processes and the absence of controls over management oversight, including antifraud programs and controls; and. The president authorizes the majority of the expenditures and signs checks.
- Inadequate documentation of controls and monitoring of internal controls over significant accounts and processes including controls associated with the period-end financial reporting process
- The absence of controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles and the sufficient expertise in selecting and applying generally accepted accounting principles, including controls over non-routine transactions and controls over the period-end financial reporting process.

A company’s [internal control over financial reporting](#) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. In this case, UAMY’s auditor had to take extra measures in order to get comfortable with its financial statements due to inadequate processes that would ensure the reliability of its financial reporting. Further, this resulted in UAMY’s auditor identifying material misstatements in the company’s financial statements during its year-end audit.

During the quarter ended December 31, 2011, UAMY finally took a step toward resolving these matters by hiring CFO Daniel L. Parks, a Certified Public Accountant, to assist with the financial statements. However, according to his biography, it is not evident that he has any experience working in the CFO role for a publicly traded company. Moreover, the CEO John Lawrence is still acting as Treasurer according to the last 10-k filed in March 2012, leaving open the potential for financial mismanagement.

An Auditor with its own Audit Deficiencies Signing off on the Company’s Financials

A common theme that has emerged from our experiences in bringing to light troubled companies is that many tend to share the same auditors. UAMY’s current auditor DeCoria, Maichel & Teague P.S. (“DMT”) received a [PCAOB inspection](#) in 2010 that concluded the following:

The inspection team identified what it considered to be audit deficiencies. The deficiencies identified in one of the audits reviewed included a deficiency of such significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements...

The PCAOB is an independent third-party “nonprofit corporation established by Congress to oversee the audits of public companies in order to protect investors and the public interest by promoting informative, accurate, and independent audit reports”.

DMT’s average mining client is a bulletin board or pink sheet listed penny stock with an average market capitalization of \$10 million.

DeCoria, Maichel and Teague P.S. - Mining Clients

\$ in millions

Company	Exchange/Ticker	Main Assets	Share Price	Market Cap
Timberline Resources	AMEX: TLR	Montana	\$0.35	\$20.1
Gryphon Gold Corp	OTCBB: GYPH	Western Nevada	\$0.10	\$19.4
StarGold	PINK: SGRZ	Nevada	\$0.50	\$11.1
Goldrich Mining	OTCBB: GRMC	Alaska	\$0.10	\$10.1
Independence Resources PLC	OCTBB: SNKTY	Idaho/California	\$0.48	\$9.9
Thunder Mountain Gold	OTCBB: THMG	Nevada/Idaho	\$0.12	\$3.6
Gold Crest Mines	OTCBB: GCMN	Alaska	\$0.03	\$2.7
Jayhawk Energy	PINK: JYHW	North Dakota/Kansas	\$0.03	\$1.7
Average:			\$0.21	\$9.8

United States Antimony	AMEX: UAMY	Montana/Idaho/Mexico	\$2.65	\$169.1
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Source: PCAOB annual report 2011

<https://rasr.pcaobus.org/Firms/FirmSummaryPublic.aspx?FirmID=8BAE49945D7390A140E11FD60CE0C9B5>

While we understand that making money in junior miners can be a crapshoot, we should note that not a single equity in the above roster has delivered a positive total return for its shareholder in the past 5 years.

Share Price Performance of DMT's Clients - Last 5 Years



Conclusion: UAMY Appears Headed Back to the Bulletin Board

It took United States Antimony 40 years to attain its listing on the American Stock Exchange, but based on the evidence it could be weeks before losing it. To achieve this listing milestone, the company had to inflate its stock price above \$3.00 per share and make some corporate governance changes, such as creating an independent board. To accomplish the minimum share price requirement, the company appears to have embarked on a series of promotional campaigns geared toward retail investors, and based them on the hope that their Mexican operations would produce windfall profits for shareholders. As has been previously reported, the company's Mexican subsidiary was once written-off as worthless and was ultimately acquired from a company director for a pittance. But, it is no wonder the company's assets have historically had little value – due to structural issues in the global antimony market, US antimony producers are noncompetitive on price and struggle to make a profit.

Moreover, related party transactions appear to be the normal practice for UAMY. Nearly all of their current and former directors have been beneficiaries of payments for things such as royalty payments, legal fees, equipment leases, aircraft rentals, and construction services tied to the Mexico operations. We have also provided evidence that Mr. Ferer, a recently appointed board member, is also not independent due to his admission that he has done and continues to do business with the company. In violation of Reg S-K, UAMY does not currently disclose who its largest customers are, so we are left to speculate whether UAMY is involved in large, undisclosed insider dealings with Mr. Ferer's company.

We have also found additional evidence of material and undisclosed information relating to litigation with the company's zeolite operation. This also fits the pattern of opaque reporting and limited disclosure to investors. We have not gained any comfort in UAMY taking adequate steps forward to bolster its governance and financial reporting controls. The company's internal controls over financial reporting are reportedly weak and have not been remediated for multiple years. The appointment of a former CFO who lacks any public company operating experience does not provide shareholders any meaningful assurance that these problems will be resolved. However, perhaps most disturbing is that UAMY may be engaging in selective disclosure of material information, which would be a violation of Regulation FD.

We intend to submit our findings to the AMEX, FINRA and the SEC for proper review. We urge the AMEX to halt trading in UAMY's shares pending resolution of these matters. Further, we urge FINRA and the SEC to investigate the company's potential violations and to mandate corrective action in an effort to protect public shareholders.