

American Rare Earths & Materials, Corp.
Form 10-Q
February 13, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 0-15260

American Rare Earths and Materials, Corp.

(Exact name of Registrant as specified in its charter)

Nevada 98-0669413
(State or other jurisdiction of incorporation or organization) (Internal Revenue Service Employer Identification No.)

200 Queens Quay East, Unit #1, Toronto, Ontario, Canada, M5A 4K9
(Address of Principal Executive Offices)

416-362-2121
Registrant's telephone number, including area code

(Former name and former address, if changed since last Report)

Indicate by check whether the Registrant (1) 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 No

Edgar Filing: American Rare Earths & Materials, Corp. - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See the definition 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

Check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date, 33,391,152 shares of common stock, par value \$0.001 per share as of February 13, 2012.

American Rare Earths and Materials, Corp. and Subsidiaries

INDEX

| | Page Number |
|-----------------------------------------------------------------------------------------------------------------------------|----------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1 Condensed Consolidated Financial Statements: | |
| Condensed Consolidated Balance Sheets as of December 31, 2011 and June 30, 2011 (Unaudited) | 3 |
| Condensed Consolidated Statements of Operations for the Six and Three Months Ended December 31, 2011 and 2010 (Unaudited) | 4 |
| Condensed Consolidated Statement of Changes in Shareholders' Deficit for the Six Months Ended December 31, 2011 (Unaudited) | 5 |
| Condensed Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2011 and 2010 (Unaudited) | 6 |
| Notes to Condensed Consolidated Financial Statements (Unaudited) | 7 |
| Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Item 3 Quantitative and Qualitative Disclosures About Market Risk | 19 |
| Item 4 Controls and Procedures | 19 |
| PART II. OTHER INFORMATION | |
| Item 1 Legal Proceedings | 19 |
| Item 1A Risk Factors | 19 |
| Item 2 Unregistered Sales of Equity Securities and Use of Proceeds | 20 |
| Item 3 Defaults upon Senior Securities | 20 |
| Item 4 [Removed and Reserved] | 20 |
| Item 5 Other Information | 20 |
| Item 6 Exhibits | 20 |
| SIGNATURES | 24 |
| EXHIBITS | |

PART 1 - FINANCIAL INFORMATION**Item 1 - Financial Statements****AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

| | December 31, 2011 | June 30, 2011 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|--------------------|
| - ASSETS - | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents (includes restricted cash of \$78,118 and \$78,198 as of December 31, 2011 and June 30, 2011, respectively (Note 12)) | \$ 230,311 | \$256,461 |
| Accounts receivable - net of allowance for doubtful accounts of \$25,307 and \$24,799 as of December 31, 2011 and June 30, 2011, respectively | 567,647 | 492,240 |
| Inventories, net | 474,454 | 536,716 |
| Prepaid expenses and other current assets | 150,203 | 104,272 |
| TOTAL CURRENT ASSETS | 1,422,615 | 1,389,689 |
| FIXED ASSETS, NET | 33,251 | 41,923 |
| TOTAL ASSETS | \$ 1,455,866 | \$1,431,612 |
| - LIABILITIES AND SHAREHOLDERS' DEFICIT- | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 608,838 | \$735,341 |
| Accounts payable - related party | 242,076 | 242,076 |
| Royalty payable | 1,732,772 | 1,564,748 |
| Accrued expenses | 940,220 | 910,723 |
| Accrued expenses – related parties | 1,709,992 | 1,580,992 |
| Deferred revenue | 625 | 160 |
| Loans and advances – related party | 158,738 | 158,738 |
| Dividends payable | 60,000 | 60,000 |
| Loan payable – related party | 347,441 | - |
| Due to Zeroloft Corp. | 277,881 | 277,881 |
| TOTAL CURRENT LIABILITIES | 6,078,583 | 5,530,659 |
| CONTINGENCIES | | |
| SHAREHOLDERS' DEFICIT: | | |
| Preferred stock, \$0.10 par value, authorized undesignated 2,447,000 shares, no shares issued and outstanding | - | - |
| Series A Convertible Preferred stock, \$0.001 par value, authorized 2,200,000 shares, 2,113,556 shares issued and outstanding as of December 31, 2011 and June 30, 2011 | 2,114 | 2,114 |

Edgar Filing: American Rare Earths & Materials, Corp. - Form 10-Q

| | | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|---|--------------|
| Series B Convertible Preferred stock, \$0.10 par value, authorized 353,000 shares, 352,945 shares issued and outstanding as of December 31, 2011 and June 30, 2011 | 35,295 | | 35,295 |
| Common stock, \$0.001 par value; 300,000,000 shares authorized, 30,950,201 and 25,782,299 issued and outstanding at December 31, 2011 and June 30, 2011, respectively | 30,950 | | 25,782 |
| Additional paid-in capital | 34,062,091 | | 33,524,331 |
| Accumulated deficit | (38,753,167 |) | (37,686,569) |
| TOTAL SHAREHOLDERS' DEFICIT | (4,622,717 |) | (4,099,047) |
| | | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT | \$ 1,455,866 | | \$1,431,612 |

See notes to condensed consolidated financial statements.

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE SIX AND THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010****(Unaudited)**

| | Six Months Ended December 31, 2011 | | Three Months Ended December 31, 2010 | |
|-----------------------------------------------------------------------|------------------------------------|-----------------|--------------------------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| REVENUES | \$ 1,142,243 | \$ 1,742,902 | \$ 699,770 | \$ 1,091,999 |
| COSTS OF SALES | 855,784 | 897,853 | 556,261 | 471,874 |
| GROSS PROFIT | 286,459 | 845,049 | 143,509 | 620,125 |
| GENERAL AND ADMINISTRATIVE EXPENSES | 1,228,808 | 2,700,030 | 464,398 | 1,528,847 |
| LOSS FROM OPERATIONS | (942,349) | (1,854,981) | (320,889) | (908,722) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | - | 296 | - | 72 |
| Interest expense | (4,249) | (4,329) | (4,249) | (493) |
| | (4,249) | (4,033) | (4,249) | (421) |
| LOSS BEFORE PROVISION FOR INCOME TAXES | (946,598) | (1,859,014) | (325,138) | (909,143) |
| Provision for income taxes | - | - | - | - |
| NET LOSS | (946,598) | (1,859,014) | (325,138) | (909,143) |
| Dividends on Series B Preferred Convertible stock | (120,000) | (120,000) | (60,000) | (60,000) |
| NET LOSS AVAILABLE TO COMMON STOCKHOLDERS | \$ (1,066,598) | \$ (1,979,014) | \$ (385,138) | \$ (969,143) |
| Basic and diluted net loss per share available to common stockholders | \$ (0.04) | \$ (0.09) | \$ (0.01) | \$ (0.04) |
| Basic and diluted weighted average shares outstanding | 28,707,566 | 22,789,636 | 30,381,830 | 23,309,561 |

See notes to condensed consolidated financial statements.

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT****FOR THE SIX MONTHS ENDED DECEMBER 31, 2011****(Unaudited)**

| | Series A Convertible Preferred Stock | Series B Convertible Preferred Stock | Number of Shares in Common Stock | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Total Shareholders' Deficit |
|----------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|-------------------------------------------|-----------------|----------------------------------|------------------------|-----------------------------------|
| Balance, June 30, 2011 | \$ 2,114 | \$ 35,295 | 25,782,299 | \$ 25,782 | \$ 33,524,331 | \$(37,686,569) | \$(4,099,047) |
| Issuance of common stock for services | - | - | 4,144,252 | 4,144 | 418,784 | - | 422,928 |
| Dividends on Series B Convertible Preferred Stock, paid in common stock | - | - | 1,023,650 | 1,024 | 118,976 | (120,000) | - |
| Net loss | - | - | - | - | - | (946,598) | (946,598) |
| Balance, December 31, 2011 | \$ 2,114 | \$ 35,295 | 30,950,201 | \$ 30,950 | \$ 34,062,091 | \$(38,753,167) | \$(4,622,717) |

See notes to condensed consolidated financial statements.

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED DECEMBER 31, 2011 AND 2010****(Unaudited)**

| | 2011 | 2010 |
|--------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(946,598) | \$(1,859,014) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Compensatory common stock and warrants | 422,928 | 387,165 |
| Depreciation | 8,672 | 10,306 |
| Amortization of intangible asset | - | 392,086 |
| Foreign exchange loss | 7,437 | - |
| Accrued interest | - | (216) |
| Changes in: | | |
| Accounts receivable | (75,407) | 355,936 |
| Inventories | 62,262 | 15,614 |
| Prepaid expenses and other current assets | (45,931) | 449,778 |
| Accounts payable, accrued expenses and royalty payable | 204,267 | 399,819 |
| Deferred revenue | 465 | 311,253 |
| Due to Zeroloft | - | (129,208) |
| Net cash provided by (used in) operating activities | (361,905) | 333,519 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from short-term investments | - | 251,875 |
| Net cash provided by (used in) investing activities | - | 251,875 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of loan payable - shareholder | - | (350,000) |
| Loan payable – related party | 335,755 | - |
| Exercise of warrants | - | 110 |
| Net cash provided by (used in) financing activities | 335,755 | (349,890) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (26,150) | 235,504 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 256,461 | 513,035 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$230,311 | \$748,539 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Interest paid | \$- | \$- |
| Income taxes paid | \$- | \$- |
| Issuance of shares of common stock for dividends | \$120,000 | \$120,000 |
| Repayment of amount due to Zeroloft Corp. through application of receivable from Zeroloft Corp. for certain reimbursable costs | \$- | \$442,912 |

See notes to condensed consolidated financial statements.

6

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1

NATURE OF BUSINESS AND OPERATIONS

American Rare Earths and Materials, Corp. and subsidiaries (the “Company” and or “AREM”) is a developer of applications of high tech materials used in the sports industry including advanced Scandium Alloy golf products, bio-fiber fishing equipment and Zeroloft Aerogel insulation for sports apparel and footwear. New materials applications developed by AREM are incorporated by manufacturers and original equipment manufacturers (“OEM”) into their product lines including AREM’s own line of Scandium Sc TM golf and Carrot Stix TM fishing equipment.

AREM has developed proprietary Scandium Alloys, bio-fiber composites and Zeroloft insulation manufacturing paths and product engineering for various sports, apparel and footwear applications. AREM secured international recognition by winning several top honors at shows, and recording wins for professional athletes using equipment manufactured by AREM or incorporating AREM materials.

In September of 2002, BRL Holdings, Inc. (“BRL”) acquired Element 21 Technologies, Inc. (“Technologies”) under an Amended and Restated Agreement (the “Agreement”) wherein BRL issued 106,181 shares of its common stock to shareholders of Technologies and assumed Technologies’ obligations under option agreements allowing for the purchase of 16,080 additional shares of common stock. Technologies was a development stage company formed to design, develop and market AREM alloy golf clubs. This acquisition was accounted for as a reverse acquisition using the purchase method of accounting, as the shareholders of Technologies assumed control immediately following the acquisition.

In October 2003, BRL Holdings, Inc. changed its name to Element 21 Golf Company (“Element 21”).

Upon the closing of the Technologies acquisition, as discussed above, Element 21 reported as a development stage enterprise effective September 17, 2002. During fiscal year 2005, Element 21 commenced active operations and began reporting revenues during the last quarter of the year.

The first products manufactured using the Company’s proprietary golf technology have been produced and the Company commenced distribution to wholesalers and retail markets during the last quarter of its fiscal year ended

June 30, 2006.

In May 2007, the Board of Directors adopted resolutions approving an amendment and a majority of shareholders also approved amending the AREM's Certificate of Incorporation to increase the number of authorized shares of capital stock to 300,000,000 shares of common stock and 5,000,000 shares of preferred stock.

In June 2007, the Company expanded into recreational fishing equipment. On June 21, 2007, the Company entered into a non-exclusive, world-wide patent license with Advanced Light Alloys Corporation, a Barbados Corporation ("Advanced") pursuant to which AREM received a license from Advanced to make, use, and sell fishing equipment utilizing certain of Advanced's technologies. The Carrot Stix line of fishing rods is sold in major box stores (such as Bass Pro, Gander Mountain, Cabela's and Academy) and smaller retailers across North America and internationally.

On April 25, 2008, AREM effected a 1 for 20 reverse stock split. All share and per share amounts in this report have been retroactively restated to reflect the 1 for 20 reverse split.

On January 14, 2010, the Company signed an exclusive Trademark License and Product Distribution Agreement ("License Agreement") with Zeroloft Corp. pursuant to which the Company received an exclusive license for the applications of the Zeroloft Aspen Aerogels patented technology in the sports apparel and footwear market.

On July 12, 2010, Element 21 Golf Company effected a re-domestication merger from the State of Delaware to the State of Nevada and changed its name to American Rare Earths and Materials, Corp.

The Company is subject to a number of risks similar to those of other companies in the early stages of operations. Principal among these risks are dependencies on key individuals, competition from other current or substitute products and larger companies, the successful marketing of its products and the need to obtain adequate additional financing necessary to fund future operations.

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****NOTE 2****BASIS OF PREPARATION**

Pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q, the condensed consolidated financial statements, footnote disclosures and other information normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The condensed consolidated financial statements contained in this report are unaudited but, in the opinion of management, reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the condensed consolidated financial statements. All significant inter-company accounts and transactions have been eliminated on consolidation. The results of operations for any interim period are not necessarily indicative of results for the full year. The condensed consolidated balance sheet at June 30, 2011 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended June 30, 2011.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management reviews these estimates and assumptions on an ongoing basis using currently available information. Actual results could differ from those estimates.

Inventories, which consist primarily of goods held for resale, are stated at the lower of cost (weighted-average method) or market and are comprised as follows:

| | December 31, 2011 | June 30, 2011 |
|----------------------------------|----------------------|---------------|
| Finished goods | \$ 1,122,709 | \$ 1,207,345 |
| Components | 220,917 | 221,101 |
| | 1,343,626 | 1,428,446 |
| Less: Provision for obsolescence | (869,172) | (891,730) |
| | \$ 474,454 | \$ 536,716 |

Edgar Filing: American Rare Earths & Materials, Corp. - Form 10-Q

Included in revenues on the condensed consolidated statement of operations for the six months ended December 31, 2011 is the recovery of out of pocket expenses paid on behalf of Zeroloft Corp. and Zeroloft sales of \$102,658 (December 31, 2010 - \$870,598). Cost of sales includes \$16,814 of expenditures related to Zeroloft activities (December 31, 2010 - \$223,532) and general and administrative expenses includes \$85,844 of expenditures related to Zeroloft activities (December 31, 2010 - \$642,533) and amortization of intangible asset of \$0 (December 31, 2010 - \$392,086).

Included in revenues on the condensed consolidated statement of operations for the three months ended December 31, 2011 is the recovery of out of pocket expenses paid on behalf of Zeroloft Corp. and Zeroloft sales of \$0 (December 31, 2010 - \$603,378). Cost of sales includes \$0 of expenditures related to Zeroloft activities (December 31, 2010 - \$130,169) and general and administrative expenses includes \$0 of expenditures related to Zeroloft activities (December 31, 2010 - \$468,651) and amortization of intangible asset of \$0 (December 31, 2010 - \$196,043).

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****NOTE 3****GOING CONCERN**

These condensed consolidated financial statements have been presented on the basis that the Company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company began generating revenues in fiscal 2005. Even with the generation of revenues from the sale of golf, fishing and Zeroloft products now being produced and sold, the Company expects to incur expenses in excess of revenues for an indefinite period.

Key financial information follows:

| | As at and for the six months ended December 31, 2011 | As at and for the year ended June 30, 2011 |
|--------------------------|------------------------------------------------------------------|-----------------------------------------------------|
| Negative working capital | \$ (4,655,968) | \$ (4,140,970) |
| Net loss | \$ (946,598) | \$ (6,207,600) |
| Accumulated deficit | \$ (38,753,167) | \$ (37,686,569) |

As shown in the accompanying condensed consolidated financial statements, during the six months ended December 31, 2011, the Company incurred a net loss of \$946,598 and cash utilized in operations during this period of \$361,905.

These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow and meet its obligations on a timely basis and ultimately attain profitability. Since acquiring the proprietary technology golf development business, the Company has depended on financings and consulting services from consultants engaged by the Company some of whom have agreed to accept full or partial compensation for services with share-based compensation rather than cash.

Absent these continuing advances, services and financings, the Company could not continue with the development and marketing of its golf, fishing and Zeroloft products. Management's plans for the Company include more aggressive marketing, obtaining additional capital to fund operations and other strategies designed to optimize shareholder value. However, no assurance can be given that management will be successful in fulfilling all components of its plans. The failure to achieve these plans will have a material adverse effect on the Company's consolidated financial position, results of operations and ability to continue as a going concern.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY

There have been no recent accounting pronouncements or changes in accounting pronouncements that impacted the second quarter of fiscal 2012, or which are expected to impact future periods that were not already adopted and disclosed in prior periods.

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 5 RELATED PARTY ADVANCES AND LOANS PAYABLE

As of December 31, 2011 and June 30, 2011, \$219,627 of trade payables were due to a Series A Convertible Preferred shareholder, ASA Commerce.

On November 23, 2009, the Board of Directors resolved to permit \$250,000 of debt due to the President to be converted into shares of common stock of the Company at \$0.45 per share. The Board of Directors further resolved that the remaining debt outstanding at November 23, 2009 of \$1,436,415 due to the President may be converted into shares of common stock of the Company at \$0.45 per share upon the Company's common stock reaching a price of \$1.50 per share. At December 31, 2011, \$2,032,806 (which was at June 30, 2011, \$1,942,806) was owed by the Company to the President.

At December 31, 2011, \$78,000 (which was at June 30, 2011, \$39,000) was due to the Chief Financial Officer in accrued compensation owing.

Amounts due to the President and Chief Financial Officer are payable on demand, non-interest bearing and unsecured. In absence of an earlier demand, amounts due are payable on June 30, 2016.

At December 31, 2011, \$347,441 (which was at June 30, 2011, \$0) loan payable, including accrued interest, is due to a director of the Company. The loan is repayable in \$350,000 Canadian dollars, unsecured, due on demand and bears an interest of 10%. The Company incurred interest expense of \$4,249 (which was at December 31, 2010, \$0) related to the loan payable. The director has demanded that \$150,000 Canadian dollars and \$200,000 Canadian dollars for the loan payable be repaid on or before April 4, 2012 and April 20, 2012, respectively.

The Company entered into an unsecured promissory note of \$825,000 with a stockholder on May 27, 2008 with a stated interest rate of 10% and a repayment date of November 1, 2008. The note went into default. On October 12, 2010, the Company repaid the remaining outstanding principal of \$150,000 and on January 20, 2011, remaining outstanding interest payable totaling \$141,953 related to the promissory note was fully paid. The Company incurred interest expense of \$0 (which was at December 31, 2010, \$4,329) related to the promissory note.

NOTE 6

ACCRUED EXPENSES AND ROYALTY PAYABLE

Included in accrued expenses are fees due to a consultant of \$556,861 (which was at June 30, 2011, \$556,861). Amounts due to the consultant are payable on demand, non-interest bearing and unsecured. In absence of an earlier demand, amounts due are payable on June 30, 2016.

During the six months period ended December 31, 2011, the Company incurred a royalty expense of \$168,025 (which was at December 31, 2010, \$145,811) for the sale of fishing equipment which is included in cost of sales. The royalty is calculated as 20% of the net selling price of fishing products sold by the Company and any sub licensee. The royalty is payable to Advanced. During the six months ended December 31, 2011, the Company paid \$0 (December 31, 2010 - \$0) to Advanced. Royalty payable at December 31, 2011 is \$1,732,772 (which was at June 30, 2011, \$1,564,748).

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 7

LOSS PER SHARE

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the periods. Diluted loss per share reflects, in addition to the weighted average number of common shares, the potential dilution of stock options and warrants outstanding, exercised and/or converted into common stock, unless the effect of such equivalent shares was anti-dilutive.

For the three and six months ended December 31, 2011 and 2010, the effect of stock options and other potentially dilutive shares was excluded from the calculation of diluted loss per common share, as their inclusion would have been anti-dilutive. Therefore, diluted loss per share is equal to basic loss per share. Such securities, shown below, presented on a common share equivalent basis and outstanding as at December 31, 2011 and 2010 have been excluded from the six and three month diluted loss per share computations:

| | December 31, 2011 | December 31, 2010 |
|-----------------------------|----------------------|----------------------|
| Warrants | 2,440,985 | 2,750,000 |
| Convertible Preferred stock | 6,414,488 | 2,380,326 |
| Due to Related Party | 3,747,590 | 3,747,590 |
| Options | 425,000 | 425,000 |

NOTE 8

SHAREHOLDERS' EQUITY

During the six months ended December 31, 2011, the Company issued 4,144,252 shares of its common stock to consultants for services rendered by them for an aggregate fair value of \$422,928 based on the quoted market price of the shares at time of issuance.

On July 1, 2011, the Company issued 368,158 shares of its common stock valued at \$60,000 to the holders of the Series B Convertible Preferred Stock for accrued dividends through June 30, 2011.

Edgar Filing: American Rare Earths & Materials, Corp. - Form 10-Q

On October 3, 2011, the Company issued 655,492 shares of its common stock to holders of Series B Convertible Preferred Stock for accrued dividends of \$60,000 through September 30, 2011.

On October 1, 2011, 250,000 warrants with an exercise price of \$1.00 expired.

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 9

STOCK OPTION PLANS

As of December 31, 2011, there are four stock option plans in effect; the 1992 Directors' Stock Option Plan ("Directors' Plan"), 1992 Stock Option Plan ("Option Plan") and the 2006 Equity Incentive Plan ("Incentive Plan") and 2011 Equity Compensation Plan ("Compensation Plan").

Directors' Plan

The Directors' Plan allows for the grant of options to purchase up to 12,500 shares of the Company's common stock at an exercise price no less than the stock market price at the date of grant. Options granted under this plan vest immediately and expire 10 years from the date of grant. The Board sets vesting and expiration dates. No stock options have been granted under this plan since 2002. There were no stock options to purchase shares of common stock outstanding under the Directors' Plan.

Option Plan

The Option Plan allows for the grant of options to employees to purchase up to 10% of the issued and outstanding shares of the Company, not to exceed 50,000 shares, at an exercise price equal to the stock's market price at the date of grant. The Board sets vesting and expiration dates. There were no stock options outstanding under the Option Plan at December 31, 2011. No stock options have been granted under this plan since 2002.

Incentive Plan

The Incentive Plan allows for the grant of options to employees, officers, directors, consultants, advisors of the Company and to any other person who is determined by the Board of Directors to have made (or is expected to make) contributions to the Company. The number of common stock that may be issued under the Incentive Plan is 1,000,000 shares. No participant of the Incentive Plan may be awarded more than 500,000 shares of common stock in any one fiscal year. The exercise price cannot be less than 100% of the fair market value of the common stock on the date of the grant and may not have a life greater than ten years from the date of grant. In the case of a shareholder representing more than 10% of the voting power of all classes of shares of the Company, the exercise price cannot be less than 110% of the fair market value of the common stock on the date of the grant and may not have a life greater than five years from the date of grant. At December 31, 2011, options to purchase 425,000 shares of common stock were outstanding under the Incentive Plan.

Compensation Plan

The Compensation Plan provides a flexible framework that will permit the Board of Directors of the Company to develop and implement a variety of stock-based compensation programs based on the need to engage and retain officers, employees, director and consultant, the changing needs of the Company, its competitive market, and regulatory climate. The number of common stock awards that may be issued under the Compensation Plan is 9,000,000 shares of common stock in a calendar year. An award means a restricted stock award, a restricted stock unit award, a performance award, a dividend equivalent award, a deferred stock award, a stock payment award, an option award or warrant award. The exercise price of an award cannot be less than 100% of the fair market value of the common stock on the date of the grant and may not have a life greater than ten years from the date of grant. No stock options have been granted under this plan.

The following is a summary of the common stock options granted, forfeited or expired and exercised:

| | Number of Options | Weighted Average Exercise Price Per Share |
|-------------------------------------------------------------------|----------------------|-------------------------------------------------|
| Outstanding – July 1, 2010 | 425,080 | \$ 0.50 |
| Granted | - | - |
| Forfeited or expired | (80) | 25.00 |
| Exercised | - | - |
| Outstanding and exercisable - June 30, 2011 and December 31, 2011 | 425,000 | \$ 0.50 |

The following table summarizes information on stock options outstanding and exercisable as of December 31, 2011:

| Exercise Price | Number Outstanding at December 31, 2011 | Average Remaining Life (Years) | Aggregate Intrinsic Value |
|----------------|--------------------------------------------|-----------------------------------|------------------------------|
| \$ 0.50 | 425,000 | 0.38 | \$ - |

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 10

RISK MANAGEMENT

Credit risk

The Company is subject to risk of non-payment of its trade accounts receivable. For the six months ended December 31, 2011, three customers (which was as of December 31, 2010, four customers) represent approximately 85% of revenues (which was as of December 31, 2010, 76%), and three customers (which was as of December 31, 2010 four customers) represent approximately 74% (which was as of December 31, 2010, 77%) of the total outstanding accounts receivable as of December 31, 2011. Management continually monitors its credit terms with customers to reduce credit risk exposure.

NOTE 11

FAIR VALUE MEASUREMENTS

The Company adopted FASB Accounting Standard Codification (“ASC”) 820 for all financial assets and liabilities measured at fair value on a recurring basis. The Company adopted FASB ASC 820 effective July 1, 2009 for all non-financial assets and liabilities. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The statement establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The statement requires fair value measurements be classified and disclosed in one of the following categories:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

The carrying amounts on the accompanying condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accounts payable – related parties, royalty payable, accrued expenses, accrued expenses – related parties and current debt are carried at cost, which approximates fair value. Short-term investments comprised a redeemable guaranteed investment certificate earning interest at 0.75% per annum which matured on August 12, 2010. The proceeds upon maturity from the redeemable guaranteed investment certificate were transferred to cash and cash equivalents.

AMERICAN RARE EARTHS AND MATERIALS, CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 12

CONTINGENCIES

Legal Matters

The Company is involved in litigation claims arising in the ordinary course of business. Legal fees and other costs associated with such actions are expensed as incurred. In addition, the Company assesses, in conjunction with its legal counsel, the need to record a liability for litigation and contingencies. The Company reserves for costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The Company believes that the ultimate disposition of these matters will not have a material effect on its financial position, results of operations or cash flows. However, the amount of future reserves required associated with these claims, if any, cannot be determined with certainty.

In December 2011, Ellenoff Grossman & Schole LLP, former attorney of the Company, (“Plaintiff”) filed suit against the Company in the Supreme Court of the State of New York, County of New York. The Plaintiff is seeking cash of \$94,419, plus costs and interest based upon alleged breach of contract. While the Company believes that it has meritorious defenses, the ultimate resolution of the matter could result in a loss of up to \$17,000 in excess of the amount accrued.

In March 2010, John Grippo, the former CFO of the Company, and John Grippo Inc. (“Plaintiffs”) filed suit against the Company in the Superior Court in the County of Westchester, New York. The Plaintiffs are seeking in excess of \$75,000 in damages and prejudgment interest based upon alleged breach of contract. The Company believes the claim is without merit and is vigorously defending the lawsuit and has filed a counterclaim in excess of \$375,000 plus costs. On March 13, 2010, the Plaintiffs obtained a temporary restraining order over our bank accounts held at JP Morgan Chase and Bank of America. As such, included in cash and cash equivalents is restricted cash of \$78,118 and \$78,198 at December 31, 2011 and June 30, 2011, respectively.

In June 2010, Rick Smith Enterprises, Inc. (“Plaintiff”) filed a suit against the Company in the Circuit Court of the Ninth Judicial Circuit of the State of Florida in and for Orange County Civil Division. The Plaintiff is seeking cash of \$175,000 and shares of common stock of the Company valued at \$175,000 plus costs and interest based upon an alleged breach of contract. The Plaintiff is also seeking additional cash of \$100,000 and shares of common stock of the Company valued at \$100,000 for alleged continuing and anticipatory breach of contract. The action is in its very

preliminary stages. As a result, we are unable to estimate a potential loss or range of loss, if any, at this time.

NOTE 13

SUBSEQUENT EVENTS

From January 1, 2012 to February 13, 2012, the Company issued 1,216,451 shares of its common stock to consultants for an aggregate value of \$60,000 based on the quoted market price of the shares at time of issuance.

On January 3, 2012, the Company issued 1,224,500 shares of its common stock to holders of Series B Convertible Preferred Stock for accrued dividends of \$60,000 through December 31, 2011.

Such issuances of securities of the Company were made pursuant to the exemptions from registration contained in Rule 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

On January 1, 2012, 600,000 warrants with an exercise price of \$0.12 expired.

On January 20, 2012, 350,000 warrants with an exercise price of \$0.45, 350,000 warrants with an exercise price of \$0.75, 200,000 warrants with an exercise price of \$1.00 and 100,000 warrants with an exercise price of \$1.50 expired.

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

CAUTIONARY NOTE ON FORWARD LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains forward looking statements regarding our business and performance that are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in such forward looking statements. In some cases, you can identify forward looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “projects,” “potential,” “proposed,” “intended,” or “continue” or the negative of these terms or other comparable terminology. Readers are cautioned not to place undue reliance on these forward looking statements, which reflect management’s opinions only as of the date thereof. In evaluating such forward looking statements, readers should carefully review the discussion of risks and uncertainties in this Quarterly Report on Form 10-Q and in our most recent Annual Report on Form 10-K as well as in other filings with the Securities and Exchange Commission regarding, without limitation, statements about our business plans, statements about the potential for the development, and public acceptance of new products, estimates of future financial performance, predictions of national or international economic, political or market conditions, statements regarding other factors that could affect our future operations or financial condition, and other statements that are not matters of historical fact. Our ability to achieve our goals depends on many known and unknown risks and uncertainties, including changes in general economic and business conditions. Although we believe that the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, growth rates, and levels of activity, performance or achievements. Except as expressly required by the federal securities laws, there is no undertaking to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

The discussion of risks and uncertainties may be found under “Management’s Discussion and Analysis of Financial Condition and Results of Operations set forth in this Quarterly Report on Form 10-Q and in our most recent Annual Report on Form 10-K as well as in other filings with the SEC, is not necessarily a complete or exhaustive list of all risks facing the Company at any particular point in time. These forward looking statements speak only as of the date of this Form 10-Q and we disclaim any obligation to revise or update any forward looking statement that may be made from time to time by us or on our behalf.

Overview

Since 2002, our Company has been commercializing Rare Earths and advanced materials. This led to a vertical integration that began with the extraction of pure Scandium and other Rare Earths applications in the form of extruded, rolled or forged products and components. Today, that expertise has positioned us to become a leader in commercializing Rare Earths and advanced materials and quickly delivering revolutionary new products to consumer and industrial markets. Our objective is to become North America’s best, most reliable source for Rare Earths and

provide solutions to their applications. We are developing opportunities to distribute Rare Earths like Scandium, Neodymium, Europium and Lithium that will help major industries launch major industrial brands such as hybrid cars, flat screen televisions, LED light bulbs and wind turbines. We will also have significant exposure to large market categories such as transportation, shipbuilding, power transmission, automotive and aerospace.

The first products manufactured using the Company's proprietary golf technology have been produced and the Company commenced distribution to wholesalers and retail markets during the last quarter of its fiscal year ended June 30, 2006. In June, 2007 the Company expanded its sales into recreational fishing equipment.

In January 2010, the Company entered into a Trademark License, Product Distribution Agreement and Management Agreement with Zeroloft Corp. Within the field of sportswear apparel, footwear and related sports specialty items, the Company obtained: (i) an exclusive license to the Zeroloft Aspen Aerogels trademarks; and (ii) a limited, worldwide, exclusive right to distribute the products bearing the Zeroloft Aspen Aerogels Trademark for production and sales of items in such field. The License Agreement has a term of five years, which term is automatically renewable for one year terms.

Our business, financial condition, cash flows and results from operations are subject to seasonality resulting from factors such as weather and spending patterns. Due to seasonality of our business, one quarter's results are not indicative of the full fiscal year's expected financial results. A majority of our revenue is earned in the third and fourth quarters of the year and revenues generally decline in the first and second quarters.

On January 9, 2012, the Company incorporated a wholly owned subsidiary, Rare Eagle Corp. ("Rare Eagle"), under the laws of the State of Nevada. Rare Eagle was incorporated for the purpose of transferring certain assets, liabilities and operations of the Company, which have yet been determined, for the purpose of improving accountability of operations. Rare Eagle Corp. currently does not have assets, liabilities or operations.

Going Concern Status

Our financial statements have been prepared on a going concern basis which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. The Company has incurred substantial losses from operations and it has negative operating cash flow which raises substantial doubt about its ability to continue as a going concern. The Company sustained a net loss of \$946,598 for the six months ended December 31, 2011 and an accumulated deficit of \$38,753,167 as of December 31, 2011.

We intend to continue our investment in the development of our Rare Earths business and other business lines, but we do not have sufficient realized revenues in order to finance these activities internally. As such, we intend to seek capital in order to fund our working capital and capital expenditure needs. We can provide no assurance that we will be able to obtain sufficient additional funds to develop and sustain our businesses and alleviate doubt about our ability to continue as a going concern. We cannot be certain that additional funds, even if available, will be on acceptable terms. To the extent the Company raises additional funds by issuing equity securities, our stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that impact our ability to conduct business. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Results of Operations

Three Months Ended December 31, 2011 and 2010

For the three months ended December 31, 2011, the Company had revenue of \$699,770 which includes non-cash barter revenue of \$0 and reimbursement of out-of-pocket costs incurred on behalf Zeroloft Corp. of \$0 which is a decrease of 36% over the prior year's revenues for the comparable period of \$1,091,999 which includes non-cash barter revenue of \$477 and reimbursement of out-of-pocket costs incurred on behalf Zeroloft Corp. of \$603,378. This decrease is primarily the result of a decrease in the reimbursement of out-of-pocket costs incurred on behalf of Zeroloft and sales of Zeroloft products of \$603,378 in the current period. Fishing sales for the three month ended December 31, 2011 increased by \$220,939.

For the three months ended December 31, 2011, the Company incurred costs of sales of \$556,261 which is a decrease of 18% over the prior year's costs of sales of \$471,874. This decrease is primarily the result of decrease in the reimbursement of out-of-pocket costs in revenue.

For the three months ended December 31, 2011, the Company incurred general and administrative expenses of \$464,398, which is a decrease of 70% of general and administrative expenses for the comparable period in the prior year of \$1,528,847. Included in general and administrative expense is a non-cash charge of \$65,185 representing the value of compensatory common stock and warrants for services provided by consultants, representing a decrease in these non-cash charges over the prior year period of \$223,986. The decrease in general and administrative expenses is primarily the result of a decrease in professional fees paid for investor relations, a decrease in amortization expense of an intangible asset and a decrease in expenses paid on behalf of and recovered from Zeroloft Corp.

For the three month period ended December 31, 2011, the Company recognized interest income of \$0, and incurred interest expense of \$4,249, as compared to interest income of \$72, and interest expense of \$493, for the comparable prior year period. Interest expense relates to accrued interest on loan payable to director.

Accordingly, for the three months period ended December 31, 2011, the Company had a net loss of \$325,138, as compared with the three month period ended December 31, 2010 in which the Company had a net loss of \$909,143, or a decrease of 65%, as a result of the decrease in general and administrative expenses noted above.

Six months Ended December 31, 2011 and 2010

For the six months ended December 31, 2011, the Company had revenue of \$1,142,243 which includes non-cash barter revenue of \$800 and reimbursement of out-of-pocket costs incurred on behalf Zeroloft Corp. of \$102,658 which is a decrease of 34% over the prior year's revenues for the comparable period of \$1,742,902 which includes non-cash barter revenue of \$2,097 and reimbursement of out-of-pocket costs incurred on behalf Zeroloft Corp. of \$870,598. This decrease is primarily the result of a decrease in the reimbursement of out-of-pocket costs incurred on behalf of Zeroloft and sales of Zeroloft products of \$767,940 in the current period. Fishing sales for the six month ended December 31, 2011 increased by \$181,557.

For the six months ended December 31, 2011, the Company incurred costs of sales of \$855,784 which is a decrease of 5% over the prior year's costs of sales of \$897,853. This decrease is primarily the result of decrease in the reimbursement of out-of-pocket costs in revenue.

For the six months ended December 31, 2011, the Company incurred general and administrative expenses of \$1,228,808, which is a decrease of 55% of general and administrative expenses for the comparable period in the prior year of \$2,700,030. Included in general and administrative expense is a non-cash charge of \$422,928 representing the value of compensatory common stock and warrants for services provided by consultants, representing an increase in these non-cash charges over the prior year period of \$387,165. The decrease in general and administrative expenses is primarily the result of a decrease in professional fees paid for investor relations, a decrease in amortization expense of an intangible asset and a decrease in expenses paid on behalf of and recovered from Zeroloft Corp.

For the six month period ended December 31, 2011, the Company recognized interest income of \$0, and incurred interest expense of \$4,249, as compared to interest income of \$296, and interest expense of \$4,329, for the comparable prior year period. Interest expense relates to accrued interest on loan payable to director.

Accordingly, for the six months period ended December 31, 2011, the Company had a net loss of \$946,598, as compared with the six month period ended December 31, 2010 in which the Company had a net loss of \$1,859,014, or an decrease of 49%, as a result of the decrease in general and administrative expenses noted above.

Our net accounts receivable balances were \$567,647 and \$492,240 at December 31, 2011 and June 30, 2011, respectively. The increase in accounts receivable compared to June 30, 2011 is primarily due to increase in fishing sales during the six months ended December 31, 2011. The Company is subject to risk of non-payment of its trade accounts receivable. For the six months ended December 31, 2011, three customers (which was as of 2010, four customers) represent approximately 85% of sales (which was as of 2010, 76%), and three customers represent approximately 74% (which was as of 2010, 77%) of the total outstanding accounts receivable as of December 31, 2011. Management continually monitors its credit terms with customers to reduce credit risk exposure.

Our net inventory balances were \$474,454 and \$536,716 at December 31, 2011 and, June 30, 2011, respectively. The decrease in our inventory balance is primarily a result of increase in fishing sales. We concentrate our new purchases of inventory on where we anticipate our future sales; golf shafts and our bestselling SKUs.

Our royalty payable and accrued expenses were in total \$4,382,984 and \$4,056,463 at December 31, 2011 and June 30, 2011, respectively. The increase in the balances is primarily due to unpaid royalties to Advanced Light Alloys and unpaid compensation to senior management. The royalty is calculated as 20% of the net selling price of fishing products sold by the Company and any sub licensee.

Financial Condition, Liquidity and Capital Resources

The Company has negative working capital as of December 31, 2011 of \$4,655,968. The Company retains consultants to perform development and public company reporting activities in exchange for stock of the Company. At June 30, 2011, we had a working capital deficiency of \$4,140,970. Our working capital deficiency is largely due to unpaid royalties and unpaid management compensation. Our continuation as a going concern will require that we raise significant additional capital. Included in accrued expenses is \$2,032,806 owed by the Company to the President and Chief Financial Officer (which was at June 30, 2011, \$1,942,806). There is no assurance that consultants will continue to accept stock compensation for services. If consultants discontinue accepting stock compensation we may not be able to continue to retain the services of such consultants.

During the six months ended December 31, 2011, the Company received cash from financing activities of \$335,755 (\$350,000 Canadian dollars) for a loan payable due to a director of the Company. At December 31, 2011, \$347,441 (which was at June 30, 2011, \$0) loan payable is due to a director. The loan is repayable in \$350,000 Canadian dollars, unsecured, due on demand and bears interest of 10%. The Company incurred interest expense of \$4,249 (which was at December 31, 2010, \$0) related to the loan payable. The director has demanded that \$150,000 Canadian dollars and \$200,000 Canadian dollars be repaid on or before April 4, 2012 and April 20, 2012, respectively.

Absent continued stock payment for services to our consultants and continued advances by stockholders of the Company, the Company cannot manufacture its golf shaft or fishing product lines or market its products based on its technologies or continue as a going concern.

Although the Company has previously been able to raise capital as needed, such capital may not continue to be available at all, or if available, that the terms of such financing will not be dilutive to existing stockholders or otherwise on terms not favorable to the Company or existing stockholders. Further, the current global financial situation may offer additional challenges to raising the required capital. If the Company is unable to secure additional capital, as circumstances require, it may not be able to continue operations.

If adequate funds are not available or not available on acceptable terms, we may be unable to continue operations; develop, enhance and market products, retain qualified personnel; take advantage of future operations; or respond to competitive pressures, any of which could have a material adverse effect on our business; operating results; financial condition and/or liquidity.

Recent Accounting Pronouncements

See Note 4 “Recent Accounting Pronouncements Affecting the Company” to the Notes to Condensed Consolidated Financial Statements in Item 1 for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein.

Dividend Policy

The Company has not declared or paid any cash dividends on its common stock since its inception and does not anticipate the declaration or payment of cash dividends in the foreseeable future. The Company intends to retain earnings, if any, to finance the development and expansion of its business. The Company is prohibited from paying dividends on common stock as long as there are any unpaid accrued dividends due to the Series B Convertible Preferred stock stockholders. Therefore, there can be no assurance that dividends of any kind will ever be paid. Pursuant to the Amended and Restated Certificate of the Powers, Designations, Preferences and Rights of the Series B Convertible Preferred stock of the Company, we are required to pay dividends on our Series B Stock. We have this quarter and we expect to continue to pay such dividends in the form of the Company’s common stock.

Effect of Inflation

Management believes that inflation has not had a material effect on its operations for the periods presented.

Climate Change

Management believes that neither climate change, nor governmental regulations related to climate change, have had, or are expected to have, any material effect on our operations.

Credit risk

The Company is subject to risk of non-payment of its trade accounts receivable. For the six months ended December 31, 2011, three customers (which was as of December 31, 2010, four customers) represent approximately 85% of sales (which was as of December 31, 2010, 76%), and three customers represent approximately 74% (which was as of December 31, 2010, 77%) of the total outstanding accounts receivable as of December 31, 2011. Management continually monitors its credit terms with customers to reduce credit risk exposure.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires the use of estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, and provide a basis for making judgments about the carrying value of assets and liabilities that are not readily available through open market quotes. Estimates and assumptions are reviewed periodically, and actual results may differ from those estimates under different assumptions or conditions. We must use our judgment related to uncertainties in order to make these estimates and assumptions.

For a description of our critical accounting policies and estimates as well as certain sensitivity disclosures related to those estimates, see our Annual Report on Form 10-K for the year ended June 30, 2011. Our critical accounting policies and estimates have not changed materially during the six months ended December 31, 2011.

Off Balance Sheet Arrangements

None

ITEM 1

LEGAL PROCEEDINGS

In December 2011, Ellenoff Grossman & Schole LLP, former attorney of the Company, (“Plaintiff”) suit against the Company in the Supreme Court of the State of New York, County of New York. The Plaintiff is seeking cash of \$94,419, plus costs and interest based upon alleged breach of contract. While the Company believes that it has meritorious defenses against the complaint, the ultimate resolution of the matter could result in a loss of up to \$17,000 in excess of the amount accrued.

In March 2010, John Grippo, the former CFO of the Company, and John Grippo Inc. (“Plaintiffs”) filed suit against the Company in the Superior Court in the County of Westchester, New York. The Plaintiffs are seeking in excess of \$75,000 in damages and prejudgment interest based upon alleged breach of contract. The Company believes the claim is without merit and is vigorously defending the lawsuit and has filed a counterclaim in excess of \$375,000 plus costs. On March 13, 2010, the Plaintiffs obtained a temporary restraining order over our bank accounts held at JP Morgan Chase and Bank of America.

In June 2010, Rick Smith Enterprises, Inc. (“Plaintiff”) filed suit against the Company in the Circuit Court of the Ninth Judicial Circuit of the State of Florida in and for Orange County Civil Division. The Plaintiff is seeking cash of \$175,000 and shares of common stock of the Company valued at \$175,000 plus costs and interest based upon alleged breach of contract. The Plaintiff is also seeking additional cash of \$100,000 and shares of common stock of the Company valued at \$100,000 for alleged continuing and anticipatory breach of contract. The action is in its very preliminary stages. As a result, we are unable to estimate a potential loss or range of loss, if any, at this time.

ITEM 1A

RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, except the following:

The market price of our common stock may limit its eligibility for clearing house deposit.

We are advised that if market price for shares of our common stock is less than \$0.10 per share, Depository Trust Company and other securities clearing firms may decline to accept our shares for deposit and refuse to clear trades in our securities. This would materially and adversely affect the marketability and liquidity of our shares and, accordingly may materially and adversely affect the value of an investment in our common stock.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended December 31, 2011, the Company issued 350,000 shares of its common stock to consultants for services rendered and to be rendered by them and for an aggregate value of \$28,000. The shares were issued in reliance on exemptions from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Act").

On October 3, 2011, the Company issued 655,492 shares of its common stock to holders of Series B Convertible Preferred Stock for accrued dividends of \$60,000 through September 30, 2011. The shares were issued in reliance upon the exemption from registration pursuant to Section 3(a)(9) of the Act.

ITEM 3 DEFAULT UPON SENIOR SECURITIES

None

ITEM 4 Removed and Reserved

ITEM 5 OTHER INFORMATION

From January 1, 2012 to February 13, 2012, the Company issued 1,216,451 shares of its common stock to consultants for an aggregate value of \$60,000 based on the quoted market price of the shares at time of issuance.

On January 3, 2012, the Company issued 1,224,500 shares of its common stock to holders of Series B Convertible Preferred Stock for accrued dividends of \$60,000 through December 31, 2011.

Such issuances of securities of the Company were made pursuant to the exemptions from registration contained in Rule 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

Item 6 EXHIBITS

Exhibit No. Exhibit Description

Edgar Filing: American Rare Earths & Materials, Corp. - Form 10-Q

- 3(i)(1) Amended Certificate of Incorporation of the Company, incorporated herein by reference to the Company's Registration Statement on Form S-1, as amended, File No. 33-43976 filed on November 14, 1991.
- 3(i)(2) Certificate of Amendment to Amended Certificate of Incorporation of the Company, incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K dated May 12, 2006.
- 3(i)(3) Certificate of the Powers, Designations, Preferences and Rights of the Series A Convertible Preferred Stock, \$0.10 par value per share, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated February 24, 2006.
- 3(i)(4) Certificate of the Powers, Designations, Preferences and Rights of the Series B Convertible Preferred Stock, \$0.10 par value per share, incorporated herein by reference to Exhibit 3(i) to the Company's Form 8-K dated August 3, 2006.
- 3(i)(5) Certificate of the Powers, Designations, Preferences and Rights of the Series B Convertible Preferred Stock, \$0.10 par value per share, incorporated herein by reference to Exhibit 3(i) to the Company's Form 8-K dated June 18, 2007.
- 3(i)(6) Amended and Restated Certificate of the Powers, Designations, Preferences and Rights of the Series B Convertible Preferred Stock, \$0.10 par value per share, dated July 10, 2009, incorporated herein by reference to Exhibit 4.12 to the Company's Form 8-K filed on August 3, 2009.
- 3(ii)(1) Amended and Restated Bylaws of the Company, incorporated herein by reference to the Company's Registration Statement on Form S-1, as amended, File No. 33-43976 filed on November 14, 1991.

- 3(ii)(2) Certificate of Amendment to the Certificate of Incorporation of the Company to effectuate a 1 for 20 reverse stock split of the Company's issued and outstanding shares of common stock, incorporated herein by reference to the Company's Form 8-K dated April 24, 2008.
- 3(iii) Audit Committee Charter, incorporated by reference to Exhibit 3(iii) to the Company's Form 10-K, filed on September 24, 2010.
- 4.1 Form of Element 21 Golf Company 10% Convertible Promissory Note, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated February 24, 2006.
- 4.2 Element 21 Golf Company 10% Convertible Promissory Note issued to Oleg Muzyrya, incorporated herein by reference to Exhibit 4.3 to the Company's Form 8-K dated February 24, 2006.
- 4.3 Common Stock Purchase Warrant, incorporated herein by reference to Exhibit 4.4 to the Company's Form 8-K dated February 24, 2006.
- 4.4 Form of Element 21 Golf Company 10% Convertible Promissory Note, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated May 23, 2006.
- 4.5 Common Stock Purchase Warrant, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated May 23, 2006.
- 4.6 Form of Warrant for Purchase of 3,750,000 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated August 3, 2006.
- 4.7 Form of Warrant for Purchase of 5,073,530 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated August 3, 2006.
- 4.8 Form of Warrant for Purchase of 3,750,000 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated December 1, 2006.
- 4.9 Form of Warrant for Purchase of 5,073,530 Shares of Common Stock dated July 31, 2006, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated December 1, 2006.
- 4.10 Common Stock Purchase Warrant, incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K dated June 18, 2006.
- 4.11 Form of Warrant for Purchase of 5,882,400 Shares of Common Stock dated June 15, 2007, incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K dated June 18, 2007.
- 10.1 Series A Convertible Preferred Stock Exchange Agreement and Acknowledgement dated as of February 22, 2006, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated February 24, 2006.
- 10.2 Element 21 Golf Company 2006 Equity Incentive Plan, incorporated herein by reference to Annex C to the Company's Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 filed on April 7, 2006.
- 10.3

Edgar Filing: American Rare Earths & Materials, Corp. - Form 10-Q

Form of Subscription Agreement for Shares of Series B Convertible Preferred Stock dated as of July 31, 2006, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated August 3, 2006.

10.4 Form of Subscription Agreement for Shares of Series B Convertible Preferred Stock dated as of November 30, 2006, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated August 3, 2006.

21

- 10.5 Form of Subscription Agreement for Shares of Series B Convertible Preferred Stock dated as of June 15, 2007, incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K dated June 18, 2007.
- 10.6 Form of Subscription Agreement for Shares of Common Stock dated as of June, 2007, incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated June 18, 2007
- 10.7 License Agreement with Advanced Light Alloys Corporation dated as of June 21, 2007 incorporated by reference to exhibit 10.1 to the Company's Form 10K dated June 21, 2007.
- 10.8 Consulting Agreement with Nataliya Hearn dated as of January 4, 2006 incorporated by reference to exhibit 10.4 to the Company's Form 10K dated October 13, 2006.
- 10.9 Consulting Agreement with John Grippo dated as of November 10, 2005 incorporated by reference to exhibit 10.5 to the Company's Form 10K dated October 13, 2006.
- 10.10 Extension and Modification of Promissory Note, incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on April 22, 2009.
- 10.11 Investment Banking Agreement with Legend Securities, Inc., incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on December 15, 2009.
- 10.12 Trademark License and Product Distribution Agreement, incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 20, 2010.
- 10.13 Management Agreement with Zeroloft Corp., incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on January 20, 2009
- 10.14 Consulting Agreement with Gaynell Douglas dated May 1, 2010, incorporated by reference to Exhibit 10.14 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.15 Consulting Agreement with Yell Services, dated October 1, 2009, incorporated by reference to Exhibit 10.15 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.16 Consulting Agreement with Altaf Kassam, dated October 1, 2009, incorporated by reference to Exhibit 10.16 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.17 Consulting Agreement with Tolkun Salieva, dated October 1, 2009, incorporated by reference to Exhibit 10.17 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.18 Consulting Agreement with Charles E. Fitzgerald, dated May 1, 2010, incorporated by reference to Exhibit 10.18 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.19 Employment Agreement with Nataliya Hearn, Ph.D., dated January 1, 2009, incorporated by reference to Exhibit 10.19 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.20 Consulting Agreement with Dorset Solutions, Inc, dated November 19, 2009, incorporated by reference to Exhibit 10.20 to the Company's Form 10-K/A, filed on October 15, 2010.

Edgar Filing: American Rare Earths & Materials, Corp. - Form 10-Q

- 10.21 Consulting Agreement with Dorset Solutions, Inc, dated January 1, 2010, incorporated by reference to Exhibit 10.20 to the Company's Form 10-K/A, filed on October 15, 2010.
- 10.22 Consulting Agreement with Yell Services, dated October 1, 2010, incorporated by reference to Exhibit 10.22 to the Company's Form 10-Q, filed on February 11, 2011.

22

- 10.23 Consulting Agreement with Altaf Kassam, dated October 1, 2010, incorporated by reference to Exhibit 10.23 to the Company's Form 10-Q, filed on February 11, 2011.
- 10.24 Consulting Agreement with Tolkun Salieva, dated October 1, 2010, incorporated by reference to Exhibit 10.24 to the Company's Form 10-Q, filed on February 11, 2011.
- 10.25 Consulting Agreement with Jeff Manore, dated October 20, 2010, incorporated by reference to Exhibit 10.25 to the Company's Form 10-Q, filed on February 11, 2011.
- 10.26 Consulting Agreement with Henry Waszczuk, dated October 21, 2010, incorporated by reference to Exhibit 10.26 to the Company's Form 10-Q, filed on February 11, 2011.
- 10.27 Consulting Services Agreement with Philip Clark, dated January 1, 2011
- 14.1 Code of Conduct and Ethics, incorporated by reference to Exhibit 14.1 to the Company's Form 10-K, filed on September 24, 2010.
- 21.1 Subsidiaries of the Registrant++
- 31.1 Rule 13a-14(a)/15a-14(a) Certifications of Chief Executive Officer.++
- 31.2 Rule 13a-14(a)/15a-14(a) Certifications of Chief Financial Officer.++
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.++

++filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Rare Earths and Materials, Corp.

February 13, 2012 By: /s/ Nataliya Hearn
Nataliya Hearn, Ph.D.
Chairman, Chief Executive Officer and President

February 13, 2012 By: /s/ Philip Clark
Philip Clark, CA, CPA, CFA
Chief Financial Officer