

ITRONICS INC
Form SB-2
November 22, 2006

As filed with the Securities and Exchange Commission on November 22, 2006
Registration No. 333-_____

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM SB-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ITRONICS INC.

(Name of small business issuer in its charter)

Texas
(State or other Jurisdiction
of Incorporation or Organization)

2870
(Primary Standard Industrial
Classification Code Number)

75-2198369
(I.R.S. Employer
Identification No.)

6490 S. McCarran Blvd., Bldg C-23
Reno, Nevada 89509
Tel: (775) 689-7696

(Address and telephone number of principal executive offices and principal place of business)

Dr. John W. Whitney, Chief Executive Officer

ITRONICS INC.
6490 S. McCarran Blvd., Bldg C-23
Reno, Nevada 89509
Tel: (775) 689-7696

(Name, address and telephone number of agent for service)

Copies to:

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APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC:

From time to time after this Registration Statement becomes effective.

If any securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. _____

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price	Amount of registration fee
Common stock, \$.001 par value issuable upon conversion of the secured convertible notes	75,000,000(3)	\$ 0.019	\$ 1,425,000	\$ 152.47

(1) Includes shares of our common stock, par value \$0.001 per share, which may be offered pursuant to this registration statement, which shares are issuable upon conversion of secured convertible notes held by the selling stockholders. In addition to the shares set forth in the table, the amount to be registered includes an indeterminate number of shares issuable upon conversion of the secured convertible notes, as such number may be adjusted as a result of stock splits, stock dividends and similar transactions in accordance with Rule 416. The number of shares of common stock registered hereunder represents a good faith estimate by us of the number of shares of common stock issuable upon conversion of the secured convertible notes. For purposes of estimating the number of shares of common stock to be included in this registration statement, we calculated a good faith estimate of the number of shares of our common stock that we believe will be issuable upon conversion of the secured convertible notes to account for market fluctuations, and antidilution and price protection adjustments, respectively. Should the conversion ratio result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary. In addition, should a decrease in the exercise price as a result of an issuance or sale of shares below the then current market price, result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary.

(2) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) and Rule 457(g) under the Securities Act of 1933, using the average of the high and low price as reported on the Over-The-Counter Bulletin Board on November 14, 2006, which was \$0.019 per share.

(3) Includes a good faith estimate of the shares underlying secured convertible notes to account for market fluctuations.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

THE INFORMATION CONTAINED IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED NOVEMBER __, 2006

ITRONICS INC.

75,000,000 SHARES OF

COMMON STOCK

This prospectus relates to the resale by the selling stockholders of up to 75,000,000 shares of our common stock, par value \$.001 per share, issuable upon conversion of secured convertible notes acquired by the selling stockholders in our July 15, 2005, our July 31, 2006, and our November 3, 2006 private offerings. The secured convertible notes are convertible into our common stock at the lower of \$0.10 or at a discount of 45% to the average of the three (3) lowest intraday trading prices for the common stock on a principal market for the twenty (20) trading days before but not including the conversion date. The selling stockholders may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. The selling stockholders may be deemed to be underwriters of the shares of common stock, which they are offering. We will pay the expenses of registering these shares.

Our common stock is registered under Section 15(d) of the Securities Exchange Act of 1934 and is listed on the Over-The-Counter Bulletin Board under the symbol "ITRO". The last reported sales price per share of our common stock as reported by the Over-The-Counter Bulletin Board on November 14, 2006, was \$0.02.

Investing in these securities involves significant risks. See "Risk Factors" beginning on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2006.

The information in this Prospectus is not complete and may be changed. This Prospectus is included in the Registration Statement that was filed by Itronics Inc. with the Securities and Exchange Commission. The selling stockholders may not sell these securities until the registration statement becomes effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the sale is not permitted.

FORWARD-LOOKING STATEMENTS

Various statements contained in this prospectus or incorporated by reference into this prospectus constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and are indicated by words or phrases such as “believe,” “expect,” “may,” “will,” “should,” “seek,” “plan,” “intend” or “anticipate” or the negative thereof or comparable terms in a discussion of strategy. Forward-looking statements represent as of the date of this prospectus our judgment relating to, among other things, future results of operations, growth plans, sales, capital requirements and general industry and business conditions applicable to us. Such forward-looking statements are based largely on our current expectations and are inherently subject to risks and uncertainties. Our actual results could differ materially from those that are anticipated or projected as a result of certain risks and uncertainties, including, but not limited to, a number of factors, such as:

- the effect of our indebtedness on our financial condition and financial flexibility, including, but not limited to, the ability to obtain necessary financing for our business;
- economic and market conditions;
- the performance of our targeted markets;
- changes in business relationships with our major customers;
- competitive product and pricing pressures; and
- the other risks and uncertainties that are described under “Risk Factors” and elsewhere in this prospectus and from time to time in our filings with the SEC.

Except as otherwise required to be disclosed in periodic reports required to be filed by public companies with the SEC pursuant to the SEC's rules, we have no duty to update these statements, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward-looking information contained in this will in fact transpire.

PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, including the "Risk Factors" section, the financial statements and the notes to the financial statements.

In this prospectus, "we", "us" and "our", refer to Itronics Inc., unless the context otherwise requires. Unless otherwise indicated, the term "year," "fiscal year" or "fiscal" refers to our fiscal year ending December 31st.

ITRONICS INC.

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., are able to extract more than 99% of the silver and virtually all of the other toxic heavy metals from used photoliquids. We then 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 trademark GOLD'n GRO Guardian, and silver bullion. We also provide process planning and technical services to the mining industry.

For the years ended December 31, 2005 and 2004, we generated net revenues in the amount of \$1,360,987 and \$1,620,351 and net losses of \$4,906,612 and \$2,839,872, respectively. For the nine months ended September 30, 2006, we generated net revenues in the amount of \$1,418,434 and a net loss of \$3,108,812. As a result of recurring losses from operations and an accumulated deficit of \$27,851,571 as of December 31, 2005, our Independent Registered Public Accounting Firm, in their report dated April 10, 2006, have expressed substantial doubt about our ability to continue as a going concern.

On July 15, 2005, we consummated a private offering of \$3,250,000 principal amount of 3-year secured convertible notes (the "2005 Convertible Notes"). The 2005 Convertible Notes bear an interest rate of 8% at maturity and are convertible into shares of our common stock, at the holder's option, at the lower of (i) \$0.10 or (ii) 55% of the average of the three (3) lowest intraday trading prices for the common stock on a principal market for the twenty (20) trading days before but not including the conversion date. Accordingly, there is in fact no limit on the number of shares of common stock into which the 2005 Convertible Notes may be converted. As of August 22, 2005, the average of the three (3) lowest intraday trading prices for our common stock during the preceding twenty (20) trading days as reported on the over-the-counter bulletin board ("OTC:BB") was \$.06 per share and, therefore, the conversion price for the 2005 Convertible Notes was \$.033 per share. Based on this conversion price, the 2005 Convertible Notes in a principal amount \$3,250,000, excluding interest, were convertible into 98,484,848 shares of our common stock.

In connection with the 2005 Convertible Notes offering, we issued to those participating institutional investors five (5) year warrants to purchase an additional 3,000,000 shares of our common stock (the "2005 Convertible Note Warrants") at an exercise price of \$0.15 per warrant share. The holders of the 2005 Convertible Note Warrants contractually agreed to restrict their ability to convert or exercise the warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock.

In connection with the 2005 Convertible Notes offering, we issued 5-year warrants to the selling agent to acquire 240,000 shares of our common stock at \$0.15 per share to which the selling agent received gross fees of \$260,000,

representing 8% of the total gross proceeds received by the Company.

We registered the resale of 50,000,000 common shares of the shares underlying the 2005 Convertible Notes on a registration statement on SEC Form SB-2, which was declared effective by the SEC on February 14, 2006.

On July 31, 2006 and on November 3, 2006, we consummated private offerings of \$500,000 each, for an aggregate of \$1,000,000 principal amount 3-year Convertible Notes (the "2006 Convertible Notes"), with the holders of our 2005 Convertible Notes. The 2006 Convertible Notes bear an interest rate of 6% at maturity and are convertible, at the holder's option, into shares of our common stock at the lower of: (i) \$0.10 or (ii) 55% of the average of the three (3) lowest intraday trading prices for the common stock on a principal market for the twenty (20) trading days before but not including the conversion date.

Accordingly, there is in fact no limit on the number of shares into which the notes may be converted. As of November 14, 2006, the average of the three (3) lowest intraday trading prices for our common stock during the preceding twenty (20) trading days as reported on the OTC:BB was \$0.0165 and, therefore, the conversion price for the secured convertible notes would be \$0.009075. Based on this conversion price, the balance of the 2005 and 2006 Convertible Notes in the principal amount of \$3,323,716, excluding interest, was convertible into 366,249,697 shares of our common stock.

In connection with the 2006 Convertible Notes offering, we issued to the participating institutional investors seven (7) year warrants to purchase an additional 20,000,000 shares (each, for a total of 40,000,000 common shares) of our common stock (the "2006 Convertible Note Warrants") at an exercise price of \$.05 per warrant share for the July 31, 2006 Convertible Notes and \$.04 per warrant share for the November 3, 2006 Convertible Notes. The holders of the 2006 Convertible Note Warrants contractually agreed to restrict their ability to convert or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock.

On August 28, 2006 we entered into a letter agreement with the holders of the 2005 Convertible Notes amending their registration rights agreements, whereby the Company was not required to register any shares of common stock issuable upon exercise of any of the warrants.

On November 21, 2006, we entered into a letter agreement with the holders of the 2005 and 2006 Convertible Notes amending their registration rights agreements, whereby the Company was not required to register any shares of common stock issuable upon exercise of any of the warrants.

In connection with the 2006 Convertible Notes offering, the selling agent received gross fees of \$60,000, representing 6% of the total gross proceeds received by the Company, as consideration for services performed in connection with the issuance of the 2006 Convertible Notes.

We registered the resale of 75,000,000 common shares of the shares underlying the 2005 and 2006 Convertible Notes on a registration statement on SEC Form SB-2, which was declared effective by the SEC on October 25, 2006.

Our principal offices are located at 6490 S. McCarran Blvd., Bldg C-23, Reno, Nevada 89509, and our telephone number is (775) 689-7696. We are a Texas corporation.

THE OFFERING

Common stock offered by
selling stockholders

Up to 75,000,000 shares (1)

Use of proceeds.

We will not receive any proceeds from the sale of the common stock. However, we will receive the sale price of any common stock we sell to the selling stockholder upon exercise of the warrants. In addition, we have received gross proceeds of \$4,250,000 from the sale of the secured convertible notes. The proceeds received from the sale of the secured convertible notes will be used for business development purposes, working capital needs, pre-payment of interest, payment of consulting and legal fees and purchasing inventory.

Common Stock to
be outstanding
after the offering

Up to 344,415,930 shares (2)

Over-The-Counter Bulletin
Board Symbol

ITRO

(1) This prospectus covers the resale by the selling stockholders named in this prospectus of up to 75,000,000 shares of our common stock, par value \$.001 per share, issuable upon conversion of secured convertible notes acquired by the selling stockholders in our July 15, 2005, our July 31, 2006, and our November 3, 2006 private offerings (including a good faith estimate of the shares underlying secured convertible notes to account for market fluctuations and antidilution protection adjustments, respectively). The selling stockholders may offer to sell the shares of common stock being offered in this prospectus at fixed prices, at prevailing market prices at the time of sale, at varying prices or a negotiated prices. Please see "Plan of Distribution" in the prospectus for a detailed explanation of how the shares of common stock may be sold.

(2) The above information regarding common stock to be outstanding after the offering is based on 269,415,930 shares of common stock outstanding as of November 14, 2006 and assumes the subsequent conversion of our issued secured convertible notes by the selling stockholders but no exercise of an aggregate of 43,500,001 outstanding warrants.

This prospectus contains our trademarks, tradenames, and servicemarks and also contains certain trademarks, tradenames and servicemarks of other parties.

RISK FACTORS

This investment has a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and the other information in this prospectus. If any of the following risks actually occur, our business, operating results and financial condition could be harmed and the value of our stock could go down. This means you could lose all or a part of your investment.

Risks Relating to Our Business :

We Have a History Of Losses Which May Continue, and May Negatively Impact Our Ability to Achieve Our Business Objectives.

We incurred net losses of \$4,906,612 and \$2,839,872 for the years ended December 31, 2005 and 2004, respectively. For the nine months ended September 30, 2006, we incurred a net loss of \$3,108,812. We cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise. There can be no assurance that future operations will be profitable. Revenues and profits, if any, will depend upon various factors, including whether we will be able to continue expansion of our revenue. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

We Anticipate That the Proceeds From Our November 2006 Private Placement Could Be Spent By as Early as December 2006. If We Are Unable to Obtain Additional Funding, Our Business Operations Will be Harmed. In Addition, Section 4e of the July 2005 and 2006 Securities Purchase Agreements Contains Certain Restrictions and Limitations on Our Ability to Seek Additional Financing. If We Do Obtain Additional Financing, Our Then Existing Shareholders May Suffer Substantial Dilution .

We anticipate that the proceeds from our November 2006 private placement will be spent by as early as December 2006. Accordingly, we will require additional funds to sustain and expand our sales and marketing activities. Additional capital will be required to effectively support the operations and to otherwise implement our overall business strategy. Without the prior written consent of a majority-in-interest of the investors for a period ending on the later of (i) 270 days from the closing date, or (ii) 180 days from the date that this registration statement is declared effective by the SEC, Section 4e of our July 2005 and 2006 Securities Purchase Agreements limits our ability to seek additional financing, including negotiating or contracting with any party to obtain additional equity financing (including debt financing with an equity component) which involves the following:

- the issuance of shares of our common stock at a discount to the market price on the date of issuance;
- the issuance of convertible securities that are convertible into an indeterminate number of shares of our common stock; or
- the issuance of warrants to purchase shares of our common stock.

There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all, or if a majority-in-interest of the investors under our July 2005 and 2006 Securities Purchase Agreements will provide their prior written consent for us to engage in additional financing involving the issuance of our securities as set forth above. The inability to obtain additional capital will restrict our ability to grow and may reduce our ability to continue to conduct business operations. If we are unable to obtain additional financing, we will likely be required to curtail our marketing and development plans and possibly cease our operations. Any additional equity financing may involve substantial dilution to our then existing shareholders.

Our Independent Registered Public Accounting Firm Has Stated There is Substantial Doubt About Our Ability to Continue As a Going Concern, Which May Hinder Our Ability to Obtain Future Financing.

In their report dated April 10, 2006 on our financial statements as of and for the year ended December 31, 2005, our independent registered public accounting firm stated that our recurring losses from operations and our accumulated deficit as of December 31, 2005 raised substantial doubt about our ability to continue as a going concern. Since December 31, 2005, we have continued to experience net operating losses. Our ability to continue as a going concern is subject to our ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, increasing sales or obtaining loans and grants from various financial institutions where possible. Our continued net operating losses and stockholders' deficiency increase the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

Our Fertilizer Sales Are Dependent Upon Our Contract With Western Farm Service, Inc., Which Accounted for \$997,611 or 96% of 2005 Fertilizer Sales. The Loss of This Contract Could Cause Us to Cease Operations.

In March 1998 we signed a definitive licensing, manufacturing, and distribution agreement with Western Farm Service, Inc. (WFS), a wholly owned subsidiary of Agrium, Inc. (a NYSE company) to market our GOLD'n GRO fertilizer products. The five-year agreement, with optional five-year renewal periods, was extended for another five years in March 2003. After the initial five year period, the contract may be terminated by either party in any subsequent year by giving the other party written notice 120 days prior to December 31 st of each year. Substantially all of our fertilizer sales (96%, or an aggregate of \$997,611 during 2005; a similar percentage is expected for 2006) are to WFS and we would be materially adversely affected if the contract were terminated. Any such termination may cause us to curtail or cease operations.

If We are Unable to Balance Collection of Used Photochemical Raw Materials With Usage in Fertilizer Manufacturing, We May Be Unable to Meet Fertilizer Sales Demand from Our Fertilizer Customers

Due to the nature of our business, our photochemical recycling customers are also suppliers of our used photochemical raw material needed for fertilizer manufacturing. This raw material is the primary ingredient that distinguishes our GOLD'n GRO fertilizer products from competing fertilizer products. If we are unable to collect and store adequate supplies of this raw material, we might not be able to fulfill all sales orders for our fertilizer products, especially during the peak spring sales season. If this were to occur, fertilizer sales growth could be limited or we could lose business from our customers.

The EPA Registration Process for GOLD'n GRO Guardian Animal Repellent Will Be Lengthy and Expensive. There is No Guarantee That the Product Will Be Approved By the EPA and There Is No Guarantee That The Product Will Be Accepted In the Markets We Are Targeting. If Our Registration is Not Approved or if This Product is Not Accepted in the Markets Which We Are Targeting, Substantial Losses Could Occur.

Registration of GOLD'n GRO Guardian with the Federal EPA, followed by registration in each state in which it will be sold, is necessary before the product can be sold in any state. The product is an animal repellent fertilizer and represents a new category of fertilizer for us. Our main risk is that the registration may take longer than anticipated, and that the cost could be higher than presently budgeted. After registration is complete, normal market introduction timing of 2 to 3 years can be expected, and there is always the risk that another company with superior resources may develop a similar product. The revenues to be generated by product sales, after the product is registered, are expected to be supplemental to the regular GOLD'n GRO fertilizer sales but could grow to become a significant part of total fertilizer sales within a few years after introduction.

There is no assurance that the registration of GOLD'n GRO Guardian will be approved or that even if approved, that this product will be accepted in the markets which we are targeting. If our registration is not approved or if GOLD'n GRO Guardian is not accepted in the marketplace, substantial losses could occur.

If We Are Unable to Retain the Services of Dr. John W. Whitney or If We Are Unable to Successfully Recruit Qualified Personnel Having Experience in Business, We May Not Be Able to Continue Our Operations.

Our success depends to a significant extent upon the continued service of Dr. John W. Whitney, our current President, Treasurer and Director. Loss of the services of Dr. Whitney could have a material adverse effect on our growth, revenues, and prospective business. However, Dr. Whitney is bound by several confidentiality agreements, which specifically include non-compete clauses. We maintain "key man" life insurance policies on the life of Dr. Whitney in the amount of \$5,000,000. In addition, in order to successfully implement and manage our business plan, we will be dependent upon, among other things, successfully recruiting qualified personnel having experience in business. Competition for qualified individuals is intense. There can be no assurance that we will be able to find, attract and

retain existing employees or that we will be able to find, attract and retain qualified personnel on acceptable terms.

We Are Subject to Judgments or Are in Default on Substantially All of Our Equipment Leases, Which if Not Settled, Could Result in the Repossession of Certain Equipment and Cause Us to Cease Operations

As discussed in the Legal Proceedings section, many of these leases are subject to a judgment or are subject to litigation . The creditors with judgments that are not subject to settlement agreements may seize the secured equipment and/or other assets at any time without notice. Also as discussed in the Legal Proceedings section, we have renegotiated some of the leases. These leases are subject to stipulated judgments that allow the lessor to repossess the secured equipment and/or seize other assets without further court action if we become delinquent on future payments. The loss of our equipment could cause us to cease operations.

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If We Are Not Able to Successfully Market and Gain Public Awareness of Our Products and Services, We May Sustain Substantial Losses Which Could Require Us to Curtail or Cease Our Operations.

The production of photochemical fertilizer for commercial and consumer applications is a new business concept characterized by competition with established fertilizer manufacturers who have historically produced products that have heretofore fulfilled the market demand. Achieving market awareness and acceptance for products being introduced and under development requires substantial marketing efforts and expenditure of significant marketing and advertising funds. There is uncertainty as to the rate of sales expansion and the degree of market acceptance of our products. Because of this, we are currently developing and evaluating, and anticipate that we will continue to develop, marketing and advertising for such new products or services; we will devote resources, financial and otherwise to such efforts. The failure of these efforts could result in substantial losses.

Our Success is Dependant on The Ability of Our Products and Services to Compete in Our Various Industries.

We operate in three highly competitive industries which have been characterized by pricing pressures, business consolidations, and flat or low growth trends in revenues and sales. Each of the industries in which we are operating has its own competitive characteristics. The mining technical services segment is somewhat dependent on metals prices in relation to production costs; the industry is under price pressure and consolidations are occurring. The need for technical services in this environment is reduced for certain types of services, but increased for others. There is increased competition from foreign firms who have exchange rate differentials that provide them a competitive advantage in provision of certain services. Our photochemical recycling segment operates in the photowaste hauling and disposal industry. A few large service companies and a few smaller regional companies characterize this industry. Expansion into international markets will also bring direct competition from foreign firms. The photochemical recycling segment also operates in the fertilizer industry. The fertilizer market consists of "Specialty Agriculture Market", the "Bulk Field Crop Market", and the "Urban Fertilizer Market". We are currently concentrating on increasing bulk GOLD'n GRO fertilizer sales, primarily in the Specialty Agriculture and the Bulk Field Crops markets. The fertilizer markets are mature and dominated by a few large manufacturers and distributors. The western U.S. distributor for the GOLD'n GRO fertilizers is one of these companies. Because the markets are mature, the rate of growth to be achieved when introducing new products is uncertain because of the need to displace existing products.

Our markets are not characterized by rapid technological change. These industries are characterized by the need to make large capital investments in order to be participants. This limits the rate of technological change and makes it more difficult for entry by new competitors. Prior to our photochemical recycling technology development, the recovery and disposal of hazardous photochemical waste was characterized by low or limited technology and consisted primarily of hauling and dumping the chemical for a fee. Most of the existing companies recover and sell a portion of the contained silver. The main risk is price fluctuations in the silver market.

The fertilizer industry is stable and new product development and introduction is a long-term process. The reason is that crops grow on seasonal cycles and crop nutrition is complex and affected by many factors. It takes years to develop a new fertilizer product due to the complexity of the plant nutrition process. Because of this, innovation in the fertilizer nutrient product market is low. Now that some of our products and nutrition programs are being introduced into the marketplace, there is no assurance that we will be able to maintain our product development lead if companies with larger resources decide to attempt to produce products that duplicate some of the characteristics of our products.

Our Success is Dependant Upon Regulatory Enforcement of the Waste Control Environment.

Regulatory enforcement of the waste control environment is critical to our competitive position by making it more difficult for service companies with minimal compliance to operate and offer lower pricing. Generally, all 50 states continue to strengthen their regulatory enforcement but our competitive position in obtaining liquid photowastes, the basic process raw material, is somewhat dependent on the continuation of regulations and regulatory enforcement.

Similar regulatory enforcement may not be available to us to aid in establishing and developing our international operations.

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Our Success is Dependant Upon Our Ability to Adequately Protect Our Trade Secrets, Know-How, and Trademarks.

We own the Itronics logo and name pursuant to common law and “GOLD’N GRO” is a registered trademark. We rely for protection of our intellectual property on trade secret law and nondisclosure and confidentiality agreements with our employees and others. There can be no assurance that such agreements will provide meaningful protection for our trade secrets or proprietary know-how in the event of any unauthorized use or disclosure of such trade secrets or know-how. In addition, others may obtain access to or independently develop technologies or know-how similar to ours.

Our success will also depend on our ability to avoid infringement of patent or other proprietary rights of others. We are not aware that we are infringing any patent or other such rights, nor are we aware of proprietary rights of others for which we will be required to obtain a license in order to develop our products. However, there can be no assurance that we are not infringing proprietary rights of others, or that we will be able to obtain any technology licenses we may require in the future.

We Are Refocusing Our Technical Services Segment to Include an Internet Information Portal to Support That Division. We Do Not Know If, or How Long, It Will Be Before Revenue Will Sustain Current Spending Levels. Additional Substantial Losses Could Occur.

The redirection of Whitney & Whitney, Inc. to reduce emphasis on technical consulting services and to launch an Internet information portal was 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. The main risk in establishing the information portal is the length of time and the related support costs that will be expended during the time needed to get subscriptions to a break- even level.

We do not know if, or how long, it will be before revenue will sustain current spending levels. If it takes a long period of time to develop our Internet information portal and if we expend substantial support costs with respect to such reconfiguration without realizing any revenues related thereto, additional substantial losses could occur.

Any Future Acquisitions Could Disrupt Our Existing Business and Harm Our Financial Position.

An element of our growth strategy includes the acquisition of companies which we believe have synergistic business models. Acquisitions entail a number of risks that could materially and adversely affect business and operating results. Such risks would include problems integrating the acquired operations, technologies or products; diversion of management's time and attention from core businesses; difficulties in retaining business relations with suppliers and customers of the acquired company; risks associated with entering markets in which our management lacks prior experience, and potential loss of key employees from the acquired company.

A Substantial Portion of Our Accounts Receivables Are Due From Western Farm Service, Inc. (WFS)

As of September 30, 2006, \$44,390, or 83% of our total accounts receivables were due to us from WFS. This percentage may fluctuate up or down depending on the time of year. For example, as of December 31, 2005, this percentage was zero. If WFS became unable or unwilling to pay the amounts due, it would have a material negative effect on our liquidity.

There Are a Large Number of Shares Underlying Our Secured Convertible Notes and Warrants That May be Available for Future Sale and the Sale of These Shares May Depress the Market Price of Our Common Stock.

As of November 14, 2006, we had 269,415,930 shares of common stock issued and outstanding, 6,849,661 common shares to be issued to management and other employees for unpaid salary and accrued interest in the amount of \$552,230, outstanding warrants and options to purchase 65,546,501 shares of common stock at exercise prices ranging from \$0.04 to \$0.50 (including outstanding compensatory options to purchase 6,322,000 shares of common stock at exercise prices ranging from \$0.15 to \$0.50 per share). We also have secured convertible notes outstanding, with a principal balance of \$3,323,716, that may be converted into an estimated 366,249,697 shares of common stock at current market prices on November 14, 2006. In addition, the number of shares of common stock issuable upon conversion of the outstanding secured convertible notes may increase if the market price of our stock declines. All of the shares, including all of the shares issuable upon conversion of the secured convertible notes and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

The Continuously Adjustable Conversion Price Feature of Our Secured Convertible Notes Could Require Us to Issue a Substantially Greater Number of Shares, Which Will Cause Dilution to Our Existing Stockholders.

Our obligation to issue shares upon conversion of our secured convertible notes is essentially limitless. The following is an example of the amount of shares of our common stock that are issuable, upon conversion of the principal amount of our secured convertible notes (\$3,323,716 as of November 14, 2006), based on market prices 25%, 50% and 75% below the closing market price as of November 14, 2006 of \$0.02.

% Below Market	Price Per Share	With Discount at 45%	Number of Shares Issuable	% of Outstanding Stock
25%	\$	0.015	\$	0.00825