

ITRONICS INC
Form 10KSB/A
October 12, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-KSB/A

Amendment No. 1

(Mark One)

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

For the fiscal year ended **December 31, 2005**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (No Fee Required)

For the Transition period from _____ to _____

Commission file number 33-18582

ITRONICS INC.

(Name of small business issuer in its charter)

Texas

75-2198369

(State or other jurisdiction of
incorporation or organization) (I.R.S. Employer Identification Number)

6490 South McCarran Boulevard, Building C, Suite 23 Reno, Nevada

89509

(Address of Principal Executive Offices) Zip Code

Issuer's telephone number: (775) 689-7696

Securities registered under Section 12(b) of the Exchange Act:

Title of each class which registered	Name of each exchange on which registered
<u>None</u>	<u>None</u>

Securities registered under Section 12(g) of the Exchange Act:

None

(Title of class)

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 for the past 90 days.

Yes (x) No ()

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. (X)

State issuer's revenues for its most recent fiscal year: \$1,360,987.

The aggregate market value of the voting stock held by non-affiliates, computed by reference to the average of the bid and asked prices for such stock as of March 31, 2006, was \$8,320,400.

As of March 31, 2006 there were issued and outstanding 204,671,731 shares of the Registrant's Common Stock.

2

ITRONICS INC. AND SUBSIDIARIES

2005 FORM 10-KSB ANNUAL REPORT

TABLE OF CONTENTS

<u>PART I</u>		<u>PAGE</u>
Item 1.	Description of Business	4
Item 2.	Description of Property	20
Item 3.	Legal Proceedings	21

Edgar Filing: ITRONICS INC - Form 10KSB/A

Item 4.	Submission of Matters to a Vote of Security Holders	22
 <u>PART II</u>		
Item 5.	Market for Common Equity and Related Stockholder Matters	22
Item 6.	Management's Discussion and Analysis or Plan of Operation	23
Item 7.	Financial Statements	33
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	33
Item 8A	Controls and procedures	33
Item 8B	Other Information	33
 <u>PART III</u>		
Item 9.	Directors and Executive Officers of the Registrant	33
Item 10.	Executive Compensation	36
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	38
Item 12.	Certain Relationships and Related Transactions	41
Item 13.	Financial Statements and Exhibits	42
Item 14.	Principal Accountant Fees and Services	77

ITEM 1.

DESCRIPTION OF BUSINESS.

INTRODUCTION

We are the inventor and developer of the "Beneficial Use Photochemical, Silver, and Water Recycling" technology that produces environmentally beneficial GOLD'n GRO fertilizers and silver bullion.

We are an environmental process technology company that has developed what we believe is a unique technology for photochemical recycling. We, through our subsidiary, Itronics Metallurgical, Inc., extract more than 99% of the silver and virtually all of the other toxic heavy metals from used photoliquids and use this "Beneficial Use Photochemical, Silver and Water Recycling" technology to produce environmentally beneficial chelated liquid fertilizer sold under the

trademark GOLD n GRO, animal repellent/fertilizer to be sold under the trademark GOLD n GRO Guardian, and silver bullion. We also provide process planning and technical services to the mining industry.

OUR PRODUCTS AND SERVICES

We currently operate the following two business segments under separate wholly owned subsidiaries:

Photochemical Fertilizer: This segment, known as Itronics Metallurgical, Inc., operates a fertilizer manufacturing, photochemical recycling, and silver refining facility. Revenues are generated by photochemical management services, sales of photochemical concentrators, sale of silver, and sale of GOLD n GRO liquid fertilizer products.

Mining Technical Services

: This segment, known as Whitney & Whitney, Inc., provides mineral project planning and technical services to the mining industry. It has specialized knowledge in all aspects of mineral project development and has been deeply involved in gold mine development for more than 25 years. It employs technical specialists with expertise in the areas of mining, geology, mining engineering, mineral economics, material 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. WWI was under contract with the Country of Bolivia from 1986 through early 1992 to assist it in developing its mining industry. In 2005 WWI launched an internet website to provide gold mining company profiles to the interested public.

We have three wholly owned subsidiaries, Whitney & Whitney, Inc. ("WWI"), Itronics Metallurgical, Inc. ("IMI"), and Itronics California, Inc. (ICI), a 92.5% owned partnership, Nevada Hydrometallurgical Project ("NHP"), and an 82.53% owned joint venture, American Hydromet. A brief description of each organization follows:

Itronics Metallurgical, Inc.

:

IMI was established in 1981 to manage the metallurgical and materials processing operations being developed under WWI and American Hydromet research and development programs. IMI has been the main provider of management services to American Hydromet since 1986. IMI is now managing the photochemical/GOLD'n GRO fertilizer segment as discussed below.

4

Nevada Hydrometallurgical Project

:

Nevada Hydrometallurgical Project ("NHP") is a research and development partnership formed in 1981 to fund research into potential commercial applications for certain hydrometallurgical process techniques developed by the U.S. Bureau of Mines Research Center in Reno, Nevada between 1970 and 1979. A number of potential commercial applications were defined by NHP, one of which is the American Hydromet silver/gold refining technique. In late 1985, NHP assigned its interest in the silver/gold refining technique to American Hydromet. NHP retained its proprietary interest in the other potential commercial applications for future developments. NHP continues as a financing and technology owning partnership. We own 92.5% of NHP.

American Hydromet

:

American Hydromet is a Nevada joint venture that was formed in 1985 to develop certain silver and gold refining/recovery technology and to create business based upon such technology. The photochemical fertilizer segment now being managed by IMI is owned by American Hydromet. The ownership interests in American Hydromet are: NHP for 76.5%, IMI for 1%, and American Gold & Silver Limited Partnership ("AG&S") for 22.5%. AG&S is a Nevada limited partnership, for which WWI serves as the general partner and owns a general and limited partnership interest totaling 11%. We own a 37% limited partnership interest in AG&S. In total, we own approximately 83% of American Hydromet.

Itronics California, Inc.

:

Itronics California, Inc. (ICI) was acquired in March 1999 by Itronics Metallurgical, Inc. ICI, originally named PD West, Inc., was acquired for its phosphoric acid recycling technology. ICI has no business operations but plans are to utilize the phosphoric acid technology and may eventually operate IMI's photochemical services and GOLD'n GRO fertilizer business in California.

Whitney & Whitney, Inc.

:

WWI was incorporated in 1977. WWI was primarily a mineral consulting firm that provided planning and technical services to the mining industry. WWI is now developing an internet website to provide gold mining industry data to the investing public, while maintaining a presence in the technical consulting field.

SUMMARY HISTORY OF OPERATIONS

Whitney & Whitney, Inc. was established to provide a wide range of technical services to the mining industry. During the 1980's, WWI completed several multi-client fertilizer marketing studies. Also during this time period, WWI was contacted by state and local environmental officials concerning the problem of photographic wastes, laden with silver and other toxic heavy metals, being dumped in local sewer systems.

Over the years, the mining technical services business was highly cyclical, closely following the base and precious metals industries, and specifically, the price of copper, other base metals and gold. This condition pointed out the necessity of expanding our business into new industries. When considering the fertilizer marketing studies previously performed, along with the growing national issue of sewer system contamination with toxic photowastes and silver toxicity to fish, it seemed to be a natural extension of WWI's existing expertise to expand

into the photowaste recycling business. In 1987 the decision was made to move forward with research and development of a process to extract silver from photographic liquid wastes. It took until 1997 to develop and demonstrate a satisfactory fertilizer and to complete university testing to demonstrate its agronomic viability.

In March 1998 IMI signed a five year definitive licensing, manufacturing, and distribution agreement with Western Farm Service, Inc. (WFS), one of the largest liquid fertilizer bulk retailers in the western United States. The agreement was renewed in March 2003 for another five years, subject to annual cancellation provisions. The agreement grants WFS an exclusive license and right to manufacture and market IMI's GOLD'n GRO line of bulk liquid fertilizer products for the Turf & Ornamental and Specialty Agricultural markets in the states of Arizona, California, Hawaii,

Idaho, Oregon, and Washington. WFS has approximately 90 agricultural retail outlets in these states. In the discussion below, and elsewhere in this report, we refer to this group of retail outlets as our licensed distributor network.

A 35,000 square foot manufacturing plant in Reno/Stead, Nevada was purchased in 1999. Construction of the liquid processing area was completed in early 2000, and a "shake-out" period was completed in which small batches of photochemicals were processed and small batches of fertilizer were manufactured. By late 2000 the new facility had demonstrated the ability to "demetallize" the received photo liquids to required EPA levels, thereby proving the technical viability of the new technology on a commercial scale. By the first quarter of 2001 we were positioned to develop sales for more than a dozen liquid fertilizer products.

In 2001, at the request of our licensed distributor, we developed a chelated liquid micronutrient zinc fertilizer with the objective of selling the product in truckload quantities. This fertilizer development was successful and provided the basis for the first tank truck load sales in the fourth quarter of 2001. During 2002 this new bulk liquid fertilizer was successfully introduced into the distributor network. During 2002 work on a bulk liquid GOLD'n GRO fertilizer that could be used as a "base liquid" in the distributor's proprietary field blends was commenced. In 2003 development work on a second chelated liquid micronutrient zinc product for bulk sale was initiated. Field testing of both new bulk liquid fertilizers was conducted during 2003 and in late 2003 they were approved for introduction into the distributor sales network for 2004.

During the same 2001 to 2003 period, more than two dozen liquid fertilizer formulations were evaluated for suitability and market potential. By the end of 2003, product line development had been completed, and 13 fertilizers covering two categories have been established: chelated liquid multinutrient fertilizers and chelated liquid micronutrient fertilizers. The fertilizers are sold both to the general public and through licensed and non-licensed distributors. Product improvement and new product development will continue, but our focus in 2005 and future years will be primarily on GOLD'n GRO Liquid Fertilizer sales expansion and on expansion of the services business as needed to support increasing GOLD'n GRO fertilizer sales.

In 2003 we participated in the development of an animal repellent/fertilizer that will be sold under the trademark GOLD'n GRO Guardian. Using one of the GOLD'n GRO multi-nutrient liquid fertilizers as a base liquid, which has the property of being taken into the plant as a fertilizer and imparting odor and taste characteristics that are offensive to deer and other animals, such as rabbits, that eat plants. The GOLD'n GRO Guardian product was field tested

6

during 2003 and was approved for use by the North American Deer Management Network in the fourth quarter of 2003. GOLD'n GRO Guardian is a repellent fertilizer product and must be registered under both the pesticide regulations and the fertilizer regulations for each state in which it will be sold. The product must also be registered with the Federal EPA as a biopesticide. Introduction of this product for commercial sales will be delayed until the registrations are completed. In 2005 we acquired the interest in the GOLD n GRO Guardian trademark, product rights, and the repelling product formula owned by Mr. Howland Green. We now own 100% of all rights related to GOLD n GRO Guardian. Mr. Green has become one of our directors and is Northeast Manager for GOLD n GRO Sales Development. Substantial funding over twelve to twenty-four months will be required to complete the EPA and California registration process.

During the period 1999 through 2003 we developed a "low temperature vacuum distillation" machine that operates at room temperature and is able to remove up to 80% of the water from photochemical solutions without damaging the chemicals, producing a high silver content concentrate that can be shipped as a commercial product in inter-state commerce. The distilled water is clean enough for re-use on site and the reduction in volume of material needing to be shipped produces 80 percent reduction in transportation cost making shipment possible anywhere in the United States. These machines have been released for commercial sale under the trademark "Itronics Metallurgical Photochemical Silver Concentrators".

In 2002 we delivered five of these Photochemical Silver Concentrators to the Department of Defense. Two additional Photochemical Silver Concentrators were delivered in the third quarter of 2003. This program is regarded as a pilot project, which may lead to providing "Beneficial Use Photochemical, Silver, and Water Recycling" services to all branches of the U.S. military and is being developed by the Department of Defense in consultation with the Federal EPA.

After we began producing fertilizer, we noted that the by products of the process were the main materials needed to manufacture glass and ceramic. Therefore, in early 2003, we began research and development of glass and tile formulations. During 2003, the first pieces of glass/ceramic tile were produced. With the successful development of a glass/ceramic tile product, we achieve the ability to recycle 100 percent of the materials received from customers, including waste that is generated internally during processing. In 2006, and future years the silver refining technology development and the glass/ceramic tile products development efforts will be expanded in parallel with expansion of GOLD'n GRO fertilizer sales.

A more detailed discussion of our business, based on our two business segments described above, follows.

PHOTOCHEMICAL FERTILIZER

Operations

We operate a commercial scale plant to receive used photochemical liquids, recover the silver and other metals, and convert the demetallized solutions to liquid GOLD'n GRO fertilizer products. A critical component of this integrated manufacturing system is to match, within a reasonable range, the incoming volume of photochemical liquids with the utilization of those liquids in fertilizer or other manufactured products.

7

Photochemical services operates as a regional business in northern Nevada, serving more than 200 customers in the northern Nevada market. A satellite service operation has been established in the San Francisco Bay Area which is a large market with at least three strong competitors. We are able to compete effectively based upon pricing and service quality.

Growth of silver bullion output is driven by photochemical processing to support GOLD'n GRO fertilizer sales. There are some opportunities to expand silver output separate from photochemical recycling, but profit margins for the refining services are very small when compared to the inventory requirements and the security risk. Because of these factors, gold and silver refining services are limited to categories of materials where our proprietary technology can be used and that offer better profit margins than conventional precious metal refining. We will be actively looking at opportunities to expand this segment in future years.

In early 2003 we initiated a program to market the Itronics Metallurgical Photochemical Silver Concentrators to large consumer photography and medical x-ray facilities throughout the United States. This is a cost effective method for us to expand our photochemical supply for use in GOLD'n GRO fertilizer manufacturing. Photochemical silver concentrators are expected to be a source of revenue growth in future years as we continue to expand nationally. Our photochemical blending technology is designed to utilize the concentrate in fertilizer, after it is demetallized.

Spent photochemical liquids received from customers are logged and recorded, then tested for silver content and contaminants. We achieve high contaminant control standards by working proactively with our regular customers. Once testing is completed, the photographic solutions are available for processing.

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.

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.

8

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 2005 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 a new 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 2005. 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

9

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, landscape, and nursery 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 fertilizer 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.

The expansion into the Northwest states of Idaho, Oregon and Washington is being managed by one field agronomist, who was transferred from California in 2004. Based on our experience, the cost of maintaining that position ranges from \$120,000 to \$150,000 per year. The expansion into the Northeast states is being managed by one part time person at an annual cost of approximately \$30,000. That person is also the lead person in seeking customers for our Photochemical Silver Concentrators. We plan to increase these spending levels in 2006, depending on sales support requirements.

In general, expansion to new regions of the country will require at least one field agronomist for each new region at a cost similar to that for the Northwest region. In addition, each state has varying registration requirements for product labels and costs of registration. Development of product labels is done internally using existing staff. Registration fees for each state vary widely, ranging from \$25 to \$600 per year, largely depending on how many products are registered in the particular state. For the near term, we anticipate utilizing present staff and management for corporate support of the sales efforts for both existing regions and for the new regions. For the longer term, as we expand we will need to add corporate support personnel, especially a Ph.D. agronomist, to properly support sales efforts.

10

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 added two types of fertilizer injectors to our "e" store in 2005, 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 products, a calcium plus magnesium fertilizer named GOLD n GRO 11-0-0+5% Ca (Calcium) and a high magnesium content fertilizer named GOLD n GRO 8-0-0+3% Mg (Magnesium), both targeting foliar and soil application. We have registered GOLD n GRO 11-0-0+5% Ca in Nevada and completed registration in California in the first quarter of 2006. Sales development is expected to start in the second quarter of 2006. The registration of GOLD n GRO 8-0-0+3% Mg is being delayed to 2006 or 2007 to allow time to complete the introduction of GOLD n GRO 11-0-0+5% Ca in California and to complete registration in Oregon and other states where it will be sold.

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 deer repellent fertilizer is an example of this type of specialty fertilizer. The U.S. market for deer 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 deer 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 deer 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.

11

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 quantitative market studies can be completed.

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

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. 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

12

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

In August 2005, we launched 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. Currently, the site contains 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.

Competition

Our GOLD n GRO fertilizer products compete with well established fertilizer companies that have significantly more capital with which to market their products. Our competitors include large companies such as Scotts Miracle-GRO, Dow AgroSciences Company, Uniroyal Chemical Corporation, and smaller companies such as Pursell Technologies, Inc. We believe that our fertilizers compete primarily on the basis of product quality and performance.

Our photochemical recycling fees are generated primarily from removing used photochemicals from our customer s sites. We compete for these customers with large national firms like Safety Kleen and Philips Environmental but our primary competitors are smaller regional firms like ECS Refining in Northern California.

We sell our silver bullion to a commercial refiner under standard industry terms. We are a very small producer of silver; consequently the refiner will purchase all the silver we can presently produce. For several years, there has been a global shortage in the supply side of the silver market. Our ability to sell our silver bullion could only be impacted if there were a dramatic negative change in the silver market, and only then if we grow to be a much larger silver producer than we are now.

Markets

Fertilizer

The total fertilizer market consists of the "Agricultural Market" and the "Urban Market". The Urban Market accounts for at least \$9 billion in annual sales in the United States. The "Specialty Ag" segment of the Agricultural Market is a \$5 billion segment making the total a \$14 billion market. Substantially all of our present GOLD n GRO fertilizer sales are in the "Specialty Ag" segment.

More than 50 million tons of fertilizer products are sold annually in the United States. This includes almost 20 million tons of multi-nutrient fertilizers and almost 3.5 million tons of secondary nutrient and micro-nutrient products. About 38 percent of the total usage is as fluid fertilizers. Our 2004 sales represent less than 0.0005 percent of the 2004 multi-

and micro-nutrient market.

13

Our GOLD'n GRO fertilizers are all liquid. There are major differences in manufacturing, distribution, and sale of liquid fertilizers as compared to dry fertilizers. Basic differences are described here so that the investor can better understand the technology, logistics, and application of liquid fertilizers and thereby gain a better understanding for the market niche that we are entering.

Liquid fertilizer technology is more complex than dry technology. Typically dry solids can be readily blended into dry mixtures that can then be bagged, or transported as dry bulk powders. In contrast, liquid fertilizers are reacted products and must be manufactured using precise recipes so that the final product will remain stable. Dry products can be stored for years without degradation, whereas liquid products typically have a limited storage life ranging from a few days for proprietary field blends, up to 4 years or longer for certain types. Liquid fertilizers can also freeze over a rather wide range of temperatures, a problem not encountered with dry fertilizers. Because of these technical factors, bringing a line of liquid fertilizers to market is much more complex than bringing a line of dry products to market.

Dry fertilizers are typically applied with dry spreaders. Liquids are sprayed on with tank sprayers or aircraft, injected into the soil using special applicators, or applied through irrigation systems using sprinklers, micro-sprinklers, or drip irrigation. Liquid fertilizers can also be applied with ditch irrigation by running the fertilizer into the water at controlled rates. The use of irrigation water to apply the liquid fertilizers is called fertigation.

Dry fertilizer packaging and transport is typically simpler and less costly than liquid fertilizer packaging and transport. Bulk liquids must be moved in tank trucks or tank rail cars and stored in large bulk tanks at distribution points. The distributors who sell the liquids to farmers must install and operate tank farms and maintain a fleet of specialized applicators. Distribution and application of liquid fertilizers typically requires specialized technical knowledge related to mixing and handling as compared to the use of dry fertilizers. Liquid fertilizers are typically easier and less costly to apply when irrigation is available, and availability of the fertilizer nutrients in the soil for uptake by crops is greater when liquid fertilizers are used. Use of fertigation to apply liquid fertilizers can reduce tractor trips through the fields, reducing cost and also reducing soil compaction. Because of less cost for application and improved availability of the liquid nutrients to the plants, liquid fertilizers in the United States are continuing to gain market share. Use of liquid starter mixes for dry land crops is also expanding, especially for planting field crops such as cotton, corn, soybeans, and wheat.

Only certain fertilizer distribution companies have specialized in marketing liquid fertilizers and have the facilities and equipment required to sell, deliver, and apply the liquid fertilizers. Our licensed distributor is such a company.

14

The GOLD'n GRO fertilizers are complex and represent a new category of liquid nutrition technology. The GOLD'n GRO fertilizers contain bulk chelating agents that conventional liquid fertilizers do not contain. The chelating agents, which are normally quite costly, are supplied as components of the starting photographic liquids. The chelating agents improve the availability of micronutrient metals such as zinc, iron, manganese, and the secondary nutrients calcium, and magnesium. The photoliquids also have a natural content of sulfur, the other important secondary nutrient. These chelate enriched multinutrient characteristics distinguish the GOLD'n GRO liquids from other liquid fertilizers and are the main reason why the GOLD'n GRO liquid fertilizers represent a new type of nutrient technology.

The animal repellent/fertilizer market is a new market for us. The users of this product will be upscale homeowners and commercial and municipal facilities, and commercial nurseries. The deer population is growing rapidly in the northeastern U.S. and so the center of gravity for this product is the northeastern seaboard states. The initial sales

center will be in Rhode Island. The markets being served are the Commercial Landscape and wholesale and retail Nursery segments. The GOLD'n GRO Guardian line of products is strictly for non-food plant applications so the distribution channels are different from the channels being developed for GOLD'n GRO fertilizers.

The U.S. market for deer repellents is believed to be well in excess of \$50 million per year. Products currently in the market are believed to have limited effectiveness so an opportunity exists for a line of systemic products that are effective for several weeks after each application. The GOLD'n GRO Guardian is demonstrating effectiveness for 8 to 12 weeks, and may be able to provide "year round" protection. We plan to pursue development of this line of products as rapidly as possible.

Photochemical Recycling

We estimate there are more than 1,500 generators of photographic hazardous waste in the State of Nevada and more than 500,000 throughout the United States. This includes printed circuit board manufacturers, photo off-set printers, photographic developers, lithographers, photographers, micro-filming (banks, companies, etc.) and x-ray users (dentists, doctors, hospitals, podiatrists, orthopedic surgeons, veterinarians, radiologists and industrial x-ray users). We estimate the total annual market for recycling this category of waste to be in the range of \$400 to \$500 million.

We are aware of digital imaging and its impact on usage of conventional photography. The impact is different for each of the major segments; medical, color photography, and printing/microfiche. Digital imaging has made significant inroads into printing/microfiche processing with an almost 85% reduction in volume of photographic liquids over the past ten years. Over the last several years, it became clear to us that contrary to popular belief, digital photography is creating a new source of photowastes from Internet companies that combine digital imaging services with the ability to print high quality photographs for their customers. Digital methods are being adopted in the medical industry, and although the medical sector is relatively high growth with the aging U.S. population, digital imaging has had the effect of slowing the growth of waste photo liquids being generated and may lead to a decline in future years.

A larger impact on photo waste generation has been the pressure for companies to reduce the amount of waste generated at the operating sites. In photography, water was used in copious quantities for film rinsing and large quantities of low chemical content waste liquids were

15

generated. With the tightening of regulation of discharge of contaminated waters the equipment manufacturers have focused on reducing water usage. This attention to reduction of waste water has contributed to a reduction in the quantities of waste liquids being generated. It is expected that efficiency of use and associated waste reduction will continue, driven by increasing waste disposal costs. On-site photochemical recovery using a Photochemical Silver Concentrator and re-using the recovered water is expected to continue to become more and more attractive to photochemical waste generators.

Environmental restrictions on disposal of chemicals are continuing to tighten throughout the United States with the result that now the rate of growth for our photochemical recycling business is dependent upon the rate and vigor of fertilizer sales growth.

Silver

Nationally, more than 80 million ounces of silver are consumed in photomaterials annually. Approximately 30% of this is lost through disposal. The Silver Institute indicates that silver usage in photography is stable, but may decline modestly over the next several years.

Seasonality and Working Capital

In analyzing the market and industry competitors, it is apparent that two factors significantly impact our ability to penetrate these markets in a meaningful way. First, the seasonal aspect of fertilizer sales, which directly results in the second factor, the need for a much higher level of working capital when compared to other industries. Based on experience, we expect fertilizer sales to continue to have a strong seasonal component, with the primary sales season running from April through November each year, with an in-season low in July and August. In addition to the general seasonal nature of sales caused by normal weather patterns, unusual weather can further affect fertilizer sales, especially in winter and spring. For example, unusually cold or wet spring seasons may delay the growing cycle of various crops for which our fertilizer products are utilized. To overcome weather related effects on fertilizer sales, we are evaluating markets in the southern areas of the United States where growing seasons are longer and, in some cases, year round.

Due to the seasonal nature of GOLD'n GRO fertilizer sales, we must increase our net working capital to a level higher than that of non-seasonal industries. For example, some of our competitors have working capital equal to their annual sales. Consequently, ongoing debt and equity funding will be required for us to grow, even after a profitable level of operations is achieved.

Research, Development, and Technology

The majority of our research and technology is proprietary, which means it has not been patented, but is protected with strict confidentiality agreements and limited access to our research and production facilities. A U.S. patent on the silver separation process was issued in 1987 and is now expired. We made a corporate decision to not patent our research results as the cost of obtaining and defending patents is prohibitive.

We conduct field trials to gather agronomic data and to develop knowledge of how the GOLD'n GRO products work on different crops. This field testing will continue as it is the most effective method for developing the field data needed to support claims of product effectiveness for

specific crops. On-going field trials of GOLD n GRO fertilizer products continue to show significant improvements in crop production and quality. The trials are providing agronomic data that is being used to develop GOLD n GRO nutrition programs for the crops being tested.

The field trials are demonstrating that the GOLD n GRO products provide both agronomic and economic benefits in the "specialty agricultural" markets. Specialty agriculture includes vegetables, cut flowers, herbs and spices, and fruits and nuts of all types. These crops are relatively high value compared to field grains such as corn, wheat, and soybeans. Field trials in 2002 on cotton and on silage corn produced positive results, opening two new large acreage crops for GOLD'n GRO application development. Alfalfa is typically considered as a "hay" or "forage" crop and is generally of low to intermediate value when compared to specialty agricultural crops, however, high nutrient content alfalfa for the dairy market often commands a significant price premium which puts it at the low end of specialty agricultural crop values.

A 3 year field trial on Valencia orange trees being carried out with oversight from a major university in southern California was completed in 2004. Two year cumulative results have been analyzed and significant positive results were obtained. Fruit output per tree and fruit quality were both increased.

During 2003, we completed a key phase of the research project to produce formulated glass products. The research has identified three product categories: (1) a glass ceramic mixture that can be used to produce tile and other shapes suitable for glazing and commercial use; (2) glass formulations that can be used as "lead free" low and intermediate temperature glazes for decorative tile and the craft pottery trade; and (3) specialty boro-silicate glass formulations. The next phase of the research will focus on production of small quantities of products for evaluation and market

studies and is expected to be completed over the next two to three years.

During 2005 we continued to be offered the opportunity to explore the feasibility of recycling other non-photographic materials into fertilizer. We have concluded that certain acid waste streams generated by aerospace and electronics manufacturers may be able to be converted to a form that will fit "Beneficial Use" recycling into fertilizer in association with the processed photochemical materials.

Environment and Regulation

All chemistry has a "cradle to grave" regulatory life span. This term means under Federal law, the prime generator has the ultimate liability for all generated waste as long as it exists. For example, conventional services, through storing and hauling, relocate the waste to a legal landfill or dispose it to sewer. Liability then remains for the cost of cleanup if the landfill has to be reclaimed or the contamination of groundwater develops.

However, once the spent chemistry reaches our facility and has been processed, the generator's hazardous waste liability has been removed. Using our process, virtually all metals, including most of the iron, are removed. The end result leaves us with a non-hazardous "toxic-metal-free" liquid which is legal for use in high quality GOLD n GRO liquid fertilizers.

17

While in general our business has benefited substantially from increased governmental regulation of hazardous disposal by private industry, the waste management and recycling industry itself has become subject to extensive, costly and evolving regulation by federal, state and local authorities. We make a continuing effort to anticipate regulatory, political and legal developments that might affect our operations, but may not always be able to do so. We cannot predict the extent to which any legislation or regulation may affect future operations.

In particular, the regulatory process requires firms in our industry to obtain and retain numerous governmental permits to conduct various aspects of their operations, any of which permits may be subject to revocation, modification or denial. We are not in a position at the present time to assess the extent of the impact of such potential changes in governmental policies and attitudes on the permitting process.

For several years we have been studying the various regulatory requirements under RCRA and have been working with state and local environmental officials regarding the extent to which hazardous waste regulations apply to our operations. Through this process, we reached the conclusion that due to use of photochemicals as a beneficial ingredient in our fertilizer products, the photochemicals are not "hazardous waste" as defined in the regulations, and therefore, beneficial materials that are otherwise regulated as hazardous waste, are exempt from most of such regulations. In early 1996 we received concurrence from State of Nevada environmental officials that our photochemical fertilizer process meets the existing RCRA requirements for exemption from all environmental regulation with the exception that certain presently conducted lab analyses of the photochemicals will continue to be required. Certain of our large scale customers presently meet the exemption requirements. Present levels of fertilizer sales utilize all the photochemicals received. Once sales of all the photochemical materials are well established in the fertilizer or other commercial products, all our Nevada customers will be exempt from the regulations, including hazardous material transport/manifest rules. We believe that this exemption applies nationwide. Therefore, we intend to pursue similar concurrence from environmental officials in all applicable states, so that all our customers will be recognized as exempt from the RCRA regulations.

Environmental regulation of photowaste generators has strengthened over the last several years, and that trend is expected to continue. In the past year, heavy metal contamination of fertilizers has become a significant issue in California and other parts of the country. Public concern over this issue is expected to intensify. We believe that the GOLD n GRO line of fertilizer products is uniquely suited to alleviating this environmental concern and that we are

well positioned to meet future environmental needs.

Permits and Inspections

To the best of our knowledge, we have obtained permits from all governmental agencies having jurisdiction, such as the EPA, Nevada Department of Environmental Protection, Washoe County Health Department and the City of Reno, Nevada. We are not required to obtain federal permits, but are required to have, and have obtained, local permits for our photochemical recycling facility under the provisions of the Federal EPA. Similar permits will be required of all facilities that we may construct. Our recycling facility is subject to frequent inspections and to regulations (including certain requirements pursuant to federal statutes) which may govern operating procedures for land, water and air pollution, among other matters. In particular, our operations are subject to the Safe Drinking Water Act, TSCA (Toxic Substances Control

18

Act-pursuant to which the EPA has promulgated regulations concerning the disposal of PCBs), the Clean Water Act (which regulates the discharge of pollutants into surface waters and sewers by municipal, industrial and other sources) and the Clean Air Act (which regulates emissions into the air of certain potentially harmful substances). Employee safety and health standards under the Occupational Safety and Health Act are also applicable to our employees.

MINING TECHNICAL SERVICES

Services offered

Our Mining Technical Services segment offers a wide range of technical services to the mining industry, including management support, mineral project development, ore reserve and material balance reviews, expert assistance in contract dispute or litigation, and mineral economics and cost studies

Operations

Our Mining Technical Services segment accounted for 4% of 2005 consolidated revenue. Golden Phoenix Minerals, Inc. produced 27% of this revenue. The client is a junior mining company with three mineral properties in Nevada. WWI provided technical assistance in moving these properties into the development and operating stages. WWI also provided administrative support. The contract with this client expired on March 1, 2005.

In August 2005, we launched 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. Currently, the site contains an array of information about gold and companies in the gold industry. We intend to add information on other mineral sectors gradually over time.

Expansion Plans

In January 1999 WWI initiated a long term R&D project to replace the use of cyanide in the extraction of metals from silver/gold and gold/copper ores. The new thiosulfate leaching technology being developed under this program utilizes the same technology as our proprietary photochemical recycling process. The project, called Itronics Thiomet, is

seeking to establish operating joint ventures at specific mine sites to apply the thiosulfate leaching technology. This project is on hold pending further commercial development of fertilizer sales.

In 2004 a project to establish a subscription based gold industry and gold company Internet publication was begun. The web publication, called "insidemetals.com", provides the customer with gold industry and gold company financial, production, and ore profiles on key gold producing companies. Initially, the companies to be profiled are in the Gold Company sector, which includes gold, silver, platinum, and palladium producers. The profiled companies are publicly traded on the New York and American Stock Exchanges and on NASDAQ. The publication was launched in August 2005 and the target market includes gold company employees, governmental agencies, both domestic and foreign, and individual investors interested in the gold markets. In addition to providing subscription revenue, it is anticipated that the publication will enhance our opportunity to obtain new sources for technical consulting work. This subscription based Internet Information Portal provides an opportunity for relatively unrestricted growth by being available to a diverse global base of potential customers.

Competition

Our consulting services are generally in the area of management support and mineral economics. Management support projects include advice on mineral development strategies, audits of ore reserves and appraisals on mineral properties primarily to mining companies. Our projects tend to be short term, generally less than one year, and are typically sole sourced to us based on the reputation of our president. Other companies that provide similar services include local and regional mineral consulting firms.

Our competition for the Internet Information Portal is other websites that provide gold and other precious metal information to the interested public.

-

ITEM 2.

DESCRIPTION OF PROPERTY.

I. FACILITIES.

Itronics leases approximately 3,000 square feet of office space at 6490 South McCarran Blvd., Building C-23, Reno, Nevada. IMI leases approximately 2,000 square feet of warehouse space in Reno, Nevada. This space is being used for supply storage.

IMI owns a 35,000 square foot manufacturing facility in Reno-Stead, Nevada. The building contains all the equipment used for treating the used photochemicals, preparing the recovered silver for sale, and manufacturing the GOLD n GRO fertilizer products.

II. EQUIPMENT.

The equipment being used in the recycling and fertilizer manufacturing process is proprietary information. However, the plant for recycling liquid photochemicals into fertilizer is a fairly typical chemical process facility consisting of

appropriate arrangement of tanks and pumps. Solids produced by processing are recovered by filtration.

The refining operation consists of a material handling section, solids roasting, and a melting section. The equipment arrangements are proprietary, but the main items are pumps, tanks, filtration equipment, drying ovens, and the melting furnaces.

ITEM 3.

LEGAL PROCEEDINGS.

As of December 31, 2005 total recorded liabilities of \$797,418 including accrued interest to December 31, 2005, were subject to various lawsuits and claims for the collection of the funds due. These include 15 leases totaling \$604,796 (reflected in Current Maturities of Capital Lease Obligations) plus \$70,324 in additional interest (reflected in Accrued Interest) and three trade payables totaling \$107,758 (reflected in Accounts Payable) plus \$14,540 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 four cases originally seeking \$423,375. The creditors have received judgments in three of these cases, but have taken no further collection action. The Company will continue to accrue interest until these cases are settled or paid in full. In March 2006 the Company reached a settlement agreement on the fourth case by signing a stipulation to judgment and agreeing to pay \$4,500 per month.

We estimate an additional \$10,600 interest may be reasonably possible on one case; however, we have not accrued this amount because we do not believe it is probable to be incurred. This estimate is related to one case, seeking \$35,210, that was filed in March 2003. No further contact has taken place since then.

We have a total of nine cases, that originally sought \$364,036, 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 December 31, 2005, the recorded liability for these cases was \$242,839. All of these cases are paid current under the respective settlement agreements.

In addition to the above leases that are subject to litigation, there are four leases, with a recorded liability of \$188,270, that are in default. No payments have been made for an extended period of time, and no collection action or recent contact from the creditors has occurred. 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. Subsequent to December 31, 2005 the Company began paying on one of these leases with a recorded liability of \$46,341. It is reasonably possible that additional interest of less than \$5,000 could be incurred, but this has not been recorded because the Company does not believe it is probable to be incurred

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

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 above. Other than as described above, we are currently not aware of any litigation pending or threatened for any reason other than collection of funds due and already recorded nor are we aware of any additional legal proceeding or claims that the Company believes will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

ITEM 4.SUBMISSION OF MATTERS TO A VOTE OF ITS SECURITY HOLDERS.

None.

PART II

ITEM 5.MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a). Market Information. The Company's common shares are traded on the over-the-counter market under the symbol ITRO.OB, and quoted in the National Quotation Bureau, Inc.'s "pink sheets" and on the NASD Electronic Bulletin Board. In 2003 the Company's stock began trading on the Frankfurt, Germany Stock Exchange under the symbol ITG. In March 2004 the Company's stock began trading on the Berlin Bremen Stock Exchange (Germany) under the symbol ITG.

The following table sets forth the high and low bid prices for the Company's common stock for each quarter for 2004, 2005, and through March 31, 2006.

	<u>High Bid</u>	<u>Low Bid</u>
3/31/04	\$0.22	\$0.14
6/30/04	\$0.17	\$0.10
9/30/04	\$0.10	\$0.06
12/31/04	\$0.08	\$0.05
3/31/05	\$0.13	\$0.05
6/30/05	\$0.08	\$0.05
9/30/05	\$0.09	\$0.06
12/31/05	\$0.07	\$0.04
3/31/06	\$0.08	\$0.04

These quotations reflect inter-dealer prices without retail markup, markdown, or commissions, and may not represent actual transactions.

(b) On March 31, 2006 the number of record holders of the Common Shares was approximately 1,100.

(c) Dividends.

The Company has paid no dividends.

Recent Sales of Unregistered Securities

:

In December 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 third quarter of 2005.

In December 2005, we issued an aggregate of 72,036 shares of common stock valued at \$6,000 to Duane H. Rasmussen, our Vice President, as compensation for services performed on our behalf in his capacity as Vice President of our company for the third quarter of 2004.

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

22

We issued options to purchase an aggregate of 21,000 shares of common stock to four of our employees in November 1, 2005. The options are exercisable at \$0.15 per share and expire in three years from grant.

During the three months ended December 31, 2005, the accrued interest on the 2000 Series Convertible Promissory Notes resulted in the granting of additional options to purchase an aggregate of 601,968 shares of common stock. The options are exercisable at prices ranging from \$0.125 to \$1.18.

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 6.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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.

General Overview

We are the inventor and developer of the "Beneficial Use Photochemical, Silver, and Water Recycling" technology that produces environmentally beneficial GOLD'n GRO fertilizers and silver bullion.

We are a process technology company that has developed what we believe is a unique technology for photochemical recycling. We, through our subsidiary, Itronics Metallurgical, Inc., extract more than 99% of the silver and virtually all of the other toxic heavy metals from used photoliquids and use this "Beneficial Use Photochemical, Silver and Water Recycling" technology to produce environmentally beneficial chelated multinutrient liquid fertilizer products sold under the trademark GOLD n GRO, animal repellent/fertilizer products to be sold under the

23

trademark GOLD n GRO Guardian, and silver bullion. We also provide process planning and technical services to the mining industry and are operating and continuing to develop an internet website to provide gold mining company profiles to parties interested in the gold mining and precious metals industry.

Our fertilizer is sold primarily through Western Farm Service, Inc. (WFS), a wholly owned subsidiary of Agrium, Inc. (a NYSE company). Our distribution agreement with WFS gives them exclusive rights to sell our fertilizer products in Arizona, California, Hawaii, Idaho, Oregon, and Washington, which represented 96% of our fertilizer sales in 2005 and 97% of such sales in 2004. This agreement is discussed in more detail in the Business section. Our plans to increase GOLD n GRO fertilizer sales, including plans to expand the product line, expand to more geographical regions in the U.S., enter new market segments, and add new distributors, are also discussed in more detail in the Business section.

We obtain a significant portion of our raw materials to manufacture fertilizer from used photoliquids. A byproduct of our fertilizer manufacturing process is silver. We sell three types of silver: silver bullion, 5 troy ounce 99.9% pure Silver Nevada Miner numismatic bars, and recycled film containing silver. Our processed silver bullion is sold to a commercial refiner under standard industry terms, which include pricing the silver based on published market quotes and applicable service fees. The Silver Nevada Miner bars sell to the consumer collectibles market. Recycled film is primarily X-ray film from hospitals that we sort and sell to a commercial film recycler; we are paid based on the value of contained silver, 45 to 60 days after shipment.

Our fertilizer manufacturing process uses several commodities. We separate silver from photochemicals, then we add zinc and other raw materials to the demetallized liquid to make our fertilizer formulations. Prices for fertilizer raw materials are generally increasing over time. We maintain limited quantities of these commodities and purchase them on a just in time basis. When prices of these commodities rise, we pass this cost on to our customers, so commodity price fluctuations have not had a significant impact on our results of operations.

The majority of our raw material inventory is comprised of silver in photochemical solutions. The table below indicates that silver prices were relatively stable in 2001 to 2003, then rose dramatically in 2004 and 2005. We regularly compare our weighted average cost of silver per ounce to current market prices; historically we have not had

impairment losses. The average London spot price of silver is shown as follows:

Year	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Silver	\$4.36	\$4.60	\$4.88	\$6.67	\$7.32

We also provide consulting services to the mining industry. To supplement this business line, we recently launched an internet website which we plan to maintain with existing professional staff. Our plans with regard to the website are discussed more fully in the Growth Plan and Implementation section below.

Critical Accounting Policies and Estimates.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires that management make a number of assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements and accompanying notes. Management bases its estimates on historical information and assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and circumstances that may impact the Company in the future, actual results may differ from these estimates.

Our critical accounting policies are those that affect our financial statements materially and involve a significant level of judgment by management.

Revenue Recognition.

We operate two divisions: Photochemical Fertilizer and Technical Services. Within the fertilizer division, revenue is derived from three sources (1) sales of fertilizer, (2) photochemical recycling including pick up and transportation of photochemical waste and sales of Photochemical Silver Concentrators, and (3) sales of silver. Revenue from the sale of fertilizer, Photochemical Silver Concentrators, and silver is recognized in income when the goods are shipped. Returns since inception have been nominal; therefore, the Company has not established a returns allowance. Photochemical recycling fees are recognized in income after the used photochemical solution is removed from our customer sites and transported to our manufacturing facility.

Within the technical services division, revenue is derived from consulting services. Revenue is recognized in income as services are rendered. When the Company is responsible for subcontractor services and related expenses, such pass-through costs are included in both revenue and cost of revenues. Markups, if any, are included in revenues.

Inventory.

Inventory is carried on the balance sheet at the lower of cost or market value using the average cost valuation method. Because a large part of our inventory is silver contained in used photochemical materials and the market value of silver changes daily on the commodities market, we regularly monitor the carrying value of our silver inventory to ensure it is carried at the lower of cost or its current market value. If silver on the open market were less than our carrying value, we would write down the carrying value of our inventory by reducing recorded inventory and increasing cost of sales. If the amount of the write down were material, we would separately include the item in our statement of operations.

Convertible Debt Derivative

The Company estimates the fair value of its convertible debt derivative and other related derivative instruments using the Black-Scholes option pricing model. This model requires management to use significant assumptions in applying the model to estimate the fair value. As the Company's stock price is highly volatile, and the underlying debt amounts are relatively large, the valuation of the derivatives is subject to material gains and losses from period to period.

25

Recent Accounting Pronouncements

On December 16, 2004 the FASB issued SFAS No. 123R, "Share-Based Payment," which is an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and generally requires such transactions be accounted for using a fair-value-based method and the resulting cost recognized in our financial statements. This new standard is effective for awards that are granted, modified or settled in cash in interim and annual periods beginning after June 15, 2005, December 15, 2005 for small business issuers. In addition, this statement will apply to unvested options granted prior to the effective date. The Company will adopt this new standard effective for the first fiscal quarter of 2006 and it has not yet determined what impact this standard will have on its financial position or results of operations.

In June 2005 the Derivative Implementation Group issued DIG's B38 and B39 to specify the accounting treatment of put or call options embedded in hybrid debt instruments. Both DIG's become effective for the first fiscal quarter beginning after December 15, 2005. These new standards will require us to treat the prepayment option included in the terms of our callable secured convertible debt financing as an embedded derivative. Under the guidance of FAS 133 and EITF 00-19, if there is more than one embedded derivative in a hybrid debt instrument, the embedded derivatives must be valued as a whole. Consequently, our present method of estimating the fair value of the beneficial conversion feature of the debt, using the Black-Scholes option pricing model, will no longer be applicable. We will need to determine the estimated fair value under some other method, which has not yet been determined. The Company will adopt this new standard effective for the first fiscal quarter of 2006 and it has not yet determined what impact this standard will have on its financial position or results of operations.

Results of Operations

The primary factors affecting our revenue fluctuation between periods in fertilizer sales are seasonality and weather conditions. Sales are greater during the growing season, and are negatively affected by cold winter weather and rainy weather. In most of our markets there are two primary fertilization seasons, spring and fall, with spring being the stronger of the two. The spring season generally starts in March and goes through June and the fall season generally starts in September and runs into December. Adverse weather conditions delay the start of, or can significantly shorten, a growing season. Farmers do not fertilize their crops in rainy or cold weather; therefore they do not buy fertilizer; consequently, our distributor does not buy fertilizer from us. Additionally, we have experienced varying lengths of time for acceptance in the market of our new fertilizer products; farmers are inherently very slow to accept new products so market penetration time can be lengthy. Our short history in the fertilizer market demonstrates that new products, if successful, obtain meaningful sales typically between two and four years after product launch.

The primary factors affecting the revenue fluctuation between periods in photochemical recycling revenue are our need to acquire this material for use in fertilizer production and our ability to store this material until it is needed. We have an unusual business model in that we need to sell our photowaste management services in order to acquire a raw material necessary for the production of our fertilizer products, as opposed to purchasing it from suppliers as most businesses do. Our management goal is to combine the incoming volume of

photowastes with existing stored photowastes to meet the peaks in demand for fertilizer products. In the liquid fertilizer industry, the practice of both our distributor and the ultimate consumer, the farmer, is to purchase fertilizer on a just in time basis, to minimize their storage requirements and related costs. For this same reason, we process our photowastes as needed for fertilizer production. Because of this, the need to seek new customers to expand the service side of our business is driven by fertilizer sales. There is also a seasonal factor in the consumer photography portion of our photowaste management services business, with the Christmas holiday season being the busiest, followed by the early summer, school graduation period. At present volumes of photowaste, this is not a significant factor, but it could become one as we grow.

The primary factor affecting the revenue fluctuation between periods in sales of silver bullion is our dependence on the timing of processing used photochemical wastes, which is primarily dependent on fertilizer manufacturing and related sales. Our silver in solution is separated from the photowaste materials during processing of the photowastes for use in fertilizer manufacturing. As described above, the timing of processing of photowastes is dependent on fertilizer sales, therefore sales of silver bullion is also dependent on the level of fertilizer sales. Market price changes will also contribute to silver revenue fluctuations by increasing or decreasing revenues depending on whether the silver price increases or decreases.

Comparison of the Year Ended December 31, 2005 with the Year Ended December 31, 2004

We reported consolidated revenues of \$1,360,987 for the year ended December 31, 2005, compared to \$1,620,351 for the prior year, a decrease of 16%. Revenues for the Photochemical Fertilizer segment decreased by \$117,800, or 8%. Revenues from the Mining Technical Services segment declined \$141,600, or 72%. We reported a gross loss of \$130,000 for the year ended December 31, 2005 compared to a gross profit of \$32,300 for the year ended December 31, 2004, a decrease of \$162,300. The consolidated net loss for 2005 was \$4,906,600 or \$0.026 per share compared to a 2004 loss of \$2,839,872 or \$0.020 per share.

To provide a more complete understanding of the factors contributing to the changes in revenues, operating expenses and the resultant operating loss and net loss, the discussion presented below is separated into our two operating segments.

PHOTOCHEMICAL FERTILIZER

	<u>Year Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Revenue		
Fertilizer	\$ 1,034,515	\$ 1,019,789
Photochemical recycling	\$ 123,657	\$ 301,609
Silver	\$ 146,972	\$ 101,531
Total Segment Revenue	\$ 1,305,144	\$ 1,422,929
Gross profit (loss)	\$ (116,682)	\$ (34,687)
Operating income (loss)	\$(2,107,863)	\$(1,985,519)
Net income (loss) before taxes	\$(4,389,168)	\$(2,628,964)

Revenues for the Photochemical Fertilizer segment totaled \$1,305,100 in 2005, compared to \$1,422,900 in 2004, a decrease of \$117,800, or 8%.

Fertilizer sales were \$1,034,500 (1,749 tons) and \$1,019,800 (1,829 tons) for 2005 and 2004, respectively. This represents an increase of 1% in dollars and a decrease of 4% in tonnage. Our fertilizer product sales are presently grouped into two primary categories, Chelated Liquid Micro-nutrients and Chelated Liquid Multi-nutrients. The Micro-nutrient category includes five products, which includes the two zinc products, GOLD n GRO 9-0-1+7% Zinc and GOLD n GRO 9-0-2+3% Zinc. These zinc products were introduced in 2001 and 2004, respectively. The Multi-nutrient category has a total of six products, which includes the GOLD n GRO 4-0-9+6.6% Sulphur Base Liquid, which was introduced in 2003. Sales of bulk Micro-nutrients were \$863,400 (1,245 tons) and \$873,600 (1,399 tons) for 2005 and 2004, respectively, a decrease of 1% in dollars and 11% in tonnage. Sales of bulk Multi-nutrients were \$156,800 (504 tons) and \$125,700 (430 tons) for 2005 and 2004, respectively, an increase of 25% in dollars and an increase of 17% in tonnage. The dollar and tonnage increases in bulk Multi-nutrients are primarily attributable to increased bulk sales of the GOLD n GRO 4-0-9+6.6% Sulphur. The increase in total sales dollars, despite a decline in volume, was achieved by sales price increases during 2005.

Photochemical recycling revenue was \$123,700 and \$301,600 in 2005 and 2004, respectively, a decrease of 59%. The decrease is due to the December 2004 mutual termination of recycling services for Shutterfly, Inc., a significant photochemical recycling customer. Shutterfly accounted for \$201,300 or 59% of 2004 photochemical recycling revenue. This decrease was partially offset by \$42,000 in sales of two photochemical Silver Concentrators, compared to one sold for \$20,000 in 2004. Photochemical Silver Concentrators have widely varying prices, depending on the needs of the customer. Consequently, sales volumes and amounts are not consistent from period to period.

In December 2004, photochemical recycling services provided to Shutterfly, Inc. were discontinued by mutual agreement; the photochemical volume from this customer had been growing so rapidly that the supply was exceeding our need for the chemicals in fertilizer manufacturing, resulting in storage costs and plant inefficiencies. Due to the nature of our business, our photochemical recycling customers supply the used photochemical raw material needed for fertilizer manufacturing. Shutterfly supplied 65% of this raw material received in 2004. Based on 2004 usage of used photochemicals to manufacture fertilizer, our other customers supplied an overall 56% of the photochemicals needed to produce the fertilizer manufactured in 2004; so if we are unable to find new photowaste customers to replace Shutterfly, future fertilizer sales would be limited to approximately that level of 2004 fertilizer sales once our inventory of used photochemicals is depleted. It should be noted that this is only a rough estimate of future fertilizer production levels as we receive different types of photochemical raw materials from different customers, which are used in varying amounts in the fertilizer products, each fertilizer product uses a varying proportion of used photochemicals, and as we continue to improve our fertilizer products, the proportion of used photochemical in each product may change.

We previously developed statistical information that more than 100 million gallons of used liquid silver-bearing photochemicals are generated in the United States annually. Using conversion ratios developed for the GOLD'n GRO fertilizers, this is enough volume to support manufacture and sale of more than 200 million gallons of liquid fertilizer products, or about 1 million tons, so we believe the raw material is available in the market to meet future manufacturing needs. Based on 2005 production usage, we estimate that current supplies of photochemical raw material in storage at our manufacturing plant, combined with ongoing receipts of material from other existing customers, is sufficient to meet fertilizer production needs through 2006, depending on fertilizer sales volumes. We anticipate that with continuing sales growth, we will need to obtain new large scale photochemical recycling customers to meet the demand.

We are in contact with both small and large photochemical generators, and are actively marketing Photochemical Silver Concentrators. The concentrators allow us to receive the raw materials needed to manufacture our fertilizer in

much smaller volume, resulting in a higher content of chemicals desirable for fertilizer manufacturing, reducing the storage problems we were facing. The Photochemical Silver Concentrators are manufactured under contract by a third party to meet the specifications of each customer. Concentrators typically sell for \$20,000 to \$200,000, so part of the loss in photochemical recycling service revenues is expected to be offset by growth in Photochemical Silver Concentrator sales in future years. By using a third party manufacturer to produce the Concentrators, we are outsourcing the fixed and variable costs that are associated with assembling them. Primarily, these are the facilities space needed to assemble the various parts and the specialized equipment and labor required for the assembly. Generally, we have self financed the production of Concentrators sold in the past. In the future, we anticipate that non-governmental customers will advance the funds necessary to acquire the parts and labor needed to produce the Concentrators. For our most recent governmental customer, we borrowed the funds needed to fulfill the contract from an unrelated individual. We anticipate using similar arrangements for future Concentrators sold to governmental customers.

Silver revenue was \$147,000 and \$101,500 for 2005 and 2004, respectively, an increase of \$45,400, or 45%. Sales of all silver or silver bearing products were \$141,700 (18,149 ounces) for the 2005, compared to \$63,500 (7,530 ounces) for 2004. This is an increase of 123% in dollars and 141% in ounces. The increase is primarily from increased sales of processed silver bullion due to a combination of increased sales of Chelated Liquid Multi-nutrient liquid fertilizers, which use a higher percentage of photochemical base liquid compared to our other liquid fertilizers, and to progress in making adjustments to our refining process needed to accommodate changing conditions in the recycling process

.The increased sales of silver bearing products was partially offset by a decrease of \$32,800 in refining service fees charged to photochemical recycling customers due primarily to the termination of the Shutterfly contract.

Combined cost of sales and operating expenses for the segment amounted to \$3,413,000 in 2005, compared to \$3,408,400 in 2004, a nominal increase. Cost of sales decreased approximately \$35,800 due primarily to a \$58,200 decrease in payroll and related costs. The changes in revenues and cost of sales resulted in a gross loss of \$116,700 compared to \$34,700 in 2004, a decrease of \$82,000. Operating costs increased \$40,300 due primarily to an increase of \$50,700 in general and administrative costs. General and administrative expenses increased due to increases of \$39,600 in stock option compensation and \$41,700 in legal and other outside services. These costs are primarily related to services for strategic planning, raising expansion capital, and other corporate business matters.

These changes in revenues and operating expenses resulted in a segment operating loss of \$2,107,900 in 2005, compared to \$1,985,500 in 2004, an increased loss of \$122,300 or 6%.

29

Other income (expense) increased to a net expense of \$2,281,300 for 2005, compared to a net expense of \$643,400 in 2004, an increased net expense of \$1,637,900. The primary reason for the increased expense is the loss on derivatives of \$1,450,000, which is related to the \$3.25 million callable secured convertible debt financing obtained in July 2005. Other gains decreased by \$162,100 due to the prior year write off of long term leases.

The changes in operating loss and other expenses resulted in a segment net loss before taxes of \$4,389,200 for 2005 compared to \$2,629,000 for 2004, an increased loss of \$1,760,200 or 67%.

MINING TECHNICAL SERVICES

Year Ended December 31,
2005 2004

Edgar Filing: ITRONICS INC - Form 10KSB/A

Revenue	\$ 55,843	\$ 197,422
Gross profit (loss)	\$ (13,324)	\$ 66,983
Operating income (Loss)	\$(507,831)	\$(379,875)
Net income (loss) before taxes	\$(517,444)	\$(210,908)

Mining technical services revenue totaled \$55,800 for 2005 compared to \$197,400 for 2004, a decrease of 72%. Included in these revenue figures are pass-through expenses of \$4,900 and \$8,600 for 2005 and 2004, respectively. Excluding these amounts, revenues amounted to \$50,900 and \$188,800 for 2005 and 2004, respectively, a decrease of 73%. The number of clients we serve and the amount of work needed by those clients varies from period to period.

On March 1, 2005 the technical services contract with Golden Phoenix Minerals, Inc. expired and was not renewed. Revenue from this client was \$124,300 for 2004 and \$15,000 for the two months ended February 2005.

Combined cost of sales and operating expenses totaled \$563,700 for 2005 compared to \$577,300 for 2004, a decrease of 2%. Research and development expense increased \$112,000. This expense is related to the development of the insidemetals.com website. The majority of this expense is an allocation of personnel costs, which was partially offset by decreases in payroll and related costs that were included in cost of sales and sales and marketing expenses in 2004.

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 Information Portal occurred in August 2005. Revenues from the website have been nominal to date.

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

30

information portal also better utilizes the Whitney & Whitney, Inc. library and information resources that are already in existence. For the years ended December 31, 2005 and 2004 we allocated costs of approximately \$186,100 and \$74,200, respectively, 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 through the second quarter of 2006. As improvements to the site are completed and information maintenance becomes routine, we will reduce or redirect staff resources as needed.

The above changes in revenues and operating expenses resulted in a segment operating loss of \$507,800 for 2005, compared to \$379,900 for 2004, an increased operating loss of \$128,000 or 34%.

Other income (expense) is a net expense of \$9,600 for 2005, compared to a net gain of \$169,000 in 2004, a decline of \$178,600. The decline is due to decreased gain on sale of GPXM shares and other marketable securities.

The changes in operating loss and other income resulted in a segment net loss before taxes of \$517,400 for 2005, compared to \$210,900 for 2004, an increased loss of \$306,500.

Changes in Financial Condition; Capitalization

Cash amounted to \$24,300 as of December 31, 2005 compared to \$5,200 as of December 31, 2004. Net cash used by operations was \$2,148,500 in 2005 compared to \$1,417,900 in 2004. Operating resources utilized to finance the 2005 loss of \$4,906,600 include approximately \$485,900 in expenses paid with our common stock. Cash amounting to approximately \$98,000 was invested in property and equipment in 2005, primarily for equipment in the manufacturing plant. Sales of Golden Phoenix Minerals, Inc. stock and other marketable securities provided \$10,200 in cash from investing activities. Financing sources of cash in 2005 were \$570,000 in proceeds from the private placement of restricted common stock, \$2,025,000 in proceeds from short and long term debt, less \$217,700 in debt issuance costs, and \$95,000 from short term loans from an officer/stockholder.

Total assets increased from \$4,147,900 at December 31, 2004 to \$4,229,600 at December 31, 2005. Current assets decreased \$110,700. The primary changes in current assets were decreases in accounts receivable of \$167,600, due to the collection of the final billings due from GPXM during 2005, and \$48,100 in prepaid expenses due to fewer corporate marketing programs that straddled the end of the year in 2005 compared to 2004. These decreases were partially offset by an increase in marketable securities of \$65,600 due to receipt of the final billings from GPXM in their common stock.

Property and equipment decreased by \$124,000 due to investment in equipment totaling \$108,800, which was offset by an increase in accumulated depreciation and amortization of \$232,900. Other assets increased \$316,400 due to an increase in deferred loan fees of \$262,700 related to the callable secured convertible debt financing obtained in July 2005.

Total liabilities increased from \$6,712,200 at December 31, 2004 to \$9,703,200 at December 31, 2005, an increase of \$2,991,000. Of this amount, current liabilities increased \$5,001,500 and long term liabilities decreased \$2,010,500. The overall increase in liabilities is due

primarily to the borrowing of \$2.25 million in callable secured convertible debt (Notes). Due to the terms of the Notes, the loan must be accounted for as a derivative and recorded at estimated fair value, which was \$3,621,200 at December 31, 2005. In addition, all outstanding non-employee warrants and options are required to be recorded as liabilities at estimated fair value, which was \$134,200 at December 31, 2005. This increase in total debt was partially offset by the conversion of \$867,100 in convertible promissory notes and accrued interest into restricted common stock. Current liabilities increased primarily due to the Notes discussed above and to the reclassification of a net \$1,897,600 in convertible promissory notes from long term debt as all of those notes are due within one year of December 31, 2005. Other significant changes in current liabilities include an increase in accrued management salaries of \$210,800 and decreases in accounts payable of \$172,700, accrued expenses of \$159,600, current maturities of long term debt of \$465,400, and current maturities of capital lease obligations of \$77,300.

Working Capital/Liquidity

During the year ended December 31, 2005, the working capital deficit was increased by \$5,112,100 to a deficit balance of \$8,341,600. The primary changes in working capital are the callable secured convertible debt financing and the reclassification from long term debt of convertible notes and accrued interest as discussed above. 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. The cash shortage is a result of two factors. First, fertilizer sales in 2005 and prior years did not expand to the extent anticipated, so operating losses were not reduced as expected. Second, the \$15 million equity line of credit agreement with Swartz Private

Equities, LLC (Swartz) was not able to function to meet the Company's ongoing working capital needs and was allowed to expire on February 27, 2004. As a result, various private placements of stock with attached three year warrants were undertaken beginning in the fourth quarter of 2002. \$570,000 and \$843,500 was raised from private placements during 2005 and 2004, respectively. In addition, the Company sold GPXM and other shares for net proceeds of \$10,200 and \$356,100 during the years ended December 31, 2005 and 2004, respectively, advances from an officer/stockholder were \$95,000 and \$150,000 in 2005 and 2004, respectively, and \$235,000 was received from the exercise of warrants in 2004. In July 2005 the Company obtained a \$3.25 million callable secured convertible debt financing and received net proceeds of \$1,906,200 less debt issuance costs of \$217,700. Subsequent to December 31, 2005, the registration statement filed in connection with the financing became effective and the Company received the remaining net proceeds of \$942,500. It is anticipated that this funding will provide for our capital needs through April to May 2006, depending on fertilizer sales growth.

The Company is actively working to establish a longer term financing plan that will identify capital sources for the Company's financing needs over a three to five year period. Once this plan is established, needs for financing will be adjusted and the plan will be extended annually.

32

ITEM 7.

FINANCIAL STATEMENTS

The response to this Item is submitted under Item 13.

-

ITEM 8.

CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON

ACCOUNTING AND FINANCIAL DISCLOSURE

To our knowledge, there is no accounting or financial disclosure dispute involving any present or former accountant.

-

ITEM 8A CONTROLS AND PROCEDURES

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.

ITEM 8B

OTHER INFORMATION

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 III

ITEM 9.

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

A. I. Directors and Executive Officers - Summary Information.

The following are the directors and executive officers of the Company:

<u>Name</u>	Age as of <u>12/31/05</u>	<u>Position</u>	<u>Position Held Since</u>
Dr. John W. Whitney	59	President/Treasurer Director	May 1988
Paul H. Durckel	88	Director	September 1995
Howland S. Green	52	Northeast Manager of GOLD n GRO sales Director	April 2005
Gregory S. Skinner	51	Secretary	December 1990
Duane H. Rasmussen	75	Vice President; Vice President and General Manager-IMI	November 1997 May 1994

1) For directors, the term of office is until the next annual meeting of shareholders. For officers, the term of office is until the next annual meeting of the Board of Directors, presently scheduled to be held immediately following the annual meeting of the shareholders.

II. Narrative Information Concerning the Directors and Executive

Officers of the Company.

John W. Whitney:

In addition to being the President and a Director of the Company, 1988 to present, Dr. Whitney is the President and a Director of each of the operating subsidiaries, Itronics Metallurgical, Inc. and Whitney & Whitney, Inc. Dr. Whitney also serves as the General Manager of American Hydromet, a joint venture.

He received his Ph.D. in Mineral Economics from Pennsylvania State University in 1976, his M.S. in Mineralogy from the University of Nebraska in 1971, and his B.S. in Geology from the University of Nebraska in 1970. Dr. Whitney has served as President of Whitney & Whitney, Inc. since its formation in 1977.

Prior to his serving as W&W full-time president, Dr. Whitney worked as a consultant for the Office of Technology Assessment, U.S. Congress, doing analysis of various Alaskan mineral issues (1977-1978), a consultant for various government agencies, including the office of Mineral Policy Analysis in the U.S. Department of Interior, and the Washington office of the U.S. Bureau of Mines, consulting firms, law firms and mining companies on a variety of mineral planning issues (1976-1977), as a consultant for BKW Associates, Inc. evaluating mining investment opportunities in Mexico and the Philippines (1973-1975), and as a geologist-mineralogist for Humble Oil & Refining Company and GeoTerrex Ltd. (1971-1972).

Dr. Whitney is an internationally recognized consultant in the field of Metal and Material Resource Economics. Dr. Whitney has presented seminars for various clients on Mining Economics, and has taught a three-credit graduate course on International Metal Economics for the University of Arizona's College of Mines. Dr. Whitney is an Honorary Faculty Member of the Academy for Metals and Materials under the seal of the American Society for Metals. Dr. Whitney has made numerous presentations and written a number of publications on various technical subjects within his broad area of expertise. Dr. Whitney is coinventor of the American Hydromet process technology and holds four patents. Dr Whitney was selected as Nevada's Inventor of the Year for 2000 and became a member of the Inventor's Hall of Fame at the University of Nevada, Reno.

-

Paul H. Durckel:

Mr. Durckel has served as a Director of the Company since September 1995. He received a pre-legal degree from Stanford University in 1940. He has served various companies involved in fertilizer manufacturing and sales for approximately 30 years. He is presently an Independent Real Estate Salesman for Verus Realty. He served Myers Realty, Inc. in varying capacities, including Broker-Salesman, Consultant, Manager, Vice President of Operations, and Director, from 1987 to 2001. His experience in the fertilizer industry includes Vice President and General Manager and Vice President- Operations for American Plant Food Corp., Executive Assistant to the Chairman for Best Fertilizers Co., Vice President and General Manager for Best Fertilizer of Texas, and Vice President and General Manager for Farm Services Co.

Howland S. Green

Mr. Green was appointed as our director and as the Northeast Manager of GOLD n GRO Sales in April 2005. He received a B.Sc. degree in plant science and landscape architecture from the University of Rhode Island in 1981. He founded the Holly Ridge Nursery in Kingston, Rhode Island in 1989 and was its owner and President until the

business was sold in September 2005. He is the concept creator and a founder of the North American Deer Management Network. Mr. Green researched and developed the Mirrepel and subsequently co-developed the GOLD n GRO Guardian systemic deer and rabbit repellents. Through his ownership of the Holly Ridge Nursery he has gained extensive knowledge of the landscape construction and maintenance and wholesale and retail nursery markets. He has also served as consultant to "Ask This Old House".

Gregory S. Skinner, Esq.

Mr. Skinner has served as secretary and general counsel of the Company and its subsidiaries since December 1990. He obtained his B.A. degree in Economics from the University of California at Berkeley in 1976. He obtained his J.D. degree from Hastings College of the Law, University of California at San Francisco in 1979. He is licensed to practice law in the states of California and Nevada. He retired from the practice of law on January 1, 2003 and is "of counsel" to the law office of Watson & Rounds, a Professional Corporation (WR). Prior to December 31, 2002 he was a shareholder in Skinner, Watson & Rounds, which had offices located in Reno, Las Vegas, and Incline Village, Nevada. Prior to becoming Secretary of Itronics Inc., Mr. Skinner has provided legal services and advice to Whitney & Whitney, Inc. since 1980.

Duane H. Rasmussen:

Mr. Rasmussen has served as Vice President and General Manager of IMI since May 1994. He became Vice President of the Company in November 1997. He initially joined the Company in 1991 as Assistant Manager and Business Consultant for W&W. He received his B.S. degree in Chemical Engineering from the University of Wisconsin in 1953 and his M.B.A. in Industrial Management in 1955 from the same University. He served as President of Screen Printing Systems, Inc. from 1987 to 1990 and from 1995 to October 1998. Other business experience includes approximately 20 years with Jacobs Engineering Group, Inc. in varying capacities, including Project Manager, Regional Sales Manager, Regional Vice President, and Group Vice President.

B. AUDIT COMMITTEE

At present the Company does not have an audit committee and consequently the entire Board serves as the audit committee. The Board presently consists of three members, one of whom is independent. The Company has interviewed several qualified individuals for the position of Audit Committee Financial Expert on the Board of Directors. All have declined to serve, with the primary reason being personal liability issues, especially the perceived view that being the "financial expert" increases the individual's personal exposure over that of being a regular Board member.

C. CODE OF ETHICS

The Board of Directors has adopted a Code of Business Conduct and Ethics (Code) that is applicable to the Company's directors, principal executive and financial officer, principal accounting officer or controller, and persons performing similar functions. A copy of the Code is included in this report as Exhibit 14. A copy of the Code may be obtained by anyone, without charge, by requesting a copy either by telephoning (775) 689-7696 and asking for investor relations or by e-mailing the Company at www.itronics.com. If requesting by e-mail, please indicate a preference of a reply by e-mail or by physical mail.

ITEM 10.

EXECUTIVE COMPENSATION.

Summary of Cash and Certain Other Compensation

The following table sets forth information as to the compensation of the Chief Executive Officer and the four most highly compensated officers whose compensation for the year ended December 31, 2005 exceeded \$100,000:

Name and Principal Position	Calendar Year	<u>Annual Compensation</u>		Long Term <u>Compensation</u> Securities Underlying <u>Options (#)</u>
		<u>Salary</u>	<u>Bonus</u>	
Dr. John W. Whitney: President, Treasurer and Director (1) (2)	2005	\$125,700	\$-0-	-0-
	2004	\$126,150	\$-0-	550,000
	2003	\$126,375	\$-0-	-0-
Duane H. Rasmussen Vice President, VP and General Manager	2005	\$132,000	\$-0-	-0-
	2004	\$132,000	\$-0-	425,000
	2003	\$132,000	\$-0-	-0-
IMI (3)				

(1) The 2005 salary amount includes \$91,400 that was not paid currently. The 2004 and 2003 salary amounts include \$125,000 in each year that were not paid currently. In 2003 Dr. Whitney converted \$260,000 of 2003 and previous years unpaid salary into the then existing private placement at \$0.08 per share for a total of 3,250,000 shares plus an equal number of three year warrants. This transaction is under the same terms and conditions as for other investors in the current private placement, consequently, the warrants are treated as non-compensatory. These shares have not yet been issued, pending accumulation of sufficient cash to pay required withheld payroll taxes.

Effective January 1, 1999, Dr. Whitney was granted an option for 1,000,000 restricted common shares at \$0.25 per share, effective July 1, 2002 he was granted an option for 3,000,000 restricted common shares at \$0.30 per share, and effective May 7, 2004 he was granted an option for 550,000 restricted common shares at \$0.15 per share. These options are exercisable at any time until one year after Dr. Whitney leaves the employment of the Company. Effective October 2, 2002 Dr. Whitney was granted a five year option for 250,000 restricted common shares at \$0.20 per share.

(2) The salary amounts listed above include \$700, \$1,150, and \$1,375 for 2005, 2004, and 2003, respectively, that represent compensation paid in common stock for service as a director of the Company. The compensation plan for all directors was 2,500 common shares per quarter for 2005 and previous years.

(3) The 2005 salary amount includes \$90,000 that was not paid currently. The 2004 and 2003 salary amounts include \$55,000 and \$77,000, respectively, that were not paid currently. In 2003 Mr. Rasmussen converted \$170,000 of 2003 and prior years unpaid salary into the then existing private placement at \$0.08 per share for a total of 2,125,000 shares plus an equal number of three year warrants. This transaction is under the same terms and conditions as for other investors in the current private placement, consequently, the warrants are treated as non-compensatory. These shares have not yet been issued, pending accumulation of sufficient cash to pay required withheld payroll taxes.

Effective May 7, 2004 Mr. Rasmussen was granted a compensatory option for 425,000 restricted common shares at \$0.15 per share. This option is exercisable at any time until one year after Mr. Rasmussen leaves the employment of the Company.

Option Grants in Last Fiscal Year

:

<u>Name</u>	<u>Number of Securities Underlying Options Granted</u>	<u>% of Total Options to Employees in Fiscal Year</u>	<u>Exercise or Base Price</u>	<u>Expiration Date</u>
Dr. John W. Whitney	None	-0-		
Duane H. Rasmussen	None	-0-		

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option

Values

Options Exercised

:

<u>Name</u>	<u>Shares Acquired on Exercise (#)</u>	<u>Value Realized</u>
Dr. John W. Whitney		
Non-compensatory (1)	1,200,000	\$ -0-

(1) Dr. Whitney exercised non-compensatory warrants for 1,200,000 shares by converting short term debt totaling \$90,000. Since the warrants were non-compensatory, no realized value is listed above.

Options Unexercised

:

<u>Name</u>	<u>Number of Securities</u>		<u>Value of Unexercised</u>	
	<u>Underlying Unexercised</u>		<u>In-the-Money Options</u>	
	<u>Options at 12/31/05</u>		<u>At 12/31/05</u>	
	<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Dr. John W. Whitney				
Compensatory	4,800,000	-0-	\$ -0- (1)	\$ -0-
Non-compensatory	-0-	-0-	\$ -0- (1)	\$ -0-
Duane H. Rasmussen				
Compensatory	425,000	-0-	\$ -0- (2)	\$ -0-
Non-compensatory	2,125,000	-0-	\$ -0- (2)	\$ -0-

37

(1) If value realized was based on the average of the closing bid and ask prices on December 31, 2005, the value realized would have been \$-0- for the compensatory options and \$-0- for the non-compensatory warrants. The securities under option, common stock of the Company, are restricted under Rule 144 and thus are not tradable within one year of exercise. In addition, as an officer and a greater than 10% shareholder of the Company, Dr. Whitney is further restricted by SEC regulations as to the sale of the Company's securities. The actual value realized, if and when the securities are sold, may be more or less than the value listed above. Consequently, the value of the unexercised options is reported at \$-0-.

(2) If value realized was based on the average of the closing bid and ask prices on December 31, 2005, the value realized would have been \$-0- for the compensatory and non-compensatory warrants. The securities under option, common stock of the Company, are restricted under Rule 144 and thus are not tradable within one year of exercise. In addition, as an officer of the Company, Mr. Rasmussen is further restricted by SEC regulations as to the sale of the Company's securities. The actual value realized, if and when the securities are sold, may be more or less than the value listed above. Consequently, the value of the unexercised options is reported at \$-0-.

-

ITEM 11.SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERSa) Equity Compensation Plan Information

<u>Plan Category</u>	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>
Equity compensation plans approved by security holders	-0-	\$-0-	-0-
Equity compensation plans not approved by security holders	6,108,000	\$0.244	979,000
Total	6,108,000	\$0.244	979,000

b) Security Ownership of Certain Beneficial Owners.

The following table sets forth certain data with respect to those persons known to the Company, as of March 31, 2006, to be the beneficial owners of more than 5% of the outstanding shares of common stock of the Company:

38

Amount and Nature of Beneficial Ownership

Name and Address of <u>Beneficial Owner</u>	Common Shares		<u>Total</u>	Percent of <u>Class</u>
	<u>Presently Held</u>	Which May Be Acquired Within <u>60 days</u>		
John W. Whitney P.O. Box 10725 Reno, NV 89510 (1) (2) (3) (4)	27,586,830	8,052,500	35,639,330	16.75

(1) Director

(2) Officer

(3) Includes 72,768 shares owned by Maureen E. Whitney, Dr. Whitney's wife.

(4) Dr. Whitney's options include compensatory options of 1,000,000 common shares at \$0.25 per share, 3,000,000 common shares at \$0.30 per share, 250,000 common shares at \$0.20 per share, and 550,000 common shares at \$0.15 per share. The option for 250,000 common shares is exercisable at any time until October 2007 and the other options are exercisable at any time until one year after Dr. Whitney leaves the employment of the Company. The Common Shares Which May Be Acquired Within 60 Days also includes 3,250,000 shares that are to be issued to Dr. Whitney when sufficient cash is available to pay payroll tax withholdings.

c) Security Ownership of Management.

The following table sets forth as of March 31, 2006, certain information, with respect to director and executive officer ownership of common stock in the Company:

Name and Address of <u>Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>			Percent of Class <u>(2)</u>
	<u>Common Shares Presently Held</u>	<u>Common Shares Which May Be Acquired Within 60 days(1)</u>	<u>Total</u>	
Dr. John W. Whitney P.O. Box 10725 Reno, NV 89510 (3) (4) (5)	27,586,830	8,052,500	35,639,330	16.75
Paul H. Durckel P.O. Box 10725 Reno, NV 89510 (3)	582,168	65,000	647,168	.32
Howland S. Green 895 Liberty Lane West Kingston, RI 02892	1,257,500	2,500	1,260,000	.62
Duane H. Rasmussen				

Edgar Filing: ITRONICS INC - Form 10KSB/A

P.O. Box 10725

Reno, NV 89510 (4)	1,846,404	5,332,272	7,178,676	3.42
--------------------	-----------	-----------	-----------	------

All directors and
executive officers as

a group (5 persons)	31,925,221	13,452,272	45,377,493	20.80
---------------------	------------	------------	------------	-------

39

(1) Dr. Whitney's options include compensatory options of 1,000,000 common shares at \$0.25 per share, 3,000,000 common shares at \$0.30 per share, 250,000 common shares at \$0.20 per share, and 550,000 common shares at \$0.15 per share. The option for 250,000 common shares is exercisable at any time until October 2007 and the other options are exercisable at any time until one year after Dr. Whitney leaves the employment of the Company. The Common Shares Which May Be Acquired Within 60 Days also includes 3,250,000 shares that are to be issued to Dr. Whitney when sufficient cash is available to pay payroll tax withholdings.

Mr. Durckel has three year warrants to acquire 62,500 common shares related to his cash investment in the 2003 Equity Private Placements, which are convertible at \$0.08, \$0.16, and \$0.24 per share for the first through third years of the option period.

In April 2005 Mr. Green was granted a compensatory option to acquire 1,000,000 of the Company's restricted common shares at \$0.10 per share. The first 500,000 shares of the option will become exercisable when the Federal EPA accepts the registration application for the GOLD n GRO Guardian and the second 500,000 shares of the option will become exercisable when the Federal EPA issues the registration for the GOLD n GRO Guardian. The entire option is exercisable for two years after the EPA registration is received. This option is not included in the above table as it is not exercisable within 60 days.

Mr. Rasmussen has a three year non-compensatory warrant to acquire 2,125,000 common shares at \$0.08, \$0.16, and \$0.24 per share for the first through third years of the option period. He acquired this warrant by investing \$170,000 of his back salary in the existing private placement in 2003. Mr. Rasmussen also was granted a compensatory option to acquire 425,000 restricted common shares at \$0.15 per share. This option is exercisable at any time until one year after Mr. Rasmussen leaves the employment of the Company. The Common Shares Which May Be Acquired Within 60 Days also includes 2,782,272 shares that are to be issued to Mr. Rasmussen when sufficient cash is available to pay payroll tax withholdings.

(2) The percent of class is based on the sum of 204,671,731 shares outstanding as of March 31, 2006 plus, for each individual, the number of common shares as to which the named individual has the right to acquire beneficial ownership within 60 days of March 31, 2006.

(3) Director

(4) Officer

(5) Includes 72,768 shares owned by Maureen E. Whitney, Dr. Whitney's wife.

c) Changes in Control

The Company is not aware of any arrangement which at some later date results in changes in control of the Company.

40

ITEM 12.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Advances from an officer/stockholder totaled \$161,525 at December 31, 2005 and 2004.

\$599,900 and \$389,127 of the accrued management salaries as of December 31, 2005 and 2004, respectively, is for salary in arrears due to several officer/stockholders and employee/stockholders. In addition, salary in arrears of \$534,800 and \$523,800 for 2005 and 2004, respectively, are included in stock to be issued at the respective year ends. These amounts represent the portion of salaries earned but unpaid that the officers/employees/stockholders have agreed to accept in the Company's common stock. The number of shares to be issued is 6,620,900 and 6,488,021 for 2005 and 2004, respectively. Issuance of the stock is pending sufficient cash available to pay the related federal withholding taxes. Interest accrued at 12% per annum on salaries due officer and employee/stockholders amounted to \$123,345 and \$94,299, respectively, in 2005 and 2004. Of these amounts, \$58,272 and \$94,299 for 2005 and 2004, respectively, were paid (or will be paid) by issuance of 765,857 and 990,187 shares of restricted common stock.

Interest expense on related party loans amounted to \$23,948 and \$31,396 for the years ended December 31, 2005 and 2004, respectively. Accrued interest on related party loans and accrued salaries totaled \$13,276 and \$6,307 at December 31, 2005 and 2004, respectively.

In March 1999 Dr. Whitney personally agreed to acquire up to 10,000,000 common shares of GPXM at \$0.10 per share, making him beneficial owner of more than ten percent of GPXM at that time. In March 1999, the Company's Board of Directors approved a consulting project for WWI to provide technical services to GPXM; payment was to be made in common stock, and cash. WWI completed the project in early 2005. The Company owned 556,107 shares with a market value of \$91,758 at December 31, 2005 and 123,198 shares with a market value of \$26,180 at December 31, 2004. Total revenue from GPXM for 2005 and 2004 was \$15,000 and \$124,341, respectively. A total of \$101,281 is included in accounts receivable at December 31, 2004; no amounts were due at December 31, 2005.

During 2004 Dr. Whitney loaned WWI 103,765 shares of GPXM stock at a value of \$28,276. The loaned shares were sold by WWI for \$25,097, for a realized loss of \$3,179. The loan was repaid in 2004 by conversion into the Company's restricted common stock when Dr. Whitney exercised warrants he acquired in 2003.

During 2003 WWI's lease of a vehicle utilized by Dr. Whitney was completed. Dr. Whitney purchased the vehicle by financing it through a commercial lender. The purchase price was \$21,741 and the monthly payment for four years is \$531. WWI is leasing the vehicle from Dr. Whitney by making the monthly payments to the commercial lender and will acquire ownership of the vehicle when the loan is paid in full.

41

ITEM 13.

FINANCIAL STATEMENTS AND EXHIBITS

I. Index of Financial Statements and Exhibits

Edgar Filing: ITRONICS INC - Form 10KSB/A

<u>1. Index of Financial Statements:</u>	<u>Page No.</u>
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	43
Consolidated Balance Sheets as of December 31, 2005 and 2004	44
Consolidated Statements of Operations for the Years ended December 31, 2005 and 2004	46
Consolidated Statements of Stockholders' Equity (Deficit) for the Years ended December 31, 2005 and 2004	47
Consolidated Statements of Cash Flows for the Years ended December 31, 2005 and 2004	48
Notes to Consolidated Financial Statements	50
<u>2. Index of Exhibits:</u>	
14 Code of Business Conduct and Ethics	79
21 List of significant subsidiaries	80
31 Rule 15d-14(a) Certification	81
32 Section 1350 Certification	85

STATEMENTS AND SCHEDULES

Schedules not included are omitted for the reason that they are not applicable or not required.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Itronics, Inc.

We have audited the accompanying consolidated balance sheets of Itronics, Inc. and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the years in the two year period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes, on a test basis, examination of evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005 and 2004, and the results of its consolidated operations and cash flows for each of the years in the two year period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As of December 31, 2005, the Company has an accumulated deficit of \$27,851,571, a negative working capital of \$8,341,563, and a stockholders' deficit balance of \$5,473,599, and is in default on various leases and loans. The Company's ability to continue as a going concern is contingent upon (a) future profitable operations and (b) the ability to generate sufficient cash to meet obligations as they become due. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding this matter are described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/CACCIAMATTA ACCOUNTANCY CORPORATION

Irvine, California

April 10, 2006

ITRONICS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

Edgar Filing: ITRONICS INC - Form 10KSB/A

ASSETS

	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Cash	\$ 24,260	\$ 5,180
Accounts receivable, less allowance for doubtful accounts, 2005, \$7,600; 2004, \$5,700	21,164	188,805
Marketable securities, available for sale	91,758	26,180
Inventories	592,098	571,704
Prepaid expenses	94,447	142,509
Total Current Assets	823,727	934,378
PROPERTY AND EQUIPMENT		
Land	215,000	215,000
Building and improvements	1,167,315	1,167,315
Design and construction in progress, manufacturing facility	153,896	121,171
Equipment and furniture	2,302,984	2,071,998
Vehicles	200,557	133,028
Equipment under capital lease-equipment and furniture	851,952	1,008,432
Equipment under capital lease-vehicles	21,741	87,672
	4,913,445	4,804,616
Less: Accumulated depreciation and amortization	1,903,525	1,670,668
	3,009,920	3,133,948
OTHER ASSETS		
Intangibles less accumulated amortization 2005, \$-0-;		
2004, \$26,011	76,500	8,435

Edgar Filing: ITRONICS INC - Form 10KSB/A

Deferred loan fees, less accumulated amortization 2005,		
\$210,357; 2004, \$203,288	311,362	48,654
Deposits	8,108	22,525
	395,970	79,614
	\$4,229,617	\$4,147,940

44

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Accounts payable	\$437,113	\$ 609,795
Accrued management salaries	599,900	389,127
Accrued expenses	239,130	398,731
Insurance contracts payable	13,738	15,048
Interest payable to officer/stockholder	13,276	6,307
Interest payable, long-term debt and lease obligations	197,708	204,909
Current maturities of long-term debt	57,414	522,845
Current maturities of capital lease obligations	730,403	807,746
Advances from stockholder	161,525	161,525
Current maturities of capital lease due stockholder	5,858	5,420
Current maturities of convertible notes and accrued interest	2,918,559	1,020,946
Convertible debt derivative	3,621,220	-
Warrant and option liability	134,212	-
Other	35,234	21,429

Edgar Filing: ITRONICS INC - Form 10KSB/A

Total Current Liabilities	9,165,290	4,163,828
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	534,607	97,022
Convertible promissory notes and accrued interest, less		
current maturities	-	2,442,216
Capital lease due stockholder, less current maturities	3,319	9,144
Total Long-Term Liabilities	537,926	2,548,382
Commitments and Contingencies	-	-
	9,703,216	6,712,210
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, par value \$0.001 per share; authorized 999,500 shares; issued and outstanding 2004, 0 shares; 2003, 0 shares		-
Common stock, par value \$0.001 per share; authorized 250,000,000 shares; issued and outstanding 2005, 197,148,179; 2004, 164,863,938	197,148	164,864
Additional paid-in capital	21,646,307	19,438,213
Accumulated deficit	(27,851,571)	(22,944,959)
Common stock to be issued	573,993	786,426
Accumulated other comprehensive income	(39,889)	(9,568)
Common stock options outstanding, net	413	754
	(5,473,599)	(2,564,270)

\$4,229,617 \$4,147,940

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

45

ITRONICS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
REVENUES		
Photochemical fertilizer	\$1,305,144	\$1,422,929
Mining technical services	55,843	197,422
Total Revenues	1,360,987	1,620,351
 COST OF REVENUES (exclusive of depreciation and amortization shown separately below)		
Photochemical fertilizer	1,421,826	1,457,616
Mining technical services	69,167	130,439
Total Cost of Revenues	1,490,993	1,588,055
 Gross Profit (Loss) (exclusive of depreciation and amortization shown separately below)	 (130,006)	 32,296
 OPERATING EXPENSES		

Edgar Filing: ITRONICS INC - Form 10KSB/A

Depreciation and amortization	249,125	284,172
Research and development	258,711	165,083
Sales and marketing	939,720	971,988
Delivery and warehousing	85,963	78,565
General and administrative	952,169	897,882
	2,485,688	2,397,690
Operating (Loss)	(2,615,694)	(2,365,394)
OTHER INCOME (EXPENSE)		
Interest	(857,035)	(831,259)
Gain (loss) on derivative instruments	(1,450,011)	-
Gain (loss) on sale of investments	(10,116)	168,937
Other	26,244	187,844
Total Other Income (Expense)	(2,290,918)	(474,478)
(Loss) before provision for income tax	(4,906,612)	(2,839,872)
Provision for income tax	-	-
Net Income(Loss)	(4,906,612)	(2,839,872)
Other comprehensive income		
Unrealized gains (losses) on securities	(30,321)	(383,914)
Comprehensive Income (Loss)	\$(4,936,933)	\$(3,223,786)
Weighted average number of shares outstanding,		
basic and diluted	190,031,634	141,941,235
Earnings (Loss) per share, basic and diluted	\$(0.026)	\$(0.020)

The accompanying notes are an integral part of these financial statements

ITRONICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	<u>COMMON STOCK</u>				<u>ACCUMULATED</u>	
	<u>NUMBER OF</u>		<u>ADDITIONAL</u>		<u>COMMON</u>	<u>OTHER</u>
	<u>SHARES</u>		<u>PAID-IN</u>	<u>ACCUMULATED</u>	<u>STOCK TO</u>	<u>COMPREHENSIVE</u>
	<u>(1,000 \$)</u>	<u>AMOUNT</u>	<u>CAPITAL</u>	<u>DEFICIT</u>	<u>BE ISSUED</u>	<u>INCOME</u>
Balance, Dec. 31, 2003	122,374	122,374	15,234,212	(20,105,087)	672,255	374,346
Issue of common stock:						
For cash	12,983	12,983	1,095,018	-	(27,500)	-
For services	8,935	8,935	793,618	-	(16,292)	-
For debt conversion	18,311	18,311	2,128,152	-	157,963	-
For asset acquisition	2,261	2,261	187,213	-	-	-
Net (loss) for the year						
ended Dec. 31, 2004	-	-	-	(2,839,872)	-	-
Other comprehensive income for the year						
ended Dec. 31, 2004	-	-	-	-	-	(383,914)

Edgar Filing: ITRONICS INC - Form 10KSB/A

Common stock options						
outstanding	-	-	-	-	-	-
Balance, Dec. 31, 2004	164,864	\$164,864	\$19,438,213	\$(22,944,959)	\$786,426	\$ (9,568)
Issue of common stock						
For cash	12,050	12,050	590,450		(32,500)	
For services	6,003	6,003	406,323		(9,933)	
For debt conversion	12,893	12,893	1,114,209		(170,000)	
For asset acquisition	1,338	1,338	97,112			
Net (loss) for the year						
ended Dec. 31, 2005	-	-	-	(4,906,612)	-	-
Other comprehensive income for the year						
ended Dec. 31, 2005	-	-	-	-	-	(30,321)
Common stock options						
outstanding	-	-	-	-	-	-
Balance, Dec. 31, 2005	197,148	\$197,148	\$21,646,307	\$(27,851,571)	\$573,993	\$(39,889)

The accompanying notes are an integral part of these financial statements

ITRONICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Edgar Filing: ITRONICS INC - Form 10KSB/A

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Net income (loss)	\$(4,906,612)	\$(2,839,872)
Adjustments to reconcile net loss to		
cash used by operating activities:		
Depreciation and amortization	306,148	325,404
Interest on convertible notes	410,593	483,868
(Gain) loss on derivative instruments	1,450,011	-
Marketable securities received for services	(116,193)	(35,748)
Gains on investments	10,116	(168,937)
Addition of silver in solution inventory by		
offsetting photochemical processing fees	(25,005)	(166,993)
Gain on debt forgiveness	(24,832)	(187,814)
Other	4,713	-
Stock option compensation	43,379	536
Expenses paid with issuance of common stock:		
Interest expense	58,272	94,299
Consulting expenses	282,145	281,643
Directors fees	1,850	3,450
Salaries	143,673	297,536
Operating expenses	-	5,000
Expenses paid with issuance of debt	30,063	-
(Increase) decrease in:		
Trade accounts receivable	161,528	(92,421)
Inventories	4,611	20,814

Edgar Filing: ITRONICS INC - Form 10KSB/A

Prepaid expenses, deposits and other	2,061	14,896
Increase (decrease) in:		
Accounts payable	(109,608)	105,762
Accrued management salaries	210,773	170,942
Accrued expenses and contracts payable	(86,144)	269,785
Net cash used by operating activities	(2,148,458)	(1,417,850)
Cash flows from investing activities:		
Acquisition of property and equipment	(97,962)	(56,756)
Sale of investments	10,177	356,107
Sale of equipment	1,400	-
Net cash provided (used) by investing activities	(86,385)	299,351
Cash flows from financing activities:		
Proceeds from sale of stock	570,000	1,080,501
Proceeds from officer/stockholder advances	95,000	150,000
Proceeds from debt	2,024,950	-
Debt issuance costs	(217,690)	-
Account receivable factoring, net	(51,229)	13,224
Payments on debt	(167,108)	(154,545)
Net cash provided by financing activities	2,253,923	1,089,180
Net increase (decrease) in cash	19,080	(29,319)
Cash, beginning of year	5,180	34,499
Cash, end of year	\$ 24,260	\$ 5,180

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

ITRONICS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(continued)

	<u>2005</u>	<u>2004</u>
Supplemental Disclosures of Cash Flow		
Information:		
Cash paid during the period for interest	\$ 254,635	\$ 158,587
Schedule of non-cash financing transactions:		
Settlement of debt/accruals by		
issuance of common stock:		
Accounts payable	11,845	27,178
Convertible notes and accrued interest	867,101	1,962,219
Short-term debt and accrued interest due an		
officer/stockholder	90,000	315,029
Equipment financed with capital leases	-	2,236
Acquisition of assets by issuance of common stock:		
Equipment	26,950	189,474
GOLD n GRO Guardian product rights	71,500	-
Officer/stockholder loan of marketable securities	-	28,276
Warrants issued for debt issuance costs	12,042	-
Fair value of convertible debt derivative	3,621,220	-
Fair value of warrant and option liability	134,212	-
Amounts withheld from proceeds of debt, unrelated:		
Prepaid interest	90,000	-

Deferred loan costs	90,000	-
Key man life insurance	20,000	-
Short term debt and accrued interest	143,800	-

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

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

NOTE 1 - Summary of Significant Accounting Policies:

Company's Activities:

Itronics Inc., through its subsidiaries, (the Company) is involved in mining technical services, photochemical recycling and related silver recovery, and liquid fertilizer manufacturing.

Financial Statement Estimates and Assumptions:

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For example, the Company estimates the fair value of its derivative instruments using the Black-Scholes option pricing model. As the Company's stock price is highly volatile, and the underlying debt amounts are relatively large, the valuation of the derivatives is subject to material swings from period to period. The Company measures the silver received in photochemical liquids and estimates the amount, recoverability, and ultimate realizable value of the silver in ending inventory.

Principles of Consolidation:

The consolidated financial statements include the accounts of

Itronics Inc. and its subsidiaries:

	2005	2004
	<u>PERCENTAGE</u>	<u>PERCENTAGE</u>
Whitney & Whitney, Inc.	100.00	100.00
Itronics Metallurgical, Inc.	100.00	100.00

Edgar Filing: ITRONICS INC - Form 10KSB/A

Itronics California, Inc.	100.00	100.00
Nevada Hydrometallurgical Project (A Partnership)	92.50	92.50
American Hydromet (A Joint Venture)	82.53	82.53
American Gold & Silver (A Limited Partnership)	47.77	47.77

Whitney & Whitney, Inc. is the general partner for American Gold & Silver. As such, the Company has control over American Gold & Silver and has included it in its consolidation.

American Gold & Silver and Nevada Hydrometallurgical Project possess no material tangible assets or liabilities.

No amount for minority interests is reflected in the consolidated balance sheets as the equity of minority interests in the net losses exceed the carrying value of the minority interests.

50

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

No amount for minority interests is reflected in the consolidated statement of operations since losses applicable to the minority interest in each subsidiary exceed the minority interest in the equity capital of each subsidiary. As a result, losses applicable to the minority interest are charged against the majority interest. When future earnings materialize, the majority interest will be credited to the extent of such losses previously absorbed.

All significant intercompany accounts and transactions have been eliminated in the consolidation.

Revenue recognition:

The Company manufactures fertilizer from used photochemical liquids. Revenues are generated in three distinct areas: (1) fees associated with removing used photochemical liquids from customer sites and sales of photochemical concentrators, (2) sales of fertilizer and (3) sales of silver. Fertilizer and silver sales are recognized when goods are shipped to our customers. Returns and allowances have been nominal. Service fees from photochemical recycling are recorded after the photochemical liquids have been picked up and transported from our customers to our manufacturing facility.

The Company provides consulting services to various entities in the mining industry. Revenue is recognized as services are delivered. When the mining technical services segment of the Company is responsible for the procurement of materials and equipment, property, or subcontracts in its consulting business, it includes such amounts

in both revenues and cost of sales. The amount of such pass-through costs included in both mining consulting revenues and cost of revenues for the years ended December 31, 2005 and 2004 were \$4,946 and \$8,556, respectively. In addition, the Company periodically receives property or other payments on behalf of its clients and disburses the funds to a designated third party. When the Company has little or no risk of loss in the process, such payments are netted and not included in gross revenues or cost of revenues. Such payments amounted to \$94,592 and \$99,698 for the years ended December 31, 2005 and 2004, respectively.

The Company bills its customers for its approximate costs for delivering merchandise sold to the customer. Such amounts are included in revenues. The related shipping costs are included in Delivery and Warehousing expenses in the Operating Expense section of the Consolidated Statements of Operations. Such costs were \$85,963 and \$78,565 for the years ended December 31, 2005 and 2004, respectively.

Cash and Cash Equivalents:

At present, cash includes only deposits in checking and money market accounts and does not include any cash equivalents.

Accounts Receivable Allowance Account:

51

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

The Company uses the allowance method to account for uncollectible accounts receivable.

Marketable Securities:

The Company maintains investments in marketable securities, received as payment from one technical services customer. All of these equity securities are available for sale and are recorded at fair value. The change in fair value is recorded as an unrealized gain or loss in other comprehensive income. Upon sale of the security, the company recognizes a realized gain or loss, based on specific identification of security sold. Unrealized losses are charged against net earnings when a decline in fair value is determined to be other than temporary.

Inventories:

Inventory is carried on the balance sheet at the lower of cost or market value using the average cost valuation method and consists primarily of silver bearing materials, raw materials and fertilizer. Because a large part of our inventory is

silver and the market price of silver changes daily on the commodities market, we regularly monitor the carrying value of our silver inventory to ensure it is carried at the lower of cost or its current market value. If silver on the open market were less than our carrying value, we would write down the carrying value of our inventory by reducing recorded inventory and increasing cost of sales. If the amount of the write down were material, we would separately include the item in our statement of operations. The raw material and work in progress balances below include \$374,042 and \$396,614 in silver bearing unprocessed photochemicals or partially processed materials as of December 31, 2005 and 2004, respectively.

Following is a summary of finished goods, work in progress, and raw materials inventories as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Finished goods	\$ 53,274	\$ 63,615
Work in progress	282,373	275,773
Raw materials	256,451	232,316
	\$592,098	\$571,704

Accounts Receivable and Inventory Factoring:

The Company factors some of its receivables and inventory with unrelated third parties. A liability is recorded when cash is received; interest is recorded over the period the liability is outstanding. The liability and accrued interest is repaid within a day or two of when the Company is paid by the customer. Interest rates range from 2 to 3% per month, or 24 to 36% annually. Additionally, while the Company does not have any formal limits on the amounts it can factor, typically no more than \$120,000 in assets is factored at any given time. As of December 31, 2005 all factoring arrangements were paid in full.

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

Property and Equipment:

Property and equipment are stated at cost. Costs associated with creating website content and graphics are capitalized under EITF 00-2, "Accounting for Web Site Development Costs." Depreciation is computed by accelerated and straight-line methods. Depreciation expense is \$187,658 and \$190,017 for the years ended December 31, 2005 and 2004, respectively. Capital lease equipment is amortized using accelerated and straight-line methods. Amortization expense on capital lease equipment is \$61,283 and \$94,108 for the years ended December 31, 2005 and 2004, respectively. Accumulated amortization on capital lease equipment is \$439,977 and \$474,340 at December 31, 2005

and 2004, respectively. Property and equipment is depreciated or amortized over the following periods.

Building and improvements	20 - 40 years
Equipment and furniture	3 - 20 years
Vehicles	5 years
Equipment under capital lease-equipment and furniture	5 - 20 years
Equipment under capital lease-vehicles	5 years

Repairs and maintenance, including website maintenance and administration, are charged to operations as incurred.

Intangible Assets:

Intangible assets are amortized as follows:

	<u>METHOD</u>	<u>YEARS</u>
Patents	Straight Line	17
Deferred loan fees	Effective Interest	3-15

Estimated aggregate amortization expense for the succeeding five years is:

2006	\$109,833
2007	109,833
2008	67,560
2009	3,255
2010	3,255

Research and Development:

Wages, benefits, rent, and other costs, including costs to plan and populate databases and content on our web site development costs are expensed as incurred as research and development in accordance with SFAS 2 *Accounting for Research and Development Costs*, and EITF 00-2 *Accounting for Web Site Development Costs*.

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

Advertising:

The Company advertises its products in various trade publications and general newspaper supplements. It also promotes the Company in various business publications, television, and internet media. Such advertising costs include the creative process, costs of production, and placement costs of the ads themselves. All advertising costs are expensed as incurred. Total advertising expense was \$118,217 and \$157,986 for the years ended December 31, 2005 and 2004, respectively.

Income Taxes:

The Company has accounted for income taxes to conform to the requirements of Statements of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Under the provisions of SFAS 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have already been recognized in the Company's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law. The effects of future changes in tax laws or rates are not anticipated. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Loss per Common Share:

Loss per common share is calculated based on the consolidated net loss for the period divided by the weighted average number of common shares outstanding during 2005 and 2004. Common stock equivalents are not included, as their effect would be antidilutive.

Following is a reconciliation of Net Income (Loss) and Weighted average number of shares outstanding, in the computation of earnings (loss) per share (EPS) for the years ended December 31, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Net Income (Loss)	\$(4,906,612)	\$(2,839,872)
Less: Preferred stock dividends	-	-
Basic EPS income (loss) available to common stockholders	\$(4,906,612)	\$(2,839,872)

Edgar Filing: ITRONICS INC - Form 10KSB/A

Weighted average number of shares outstanding	190,031,634	141,941,235
Common equivalent shares	-	-
	190,031,634	141,941,235
Per share amount	\$(0.026)	\$(0.020)

Warrants, options, and shares to be issued, totaling 175,399,421 and 62,953,132 shares as of December 31, 2005 and 2004, respectively, would dilute EPS, and accordingly are not included in the computation of EPS.

54

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

Common Stock:

The Company's common shares have, subject to the provisions of any series of Preferred Stock, certain rights including one vote per share on a non-cumulative basis and a ratable portion of any dividends that may be declared by the Board of Directors. The Company may from time to time issue common shares that are restricted under Rule 144 of the Securities and Exchange Commission. Such restrictions require the shareholder to hold the shares for a minimum of one year before sale. In addition, officers, directors and more than 10% shareholders are further restricted in their ability to sell such shares.

Stock Based Compensation:

The Company issues stock to its employees, directors and consultants pursuant to various Stock Option and Purchase Plans. The Company accounts for options granted to employees and directors under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. Accordingly, no compensation expense is recognized. In accordance with Statement of Financial Accounting Standard (SFAS) 123, *Accounting for Stock Based Compensation* and SFAS 148, *Accounting for Stock Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123*, the Company discloses the additional compensation expense that would have been recorded had the Company elected to account for stock options under SFAS 123. The Company accounts for options granted to people other than employees and directors under SFAS 123. The Company accounts for options granted to people other than employees and directors under SFAS 123 and EITF 98-16, *Accounting for Equity Investments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods and Services*. As such, the value of such options is periodically remeasured and income or expense is recognized during their vesting term. If the Company were to apply the provisions of FASB Statement No. 123 to these options, using the fair value method, compensation expense, net loss and loss per share would have been impacted as follows:

2005

2004

Edgar Filing: ITRONICS INC - Form 10KSB/A

Net Income (Loss):

As reported	\$(4,906,612)	\$(2,839,872)
Option compensation expense		
As reported	43,379	536
At fair value	(49,212)	(61,575)
Pro forma Net Income (Loss)	\$(4,912,445)	\$(2,900,911)
Earnings (Loss) per share, basic and diluted		
As reported	\$(0.026)	\$(0.020)
Pro forma, basic and diluted	\$(0.026)	\$(0.020)

55

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

The pro forma amounts were estimated for each quarter using the Black-Scholes option pricing model with the following assumptions for 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Dividend yield	0%	0%
Risk-free interest rate	3.75% to 4.375%	2.75% to 4.75%
Expected life	3-10 years	3-10 years
Expected volatility	39.0% to 83.07%	16.65% to 66.75%

Weighted average exercise

price granted during year

\$0.103

\$0.15

Additional information about compensatory as well as non-compensatory options and warrants is presented in Note 7 below.

On December 16, 2004 the FASB issued SFAS No. 123R, "Share-Based Payment," which is an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and generally requires such transactions be accounted for using a fair-value-based method and the resulting cost recognized in our financial statements. This new standard is effective for awards that are granted, modified or settled in cash in interim and annual periods beginning after June 15, 2005, December 15, 2005 for small business issuers. In addition, this statement will apply to unvested options granted prior to the effective date. The Company will adopt this new standard effective for the first fiscal quarter of 2006 and it has not yet determined what impact this standard will have on its financial position or results of operations.

Asset Impairment:

The Company monitors conditions that may affect the carrying value of its long-lived and intangible assets when events and circumstances indicate that the carrying value of the assets may be impaired. The Company determines impairment based on the asset's ability to generate cash flow greater than the carrying value of the asset. If projected undiscounted cash flows are less than the carrying value of the asset, the asset is adjusted to its fair value.

Non-monetary Transactions:

The Company periodically enters into non-monetary transactions. These transactions are recorded based on the fair value of the asset, goods or services received or surrendered, whichever is more clearly evident and at such time as the earnings process is complete. When material non-monetary transactions occur, the Company discloses the transaction and basis for valuing the transaction in the period the transaction occurs. Additionally, pursuant to SFAS No. 95, "Statement of Cash Flows," the Company discloses non-cash investing and financing activities.

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

Contingencies:

From time to time, the Company may become party to claims against it. Management evaluates these claims as they arise as probable, reasonably possible and remote. A liability is recorded when management estimates a loss is probable. Potential costs that arise are disclosed when management believes a loss is reasonably possible and that amount can be estimated.

Recent Accounting Pronouncements

On December 16, 2004 the FASB issued SFAS No. 123R, "Share-Based Payment," which is an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and generally requires such transactions be accounted for using a fair-value-based method and the resulting cost recognized in our financial statements. This new standard is effective for awards that are granted, modified or settled in cash in interim and annual periods beginning after June 15, 2005, December 15, 2005 for small business issuers. In addition, this statement will apply to unvested options granted prior to the effective date. The Company will adopt this new standard effective for the first fiscal quarter of 2006 and it has not yet determined what impact this standard will have on its financial position or results of operations.

In June 2005 the Derivative Implementation Group issued DIG's B38 and B39 to specify the accounting treatment of put or call options embedded in hybrid debt instruments. Both DIG's become effective for the first fiscal quarter beginning after December 15, 2005. These new standards will require us to treat the prepayment option included in the terms of our callable secured convertible debt financing as an embedded derivative. Under the guidance of FAS 133 and EITF 00-19, if there is more than one embedded derivative in a hybrid debt instrument, the embedded derivatives must be valued as a whole. Consequently, our present method of estimating the fair value of the beneficial conversion feature of the debt, using the Black-Scholes option pricing model, will no longer be applicable. We will need to determine the estimated fair value under some other method, which has not yet been determined. The Company will adopt this new standard effective for the first fiscal quarter of 2006 and it has not yet determined what impact this standard will have on its financial position or results of operations.

NOTE 2 - Reclassification:

The prior year's financial statements have been reclassified, where necessary, to conform with the current year presentation.

NOTE 3 - Long-Term Debt:

Long-term debt at December 31, 2005 and 2004 is comprised of the following (all debt payments are applied to outstanding interest owed at date

Edgar Filing: ITRONICS INC - Form 10KSB/A

of payment prior to being applied to the principal balance). The carrying amount approximates fair value. The fair value of long-term debt is based on current rates at which the Company could borrow funds with similar remaining maturities.

	<u>DECEMBER 31,</u>	
	<u>2005</u>	<u>2004</u>
<u>Notes due to unrelated parties:</u>		
Notes payable secured by vehicles due at varying dates through 2006. The monthly payments total \$1,345, including interest at 10.5% to 11.0% per annum.	\$ 5,599	\$ 17,440
Note payable secured by real property due May 2016. Monthly payment is \$6,601, including interest at 12% per annum.	469,789	492,881
Financing contract secured by equipment due May 2006. Monthly payment is \$806, including interest at 17.99%	14,589	14,589
City of Reno Special Assessment District for road and access improvements. Payable in 40 equal semi-annual payments plus interest at 6% percent per annum.	92,044	94,957
Unsecured note payable due in 2006. Monthly payment is \$3,000, including interest at 12% per annum.	10,000	-
Less current portion due within one year	(57,414)	(522,845)

Total long-term liabilities due to unrelated parties	\$ 534,607	\$ 97,022
--	------------	-----------

58

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

DECEMBER 31,

2005

2004

Convertible Promissory Notes:

Three year convertible promissory notes due November 2005 through February 2006, including interest at 12% per annum. The notes and accrued interest are convertible into the Company's restricted common stock at \$0.15 per share at any time through November 18, 2005 and February 16, 2006.

\$ 47,000

\$ 47,000

Three year convertible promissory notes due at varying dates through February 2006, including interest at 9% to 12% per annum. The notes and accrued interest are convertible into the Company's restricted common stock at prices

Edgar Filing: ITRONICS INC - Form 10KSB/A

ranging from \$0.125 to \$1.18 per share at any time through February 2006.	1,570,000	1,570,000
Three year convertible promissory notes due at varying dates through December 2004, including interest at 12% per annum. The notes and accrued interest are convertible into the Company s restricted common stock at prices ranging from \$0.10 to \$0.15 per share at any time through dates ranging from March to December 2004.	-	20,000
Three year convertible promissory notes due at varying dates through September 2005, including interest at 12% per annum. The notes and accrued interest are convertible into the Company s restricted common stock at prices ranging from \$0.10 to \$0.25 per share at any time through dates ranging from January to September 2005.	-	606,100
Accrued interest on convertible promissory notes	1,301,559	1,220,062
Less current portion due within one year	(2,918,559)	(1,020,946)
Total Long Term Convertible Promissory Notes and Accrued Interest	\$ -	\$2,442,216

<u>YEAR</u>	UNRELATED	CONVERTIBLE	CONVERTIBLE	<u>STOCKHOLDERS</u>
	<u>PARTIES</u>	<u>NOTES</u>	<u>NOTES</u>	
2006	\$ 57,414	\$2,918,559	\$ -	\$ 161,525
2007	30,476	-	-	-
2008	34,125	-	2,250,000	-
2009	38,223	-	-	-
2010	42,828	-	-	-
2011-2023	388,955	-	-	-
	\$592,021	\$2,918,559	\$2,250,000	\$161,525

A financing contract on equipment, with a balance of \$14,589, is in default and is included in current liabilities. The lender has referred the loan to an attorney, but no further action has been taken.

During 2003 the holders of the 2000 Series Convertible Promissory Notes were offered to extend the notes for three years in exchange for an increased interest rate to 12% and a reduction in conversion price to \$0.125 per share, an amount above the trading price of our stock. As of December 31, 2005 all but \$80,000 of the notes and \$63,249 of the accrued interest were extended. The un-extended notes and accrued interest are in default, but no action has been taken by the note holders.

In November 2005 a convertible note in the amount of \$20,000 plus interest of \$20,027 came due and is in default as of December 31, 2005. No collection action has been taken by the note holder.

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

Subsequent to December 31, 2005, all the 2000 series convertible notes, totaling \$2,918,559 as of December 31, 2005, became due and are in default. The Company is preparing an offer to seek extension of the notes by the note holders. No collection action has been taken by the note holders.

NOTE 4 Callable Secured Convertible Debt

In July 2005, the Company arranged callable secured convertible debt (Notes) totaling \$3,250,000, bearing interest at 8%, with 3,000,000 five year \$0.15 warrants. The Notes were accompanied by a Registration Rights Agreement. During 2005, the Company received \$1,726,200, (\$2,250,000 net of financing costs and prepaid interest), and issued 2,076,923 warrants. Subsequent to year end, the Company received \$942,500 (\$1,000,000 net of financing costs), and issued 923,077 warrants.

The Notes are convertible into common shares at the lesser of \$0.10 or 55% of the market price of the Company's common stock, as defined. Additionally, the Notes are secured by substantially all of the Company's assets. The Notes are further secured by 14,550,558 Company common shares owned by an officer/stockholder.

The Notes are potentially convertible into an unlimited number of common shares. Accordingly, the Company has accounted for the Notes under SFAS 133 and EITF 00-19 which require the beneficial conversion feature to be treated as an embedded derivative, recording a liability equal to the estimated fair value of the conversion option. In addition, all non-employee warrants and options that are exercisable during the period that the Notes are outstanding are required to be recorded as liabilities at their fair value. As of December 31, 2005 the Notes were convertible into 112,593,828 common shares and the conversion feature had an estimated fair value of \$3,621,220. Non-employee warrants and options to acquire a total of 49,542,810 common shares were outstanding and had an estimated fair value of \$134,212. The fair value of the conversion feature and the warrants and options were estimated using the Black-Scholes option pricing model. Assumptions used to value these instruments included assuming the Notes would be converted to common stock in equal amounts on a monthly basis, beginning February 15, 2006, until the estimated full conversion of each Note, assuming all warrants and options would be exercised on their respective expiration dates, using volatility rates ranging from 78% to 100%, and using risk free interest rates ranging from 4.25% to 4.375%. The estimated fair value of the options exceeded the carrying value of the Notes; therefore, the excess was recorded as a loss on derivative instruments in the Consolidated Statements of Operations. The fair value of the beneficial conversion option, warrants and options will be estimated each reporting period with the change in fair value recorded as gain or loss on derivative instruments. As the Company's common stock is highly volatile, material gains or losses for the change in estimated fair value are likely to occur in future periods.

On July 15, 2005, the Company entered into a Registration Rights Agreement with the Noteholders that required the Company to file a registration statement within 120 days of funding, or use its best efforts to do so. Additionally, because at the inception of the Agreement the Company did not have enough

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

authorized shares to allow the Noteholders to convert the Notes into common stock. The Agreement required the Company to increase the authorized shares by October 31, 2005 or use its best efforts to do so. The Agreement specifies penalties of 2% per month for failing to register the shares timely and 3% per month for failing to increase the authorized shares. The Company registered the shares in February 2006 and increased the authorized shares in March 2006. Because it used its best efforts, the Company has not accrued penalties which would have totaled \$90,000 and \$135,000 through December 31, 2005. Additionally, under the terms of the Agreement, the Company is required to register a total of two times the estimated number of shares to allow the Noteholders to convert the

outstanding balance, as early as practicable.

During the period of February 15, 2006 to April 10, 2006, the Investors converted a total of \$220,926 of the Notes into 9.0 million common shares.

NOTE 5 - Major Customers:

Fertilizer sales for the years ended December 31, 2005 and 2004 include \$997,611 and \$989,084, respectively, from one major customer, which represents 96% and 97%, respectively, of fertilizer sales for the years ended December 31, 2005 and 2004. These sales represented 76% and 70% of total Photochemical Fertilizer segment sales for the years ended December 31, 2005 and 2004, respectively. Receivables from this major customer as of December 31, 2005 and 2004 amounted to \$-0- and \$58,094, which represented 77% of photochemical fertilizer accounts receivable in 2004.

Photochemical recycling and silver refining revenues for 2004 include \$201,291, or 59%, from one major customer in the digital imaging and processing industry. The Company and the customer mutually agreed to terminate services in December 2004.

Technical services revenues for the year ended December 31, 2005 were spread among several customers with relatively small amounts. Revenue from the largest single customer was \$15,000. Technical services revenue for December 31, 2004 includes \$124,341 and \$32,816 from two major customers which represented a combined 80% of technical services revenues. Receivables from these major customers as of December 31, 2004 amount to \$101,281 which represented 85% of consulting accounts receivable. The Company's major technical services customers operate within the mining industry, both nationally and internationally. Due to the nature of the Company's operations, the major sources of revenues may change from year to year.

NOTE 6 - Income Taxes:

The following is a reconciliation of the federal statutory tax and tax rate to the Company's provision for taxes and its effective tax rate.

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

<u>2005</u>	<u>2004</u>
PERCENT	PERCENT
OF	OF
PRE-TAX	PRE-TAX

Edgar Filing: ITRONICS INC - Form 10KSB/A

	<u>AMOUNT</u>	<u>INCOME</u>	<u>AMOUNT</u>	<u>INCOME</u>
Federal tax at statutory rate	\$-	- %	\$-	- %
Temporary differences, primarily bad debt and compensation related expenses	-	- %	-	- %
Non-deductible expenses	-	- %	-	- %
Utilization of NOL	-	- %	-	- %
Total Income Tax Expense	\$-	0.0%	\$-	0.0%

The Company's consolidated net operating loss available for carry-forward to offset future taxable income and tax liabilities for income tax reporting purposes expire as follows:

<u>Year Ending December 31:</u>	Net Operating <u>Loss</u>
2006	430,403
2007	188,146
2008	113,253
2012	322,525
2018	377,944
2019	1,605,954
2020	3,254,375
2021	2,947,351
2022	2,496,744
2023	2,286,436
2024	2,337,832

Edgar Filing: ITRONICS INC - Form 10KSB/A

2025	2,773,348
	\$19,134,311

The Company's total deferred tax assets and related valuation allowances at December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Total deferred tax assets	\$6,865,693	\$ 5,682,993
Less valuation allowance	(6,865,693)	(5,682,993)
Net deferred tax asset	\$ -	\$ -

The estimated deferred tax assets and the related 100% valuation allowance increased \$1,182,700 between 2004 and 2005.

63

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

NOTE 7 - Stock Option and Purchase Plans:

The following table summarizes warrant and option activity for the period January 1, 2004 through December 31, 2005:

	<u>Warrants</u>	<u>Convertible Debt Options</u>	<u>Employee Options</u>	<u>Total</u>
Under option, December 31, 2003	18,904,735	37,626,872	4,376,000	60,907,607
Granted	7,099,500	3,784,086	1,675,000	12,558,586
Exercised	(5,375,461)	(16,109,299)	-	(21,484,760)

Edgar Filing: ITRONICS INC - Form 10KSB/A

Expired	(31,965)	-	(56,000)	(87,965)
Under option, December 31, 2004	20,596,809	25,301,659	5,995,000	51,893,468
Granted	10,943,077	118,189,457	165,000	129,297,534
Exercised	(1,200,000)	(8,667,737)	-	(9,867,737)
Expired	(3,026,626)	-	(52,000)	(3,078,626)
Under option, December 31, 2005	27,313,260	134,823,379	6,108,000	168,244,639

The average price for all warrants and options granted and exercised was \$0.0334 for the year ended December 31, 2005 and \$0.11 for the year ended December 31, 2004.

The following table summarizes the warrants and options outstanding as of December 31, 2005:

<u>Expiration Dates</u>	<u>No. of Shares</u>	<u>Exercise Price</u>	<u>Weighted Average Exercise Price</u>
<u>Warrants:</u>			
January 2008 to June 2008	5,825,000	\$ 0.075	
September 2006	60,000	0.083	
March 2007 to May 2009	3,000,000	0.100	
August 2006	37,208	0.143	
December 2007	1,850,000	0.150	
July 2010 to August 2010	2,243,077	0.150	
January 2007 to February 2007	1,437,500	0.160	
May 2006 to October 2006	119,300	0.171	
January 2007 to February 2007	935,000	0.200	

Edgar Filing: ITRONICS INC - Form 10KSB/A

February 2007	360,000	0.238	
January 2006 to September 2006	9,779,650	0.240	
February 2007 to May 2007	1,552,000	0.250	
February 2006	54,525	0.297	
January 2006	60,000	0.308	
Total Warrants	27,313,260		\$ 0.170

64

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

	No. of	Exercise	Weighted Average Exercise
<u>Convertible Debt Options:</u>	<u>Shares</u>	<u>Price</u>	<u>Price</u>
July 2008 to August 2008	112,593,828	\$ 0.020	
January 2006 to February 2006	21,461,961	0.125	
February 2006	617,100	0.150	
February 2006	74,629	0.720	
February 2006	75,861	1.180	
Total Convertible Debt Options	134,823,379		\$ 0.038

Employee Options:

Edgar Filing: ITRONICS INC - Form 10KSB/A

August 2007 to February 2014	225,000	0.150
One year after employment ends	1,600,000	0.150
October 2007	250,000	0.200
January 2015	15,000	0.200
One year after employment ends	1,000,000	0.250
One year after employment ends	3,000,000	0.300
October 2012 to October 2013	6,000	0.500
March 2006 to June 2006	12,000	0.900
Total Employee Options	6,108,000	0.244
Total Warrants and Options	168,244,639	\$ 0.067

The 112,593,828 convertible debt options listed above are related to the Notes discussed in Note 4. This debt is convertible into common stock at 55% of a calculated market price. Consequently, the number of shares and the conversion price can vary up or down materially, depending on the market price of the Company's stock.

NOTE 8 Common Stock to be Issued:

The following summarizes stock transactions commencing prior to December 31, with stock issued or to be issued subsequent to that date:

	<u>2005</u>	<u>2004</u>
Payment of salaries (see Note 11)	\$536,188	\$540,900
Payment of consulting and operating fees	-	4,800
Payment of director fees	375	525
Payment of interest, employees	37,430	37,701
Payment of debt, officer/stockholder	-	170,000
Private placement for cash	-	32,500
	\$573,993	\$786,426

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

The \$170,000 payment of debt listed above for December 31, 2004, reflects the conversion into common stock of loans made to the Company by an officer/stockholder. This amount is included in the Supplemental Disclosure of Cash Flow Information under the heading Settlement of debt/accruals by issuance of common stock. The Private placement for cash amount, \$32,500 for December 31, 2004, was cash received shortly before year end, with the stock issued in the following period. This amount is included in Cash flows from financing activities under Proceeds from sale of stock in the year received.

NOTE 9 - Accrued Expenses:

The following is the composition of accrued expenses as of December 31:

	<u>2005</u>	<u>2004</u>
Accrued vacation	\$89,025	\$ 85,587
Federal and state payroll taxes	25,030	219,899
Sales tax	5,075	245
Audit and annual meeting costs	120,000	93,000
	\$239,130	\$398,731

NOTE 10 Other Comprehensive Income

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 an Accumulated Unrealized Holding Loss of \$39,889 and \$9,568 at December 31, 2005 and 2004, respectively. The Company realized no gross gains and gross losses of \$10,116 on gross proceeds of \$10,227 during the twelve months ended December 31, 2005, and no gains were reclassified out of accumulated other comprehensive income into earnings. In 2004, the Company realized gross gains of \$172,116 and gross losses of \$3,179 on gross proceeds of \$356,107, and no losses were reclassified out of accumulated other comprehensive income into earnings. 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 represents unrealized holding gains and losses transferred into earnings as securities are sold.

Following are the components of Other Comprehensive Income:

ITRONICS INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2005 AND 2004

	Year Ended December 31,	
	<u>2005</u>	<u>2004</u>
Unrealized holding gains (losses)		
arising during the period	\$(38,290)	\$ 9,109
Reclassification adjustment	7,969	(393,023)
Other Comprehensive Income	\$(30,321)	\$(383,914)

NOTE 11 - Related Party Transactions:

Promissory notes are held by an officer/stockholder at December 31, 2005 and 2004 (see Note 3 for terms).

\$599,900 and \$389,127 of the accrued management salaries as of December 31, 2005 and 2004, respectively, is for salary in arrears due to several officer/stockholders and employee/stockholders. In addition, salary in arrears of \$534,800 and \$523,800 for 2005 and 2004, respectively, are included in stock to be issued at the respective year ends. These amounts represent the portion of salaries earned but unpaid that the officers/employees/stockholders have agreed to accept in the Company's common stock. The number of shares to be issued is 6,620,900 and 6,488,021 for 2005 and 2004, respectively. Issuance of the stock is pending sufficient cash available to pay the related federal withholding taxes. Interest expense at 12% per annum on salaries due officer and employee/stockholders amounted to \$123,345 and \$94,299, respectively, in 2005 and 2004. Of these amounts, \$58,272 and \$94,299 for 2005 and 2004, respectively, were paid (or will be paid) by issuance of 765,857 and 990,187 shares of restricted common stock.

Interest expense on related party loans amounted to \$23,948 and \$31,396 for the years ended December 31, 2005 and 2004, respectively. Accrued interest on related party loans and accrued salaries totaled \$13,276 and \$6,307 at December 31, 2005 and 2004, respectively.

In March 1999 Dr. Whitney personally agreed to acquire up to 10,000,000 common shares of GPXM at \$0.10 per share, making him beneficial owner of more than ten percent of GPXM at that time. In March 1999, the Company's Board of Directors approved a consulting project for WWI to provide technical services to GPXM; payment was to be made in common stock, and cash. WWI completed the project in early 2005. The Company owned 556,107 shares with a market value of \$91,758 at December 31, 2005 and 123,198 shares with a market value of \$26,180 at December 31, 2004. Total revenue from GPXM for 2005 and 2004 was \$15,000 and \$124,341, respectively. A total of

\$101,281 is included in accounts receivable at December 31, 2004; no amounts were due at December 31, 2005.

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

During 2004, Dr. Whitney loaned WWI 103,765 shares of GPXM stock at a value of \$28,276. The loaned shares were sold by WWI for \$25,097, for a realized loss of \$3,179. The loan was repaid in 2004 by conversion into the Company's restricted common stock when Dr. Whitney exercised warrants he acquired in 2003.

During 2003, WWI's lease of a vehicle utilized by Dr. Whitney was completed. Dr. Whitney purchased the vehicle by financing it through a commercial lender. The purchase price was \$21,741 and the monthly payment for four years is \$531. WWI is leasing the vehicle from Dr. Whitney by making the monthly payments to the commercial lender and will acquire ownership of the vehicle when the loan is paid in full.

For related party transactions subsequent to December 31, 2005, see Note 17.

NOTE 12 - Lease Commitments and Rent Expense:

Operating Leases:

The Company leases its corporate office facility under a non-cancelable agreement which expires June 30, 2006. Monthly payments are \$5,073.

A wholly owned subsidiary of the Company, IMI, leases storage facilities on a month-to-month basis and, therefore, no long-term binding contractual obligation exists with regards to minimum lease payments. The monthly rent payment is \$1,050.

Future minimum rental commitments at December 31, 2005, under these operating lease agreements are due as follows:

2006	\$30,438
2007	-
	\$30,438

Total rent expense included in the statements of operations for the years ended December 31, 2005 and 2004 is \$89,220 and \$99,981, respectively.

ITRONICS INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 2005 AND 2004

Capital Leases:

Prior to 2004 the Company had entered into numerous equipment leases, primarily for equipment at the manufacturing facility. The leases were generally for five years, had initial interest rates ranging from 6.7% to 26.3%, with the majority being in the 18% to 21% range, and generally had \$1 buyout options at the end of the lease terms. As of December 31, 2005, 21 of these leases remained outstanding. Substantially all of these leases have been renegotiated or subject to litigation, such that the original payments terms are no longer applicable. The renegotiated leases now carry interest rates ranging from 6% to 9.25%.

In January 2004 the Company and its subsidiaries entered into a lease for office equipment. The lease totaled \$2,236, with a lease period of four years, and total monthly lease payments of \$66. The lease has a buyout option for \$1 at the end of the lease.

All of the above described leases are secured by the equipment acquired or financed under the lease.

Future minimum lease commitments at December 31, 2005 are due as follows:

	Unrelated <u>Parties</u>	Related <u>Party</u>
2006	\$903,882	6,370
2007	-	3,185
	903,882	9,555
Less: amounts representing interest	(173,479)	(378)
	\$730,403	\$9,177

Subsequent to December 31, 2005, the Company reached a settlement agreement with a lessor covering four leases. The leases have minimum lease payments totaling \$272,576, payable at \$4,500 per month beginning in March 2006. All the minimum lease payments are included in the 2006 payment amount in the above table as the corresponding liability is included in Current Maturities of Capital Lease Obligations in the Consolidated Balance Sheet at December 31, 2005.

Edgar Filing: ITRONICS INC - Form 10KSB/A
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

NOTE 13 - Business Segments:

The Company and its subsidiaries operate two business segments as identified in Note 1. The following defines business segment activities:

Photochemical Fertilizer: Photochemical recycling,

 Silver recovery,

 Fertilizer production and

 Sales

Mining Technical Services: Mining industry services

The photochemical fertilizer segment operates principally in Northern Nevada and California. The primary source of revenue for this segment is from the pick-up and processing of photochemicals, recovery of silver therefrom, and sales of GOLD n GRO fertilizer products. The customer base is diverse and includes organizations in the photo-processing, printing, x-ray and medical fields. Fertilizer sales are concentrated in the same geographic markets and the customer base is principally in commercial markets, including specialty agriculture which includes vegetables, fruit and nut trees, and wine and table grapes, golf courses, and turf farms.

The mining technical services segment performs its services primarily out of the Company's Reno, Nevada offices, but its source of clients is not limited to organizations based locally; it has served both national and international clients in the past.

The Company measures segment performance based on net income or loss. At present there are no intercompany revenues. Costs benefiting both segments are incurred by both the Company and by Whitney & Whitney, Inc. Such costs are allocated to each segment based on the estimated benefits to the segment. General and administrative costs incurred by the Company that have no other rational basis for allocation are divided evenly between the segments. Cost allocation percentages are reviewed annually and are adjusted based on expected business conditions for the year.

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

70

ITRONICS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

Edgar Filing: ITRONICS INC - Form 10KSB/A

	<u>2005</u>	<u>2004</u>
Revenues		
Photochemical Fertilizer	\$1,305,144	\$1,422,929
Mining Technical Services	55,843	197,422
Consolidated Revenues	\$1,360,987	\$1,620,351
Cost of Revenues		
Photochemical Fertilizer	\$1,421,826	\$1,457,616
Mining Technical Services	69,167	130,439
Consolidated Cost of Revenues	\$1,490,993	\$1,588,055
Gross Profit (Loss)		
Photochemical Fertilizer	\$(116,682)	\$(34,687)
Mining Technical Services	(13,324)	66,983
Consolidated Gross Profit (Loss)	\$(130,006)	\$ 32,296
Operating Income (Loss)		
Photochemical Fertilizer	\$(2,107,863)	\$(2,107,863)
Mining Technical Services	(507,831)	(379,875)
Consolidated Operating Income (Loss)	\$(2,615,694)	\$(2,365,394)
Other Income (Expense)		
Photochemical Fertilizer	\$(2,281,305)	\$(643,445)
Mining Technical Services	(9,613)	168,967
Consolidated Other Income (Expense)	\$(2,290,918)	\$(474,478)

Edgar Filing: ITRONICS INC - Form 10KSB/A

Net Income (Loss)

Photochemical Fertilizer	\$(4,389,168)	\$(2,628,964)
Mining Technical Services	(517,444)	(210,908)
Consolidated Net Income (Loss) before taxes	\$(4,906,612)	\$(2,839,872)

71

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

Other segment information:	<u>2005</u>	<u>2004</u>
Capital expenditures by business segment:		
Photochemical Fertilizer	\$185,212	\$243,989
Mining Technical Services	11,200	4,477
Consolidated Capital Expenditures	\$196,412	\$248,466
Depreciation and amortization expense by business segment:		
Photochemical Fertilizer		
Depreciation	\$178,403	\$173,556
Amortization	54,884	80,362
	233,287	253,917
Mining Technical Services		
Depreciation	9,255	16,461
Amortization	6,583	13,794
	15,838	30,255

Consolidated Depreciation and Amortization	\$249,125	\$284,172
--	-----------	-----------

General and administrative expenses of \$190,906 and \$153,887 incurred by Itronics Inc. were equally divided between the two segments for 2005 and 2004, respectively.

72

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

Identifiable assets by business segment (net of accumulated depreciation, accumulated amortization, and allowance for doubtful accounts):

<u>ASSET DESCRIPTION</u>	2005		2004	
	PHOTO-	MINING	PHOTO-	MINING
	CHEMICAL	TECHNICAL	CHEMICAL	TECHNICAL
	<u>FERTILIZER</u>	<u>SERVICES</u>	<u>FERTILIZER</u>	<u>SERVICES</u>
Current Assets				
Cash	\$ 19,007	1,382	\$ 4,370	\$ 420
Accounts receivable, net	5,999	15,165	73,339	115,466
Marketable securities	-	91,758	-	26,180
Inventories	590,272	1,826	569,878	1,826
Prepaid expenses	44,042	1,954	23,015	13,711
	659,320	112,085	670,602	157,603
Property and Equipment, net				
Land	215,000	-	215,000	-
Building and improvements	993,914	-	1,026,356	-
Construction in progress,				

Edgar Filing: ITRONICS INC - Form 10KSB/A

manufacturing facility	153,896	-	121,171	-
Equipment and furniture	1,171,760	18,285	1,116,920	25,601
Vehicles	23,349	-	7,136	-
Equipment under capital lease-				
equipment and furniture	349,968	72,877	503,772	81,522
Equipment under capital lease-				
Vehicles	-	10,871	20,394	15,219
	2,907,887	102,033	3,010,749	122,342
Other Assets, net				
Intangibles	76,500	-	8,435	-
Inter-company investments/loans	-	346,252	-	1,234,257
Deposits	4,427	3,483	9,760	12,567
Deferred loan fees	33,901	-	48,654	-
	114,828	349,735	66,849	1,246,824
	\$3,682,035	\$563,853	\$3,748,200	\$1,526,769

Reconciliation of segment assets to consolidated assets:

73

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

2005

2005

Total Assets:

Photochemical Fertilizer	\$3,682,035	\$3,748,200
Mining Technical Services	563,853	1,526,769
Total Segment Assets	4,245,888	5,274,969
Itronics Inc. assets	25,175,867	22,504,867
Less: inter-company elimination	(25,192,138)	(23,631,896)
Consolidated Assets	\$4,229,617	\$4,147,940

NOTE 14 - Going Concern:

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 \$4,906,612 during the year ended December 31, 2005, a negative working capital of \$8,341,563, and a stockholders' deficit balance of \$5,473,599 as of December 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.

In order to solve the Company's liquidity problems, management implemented a plan of obtaining equity through private placements of common shares, convertible debt, conversion of debt to common shares, and payment of consulting and other labor services with common shares. The most recent such financing occurred in July 2005 with \$3.25 million in financing (see Note 4).

In addition to continuing the above described efforts, development of the technology necessary to manufacture fertilizer from photochemicals has been completed. In March 1998 the Company's subsidiary, Itronics Metallurgical, Inc., signed a definitive manufacturing and distribution agreement with Western Farm Services, Inc. (WFS). The agreement gives WFS the exclusive license and right to manufacture and market the GOLD n GRO line of fertilizer products in the states of Arizona, California, Hawaii, Idaho, Oregon and Washington. The agreement is for five years, with five year renewal options. In March 2003 the companies entered the second five year term of the agreement.

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

NOTE 15 - Off-Balance Sheet Risks and Concentration of Credit Risk:

The Company occasionally maintains bank deposits in excess of federally insured limits. The Company's risk is managed by maintaining its accounts in one of the top five largest banks in the country.

As described in Note 5, substantially all the Company's fertilizer sales are concentrated with one major fertilizer distribution customer. In addition, substantially all of those sales are in California, primarily in the Central Valley. Having the majority of such sales concentrated in one region makes the Company's sales more vulnerable to variability caused by weather patterns or economic downturns than if sales were geographically diversified. The Company's plan is to expand geographically to mitigate such effects in the future. At any point in time, a significant portion of the Company's accounts receivable is concentrated with this fertilizer distribution company. This concentration of credit risk is somewhat mitigated due to the fact that the distribution company is one of the largest fertilizer distribution companies in the country.

Increase or decrease in photochemical recycling service and silver extraction revenues has a direct relationship with federal, state, and local regulations and enforcement of said regulations. Fertilizer revenues are impacted by crop cycles, seasonal variations, and weather patterns.

The ability to recognize a net profit from silver recovery sales is based on the fair market value of silver (London five day average) at the time the photochemicals are obtained versus the fair market value of silver when recovered silver is sold. Most customers are given an 80% silver credit against recycling services based on the content of silver in the photochemicals. If the fair market value of silver declines, our ability to recover our costs could be impacted.

NOTE 16 - Legal Proceedings and Contingencies

As of December 31, 2005 total recorded liabilities of \$797,418 including accrued interest to December 31, 2005, were subject to various lawsuits and claims for the collection of the funds due. These include 15 leases totaling \$604,796 (reflected in Current Maturities of Capital Lease Obligations) plus \$70,324 in additional interest (reflected in Accrued Interest) and three trade payables totaling \$107,758 (reflected in Accounts Payable) plus \$14,540 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 four cases originally seeking \$423,375. The creditors have received judgments in three of these cases, but have taken no further collection action. The Company will continue to accrue interest until these cases are settled or paid in full. In March 2006 the Company reached a settlement agreement on the fourth case by signing a stipulation to judgment and agreeing to pay \$4,500 per month.

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

The Company estimates an additional \$10,600 interest may be reasonably possible on one case; however, the Company has not accrued this amount because it does not believe it is probable to be incurred. This estimate is related

to one case, seeking \$35,210, that was filed in March 2003. No further contact has taken place since then.

The Company has a total of nine cases, that originally sought \$364,036, 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 December 31, 2005, the recorded liability for these cases was \$242,839. All of these cases are paid current under the respective settlement agreements.

In addition to the above leases that are subject to litigation, there are four leases, with a recorded liability of \$188,270, that are in default. No payments have been made for an extended period of time, and no collection action or recent contact from the creditors has occurred. 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. Subsequent to December 31, 2005 the Company began paying on one of these leases with a recorded liability of \$46,341. It is reasonably possible that additional interest of less than \$5,000 could be incurred, but this has not been recorded because the Company does not believe it is probable to be incurred

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

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 above. Other than as described above, we are currently not aware of any litigation pending or threatened for any reason other than collection of funds due and already recorded nor are we aware of any additional legal proceeding or claims that the Company believes will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

NOTE 17 - Subsequent Events:

The following summarizes common stock issued from January 1, 2006

through April 10, 2006 and common stock to be issued as of April 10, 2006:

	<u>ISSUED</u>		<u>TO BE ISSUED</u>
<u>SHARES</u>	<u>AMOUNT</u>	<u>SHARES</u>	<u>AMOUNT</u>
9,000,000	\$ 220,926	-	\$ -

Edgar Filing: ITRONICS INC - Form 10KSB/A

Convertible notes payable
converted

Labor and consulting services	216,052	14,147	6,543,027	529,425
Director fees	7,500	375	7,500	375
Interest on deferred salaries	-	-	500,703	37,430
Warrants exercised for cash	100,000	7,500	-	-
	9,323,552	\$ 242,948	7,051,230	\$567,230

ITEM 14.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Following is a summary of the aggregate fees billed for professional service by the Company's principal accountants.

	<u>2005</u>	<u>2004</u>
Audit fees	\$95,009	\$62,685
Audit related fees	-	1,100
Tax fees	-	-
All other fees	-	-
Total	\$95,009	\$63,785

The audit related fees listed above pertain to the issuance of consent letters for inclusion in S-8 registration statements.

The Company does not have an audit committee and consequently the entire Board of Directors serves in that capacity. The Board's pre-approval policy regarding professional services provided by the Company's principal accountant is to pre-approve the engagement of the principal accountant for the performance of all professional services. The policy does provide a waiver of pre-approval in the event that such services, in the aggregate, will be less than 5% of the audit fee, such services are not recognized as non-audit fees at the time of the engagement, and pre-approval is obtained from a designated member of the Board prior to the engagement. Until such time as an audit committee is appointed, the designated individual is the Principal Executive Officer, currently the President of the Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: October 12, 2006

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.

Date: October 12, 2006

By: /S/ JOHN W. WHITNEY

John W. Whitney

President, Treasurer and Director

(Principal Executive and Financial

Officer)

Date: October 12, 2006

By: /S/ MICHAEL C. HORSLEY

Michael C. Horsley

Controller

(Principal Accounting Officer)

Date: October 12, 2006

By: /S/ Paul H. Durckel

Paul H. Durckel

Director

Date: October 12, 2006

By: /S/ HOWLAND S. GREEN

Howland S. Green

Director