ITRONICS INC
Form 10QSB
May 27, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM l0-QSB

(Mark One)

(X) QUARTERLY REPORT UNDER SECTlON 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 incorporation or organization)	(IRS Employer Identification Number)

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)

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ITRONICS INC. AND SUBSIDIARIES

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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, 2005	December 31, 2004
CURRENT ASSETS		
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	2,071,998	2,071,998
Vehicles	133,028	133,028
Equipment under capital lease	1,096,104	1,096,104
	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, 2005	December 31, 2004
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	222,781	211,216
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
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 AND COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

(UNAUDITED)

	Three Months Ended March 31,	
	2005	2004
REVENUES		
Fertilizer	$211,234	$229,479
Photochemical recycling	22,181	54,559
Silver	26,759	42,958
Mining technical services	49,799	79,844
Total Revenues	309,973	406,840
COST OF SALES	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)
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

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ITRONICS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004

(UNAUDITED)

	Three Months Ended March 31,	
	2005	2004

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)
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	14,122	(22,960)
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. In August 2002 a supplier of equipment for the Stead manufacturing plant filed suit against the Company and its subsidiary, Itronics Metallurgical, Inc. (IMI) in Johnson County, Indiana for the unpaid amount of $64,234 plus attorney s fees and court costs. On October 1, 2002 the plaintiff received a default judgment awarding the $64,234 plus $1,500 attorney s fees plus 8% interest. On November 5, 2002 the plaintiff filed a "Notice of Filing of Foreign Judgment" in Washoe County, Nevada and has received the judgment. In December 2003 a settlement agreement was accepted that required a $10,000 payment in December 2003 plus monthly payment of $5,161 over twelve months in 2004. Payments are delinquent as of December 31, 2004. In February 2005 the plaintiff received approximately $6,700 by levying three of the Company s bank accounts. No further collection action has been taken.

As of March 31, 2005 a total of nine lawsuits filed in 2003 and prior years remain outstanding against the Company s subsidiaries by various

equipment lessors. Five of the suits were filed in Washoe County, Nevada, two in Cook County, Illinois, one in Los Angeles County, California, and one in

Oakland County, Michigan. Three additional suits covering six leases were filed in Washoe County, Nevada in 2004. The suits seek a total of $839,934 plus attorneys fees and other costs. Six of these suits, seeking a total of $306,990 plus costs, were settled by restructuring the leases, signing stipulated judgments and agreeing to pay total payments of $258,390. Monthly payments on the settlements total $12,935 and are paid over various periods ranging from 18 to 31 months. If the restructured leases are defaulted, judgments for the original claimed amounts can be entered and further collection action, including repossession of the secured equipment, can be taken. Payments on five of the restructured leases are in default, but no additional collection action has been taken. Of the six remaining unsettled suits, three have received judgments, of which one has filed for a debtors examination which was to occur in April 2005. The Company has agreed to payment terms on that lease and the examination has been stayed until June 2005. Legal counsel is actively negotiating two of the unsettled suits. No further action has occurred on the other unsettled suit.

In February 2003 a trade creditor filed suit against the Company in Washoe County, Nevada seeking a total of $85,525 plus attorney fees and other costs. A default judgment was entered in May 2003. No further collection action has occurred on this claim.

As of December 31, 2004 the Company s subsidiaries were delinquent on approximately $206,200 in federal payroll taxes. 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 has received notice of intent to levy on the subsidiaries IMI and ICI for a total amount due of $93,273. The notices are dated May 12, 2005. They indicate the Company has 30 days from that date to pay the tax, make alternative payment arrangements, or request appeals consideration. After the 30 days, the IRS may seize property to satisfy the debt. The IRS may also file federal tax liens for the amounts due at any time. Successful completion of a payment plan is dependent on future financing.

Successful settlement of the above claims is dependent on future financing, which the Company is actively seeking.

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 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. Following are the components of Other Comprehensive Income:

	Three Months Ended March 31,

	2005	2004
Unrealized holding gains (losses)		
arising during the period	$(12,122)	$ (73,866)
Reclassification adjustment	3,240	(110,888)
Other Comprehensive Income (Loss)	$(8,882)	$(184,754)

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:

	Three Months Ended March 31,	
	2005	2004
Revenues:		
Photochemical Fertilizer	$260,174	$ 326,996
Mining Technical Services	49,799	79,844
Consolidated Revenues	$309,973	$ 406,840
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, 2005	December 31, 2004
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:		
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:

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

(UNAUDITED)

	Three Months Ended March 31,	
	2005	2004
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)

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

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

This segment, managed by Itronics Metallurgical, Inc., operates a photochemical recycling plant, which includes related silver recovery. As part of the recycling process, the Company manufactures and markets a line of liquid fertilizer products which are being sold under the GOLD n GRO trademark in the western U.S. markets in Arizona, California, Colorado, Hawaii, Idaho, Nevada, Oregon, and Washington. GOLD n GRO fertilizer products are being introduced in the eastern U.S. markets in Connecticut, Delaware, Massachusetts, New Jersey, New York, Pennsylvania, and Rhode Island. Revenues are generated from photochemical collection services, silver sales, and GOLD n GRO liquid fertilizer sales.

	Three months Ended March 31,	
	2005	2004
Revenues	$ 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, compared to $229,500 for the 2004 first quarter, a decrease of 8%. The fertilizer sales decrease is attributable to continual rainy weather in the Central Valley of California that has 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 a significant photochemical recycling customer. To offset this loss of revenue, the Company is concentrating its efforts on sales of Photochemical Silver Concentrators. During the first quarter of 2005 the Company received an order for two Concentrators and several leads and viable requests for proposal from several other potential customers. The Company presently has proposals out to potential customers that could lead to more than $500,000 in sales of the Photochemical Silver Concentrators. This marks the beginning of a shift in market focus from obtaining the majority of photochemical raw materials by picking up the materials by truck directly from the customer s location to obtaining the majority of its photochemical raw materials by receiving concentrated material through the interstate commercial trucking system. 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

This segment, known as Whitney & Whitney, Inc., provides mining and materials management, geology, engineering and economics consulting, and publishes specialized mineral economics and materials financial reports. It employs technical specialists with expertise in the areas of mining, geology, mining engineering, mineral economics, materials processing and technology development. Technical services have been provided to many of the leading U.S. and foreign mining companies, several public utilities with mineral interests, to various state agencies, the U.S. and foreign governments, and the United Nations and the World Bank.

Three Months Ended March 31,

	2005	2004
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.

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 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 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

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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.

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

For a number of years the Company s main focus has been on its Photochemical Fertilizer Division. This Division, operated by its wholly-owned subsidiary Itronics Metallurgical, Inc., has been perfecting the GOLD n GRO line of liquid fertilizers and developing large volume markets for them. Much of the pioneering development work is now complete, and the Division has commenced commercial operations. The Mining Technical Services Division, operated by its wholly-owned subsidiary WWI, worked for a number of years with a limited number of clients helping them develop their projects or solve various types of mining related problems. Much of the work required by these clients has now been completed.

During the second quarter of 2004 the Company upgraded its web site, http://www.itronics.com with significantly improved features. Early in the third quarter of 2004 the Company announced the formation of three new web sites, www.itromet.com for Itronics Metallurgical, Inc., www.whitneywhitney.com for Whitney & Whitney, Inc., and www.goldngro.com for GOLD n GRO fertilizer.

Acquisition of web addresses and establishment of the new web sites implements another part of Itronics growth strategy. Creating and operating separate sites for the subsidiaries and for GOLD'n GRO liquid fertilizers makes it easier for customers, suppliers, and investors to do business and to communicate with Itronics and its operating units. The Company's plan is to expand content of the individual web pages and to expand the Company's ability to conduct "e-commerce" as the Company completes the transition from being a small research and development company into a large commercial processing and manufacturing company. A new "e-commerce" plan which is being implemented by the Company's Mining Technical Services division is described herein.

With the successful completion of much of the pioneering development work by the Photochemical Fertilizer Division, and with the wrapping up of the Mining Technical Services long term consulting projects, the Company is implementing growth plans for both divisions that are expected to drive the Company's expansion well into the future. The status of these plans and their implementation is described for each division.

Photochemical Fertilizer Division (Itronics Metallurgical, Inc.)

This division has developed an eight-part approach to growth:

1. Increase sales in the established territories.

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 by mining companies as a replacement for cyanide and other toxic chemicals.

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 the established territories.**

GOLD'n GRO Fertilizers. The Company is selling into and /or developing applications for the three major fertilizer segments. These are:

a. The Urban Market, which includes Home Lawn and Garden, Landscape Construction and Maintenance, and Nursery and Greenhouse markets, and Golf Courses.

b. Specialty Agriculture which includes Avocados, Citrus, Grapes, Fruit and Nut Trees, and Vegetables.

c. Bulk Field Crops which include alfalfa, cereal grains, corn, cotton, and soybeans.

The Company s 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.

Sales growth of GOLD'n GRO liquid fertilizers is being generated by a broader base of distributor stores selling the products, more of the distributors sales force participating in the sales programs, and more products being sold in bulk truck load quantities.

GOLD'n GRO liquid fertilizer sales increased by 84% percent in 2004 compared to 2003. Fertilizer sales did not increase as expected in the first quarter of 2005 due to an unusually long and continued rainy season in central California. This weather pattern has continued into late May and may affect overall second quarter sales as well. Our distributor network is informing us that the delay in getting the fertilizer season started will most likely only extend the season, not cause a loss in overall fertilizer sales. However, certain crops have multiple harvests each season, so it is possible that one or more harvests may eventually be lost for the season, which could affect overall fertilizer sales.

Photochemical Waste Management Services.

The rapid growth in silver halide photofinishing for digital photographers continued to increase the Company's volume of used silver-bearing photoliquids with a 31 percent increase in 2004 compared to 2003. This growth occurred within

the Company's existing customer base in northern Nevada and northern California. In December 2004, however, the Company services to a significant photochemical waste management customer were terminated by mutual agreement, resulting in a significant decline in used photochemical volume in the first quarter of 2005. The photochemical volume from this customer had been growing so rapidly that the supply was exceeding the Company s demand for the chemicals needed in fertilizer manufacturing, resulting in storage costs and plant inefficiencies. It is anticipated that there is enough photochemical raw material in storage to meet fertilizer production needs for at least twelve months. The termination of services to this customer will allow the plant time to catch up on photochemical processing, which will reduce storage costs and increase efficiency in the plant. The Company is focusing on sales of Photochemical Silver Concentrators as discussed below to replace the lost revenue.

Silver. Silver sales declined by 38 percent in the first quarter of 2005 compared to the prior year quarter. The decrease is primarily attributable to reduced sales of Silver Nevada Miner silver bars. Silver sales from photochemical processing are expected to increase significantly in 2005.

Photochemical Concentrators.

Beginning in 2001 the Company developed an advanced design for a Photochemical Silver Concentrator that produces water pure enough to be used to make up new photo fixer chemicals, presenting the photoprocessor with the opportunity to reuse the water and thereby achieve 100 percent recycle of the used photochemical waste stream. The Photochemical Silver Concentrator also produces concentrates, which, after demetallization, are suitable for use in GOLD'n GRO fertilizer manufacturing. During the first quarter of 2005 the Company received an order for two

Concentrators and several leads and viable requests for proposal from several other potential customers. The Company presently has proposals out to potential customers that could lead to more than $500,000 in sales of the Photochemical Silver Concentrators. This marks the beginning of a shift in market focus from obtaining the majority of photochemical raw materials by picking up the materials by truck directly from the customer s location to obtaining the majority of its photochemical raw materials by receiving concentrated material through the interstate commercial trucking system.

(2) **Develop GOLD'n GRO fertilizer applications for more crops.** Based on the Company's experience to date, it takes about 3 years to develop and commercialize a new GOLD'n GRO fertilizer crop application for each fertilizer product.

Several new crop applications are being evaluated for several of the GOLD'n GRO fertilizer products. The Company and its distributor sales force are demonstrating that several of the GOLD'n GRO "field ready" blends provide improved nutrition uptake when applied foliar which creates opportunities for use on lower value large acreage field crops. Three new foliar applications that are being developed specifically for the dairy cow feed market that are working well are the use of GOLD'n GRO applied foliar on young oats, GOLD'n GRO applied foliar on alfalfa, and GOLD'n GRO applied foliar on silage corn. These are large acreage markets that require bulk truck load quantities of GOLD'n GRO products. These new developments expand the foliar application markets for GOLD'n GRO fertilizers and open up the potential for economical large scale use in other parts of the United States.

Field trials in California whose objectives are to demonstrate different aspects of GOLD'n GRO product use were on hold during the first quarter of 2005 due to rainy weather. Field trials

were started in Idaho, Oregon, and Washington during the quarter. GOLD n GRO lawn and landscape application trials were started in Rhode Island early in the second quarter. Several new trials will be started in California in the second quarter and field observations will continue for up to a year at locations where GOLD'n GRO soil conditioning effects are being examined. All trials are comparisons to standard grower fertilization practice presently in use.

The new GOLD'n GRO base liquid is helping reduce plugging problems commonly encountered in drip and micro-sprinkler irrigation. In certain locations that have poor water quality the GOLD'n GRO base liquid is improving proprietary field fertilizer mix stability. At other locations, use of the GOLD'n GRO base liquid also is improving plant nutrient uptake from the soil, especially when used in combination with one or more of the GOLD'n GRO chelated nutrient metal products. The target market for GOLD'n GRO base liquid is to have it used as an integral component of distributor proprietary field mixes with the usage tailored to achieve specific mix objectives.

A new GOLD'n GRO base liquid nutrition program has been developed and is now being marketed by the distributor network. The program is called the "Gallon and a Quart" or "4 + 1" program. It calls for one gallon of GOLD n GRO base liquid for each quart of GOLD'n GRO chelated micronutrient metal used in soil applications. Field demonstrations are showing that mineral nutrient availability in the soil is improved when this program is used and that nutrition uptake by the plants is greatly improved. Production increases are being observed and the program is cost effective. Adoption of this program by the distributor network over the next two to three years is expected to produce a very substantial increase in the volumes of GOLD'n GRO fertilizers that will be sold.

A group of trials were conducted in 2004 to evaluate low rate (1 to 2 gallons per acre) foliar application of GOLD'n GRO 8-8-8 + 4%S(sulfur) with one of the GOLD'n GRO chelated zinc products at second, third, fourth, or fifth cutting for alfalfa being grown for dairy cow feed. The nutrient content of the alfalfa was improved, in some cases to the highest quality ratings, and the amount of hay produced per acre was increased by up to 25 percent. This benefits the dairy because less nutrient supplements are required for feeding the cows, thus reducing dairy operating expenses. The target market is large with more than 23 million acres of alfalfa being grown in the United States.

Trials were used to evaluate low rate (1 to 2 gallons per acre) foliar application of GOLD'n GRO 8-8-8 + 4%S and GOLD'n GRO 20-1-7 + 3%S on silage corn and field corn. A positive growth response was obtained and in one trial the corn put out tassels earlier. In another trial the height of the corn stalks was increased from eight to nine feet to 11 to 12 feet. This amount of growth increase would increase silage production by about 30 percent. This greater corn stalk mass is beneficial to the dairy farmers growing silage corn for cattle feed. A benefit of accelerated growth of grain corn would be earlier harvest, which provides a number of benefits including lower risk of loss due to frost and fall rains, and possibly lower drying cost. The target markets for these applications are large with more than 79 million acres of grain and silage corn being grown in the United States. Fertilization applications for corn are expected to become more important as the use of domestically grown corn to