

ITRONICS INC
Form 10QSB/A
November 10, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB/A
AMENDMENT NO. 1

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commission File Number 33-18582

ITRONICS INC.

(Exact name of small business issuer as specified in its charter)

TEXAS

75-2198369

(State or other jurisdiction of (IRS Employer Identification Number)
incorporation or organization)

6490 S. McCarran Blvd., Bldg C-23, Reno, Nevada 89509

(Address of principal executive offices)

Issuer's telephone number, including area code: (775)689-7696

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 during the past 90 days. Yes (x) No ().

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 15, 2005, 192,907,173 shares of common stock were outstanding.

Transitional Small Business Disclosure Format (Check one): Yes () No (X)

2

ITRONICS INC. AND SUBSIDIARIES

TABLE OF CONTENTS

| | <u>PAGE</u> |
|-------------------------------------------------------------------------------------------------------|-------------|
| PART I - FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| Condensed Consolidated Balance Sheets March 31, 2005 and December 31, 2004 | 4 |
| Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2005 and 2004 | 6 |
| Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2005 and 2004 | 7 |
| Notes to Condensed Consolidated Financial Statements | 8 |

| | |
|----------------------------------------------------------------------|----|
| Item 2. Management's Discussion and Analysis or Plan of Operation | 14 |
| Item 3. Controls and Procedures | 24 |
| PART II- OTHER INFORMATION | |
| Item 1. Legal Proceedings | 24 |
| Item 2. Changes in Securities and Use of Proceeds | 25 |
| Item 3 Defaults upon Senior Securities | 27 |
| Item 6. Exhibits and Reports on Form 8-K | 28 |
| Certifications | 30 |

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ITRONICS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2005 AND DECEMBER 31, 2004
(UNAUDITED)

ASSETS

| | March 31, | December 31, |
|----------------|-------------|--------------|
| | <u>2005</u> | <u>2004</u> |
| CURRENT ASSETS | | |

Edgar Filing: ITRONICS INC - Form 10QSB/A

| | | |
|--------------------------------------------------------------------------------------------|-------------|-------------|
| Cash | \$ - | \$ 5,180 |
| Accounts receivable, less allowance for doubtful accounts, 2005, \$5,700; 2004, \$5,700 | 312,723 | 188,805 |
| Marketable securities, available for sale | 11,901 | 26,180 |
| Inventories | 557,582 | 571,704 |
| Prepaid expenses | 226,389 | 142,509 |
| Current portion of deferred loan fees | 14,752 | 14,152 |
| Total Current Assets | 1,123,347 | 948,530 |
| PROPERTY AND EQUIPMENT | | |
| Land | 215,000 | 215,000 |
| Building and improvements | 1,167,315 | 1,167,315 |
| Design and construction in progress, manufacturing facility | 130,071 | 121,171 |
| Equipment and furniture | 3,080,430 | 3,080,430 |
| Vehicles | 220,700 | 220,700 |
| | 4,813,516 | 4,804,616 |
| Less: Accumulated depreciation and amortization | 1,732,411 | 1,670,668 |
| | 3,081,105 | 3,133,948 |
| OTHER ASSETS | | |
| Intangibles, net of amortization | 8,423 | 8,435 |
| Deferred loan fees, less current portion, net of amortization | 30,215 | 34,502 |
| Deposits | 22,525 | 22,525 |
| | 61,163 | 65,462 |
| | \$4,265,615 | \$4,147,940 |

 LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

| | March 31, | December 31, |
|--------------------------------------------------------------|-------------|--------------|
| | <u>2005</u> | <u>2004</u> |
| CURRENT LIABILITIES | | |
| Bank overdraft | \$ 60,598 | \$ - |
| Accounts payable | 634,662 | 609,795 |
| Accrued management salaries | 448,799 | 389,127 |
| Accrued expenses | 312,428 | 398,731 |
| Insurance contracts payable | 32,249 | 15,048 |
| Interest payable on stockholder advances | 11,682 | 6,307 |
| Interest payable | 211,099 | 204,909 |
| Current maturities of long-term debt | 517,330 | 522,845 |
| Current maturities of capital lease obligations | 784,536 | 807,746 |
| Current maturities of advances from an officer/stockholder | 181,525 | 161,525 |
| Current maturities of capital lease due stockholder | 5,420 | 5,420 |
| Current maturities of convertible notes and accrued interest | 2,727,496 | 1,020,946 |
| Other | 25,179 | 21,429 |
| Total Current Liabilities | 5,953,003 | 4,163,828 |
| LONG-TERM LIABILITIES | | |
| Long-term debt, less current maturities | 94,380 | 97,022 |
| Convertible promissory notes, less current maturities | - | 1,517,000 |
| Accrued interest, convertible notes, less current maturities | - | 925,216 |

Edgar Filing: ITRONICS INC - Form 10QSB/A

Capital lease obligation, shareholder, less current

| | | |
|-----------------------------|-----------|-----------|
| maturities | 7,551 | 9,144 |
| Total Long-Term Liabilities | 101,931 | 2,548,382 |
| | 6,054,934 | 6,712,210 |

STOCKHOLDERS' EQUITY (DEFICIT)

Preferred stock, par value \$0.001 per share;

authorized 999,500 shares, issued and outstanding

2005, 0 shares; 2004, 0 shares - -

Common stock, par value \$0.001 per share;

authorized 250,000,000 shares, issued and outstanding,

191,182,367 at March 31, 2005; 164,863,938 at

December 31, 2004 191,182 164,864

Additional paid-in capital 21,261,496 19,438,213

Accumulated deficit (23,858,564) (22,944,959)

Common stock to be issued 601,670 786,426

Accumulated other comprehensive income (loss) (18,450) (9,568)

Common stock options outstanding, net 33,347 754

(1,789,319) (2,564,270)

\$4,265,615 \$4,147,940

See Notes to Condensed Consolidated Financial Statements

ITRONICS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

Edgar Filing: ITRONICS INC - Form 10QSB/A

(UNAUDITED)

Three Months Ended March 31,

| | <u>2005</u> | <u>2004</u> |
|--------------------------------------------------------------------------------------------|-------------|-------------|
| REVENUES | | |
| Photochemical fertilizer | \$260,174 | \$ 326,996 |
| Mining technical services | 49,799 | 79,844 |
| Total Revenues | 309,973 | 406,840 |
| COST OF REVENUES (exclusive of depreciation and amortization shown separately below) | | |
| Photochemical fertilizer | 302,338 | 362,635 |
| Mining technical services | 48,770 | 77,938 |
| Total Cost of Revenues | 351,108 | 440,573 |
| Gross Profit (Loss) | (41,135) | (33,733) |
| OPERATING EXPENSES | | |
| Depreciation and amortization | 65,442 | 78,111 |
| Research and development | 80,736 | 21,103 |
| Sales and marketing | 280,837 | 214,285 |
| Delivery and warehousing | 18,083 | 17,606 |
| General and administrative | 259,635 | 212,775 |
| Total Operating Expenses | 704,733 | 543,880 |
| Operating (Loss) | (745,868) | (577,613) |

Edgar Filing: ITRONICS INC - Form 10QSB/A

| | | |
|------------------------------------|------------------|------------------|
| OTHER INCOME (EXPENSE) | | |
| Interest expense | (164,052) | (208,770) |
| Gain (loss) on sale of investments | (3,685) | 75,758 |
| Other | - | 8 |
| Total Other Income (Expense) | (167,737) | (133,004) |
| Income (Loss) before provision | | |
| for income tax | (913,605) | (710,617) |
| Provision for income tax | - | - |
| Net Income (Loss) | (913,605) | (710,617) |
| Other comprehensive income (loss) | | |
| Unrealized gains (losses) on | | |
| securities | (8,882) | (184,754) |
| Comprehensive Income (Loss) | \$(922,487) | \$(895,371) |
| Weighted average number of shares | | |
| Outstanding (1,000 s) | 174,495 | 127,541 |
| Earnings (Loss) per share, basic | | |
| and diluted | \$(0.005) | \$(0.006) |

See Notes to Condensed Consolidated Financial Statements

ITRONICS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

Edgar Filing: ITRONICS INC - Form 10QSB/A

(UNAUDITED)

Three Months Ended March 31,

20052004

| | | |
|---------------------------------------------|-------------|-------------|
| Cash flows from operating activities | | |
| Net income (loss) | \$(913,605) | \$(710,617) |
| Adjustments to reconcile net loss to | | |
| cash used by operating activities: | | |
| Depreciation and amortization | 65,442 | 78,111 |
| Interest on convertible notes | 99,564 | 135,247 |
| Marketable securities received for services | (2,518) | (12,683) |
| (Gain) Loss on investments | 3,685 | (75,758) |
| Addition of silver in solution inventory by | | |
| offsetting photochemical processing fees | (11,520) | (22,502) |
| Stock option compensation | 32,934 | 123 |
| Expenses paid with issuance of common stock | 227,422 | 140,918 |
| (Increase) decrease in: | | |
| Trade accounts receivable | (123,918) | (58,606) |
| Inventories | 25,642 | (458) |
| Prepaid expenses and deposits | (54,764) | 3,716 |
| Increase (decrease) in: | | |
| Accounts payable | (22,624) | (29,081) |
| Accrued management salaries | 59,672 | 29,303 |
| Accrued expenses and contracts payable | (65,352) | (12,410) |
| Accrued interest | 11,565 | 2,687 |
| Net cash used by operating activities | (668,375) | (532,010) |

Cash flows from investing activities:

| | | |
|--------------------------------------------------|-------|---------|
| Acquisition of property and equipment | - | (4,844) |
| Proceeds from sale of investments | 4,230 | 153,395 |
| Net cash provided (used) by investing activities | 4,230 | 148,551 |

Cash flows from financing activities:

| | | |
|-------------------------------------------------|-------------|-----------|
| Proceeds from sale of stock | 560,000 | 366,500 |
| Proceeds from debt, stockholder | 25,000 | - |
| Proceeds from account receivable factoring, net | 51,327 | 59,625 |
| Payments on debt | (37,960) | (51,935) |
| Net cash provided by financing activities | 598,367 | 374,190 |
| Net increase (decrease) in cash | (65,778) | (9,269) |
| Cash, beginning of period | 5,180 | 34,499 |
| Cash, end of period | \$ (60,598) | \$ 25,230 |

See Notes to Condensed Consolidated Financial Statements

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

1. The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and disclosures required by U.S. Generally Accepted Accounting Principles. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's Form 10-KSB for the year ended

December 31, 2004. These financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly state the results for the interim periods reported. Certain amounts from the prior period have been reclassified to be consistent with the current period presentation.

2. The Company's consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company and its subsidiaries have reported recurring losses from operations, including a net loss of \$913,605 during the three months ended March 31, 2005, a working capital deficit of \$4,829,656, and a stockholders' deficit balance of \$1,789,319 as of March 31, 2005. These factors indicate the Company and its subsidiaries' ability to continue in existence is dependent upon their ability to obtain additional long-term debt and/or equity financing and achieve profitable operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company and its subsidiaries be unable to continue in existence. The results of operations for the three months ended March 31, 2005 were affected by rainy weather and are not necessarily indicative of the results to be expected for the full year.

3. A Private Placement of restricted stock with attached three year warrants is continuing with an offering price of \$0.05 per share, plus an attached three year warrant for one half the number of shares with an exercise price of \$0.075 for the first year, double that amount for the second year, and triple that amount for the third year. During the three months ended March 31, 2005 \$560,000 was received from this private placement.

4.

The Company may become involved in a lawsuit or legal proceeding at any time in the ordinary course of business. Litigation is subject to inherent uncertainties, and an unexpected adverse result may arise that may adversely affect our business. Certain lawsuits have been filed against us for collection of funds due that are delinquent, as described below. The Company is currently not aware of any litigation pending or threatened for any reason other than collection of funds due and already recorded. The Company is not aware of any additional legal proceeding or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

As of March 31, 2005 total recorded liabilities of \$769,972 including accrued interest to March 31, 2005, were subject to a total of 15 separate lawsuits for the collection of the funds due. These include 12 leases totaling \$611,934 (reflected in Current Maturities of Capital Lease Obligations) plus \$23,660 in additional interest (reflected in Accrued Interest) and three

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

trade payables totaling \$124,542 (reflected in Accounts Payable) plus \$9,836 in additional interest (reflected in Accrued Interest). The leases are individually secured by specified equipment.

The accrued interest noted above was recorded based on our assessment of additional amounts we believe is probable and is related to three cases originally seeking \$251,522; the creditors have received judgments in these cases. The Company will continue to accrue interest until these cases are settled or paid in full.

The Company estimates an additional \$60,600 interest may be possible on other cases; however, the Company has not accrued this amount because it does not believe it is likely to be incurred. This estimate is related to six cases. In one case, there is a negotiated payment agreement with a remaining balance of approximately \$19,500. Our last payment was made in December 2004 and no contact or other collection action has been taken since then. A second case, claiming \$35,210, was filed in March 2003. No contact or other collection action has taken place since then. A third case, seeking \$171,853, is being actively negotiated by legal counsel and a settlement offer to pay the balance over approximately 46 months has been received. The remaining three cases, seeking a total of \$181,672, are being actively negotiated with a local law firm. It has been our experience that if the Company is able to pay an account in full, the creditor will accept a discount, in some cases a substantial discount, to get the case settled. In the event the Company has not been able to fully pay a claim, creditors have been willing to accept extended payment terms.

The Company has a total of six cases, that originally sought \$325,345, that we deem to have a remote possibility of incurring an additional unrecorded loss. The Company has negotiated payment agreements on these cases and, as of March 31, 2005, the recorded liability for these cases was \$97,442. Three of the cases are paid current under the settlements agreements and three are delinquent, but no further collection action has been taken by the lenders.

As of December 31, 2004 our subsidiaries were delinquent on approximately \$206,200 in federal payroll taxes. These amounts are included Accrued expenses in the Balance Sheet. The Company engaged a consultant to assist in working with the IRS to formulate a payment plan. A plan was negotiated to pay specified portions of the liability on or before January 31, 2005 and on the fifteenth of each month beginning March 15, 2005 until paid off on May 15, 2005. The Company made the required payments in January and March 2005, and paid a total of \$115,586, but did not make the subsequent payments as they became due. The Company received notice of intent to levy on the subsidiaries IMI and ICI for a total amount due of \$93,273. The notices were dated May 12, 2005. The IRS also filed federal tax liens for the amounts due.

Successful settlement of the above claims is dependent on future financing.

5. As of March 31, 2005 lease payments totaling \$758,434 were in arrears. As required by U.S. Generally Accepted Accounting Principles, the principal

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

balance of the leases that are in default have been classified as current liabilities. The Company is in ongoing communication with the lessors to avoid action that may be adverse to the Company.

In 2003 an offer was made to extend the Series 2000 Convertible Promissory Notes. The holders of \$80,000 of the Notes have not responded to the offer and that amount, plus \$51,553 in accrued interest, remains in default.

As of March 31, 2005, the Company was delinquent on real property taxes in the amount of \$14,630 plus interest and penalties. This is a technical default of the promissory note and deed of trust secured by the Stead manufacturing facility. The lender is aware of the situation and has taken no collection action. The Company was also in arrears in the amount of \$6,445 as of March 31, 2005 on a promissory note secured by equipment. The Company is working with the lender's legal counsel to bring the payments current. As required by U.S. Generally Accepted Accounting Principles, the principal balance of these notes, in the amount of \$502,403, have been classified as current liabilities.

6. During the three months ended March 31, 2005 convertible promissory notes totaling \$592,600 principal and \$242,630 accrued interest were converted into common stock at \$0.10 per share.

7. Significant non-cash operating, investing, and financing activities for the three months ended March 31, 2005 include the conversion of \$835,230 in convertible promissory notes and accrued interest into restricted common stock.

8. Warrants, options, and shares to be issued, totaling 62,289,984 and 66,758,507 shares as of March 31, 2005 and 2004, respectively, would dilute future Earnings Per Share (EPS). No diluted EPS is presented as the effect of including these shares is antidilutive.

9. The Company holds marketable securities that are available for sale, which consist solely of equity securities. The carrying amount on the balance sheets of these securities is adjusted to fair value at each balance sheet date. The adjustment to fair value is an unrealized holding gain or loss that is reported in Other Comprehensive Income. At present, these unrealized gains or losses are the only component of Accumulated and Other Comprehensive Income. The Company had Accumulated Unrealized Holding Losses of \$18,450 at March 31, 2005 and \$9,568 at December 31, 2004. No gains were reclassified out of accumulated other comprehensive income into earnings during 2005 and no losses were reclassified out of accumulated other comprehensive income into earnings during 2004. The table below illustrates the amount of unrealized holding gains and losses included in other comprehensive income, net of tax effects of \$0. The reclassification adjustment listed in the below table represents unrealized holding gains and losses transferred into earnings as securities are sold.

10

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

Following are the components of Other Comprehensive Income:

Three Months Ended March 31,

2005

2004

Unrealized holding gains (losses)

Edgar Filing: ITRONICS INC - Form 10QSB/A

| | | |
|-----------------------------------|------------|-------------|
| arising during the period | \$(12,122) | \$ (73,866) |
| Reclassification adjustment | 3,240 | (110,888) |
| Other Comprehensive Income (Loss) | \$(8,882) | \$(184,754) |

Following is a summary of gross proceeds and gains and losses from sales of available for sale marketable securities:

| | Three Months Ended March 31, | |
|--------------------------------------------|------------------------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| Gross proceeds from sales of securities | \$ 5,947 | \$69,744 |
| Gross gains from sale of securities | \$ - | \$22,044 |
| Gross losses from sale of securities | (6,431) | - |
| Net Gains (Losses) from sale of securities | \$(6,431) | \$22,044 |

10. Following is financial information for each of the Company's segments. No changes have occurred in the basis of segmentation since December 31, 2004.

Reconciliation of segment revenues, gross profit (loss), operating income (loss), other income (expense), and net income (loss) before taxes to the respective consolidated amounts follows:

11

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

| | Three Months Ended March 31, | |
|---------------------------|------------------------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| Revenues: | | |
| Photochemical Fertilizer | \$260,174 | \$ 326,996 |
| Mining Technical Services | 49,799 | 79,844 |
| Consolidated Revenues | \$309,973 | \$ 406,840 |

Edgar Filing: ITRONICS INC - Form 10QSB/A

| | | |
|---------------------------------|--------------------|--------------------|
| Gross Profit (Loss): | | |
| Photochemical Fertilizer | \$(42,164) | \$(35,639) |
| Mining Technical Services | 1,029 | 1,906 |
| Consolidated Gross Profit | | |
| (Loss) | \$(41,135) | \$(33,733) |
| | | |
| Operating Income (Loss): | | |
| Photochemical Fertilizer | \$(603,545) | \$(483,503) |
| Mining Technical Services | (142,323) | (94,110) |
| Consolidated Operating | | |
| Income (Loss) | \$(745,868) | \$(577,613) |
| | | |
| Other Income (Expense): | | |
| Photochemical Fertilizer | \$(164,052) | \$(208,770) |
| Mining Technical Services | (3,685) | 75,766 |
| Consolidated Other Income | | |
| (Expense) | \$(167,737) | \$(133,004) |
| | | |
| Net Income (Loss) before taxes: | | |
| Photochemical Fertilizer | \$(767,597) | \$(692,273) |
| Mining Technical Services | (146,008) | (18,344) |
| Consolidated Net Income | | |
| (Loss) before taxes | \$(913,605) | \$(710,617) |

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

Identifiable assets by business segment for the major asset classifications and reconciliation to total consolidated assets are as follows:

| | March 31, <u>2005</u> | December 31, <u>2004</u> |
|------------------------------|--------------------------|-----------------------------|
| Current Assets: | | |
| Photochemical Fertilizer | \$ 819,398 | \$ 684,754 |
| Mining Technical Services | 150,724 | 157,603 |
| | 970,122 | 842,357 |
| Property and Equipment, net: | | |
| Photochemical Fertilizer | 2,965,688 | 3,010,749 |
| Mining Technical Services | 114,776 | 122,342 |
| | 3,080,464 | 3,133,091 |
| Other Assets, net: | | |
| Photochemical Fertilizer | 48,398 | 52,697 |
| Mining Technical Services | 969,614 | 1,246,824 |
| | 1,018,012 | 1,299,521 |
| Total Assets: | | |

Edgar Filing: ITRONICS INC - Form 10QSB/A

| | | |
|---------------------------------|--------------|--------------|
| Photochemical Fertilizer | 3,833,484 | 3,748,200 |
| Mining Technical Services | 1,235,114 | 1,526,769 |
| Total Segment Assets | 5,068,598 | 5,274,969 |
| Itronics Inc. assets | 23,199,803 | 22,504,867 |
| Less: inter-company elimination | (24,002,786) | (23,631,896) |
| Consolidated Assets | \$ 4,265,615 | \$ 4,147,940 |

11. The Company applies APB Opinion 25 in accounting for stock options. The following table shows a comparison of option compensation expense between this method compared to the Fair Market Value method under FASB Statement No. 123. The table also indicates the impact on net loss and loss per share:

13

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

| | Three Months Ended March 31, | |
|-----------------------------------|------------------------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| Option Compensation Expense: | | |
| As reported | \$ 32,934 | \$ 123 |
| Adjustment for additional expense | | |
| for fair value of options | 3,132 | 1,245 |
| Pro forma | \$ 36,066 | \$ 1,368 |
| Net Income (Loss): | | |
| As reported | \$(913,605) | \$(710,617) |
| Adjustment for additional expense | | |

| | | |
|---------------------------|-------------|-------------|
| for fair value of options | (3,132) | (1,245) |
| Pro forma | \$(916,737) | \$(711,862) |

Earnings (Loss) per share,

basic and diluted

| | | |
|-------------|-----------|-----------|
| As reported | \$(0.005) | \$(0.006) |
| Pro forma | \$(0.005) | \$(0.006) |

Item 2. Management's Discussion and Analysis or Plan of Operations

Some of the information in this report contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- discuss our future expectations;
- contain projections of our future results of operations or of our financial condition; and
- state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements.

I. Results of Operations

The Company reported consolidated revenues of \$309,973 for the quarter ended March 31, 2005, compared to \$406,840 for the prior year quarter, a decrease of 24%. The decrease was due to a decrease of \$30,000 in Mining Technical Services segment revenues, a decrease of 38%, and to a decrease in Photochemical Fertilizer segment revenue of \$66,800, or 20%. The consolidated net loss was \$913,605, or \$0.005 per share, for the quarter ended March 31, 2005, compared to a net loss of \$710,617 or \$0.006 per share for the comparable 2004 period, an increased loss of \$202,988, or 29%.

To provide a more complete understanding of the factors contributing to the changes in revenues, operating expenses, other income (expense) and the resultant operating income (loss)

and net income (loss) before taxes, the discussion presented below is separated into the Company's two operating segments.

PHOTOCHEMICAL FERTILIZER

| | Three months Ended March 31, | |
|--------------------------------|------------------------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| Revenues | | |
| Fertilizer | \$ 211,234 | \$ 229,479 |
| Photochemical recycling | \$ 22,181 | \$ 54,559 |
| Silver | \$ 26,759 | \$ 42,958 |
| Total Revenue | \$ 260,174 | \$ 326,996 |
| Gross profit (loss) | \$ (42,164) | \$ (35,639) |
| Operating income (loss) | \$(603,545) | \$(483,503) |
| Other income (loss) | \$(164,052) | \$(208,770) |
| Net income (loss) before taxes | \$(767,597) | \$(692,273) |

Total segment revenues for the first quarter of 2005 were approximately \$260,200, a decrease of 20% from the prior year first quarter. Fertilizer sales for the quarter were \$211,200 (371 tons), compared to \$229,500 (451 tons) for the 2004 first quarter, a decrease of 8% in dollars and 18% in tonnage. Sales of the Chelated Liquid Micro-nutrients were \$190,000 (290 tons) and \$195,500 (335 tons) for the first quarter of 2005 and 2004, respectively, a decrease of 3% in dollars and 13% in tonnage. Sales of the Chelated Liquid Multi-nutrients were \$22,200 (80 tons) and \$33,400 (117 tons) for the first quarter of 2005 and 2004, respectively, a decrease of 33% in dollars and 31% in tonnage. The expected fertilizer sales increase did not occur due to rainy weather in the Central Valley of California that continued into late May 2005. Total photochemical recycling revenue for the quarter decreased by 59%, on decreased volume of 64%, compared to the first quarter of 2004. The decrease is due to the December 2004 mutual termination of recycling services for Shutterfly, Inc., a significant photochemical recycling customer. To offset this loss of revenue, we are concentrating our efforts on sales of Photochemical Silver Concentrators. Silver sales decreased \$16,200 from the first quarter of 2004, a decrease of 38%. The decrease is primarily attributable to reduced sales of Silver Nevada Miner silver bars. Cost of sales decreased \$60,300 due primarily to a decreases of \$58,300 in direct material costs due to decreased sales. The segment recorded a gross loss of \$42,200 for the quarter, compared to a gross loss of \$35,600 for the first quarter of 2004, an increased loss of \$6,500, or 18%.

Segment operating expenses increased \$113,500 from the first quarter of 2004. This includes an increase in sales and marketing expense of \$76,300 due to increased corporate marketing and \$29,600 in stock option compensation expense.

These factors resulted in a 2005 first quarter segment operating loss of \$603,500 compared to a loss of \$483,500 for the first quarter of 2004, an increased operating loss of \$120,000, or 25%.

Other expense decreased \$44,700 due to a decrease in interest expense resulting from prior and current year conversions of convertible promissory notes into common stock.

The changes in operating loss and other expenses resulted in a segment net loss before taxes of \$767,600 for the quarter ended March 31, 2005, compared to a loss of \$692,300 for the prior year quarter, an increased loss of \$75,300 or 11%.

MINING TECHNICAL SERVICES

| | Three Months Ended March 31, | |
|--------------------------------|------------------------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| Revenues | \$49,799 | \$79,844 |
| Gross profit (loss) | 1,029 | 1,906 |
| Operating income (loss) | (142,323) | (94,110) |
| Other income (expense) | (3,685) | 75,766 |
| Net income (loss) before taxes | (146,008) | (18,344) |

Mining technical services revenue was \$49,800 for the quarter ended March 31, 2005, compared to \$79,800 for the comparable quarter of 2004, a decrease of 38%. The decrease is due to prior year short term projects that did not reoccur in the current period. Cost of sales decreased by \$29,200, due to decreases in labor and consulting costs of \$28,000. These factors resulted in a first quarter gross profit for the segment of \$1,000 compared to a gross profit of \$1,900 for the prior year first quarter, a nominal decrease.

In early May 2005 the technical services satellite office was closed due to the winding down of most of the technical service contracts and completion of the majority of the data gathering for the insidemetals.com project, but certain key staff members have been retained. Programming is continuing for insidemetals.com and launch of the website is planned for June 2005.

The redirection of Whitney & Whitney, Inc. to reduce emphasis on technical consulting services and to launch an internet information portal is brought about by the fact that Dr. Whitney, our President, has often been the lead person in generating new consulting contracts. Our President's increased responsibilities for managing the expanding photochemical recycling segment and overall corporate activities has reduced his time availability to actively participate in the consulting segment. Part of our objective in shifting the focus of the technical services segment is to retain our core professional staff that can provide assistance on possible future technical service contracts as well as perform administrative duties for the photochemical recycling segment, while at the same time adding a potential source of revenue that is not dependent upon labor sales and which can be managed by a professional staff. The information portal also better utilizes the Whitney & Whitney, Inc. library and information resources that are already in existence. For the six months ended June 30, 2005 we allocated costs of approximately \$99,000 to the development of the web site. The site was launched in mid-August 2005 and we are now fine-tuning the general presentation of the site, as well as improving the profiled mining company information. We expect this level of spending to continue well into the fourth quarter of 2005. As improvements to the site are completed and information maintenance becomes routine, we will reduce or redirect staff resources as needed.

Segment operating expenses increased \$47,300 due to \$62,700 in research and development expenses related to developing the insidemetals.com project, which was partially offset by

16

decreases in various other operating expenses. This project will be an internet "Information Portal" offering financial and production information on gold mining companies through an attractively priced subscription service.

The combination of these factors resulted in a 2005 first quarter segment operating loss of \$142,300, compared to a loss of \$94,100 for the first quarter of 2004, an increased operating loss of \$48,200, or 51%.

Other income (loss) for the first quarter of 2005 was a loss of \$3,700 compared to a gain of \$75,800 for the prior year first quarter. This decrease is due to reduced sales of common shares of Golden Phoenix Minerals, Inc. (GPXM) and other marketable securities.

The changes in operating loss and other income resulted in a segment net loss before taxes of \$146,000 for the quarter ended March 31, 2005, compared to a loss of \$18,300 for the prior year quarter, an increased loss of \$127,700.

SUMMARY

On a consolidated basis, the various changes in revenues and operating expenses resulted in a first quarter 2005 operating loss of \$745,900, compared to \$577,600 for the first quarter of 2004, an increased operating loss of \$168,300, or 29%. Net loss before taxes for the first quarter 2005 was \$913,600 compared to \$710,600 for the prior year first quarter, an increased loss of \$203,000 or 29%.

II. Changes in Financial Condition; Capitalization

Cash amounted to \$(60,600) as of March 31, 2005, compared to \$25,200 as of March 31, 2004. Net cash used for operating activities was approximately \$668,400 for the first three months of 2005. The cash used for operating activities during the period was financed by a combination of sales of common stock of \$560,000 from a private placement of restricted common stock and attached warrants, short term loans from an officer/stockholder of \$25,000, and \$51,300 in account receivable factoring.

Total assets increased during the three months ended March 31, 2005 by \$117,700 to \$4,265,600. Current assets increased \$174,800 due to increases in accounts receivable of \$123,900 and \$83,900 in prepaid expenses. The increase in accounts receivable is due to a significant percentage of fertilizer sales for the quarter occurring in March, as opposed to being spread relatively evenly throughout the quarter. Prepaid expenses increased due to a combination of extensions of corporate marketing and consulting contracts and prepayment of raw material inventory. Net property and equipment decreased \$52,800 due to depreciation and amortization. Other assets decreased nominally. At March 31, 2005 the Company owned 113,300 shares of GPXM with a current market value of \$11,900. During the three months ended March 31, 2005 the Company sold 22,000 GPXM shares, with total net proceeds of \$4,200.

Current liabilities increased during the three months ended March 31, 2005 by \$1,789,200 and total liabilities decreased by \$657,300. Total liabilities decreased due to the conversion into common stock of a total of \$835,200 in Convertible Promissory Notes and accrued interest. This decrease was partially offset by current period accrued interest on convertible promissory

17

notes of \$99,600. Changes in current liabilities include an increase of \$60,600 in bank overdraft, \$24,900 in accounts payable, \$59,700 in accrued management salaries, \$20,000 in advances from an officer/stockholder, and \$1,706,600 in current maturities of convertible notes and accrued interest. The increase in current maturities of convertible notes is due to the reclassification from long term debt of the 2000 Series Convertible Promissory Notes that were extended to 2006 and are now due within one year of the balance sheet date. These increases were partially offset by a decrease of \$86,300 in accrued expenses, which reflects payment of a portion of federal payroll tax obligations.

The above discussion and the discussion of various legal proceedings elsewhere in this report does not succinctly summarize the progress that the Company has made in implementing its business plan and improving its financial condition over the last several years. However, there has been significant progress. First, in 2004 fertilizer sales exceeded \$1 million for the first time, compared to sales in the \$500,000 range for each of the two previous years. This resulted in a gross loss for the photochemical fertilizer segment of \$34,700, which was a \$148,200 improvement over 2003 and a \$217,100 improvement over 2002. This demonstrates one of the fundamental concepts in the business plan, that a large part of the Company's operating cost structure is fixed or semi-fixed, which means that as sales rise, many of the costs will not rise proportionally, resulting in gross profits that will contribute to paying general overhead costs. This improvement in the photochemical fertilizer segment, combined with a gross profit from the technical services segment, resulted in an overall gross profit for the year, which is the first time that this was accomplished since before the move to the Stead manufacturing facility in 2000.

Addressing the Company's financial condition, improvements have been made there as well. The stockholders' deficit, \$4,587,900 at December 31, 2002, has been reduced to a deficit of \$1,789,300 at March 31, 2005, an improvement of \$2,798,600. This has been achieved by the conversion of approximately \$4.2 million in convertible notes and accrued interest into common stock. One significant area of difficulty for the Company has been meeting the payments on capital lease obligations. However, the capital lease obligation at December 31, 2002 of \$1,193,900 has been reduced to \$784,500 at March 31, 2005, a reduction of \$409,400. This includes the write off five leases as debt forgiveness income in 2004 of \$187,800. The Company expects to make further meaningful progress expanding sales and reducing debt in 2005.

III. Working Capital/Liquidity

During the three months ended March 31, 2005, working capital decreased by \$1,614,400 to a deficit balance of \$4,829,700. The decrease is due to the reclassification from long term debt of a net \$1,706,600 in convertible notes and accrued interest. The Company has had limited cash liquidity since the third quarter of 2000. The Company has sought and obtained the funding described above, which has not been sufficient to maintain all obligations on a current basis. Other factors limiting cash liquidity include fertilizer sales not expanding at the rate originally anticipated, so operating losses were not reduced as much as expected and the \$15 million equity line of credit agreement with Swartz Private Equities, LLC (Swartz) expiring in February 2004. A private placement of stock with attached warrants is continuing, with \$560,000 received during the three months ended March 31, 2005.

To meet short term cash needs, we factor certain inventory items and receivables. This process enables us to keep limited supplies of raw materials on hand for immediate production and to obtain cash immediately upon selling product. We generally receive payment from our customers within 30 days of sales; we then repay the factoring loan.

There has been a long term commitment by officers and other members of management to support the Company by investing funds for the Company's growth. One officer/shareholder has invested a total of \$1,307,700 in cash and deferred salary during the period 2001 through March 31, 2005. Two other members of management have deferred salary totaling \$496,500 during the period 2001 through March 31, 2005. Additional members of management

invested \$62,000 cash in 2003. All cash and deferred salary that have been invested in the Company's private placements were under the same terms and conditions as all other investors.

To assist with the Company's short and long term working capital needs, the Company has engaged an investment banking firm which is a registered broker/dealer, an investor relations and business consulting firm, and an investment fund. The registered broker/dealer is analyzing various financing alternatives, primarily in the area of refinancing the Company's plant facility and the related leased equipment. The investor relations and business consulting firm is concentrating on marketing the Company and its business plan/strategy. The investment fund is planned to provide a three year equity line of credit arrangement to raise up to \$3,000,000. It is projected that the equity line of credit will take effect in the second quarter of 2005.

The Company believes that the business plan implementation needs to be accelerated to meet profitability goals and believes that can be accomplished upon obtaining sufficient capital. The Company is aggressively seeking the required capital.

The actual rate of growth in fertilizer and the related photochemical and silver sales necessary to achieve profitability is subject to a number of uncertainties, including the annual seasonal nature of fertilizer sales related to crop cycles, short term weather patterns in specific markets, and the availability of funding to support sales growth.

IV. Growth Plans and Implementation

Our Photochemical Fertilizer Division created the GOLD'n GRO line of liquid fertilizers. The pioneering development work is complete, field trials have been completed on the first products and other field trials are under way.

The Mining Technical Services Division, originally provided typical consulting services which required high level technical personnel, including our President, devoted to each project. To reduce our dependence on our President to generate new consulting contracts, while better utilizing our core professional staff, the division is being reconfigured to focus most of its efforts on a global Internet Information Portal - "insidemetals.com". The information portal operates 24 hours per day 7 days per week anywhere in the world where computers and the Internet are available. Anyone with access to the Internet anywhere in the world can subscribe to the service at any time using their credit card to pay the subscription fee.

19

With the successful completion of the initial pioneering development work by the Photochemical Fertilizer Division, and with the launch of the information portal by the Mining Technical Services Division, we are implementing growth plans for both divisions that are expected to drive expansion well into the future. The status of these plans and their implementation is described for each division.

Photochemical Fertilizer Division (Itronics Metallurgical, Inc.)

Our manufacturing plant is presently configured to produce 1.2 million gallons (on a single shift basis) of GOLD'n GRO fertilizer annually (about 5,700 tons) and can be expanded to produce 7.2 million gallons of GOLD'n GRO per year, or about 36,000 tons. GOLD'n GRO fertilizer production in 2004 utilized about 5 percent of planned capacity. Planned expansions to achieve the 36,000 ton volume include increasing both dry raw material and liquid storage, increasing tank truck loading capacity, and automation of certain manufacturing functions. Expansion can be achieved incrementally as fertilizer sales continue to grow.

We have developed the following eight-part approach to growth:

1. Increase sales in the established market segments.
2. Develop GOLD'n GRO fertilizer applications for more crops.
3. Expand sales to new territories.
4. Expand the GOLD'n GRO specialty fertilizer product line.
5. Complete development of and commercialize the new glass/tile products.
6. Develop and commercialize environmentally friendly metal leaching reagents for recovery of silver, gold, and other metals.
7. Continue facilities expansion and technology development.
8. Acquire established companies and/or their technologies.

Plans and status of implementing each of the growth categories is explained in more detail in the following sections.

1. Increase sales in established market segments.

We are selling into or developing applications for the three major segments. These are:

- a. Specialty Agriculture which includes Avocados, Citrus, Grapes, Fruit and Nut Trees, and Vegetables.
- b. Bulk Field Crops which include alfalfa, cereal grains, corn, cotton, and soybeans.
- c. The Urban Market, which includes Home Lawn and Garden, Landscape Construction and Maintenance, and Nursery and Greenhouse markets, and Golf Courses.

Our primary focus is to increase bulk GOLD n GRO liquid fertilizer sales as rapidly as possible. This is being achieved by expanding sales in the Specialty Agriculture segment and in the Bulk Field Crops segment. There are on-going small package sales in the Urban Market, but these are small relative to the other two segments.

2. Develop GOLD'n GRO fertilizer applications for more crops.

Based on our experience to date, it takes approximately two to five years to develop each fertilizer product, which includes regulatory approval. It typically takes another two to four years to achieve market acceptance of successful products, which

includes field trials to demonstrate product effectiveness

New product applications are being developed for the dairy cow feed market including young oats, alfalfa, hay, and silage corn. Trials were conducted in 2004. The nutrient content of the alfalfa was improved, in some cases to the highest quality ratings. This benefits the dairy because less nutrient supplements are required for feeding the cows, thus reducing dairy operating expenses. The amount of hay produced per acre increased up to 25 percent. Results of the corn crops are still being evaluated. The dairy cow feed market is large with more than 23 million acres of alfalfa hay being grown in the United States. We anticipate it will take another one to three years to complete development and launch these product applications.

In 2004, we began field trials in Idaho, Oregon, and Washington for applications on onions, potatoes, and winter wheat. In the second quarter of 2005, we began field trials in Rhode Island for lawn and landscape application. Also in the second quarter, we started several new trials in California for silage corn applications.

A new GOLD'n GRO base liquid nutrition program is now being marketed. The program is called the "Gallon and a Quart" or "4 to 1" program. It calls for one gallon of GOLD n GRO base liquid for each quart of GOLD'n GRO chelated micro-nutrient used in soil applications. Field demonstrations have shown improved nutrition uptake and crop output under this cost effective program. Marketing of this program over the next two to three years is expected to produce a very substantial increase in the tonnage of GOLD'n GRO fertilizers sales.

3. Expand sales to new territories.

The GOLD'n GRO products are being sold in Arizona, California, Colorado, Idaho, Nevada, Oregon, Rhode Island, and Washington, with the majority of our sales in central California. We completed registration of select GOLD n GRO fertilizers in Idaho, Oregon and Washington during the first quarter of 2005; sales development is now underway. Two GOLD'n GRO products are registered in seven northeastern states and all of the products are registered in New York and in New Jersey with a distributor agreement signed for New Jersey. Based on our experience, commercial sales can be generated approximately one year after introductory sales activities are initiated. We are in the process of identifying distributors for New York and the other seven northeastern states. Each new geographic area developed will require the same procedural approach.

Our plan to expand sales in Urban Markets requires the consumer to utilize fertilizer injection equipment. This equipment provides economical, easy use of liquid fertilizers for consumer lawns and gardens. We recently added two types of fertilizer injectors to our "e" store, which is the first step into this market. Additionally, other fertilizer injectors are already available to consumers through irrigation supply stores.

4. Expand the GOLD'n GRO specialty fertilizer product line.

We are developing two new specialty product lines, calcium plus magnesium fertilizer and a high magnesium content fertilizer, both targeting foliar and soil application. We expect to launch sales of the calcium plus magnesium product in the second half of 2005 and the magnesium in 2006 or 2007.

21

We are developing a new category of repellent fertilizers that are expected to be sold at higher profit margins than our other products. The GOLD n GRO Guardian animal repellent fertilizer is an example of this type of specialty fertilizer. The U.S. market for animal repellents is believed to exceed \$50 million in annual sales. Products currently in the market have limited effectiveness so there is a real opportunity for a line of systemic products that are effective for several weeks after each application. GOLD'n GRO Guardian small plot tests have shown effectiveness for 8 to 12 weeks as well as excellent wintertime effectiveness.

In the second quarter of 2005 we acquired ownership interest in the GOLD n GRO Guardian trademark, product rights, and the repelling product. We now own 100% of all rights related to GOLD n GRO Guardian. Results of the research of the GOLD n GRO Guardian animal repellent fertilizer has provided a basis for a bird (goose) repellent fertilizer that will be perfected for small plot field trials and registration after the registration of GOLD n GRO Guardian is underway. Currently, this product line is strictly for non-food plant applications.

We believe the users of the GOLD n GRO animal repellent/fertilizer will be upscale homeowners, commercial landscapers, and municipal facilities, and wholesale and retail nurseries. The initial sales center will be in Rhode Island.

5. Complete development of and commercialize glass/tile products.

In 2003, we developed and produced glass /tile products proving that the product concept is technically viable. When the development of the glass/ceramic tile product is completed, we will achieve the ability to recycle 100 percent of the photoliquid materials received from customers, including waste that is generated internally during fertilizer production. We have completed preliminary market research for the tile markets, but expect to do much more work to develop a plan to enter this market.

6. Develop and commercialize metal leaching reagents for recovery of silver, gold, and other metals.

In 2002 and 2003, we initiated efforts to apply our technology to extract silver from photoliquids to the mining sector. This work will be further expanded and a small pilot circuit will be established to chemically process certain categories of silver-bearing solid wastes. The gold mining sector currently uses cyanide and other toxic chemicals in their leaching process. We believe it may be possible to create and adapt new non-toxic leaching reagents and leaching procedures for processing other secondary materials and certain types of mine generated products. The specific markets for leaching reagents in gold and silver mining is large and world wide, but has not yet been studied in detail for market development. Our Technical Services Division maintains an extensive library and database of mines and mining activities worldwide, which provides us ready access to market information as we need it. Much pilot plant work, including one or more field pilot operations, must be completed before this can be done.

7. Continue facilities expansion and technology development.

As fertilizer sales volume increases, we will need to increase tank truck loading capacity. With the introduction of additional bulk products and increased demand for our products, load out capacity for shipment of three more bulk products is needed. We developed a preliminary

22

construction budget and are seeking financing so that construction can be scheduled. While we believe that we can handle expected growth in 2005 with the existing load-out module, we hope to complete construction on the new load out equipment during the first quarter of 2006.

8. Acquire established companies and/or their technologies.

To enhance our operations and market presence, we intend to acquire small established companies or their technologies. In 2005, we completed our acquisition of the GOLD n GRO Guardian technology. We have decided to delay any further acquisitions until additional financing is obtained.

Mining Technical Services Division (Whitney & Whitney, Inc.)

Historically, this division provided consulting services to the mining industry. We are developing an Information Portal in the Internet. This division has a two-part approach to growth:

1. Continue to provide consulting services.
2. "e-commerce" Internet Information Portal-"insidemetals.com".

Plans and status of implementing each of the growth categories is explained in more detail in the following sections.

1. Continue to provide consulting services

During the third quarter of 2004, sales of the Mining Technical Services (Whitney & Whitney, Inc.) division declined due to winding down of on-going projects and delays related to client financing for new projects. Some of the issues related to new client project start up were resolved by the clients during the third quarter of 2004 and the remaining work was completed in early 2005. The technical services satellite consulting office was closed in early May, but certain key staff members have been retained. We intend to continue a low level effort to solicit and perform technical services for mining companies and other businesses or government agencies that have mineral interests or minerals related responsibilities

2. "e-commerce" Internet Information Portal-"insidemetals.com"

We are developing the website "insidemetals.com," an Information Portal targeting the companies and individuals interested in the mining and precious metals industry. The website will generate revenue by charging a subscription fee for monthly access to the site. Initially, the site will contain an array of information about gold and companies in the gold industry. We intend to add information on other mineral sectors gradually over time.

We anticipate that mining company professionals, all government agencies with minerals related responsibilities, financial industry investment professionals, and individual investors who have an interest in investing in mining companies but who have limited mineral industry knowledge will benefit from this Information Portal. The market scope for this service is global and is accessible with a "click of a mouse" in all countries of the world through the Internet. Whitney & Whitney, Inc. has contacts throughout the world and expects that the good will generated over a period of more than 25 years will provide market support for this service.

23

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

(b) Changes in internal controls. There was no change in our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting."

PART II- OTHER INFORMATION

Item 1. Legal Proceedings

We may become involved in a lawsuit or legal proceeding at any time in the ordinary course of business. Litigation is subject to inherent uncertainties, and an unexpected adverse result may arise that may adversely affect our business. Certain lawsuits have been filed against us for collection of funds due that are delinquent, as described below. We are currently not aware of any litigation pending or threatened for any reason other than collection of funds due and already recorded. We are not aware of any additional legal proceeding or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

As of March 31, 2005 total recorded liabilities of \$769,972 including accrued interest to March 31, 2005, were subject to a total of 15 separate lawsuits for the collection of the funds due. These include 12 leases totaling \$611,934 (reflected in Current Maturities of Capital Lease Obligations) plus \$23,660 in additional interest (reflected in Accrued Interest) and three trade payables totaling \$124,542 (reflected in Accounts Payable) plus \$9,836 in additional interest (reflected in Accrued Interest). The leases are individually secured by specified equipment.

The accrued interest noted above was recorded based on our assessment of additional amounts we believe is probable and is related to three cases originally seeking \$251,522; the creditors have received judgments in these cases. We will continue to accrue interest until these cases are settled or paid in full.

24

We estimate an additional \$60,600 interest may be possible on other cases; however, we have not accrued this amount because we do not believe it is likely to be incurred. This estimate is related to six cases. In one case, there is a negotiated payment agreement with a remaining balance of approximately \$19,500. Our last payment was made in December 2004 and no contact or other collection action has been taken since then. A second case, claiming \$35,210, was filed in March 2003. No contact or other collection action has taken place since then. A third case, seeking \$171,853, is being actively negotiated by legal counsel and a settlement offer to pay the balance over approximately 46 months has been received. The remaining three cases, seeking a total of \$181,672, are being actively negotiated with a local law firm. It has been our experience that if we are able to pay an account in full, the creditor will accept a discount, in some cases a substantial discount, to get the case settled. In the event we have not been able to fully pay a claim, creditors have been willing to accept extended payment terms.

We have a total of six cases, that originally sought \$325,345, that we deem to have a remote possibility of incurring an additional unrecorded loss. We have negotiated payment agreements on these cases and, as of March 31, 2005, the recorded liability for these cases was \$97,442. Three of the cases are paid current under the settlements agreements and three are delinquent, but no further collection action has been taken by the lenders.

As of December 31, 2004 our subsidiaries were delinquent on approximately \$206,200 in federal payroll taxes. These amounts are included Accrued expenses in the Balance Sheet. We engaged a consultant to assist in working with the IRS to formulate a payment plan. A plan was negotiated to pay specified portions of the liability on or before January 31, 2005 and on the fifteenth of each month beginning March 15, 2005 until paid off on May 15, 2005. We made the required payments in January and March 2005, and paid a total of \$115,586, but did not make the subsequent payments as they became due. We received notice of intent to levy on the subsidiaries IMI and ICI for a total amount due of \$93,273. The notices were dated May 12, 2005. The IRS also filed federal tax liens for the amounts due.

Successful settlement of the above claims is dependent on future financing.

-

Item 2. Changes in Securities and Use of Proceeds

(c) Recent Sales of Unregistered Securities:

Edgar Filing: ITRONICS INC - Form 10QSB/A

During the first quarter of 2005, we issued an aggregate of 11,850,000 shares of common stock to forty accredited investors at \$0.05 per share for a total of \$592,500. In addition, we issued to these investors three year warrants to purchase an aggregate of 5,925,000 shares of common stock at an exercise price of \$0.075 per share during the first year, \$0.15 per share during the second year, and \$0.225 per share during the third year.

During the first quarter of 2005, we issued an aggregate of 8,193,081 shares of common stock to twenty-two accredited investors who converted \$835,230 in convertible promissory notes, including principal and accrued interest into common stock at conversion prices ranging from \$0.10 to \$0.15 per share.

In January 2005, we issued an aggregate of 2,400,000 shares of common stock at \$0.05 per share

25

to John W. Whitney, our President, for a total of \$120,000. Mr. Whitney converted short term loans. In addition, we issued to Mr. Whitney warrants to purchase an aggregate of 1,200,000 shares of common stock at an exercise price of \$0.075 per share during the first year, \$0.15 per share during the second year, and \$0.225 per share during the third year.

In January 2005, we issued an aggregate of 625,000 shares of common stock to John W. Whitney, our President, at \$0.08 per share for a total of \$50,000 upon the exercise of a warrant. Mr. Whitney exercised the warrant by converting \$50,000 in short term loans into common stock.

In February 2005, we issued an aggregate of 2,500 shares of common stock valued at \$175 to John W. Whitney, our President, as compensation for services performed on our behalf in his capacity as a director of our company for the fourth quarter of 2004.

In February 2005, we issued an aggregate of 191,864 shares of common stock valued at \$12,726 to John W. Whitney, our President, for accrued interest on his unpaid salary. Interest is paid at 12% per annum and the share price is calculated monthly using the weighted average of the closing bid prices.

In March 2005, we issued an aggregate of 41,667 shares of common stock valued at \$3,750 to Cervelle Group LLC as compensation for consulting services performed on our behalf.

In March 2005, we issued an aggregate of 200,000 shares of common stock valued at \$16,200 to Sussex Avenue Partners, LLC as compensation for consulting services performed on our behalf. In addition, we issued to Sussex Avenue Partners, LLC a two year warrant to purchase an aggregate of 2,000,000 shares of common stock at an exercise price of \$0.10 per share.

We issued options to purchase an aggregate of 9,000 shares of common stock to Michael C. Horsley, our Controller on February 1, 2005. The options are exercisable at \$0.15 per share and expire three years after grant.

We issued options to purchase an aggregate of 66,000 shares of common stock to seven of our employees during the first quarter of 2005. The options are exercisable at \$0.15 to \$0.20 per share and expire in three to ten years from grant.

During the three months ended March 31, 2005, the accrued interest on the 2000 through 2002 Series Convertible Promissory Notes resulted in the granting of additional options to purchase an aggregate of 3,499,804 shares of common stock. The options are exercisable at prices ranging from \$0.10 to \$1.18.

During the first quarter of 2005, the following shares of common stock were earned by management employees for

accrued interest on their unpaid salaries. Interest is paid at 12% per annum and the share price is calculated monthly using the weighted average of the closing bid prices.

| | |
|------------------------------------|-----------------------------------|
| John W. Whitney, President | 141,432 shares valued at \$13,662 |
| Duane H. Rasmussen, Vice President | 101,759 shares valued at \$9,825 |
| Michael C. Horsley, Controller | 44,171 shares valued at \$4,270 |

During the first quarter of 2005, 3,053 shares of common stock valued at \$298 were earned by one employee for accrued interest on his unpaid salary. Interest is paid at 12% per annum and

26

the share price is calculated monthly using the weighted average of the closing bid prices.

Unpaid salary due two management employees in the amount of \$10,800 is to be paid with an aggregate of 111,692 shares of common stock. These shares were earned as part of the employee savings plan during the first quarter of 2005 and will be issued when sufficient cash is available to pay the required payroll tax withholding. The number of shares are calculated each month for all employees participating in the plan by using the weighted average of the closing bid prices for the respective month. The amounts and related number of shares earned by quarter for each of the employees follows:

| | <u>Amount</u> | <u>Shares</u> |
|------------------------------------|---------------|---------------|
| Duane H. Rasmussen, Vice President | \$ 6,000 | 62,051 |
| Michael C. Horsley, Controller | 4,800 | 49,641 |
| | \$10,800 | 111,692 |

All of the above offerings and sales were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of Itronics Inc. or executive officers of Itronics Inc., and transfer was restricted by Itronics Inc. in accordance with the requirements of the Securities Act of 1933. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

Except as expressly set forth above, the individuals and entities to whom we issued securities as indicated in this section of the registration statement are unaffiliated with us.

-

Item 3. Defaults Upon Senior Securities

As of March 31, 2005 lease payments totaling \$758,434 were in arrears. As required by U.S. Generally Accepted Accounting Principles, the principal balance of the leases that are in default have been classified as current liabilities. The Company is in ongoing communication with the lessors to avoid action that may be adverse to the Company.

In 2003 an offer was made to extend the Series 2000 Convertible Promissory Notes. The holders of \$80,000 of the Notes have not responded to the offer and that amount, plus \$51,553 in accrued interest, remains in default.

As of March 31, 2005, the Company was delinquent on real property taxes in the amount of \$14,630 plus interest and penalties. This is a technical default of the promissory note and deed of trust secured by the Stead manufacturing facility. The lender is aware of the situation

27

and has taken no collection action. The Company was also in arrears in the amount of \$6,445 as of March 31, 2005 on a promissory note secured by equipment. The Company is working with the lender's legal counsel to bring the payments current. As required by U.S. Generally Accepted Accounting Principles, the principal balance of these notes, in the amount of \$502,403, have been classified as current liabilities.

Item 6. Exhibits and Reports on Form 8-K

| | | |
|----------------|--------------------------------------------------------------------------------------------------------------------------|----|
| (a) Exhibit 31 | CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 | 30 |
| Exhibit 32 | CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 | 31 |

(b) Reports on Form 8-K

Following is a list of Forms 8-K filed during the three months ended March 31, 2005:

| | |
|-------------------|-------------------------------------------------------------------------------------------|
| January 6, 2005 | Announced departure of a director |
| January 14, 2005 | Announced 2004 GOLD n GRO fertilizer sales |
| February 3, 2005 | Announced that the 2005 edition of Silver Nevada Miner bars available in March |
| February 11, 2005 | Announced unregistered sales of equity securities |
| February 11, 2005 | Announced registration of selected GOLD n GRO fertilizers in seven Northeastern states |

Edgar Filing: ITRONICS INC - Form 10QSB/A

March 29, 2005 Announced unregistered sales of equity securities
March 29, 2005 Announced agreement with Chemilizer Products, Inc. to
 jointly market liquid fertilizer injectors

28

SIGNATURES

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

ITRONICS INC.

DATED: November 8, 2005 By: /S/JOHN W. WHITNEY

John W. Whitney
President, Treasurer and Director
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated

DATED: November 8, 2005 By: /S/JOHN W. WHITNEY

John W. Whitney
President, Treasurer and Director
(Principal Executive Officer)

DATED: November 8, 2005 By: /S/MICHAEL C. HORSLEY

Michael C. Horsley
Controller
(Principal Accounting Officer)

