

ITRONICS INC
Form 10QSB
May 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2007,

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File Number 33-18582

ITRONICS INC.

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

TEXAS

75-2198369

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

incorporation or organization)

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

(Address of principal executive offices)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements during the past 90 days. Yes (x) No ().

APPLICABLE ONLY TO CORPORATE ISSUERS

As of April 30, 2007, 374,467,231 shares of common stock were outstanding.

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

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ITRONICS INC. AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ITRONICS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2007 AND DECEMBER 31, 2006
(UNAUDITED)

ASSETS

| March 31, | December 31, |
|-------------|--------------|
| <u>2007</u> | <u>2006</u> |

CURRENT ASSETS

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| | | |
|--|------------|-----------|
| Cash | \$ 406,790 | \$ - |
| Accounts receivable, less allowance for doubtful accounts, 2007, \$4,600; 2006, \$4,600 | 119,708 | 36,493 |
| Marketable securities, available for sale | 140,600 | - |
| Inventories | 638,491 | 548,399 |
| Prepaid expenses | 292,060 | 316,872 |
| Total Current Assets | 1,597,649 | 901,764 |
| PROPERTY AND EQUIPMENT | | |
| Land | 215,000 | 215,000 |
| Building and improvements | 1,312,409 | 1,167,315 |
| Design and construction in progress, manufacturing facility | 60,703 | 234,347 |
| Equipment and furniture | 2,872,645 | 2,543,682 |
| Vehicles | 200,557 | 200,557 |
| Equipment under capital lease-equipment and furniture | 466,571 | 692,438 |
| Equipment under capital lease-vehicles | 21,741 | 21,741 |
| | 5,149,626 | 5,075,080 |
| Less: Accumulated depreciation and amortization | 2,183,771 | 2,131,542 |
| Total Property and Equipment | 2,965,855 | 2,943,538 |
| OTHER ASSETS | | |
| Intangibles | 76,500 | 76,500 |
| Deferred loan fees, less accumulated amortization 2007, \$373,442; 2006, \$328,120 | 360,307 | 335,629 |
| Deposits | 8,108 | 8,108 |

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| | | |
|--------------------|-------------|-------------|
| Total Other Assets | 444,915 | 420,237 |
| | \$5,008,419 | \$4,265,539 |

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LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

| | March 31, | December 31, |
|--|-------------|--------------|
| | <u>2007</u> | <u>2006</u> |
| CURRENT LIABILITIES | | |
| Bank overdraft | \$ - | \$ 13,834 |
| Accounts payable | 450,087 | 521,188 |
| Accrued management salaries | 862,173 | 799,948 |
| Accrued expenses | 201,699 | 206,830 |
| Insurance contracts payable | 29,236 | 12,597 |
| Interest payable to officer/stockholders | 123,732 | 87,211 |
| Interest payable, long-term debt and lease obligations | 203,733 | 202,366 |
| Current maturities of long-term debt | 45,987 | 45,065 |
| Current maturities of capital lease obligations | 353,071 | 389,032 |
| Advances from stockholder | 161,525 | 161,525 |
| Current maturities of capital lease due stockholder | 1,741 | 3,333 |
| Current maturities of convertible notes and accrued interest | 3,399,966 | 3,304,027 |
| Convertible debt derivatives | 4,608,256 | 4,876,175 |
| Warrant and option liability | 1,464,150 | 380,083 |
| Other | 101,891 | 38,166 |
| Total Current Liabilities | 12,007,247 | 11,041,380 |

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LONG-TERM LIABILITIES

| | | |
|--|------------|------------|
| Long-term debt, less current maturities | 495,096 | 504,131 |
| Capital lease obligations, less current maturities | 139,797 | 149,533 |
| Total Long-Term Liabilities | 634,893 | 653,664 |
| Commitments and Contingencies | - | - |
| Total Liabilities | 12,642,140 | 11,695,044 |

STOCKHOLDERS' EQUITY (DEFICIT)

| | | |
|--|--------------|--------------|
| Preferred stock, par value \$0.001 per share; authorized 999,500 shares; issued and outstanding 2007, 0 shares; 2006, 0 shares | - | - |
| Common stock, par value \$0.001 per share; authorized 1,000,000,000 shares; issued and outstanding, 368,705,921 at March 31, 2007; 337,581,957 at December 31, 2006 | 368,706 | 337,582 |
| Additional paid-in capital | 23,550,792 | 23,305,788 |
| Accumulated deficit | (32,129,821) | (31,661,456) |
| Common stock to be issued | 568,654 | 583,868 |
| Accumulated other comprehensive income | 2,247 | - |
| Common stock options outstanding, net | 5,701 | 4,713 |
| Total Stockholders Equity (Deficit) | (7,633,721) | (7,429,505) |
| | \$ 5,008,419 | \$ 4,265,539 |

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

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ITRONICS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(UNAUDITED)

| | Three Months Ended March 31, | |
|---|------------------------------|-------------|
| REVENUES | <u>2007</u> | <u>2006</u> |
| Photochemical fertilizer | \$ 531,234 | \$331,811 |
| Mining technical services | 4,953 | 20,451 |
| Total Revenues | 536,187 | 352,262 |
| | | |
| COST OF REVENUES (exclusive of depreciation and | | |
| amortization shown separately below) | | |
| Photochemical fertilizer | 511,871 | 343,218 |
| Mining technical services | 8,063 | 15,809 |
| Total Cost of Revenues | 519,934 | 359,027 |
| | | |
| Gross Profit (Loss) (exclusive of | | |
| depreciation and amortization shown | | |
| separately below) | | |
| | 16,253 | (6,765) |
| | | |
| OPERATING EXPENSES | | |
| Depreciation and amortization | 52,229 | 56,514 |
| Research and development | 97,282 | 72,376 |
| Sales and marketing | 277,211 | 186,025 |
| Delivery and warehousing | 24,916 | 17,557 |

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| | | |
|--|-------------|-------------|
| General and administrative | 234,652 | 219,160 |
| Total Operating Expenses | 686,290 | 551,632 |
| Operating Loss | (670,037) | (558,397) |
| OTHER INCOME (EXPENSE) | | |
| Interest | (285,008) | (281,299) |
| Gain on derivative instruments | 142,389 | 506,269 |
| Gain on sale of investments | 344,291 | 54,231 |
| Total Other Income (Expense) | 201,672 | 279,201 |
| (Loss) before provision for income tax | (468,365) | (279,196) |
| Provision for income tax | - | - |
| Net Loss | (468,365) | (279,196) |
| Other comprehensive income | | |
| Unrealized gains (losses) on securities | 2,247 | 87,672 |
| Comprehensive Loss | \$(466,118) | \$(191,524) |
| Weighted average number of shares outstanding, | | |
| basic and diluted | 358,591 | 198,959 |
| Loss per share, basic and diluted | \$(0.001) | \$(0.001) |

The accompanying notes are an integral part of these financial statements

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ITRONICS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND THE YEAR ENDED DECEMBER 31, 2006

(UNAUDITED)

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| | <u>COMMON STOCK</u> | | | | COMMON | ACCUMULATED |
|-------------------------|---------------------|---------------|----------------|----------------|---------------|---------------|
| | NUMBER | | ADDITIONAL | | STOCK | OTHER |
| | OF | | | | TO | |
| | SHARES | | PAID-IN | ACCUMULATED | BE | COMPREHENSIVE |
| | <u>(1,000_s)</u> | <u>AMOUNT</u> | <u>CAPITAL</u> | <u>DEFICIT</u> | <u>ISSUED</u> | <u>INCOME</u> |
| Balance, Dec. 31, 2005 | 197,148 | \$197,148 | \$21,646,307 | \$(27,851,571) | \$573,993 | \$(39,889) |
| Issue of common stock: | | | | | | |
| For cash | 100 | 100 | 7,400 | - | - | - |
| For services | 24,350 | 24,350 | 412,703 | - | (3,725) | - |
| For debt conversion | 108,723 | 108,723 | 1,114,839 | - | 13,600 | - |
| For asset acquisition | 7,261 | 7,261 | 124,539 | - | - | - |
| Net (loss) for the year | | | | | | |
| ended Dec. 31, 2006 | - | - | - | (3,809,885) | - | - |
| Other comprehensive | | | | | | |
| income for the year | | | | | | |
| ended Dec. 31, 2006 | - | - | - | - | - | 39,889 |
| Common stock options | | | | | | |
| outstanding | - | - | - | - | - | - |
| Balance, Dec. 31, 2006 | 337,582 | 337,582 | 23,305,788 | (31,661,456) | 583,868 | - |
| Issue of common stock | | | | | | |
| For services | 6,614 | 6,614 | 100,371 | - | (1,614) | - |
| For debt conversion | 21,155 | 21,155 | 101,252 | - | (13,600) | - |
| | 3,355 | 3,355 | 43,381 | - | - | - |

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For asset
acquisition

Net (loss) for
the

three months
ended

March 31,
2007

- - - (468,365) - -

Other
comprehensive

income for
the three

months ended
March 31,

2007 - - - - - 2,247

Common stock
options

outstanding

- - - - -

Balance, Mar.
31, 2007

368,706 \$368,706 \$23,550,792 \$(32,129,821) \$568,654 \$ 2,247

The accompanying notes are an integral part of these financial statements

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ITRONICS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(UNAUDITED)

Three Months Ended Mar. 31,

2007

2006

Cash flows from operating activities

Net loss \$(468,365) \$(279,196)

Adjustments to reconcile net loss to

cash used by operating activities:

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| | | |
|--|-----------|-----------|
| Depreciation and amortization | 97,551 | 116,162 |
| Interest on convertible notes | 163,283 | 139,543 |
| Gain on change in fair value of derivative instruments | (142,389) | (506,269) |
| Gain on sale of investments | (344,291) | (54,231) |
| Addition of silver in solution inventory by offsetting photochemical processing fees | (66,354) | (8,095) |
| Stock option compensation | 988 | 2,673 |
| Expenses paid with issuance of common stock: | | |
| Consulting expenses | 84,367 | 9,735 |
| Director fees | 7,388 | 450 |
| Salaries | 72,737 | 750 |
| (Increase) decrease in: | | |
| Trade accounts receivable | (83,215) | (130,099) |
| Inventories | (23,738) | (89,382) |
| Prepaid expenses, deposits and other | (34,307) | (16,784) |
| Increase (decrease) in: | | |
| Accounts payable | (71,103) | 16,053 |
| Accrued management salaries | 62,225 | 38,294 |
| Accrued expenses and contracts payable | 113,121 | (48,358) |
| Net cash used by operating activities | (632,102) | (808,754) |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (27,810) | (3,345) |
| Sale of investments | 205,938 | 144,329 |

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| | | |
|--|------------|------------|
| Net cash provided by investing activities | 178,128 | 140,984 |
| Cash flows from financing activities: | | |
| Proceeds from sale of stock | - | 7,500 |
| Proceeds from officer/stockholder advances | 8,000 | 10,212 |
| Proceeds from debt | 990,000 | 982,500 |
| Debt issuance costs | (60,000) | (118,735) |
| Payments on debt | (63,402) | (66,300) |
| Net cash provided by financing activities | 874,598 | 815,177 |
| Net increase in cash | 420,624 | 147,407 |
| Cash, beginning of period | (13,834) | 24,260 |
| Cash, end of period | \$ 406,790 | \$ 171,667 |

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

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ITRONICS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006
(UNAUDITED)
(continued)

| | Three Months Ended Mar. 31, | |
|--|-----------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Supplemental Disclosures of Cash Flow | | |
| Information: | | |
| Cash paid during the period for interest | \$ 38,515 | \$ 86,703 |

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Non-cash financing and investing activities:

| | | |
|---|---------|---------|
| Marketable securities received for sale of investment | 138,353 | - |
| Common stock issued to settle: | | |
| Convertible notes | 108,807 | 181,686 |
| Acquisition of assets by issuance of common stock: | | |
| Equipment | 46,736 | - |
| Warrants issued for debt issuance costs | - | 17,594 |
| Amounts withheld from proceeds of debt, unrelated: | | |
| Deferred loan costs | 10,000 | 17,500 |

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

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(UNAUDITED)

1. The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and disclosures required by U.S. Generally Accepted Accounting Principles. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's Form 10-KSB for the year ended December 31, 2006. These financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly state the results for the interim periods reported. Certain amounts from the prior period have been reclassified to be consistent with the current period presentation.

2. The Company's consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company and its subsidiaries have reported recurring losses from operations, including a net loss of \$468,365 during the three months ended March 31, 2007, a working capital deficit of \$10,409,598, and a stockholders' deficit balance of \$7,633,721 as of March 31, 2007. These factors indicate the Company and its subsidiaries' ability to continue in existence is dependent upon their ability to obtain additional long-term debt and/or equity financing and achieve profitable operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company and its subsidiaries be unable to continue in existence. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year.

3. In January and March 2007 the Company entered into two callable secured convertible debt financings (the "Notes") for a total of \$1,000,000 from the same investors as previous callable secured debt financings in 2005 and 2006. The Notes have a three year term, an interest rate of 6% per annum, and are accompanied by a Registration Rights Agreement. The Company received net proceeds of \$990,000 from the Notes and issued a total of 40,000,000 seven year warrants at an exercise price of \$0.01 per share.

The Notes are convertible into common stock 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 and are further secured by 14,550,558 common shares of the Company which are owned by an officer/stockholder.

The Notes have an additional provision that the Company may redeem the debt prior to maturity by paying all outstanding balances plus a 50% prepayment penalty.

The face value of all the callable secured convertible notes and accrued interest was \$4,150,295 and \$3,191,759 as of March 31, 2007 and December 31, 2006, respectively.

The Notes are potentially convertible into an unlimited number of shares of common stock. Accordingly, the Company has accounted for the Notes under SFAS 133, EITF 00-19 and DIG's B38 and B39 which require the beneficial conversion

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(UNAUDITED)

features and the prepayment penalties of each of the Notes to be treated as embedded derivatives, to be recorded as a collective liability equal to the estimated fair value of the embedded derivatives. The Notes were convertible into 383,694,456 and 586,181,548 common shares at March 31, 2007 and December 31, 2006, respectively, and the conversion and prepayment features had estimated fair values of \$4,608,256 and \$4,876,175, at March 31, 2007 and December 31, 2006, respectively. The fair value of the conversion features and the prepayment penalties were estimated using the Black-Scholes option pricing model and taking a weighted average value based on certain probabilities that the debt would be converted and paid off prior to maturity at specified dates. The estimated fair value of the conversion features and prepayment penalties exceeded the carrying value of the Notes and the change in this excess amount for each reporting period is recorded as a gain or loss on derivative instruments in the Condensed Consolidated Statements of Operations. 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.

In addition, all non-employee warrants and options that are exercisable during the period in which the Notes are outstanding are required to be recorded as liabilities at their fair value. Non-employee warrants and options to acquire a total of 93,697,001 and 58,599,501 common shares were outstanding at March 31, 2007 and December 31, 2006, respectively, and had estimated fair values of \$1,464,150 and \$380,083 at March 31, 2007 and December 31, 2006, respectively.

Assumptions used to value these instruments included assuming the Notes would be converted to common stock in equal amounts on a monthly basis, beginning July 2007, 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 91% and 107% for March 31, 2007 and 87% to 109% for December 31, 2006, and using risk free interest rates ranging from 4.54% to 5.07% for March 31, 2007 and 4.625% to 4.75% for December 31, 2006.

During the period of January 1, 2007 to March 31, 2007, the Noteholders converted a total of \$108,807 of the Notes into 19.1 million common shares.

In connection with the above described Notes, the Company entered into Registration Rights Agreements (the "Agreements") with the Noteholders, whereby the Company has agreed to use its best efforts to file, and have declared effective, registration statements with the Securities and Exchange Commission (SEC) within a specified number of days from the date of the Notes. The Company is required under the Agreements to register a number of shares no less than 2 times the number of shares required to convert all the convertible Notes. Each of the Notes have three year terms and the last Notes were issued on March 7, 2007.

These arrangements are classified as registration payment arrangements under FSP EITF 00-19-2. This new standard became effective for the first quarter of 2007 and requires the Company to evaluate the probability of incurring penalties related to non-performance of the requirements of the

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(UNAUDITED)

Agreements. The Agreements provide for a penalty of 2% per month of the outstanding principal balance of the Notes if various provisions of the Agreements are not met, which amounted to \$77,496 as of March 31, 2007. The penalties accrue for as long as the terms of the Agreements are not met. At the Company's election, the penalties may be settled in either cash or in the Company's common stock priced at the Conversion Price as defined in the Notes. As of March 31, 2007 our evaluation of the Agreements and the penalty provisions determined that the probability of incurring the penalties is remote, and accordingly, no amount for these penalties has been accrued.

4.

As of March 31, 2007 we have accrued for liabilities, including interest, of \$543,125 which relate to various lawsuits and claims for the collection of the funds due. These include 8 leases totaling \$381,858 (reflected in Capital Lease Obligations) plus \$51,035 in additional interest (reflected in Accrued Interest) and one trade payable totaling \$85,801 (reflected in Accounts Payable) plus \$24,431 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 three cases that are seeking \$251,522, which we believe are probable. The creditors have received judgments in 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.

The Company has a total of two cases, that originally sought \$171,853, that we deem to have a remote possibility of incurring an additional unrecorded

loss. The Company has negotiated payment agreements on these cases and, as of March 31, 2007, the recorded liability for these cases was \$178,628. We are current in our payments 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 \$198,620, that are in default. 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.

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. We are not 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(UNAUDITED)

5. In the first quarter of 2006 all of the Series 2000 Convertible Promissory Notes became due and are now in default. The total principal and interest due at March 31, 2007 is \$3,399,966. The Company is formulating a plan to seek extensions of these notes and has recorded these notes as current liabilities. No collection action has been taken to date.

6. Following is a summary of finished goods, work in progress, and raw materials inventories as of March 31, 2007 and December 31, 2006. The raw material and work in progress balances below include \$459,778 and \$405,631 in silver bearing unprocessed photochemicals or partially processed materials as of March 31, 2007 and December 31, 2006, respectively.

| | <u>Mar. 31,</u> | <u>Dec. 31,</u> |
|------------------|-----------------|-----------------|
| | <u>2007</u> | <u>2006</u> |
| Finished goods | \$ 51,602 | \$ 19,275 |
| Work in progress | 367,271 | 340,594 |

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| | | |
|---|-----------|-----------|
| Raw materials | 323,779 | 292,691 |
| | 742,652 | 652,560 |
| Less: Silver recoverability and slow moving reserves | 104,161 | 104,161 |
| Net Inventory | \$638,491 | \$548,399 |

7. The Company has outstanding three categories of warrants and options that may be exercised to acquire common stock; these include warrants, convertible debt options, and employee options. The following table summarizes warrant and option activity for the period January 1, 2006 through March 31, 2007:

| | <u>Warrants</u> | <u>Convertible Debt Options</u> | <u>Employee Options</u> | <u>Total</u> |
|---------------------------------|-----------------|-------------------------------------|-----------------------------|---------------|
| Under option, December 31, 2005 | 27,313,260 | 134,823,379 | 6,108,000 | 168,244,639 |
| Granted | 41,496,924 | 584,810,362 | 226,000 | 626,533,286 |
| Exercised | (100,000) | (111,222,642) | - | (111,322,642) |
| Expired/Adjusted | (10,110,683) | (22,229,551) | (12,000) | (32,352,234) |
| Under option, December 31, 2006 | 58,599,501 | 586,181,548 | 6,322,000 | 651,103,049 |
| Granted | 40,000,000 | - | 80,000 | 40,080,000 |
| Exercised | - | (19,103,320) | - | (19,103,320) |
| Expired/Adjusted | (4,902,500) | (183,383,772) | - | (188,286,272) |
| Under option, March 31, 2007 | 93,697,001 | 383,694,456 | 6,402,000 | 483,793,457 |

The average price for all warrants and options granted and exercised was \$0.0088 for the three months ended March 31, 2007 and \$0.0146 for the year ended December 31, 2006.

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MARCH 31, 2007

(UNAUDITED)

The 183,383,772 in expired/adjusted convertible debt options in 2007 listed above is related to the callable secured convertible debt discussed in Note 3 above. This number of shares represents a net reduction in the total number of shares needed to convert all of the callable secured convertible debt and accrued interest into common stock due to an increase in the calculated conversion price of our stock at March 31, 2007 compared to the price at December 31, 2006. As the Company's common stock is highly volatile, the number of shares needed to convert the debt can vary materially up or down depending on the Company's stock price at any point in time.

The 22,229,551 in expired/adjusted convertible debt options in 2006 listed above is related to the 2000 Series Convertible Promissory Notes discussed in Note 5 above. If the Company is successful in negotiating extensions of these notes, the convertible options may be renewed and the eventual number of potential options could be significantly higher than the amount that was adjusted.

The following table summarizes the warrants and options outstanding as of March 31, 2007:

| <u>Expiration Dates</u> | <u>No. of Shares</u> | <u>Exercise Price</u> | <u>Weighted Average Exercise Price</u> |
|----------------------------------|--------------------------|---------------------------|--|
| <u>Warrants:</u> | | | |
| January to March 2014 | 40,000,000 | \$0.010 | |
| November 2013 | 20,000,000 | 0.040 | |
| July 2013 | 20,000,000 | 0.050 | |
| March 2010 | 1,000,000 | 0.100 | |
| June 2008 | 100,000 | 0.150 | |
| July 2010 to February 2011 | 3,740,001 | 0.150 | |
| January to March 2008 | 5,625,000 | 0.225 | |
| April to December 2007 | 3,232,000 | 0.375 | |
| Total Warrants | 93,697,001 | | \$0.0571 |
| <u>Convertible Debt Options:</u> | | | |
| August 2008 to March 2010 | 383,694,456 | \$0.0108 | \$0.0108 |

Employee Options:

| | | | |
|--------------------------------|-------------|---------|----------|
| August 2007 to February 2017 | 435,000 | \$0.150 | |
| One year after employment ends | 1,600,000 | 0.150 | |
| October 2007 | 250,000 | 0.200 | |
| January 2015 to February 2017 | 100,000 | 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 | 17,000 | 0.500 | |
| Total Employee Options | 6,402,000 | | \$0.2396 |
| Total Warrants and Options | 483,793,457 | | \$0.0228 |

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(UNAUDITED)

The 383,694,456 convertible debt options listed above relate to the callable secured convertible debt discussed in Note 3 above. As of March 31, 2007 \$4,150,295 of principal and accrued interest were convertible into common stock at the lower of \$0.10 per share or 55% of a calculated market price. Consequently, the number of shares and the conversion price can vary up or down materially, depending on the Company's stock price at any point in time.

8. 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 the three months ended March 31, 2007 and 2006. For purposes of computing diluted income per share, common stock equivalents are excluded for periods with net losses 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 three months ended March 31, 2007 and 2006.

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| | Three months Ended March 31, | |
|---|------------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Net Loss | \$(468,365) | \$(279,196) |
| Less: Preferred stock dividends | - | - |
| Basic and diluted EPS loss available to common stockholders | \$(468,365) | \$(468,365) |
| Weighted average number of shares outstanding (1,000 s) | 358,591 | 198,959 |
| Common equivalent shares (1,000 s) | N/A | N/A |
| Diluted average number of shares outstanding (1,000 s) | 358,591 | 198,959 |
| Loss Per share amount -basic | \$(0.001) | \$(0.001) |
| Loss Per share amount- diluted | \$(0.001) | \$(0.001) |

Warrants, options, and shares to be issued, totaling 491,740,285 and 181,321,159 shares as of March 31, 2007 and 2006, respectively, would dilute

EPS, and accordingly are not included in the computation of EPS.

9. The Company adopted the provisions of SFAS 123R, *Share-Based Payments*, on January 1, 2006. Accordingly, compensation costs for all share-based awards to employees are measured based on the grant date fair value of those awards and recognized over the period during which the employee is required to perform

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(UNAUDITED)

service in exchange for the award (generally over the vesting period of the award). We have no awards with market or

performance conditions. Effective January 1, 2006 and for all periods subsequent to that date, SFAS 123R supersedes our previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

Total estimated share-based compensation expense recognized under SFAS 123R for the three months ended March 31, 2007 and 2006 was \$988 and \$2,673, respectively, and is included in general and administrative expenses.

10. Following is financial information for each of the Company's segments. No changes have occurred in the basis of segmentation since December 31, 2006.

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

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(UNAUDITED)

| | Three Months Ended March 31, | |
|---------------------------|------------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Revenues: | | |
| Photochemical Fertilizer | \$531,234 | \$331,811 |
| Mining Technical Services | 4,953 | 20,451 |
| Consolidated Revenues | \$536,187 | \$352,262 |
| Gross Profit (Loss): | | |
| Photochemical Fertilizer | \$19,363 | \$(11,407) |
| Mining Technical Services | (3,110) | 4,642 |

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| | | |
|---------------------------|-------------|-------------|
| Consolidated Gross Profit | | |
| (Loss) | \$16,253 | \$(6,765) |
| Operating Loss: | | |
| Photochemical Fertilizer | \$(490,069) | \$(443,638) |
| Mining Technical Services | (179,968) | (114,759) |
| Consolidated Operating | | |
| Loss | \$(670,037) | \$(558,397) |
| Other Income (Expense): | | |
| Photochemical Fertilizer | \$ 63,319 | \$ 224,970 |
| Mining Technical Services | 138,353 | 54,231 |
| Consolidated Other Income | | |
| (Expense) | \$201,672 | \$279,201 |
| Net Loss before taxes: | | |
| Photochemical Fertilizer | \$(426,750) | \$(218,668) |
| Mining Technical Services | (41,615) | (60,528) |
| Consolidated Net Loss | | |
| Before Taxes | \$(468,365) | \$(279,196) |

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(UNAUDITED)

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

| | March 31, | December 31, |
|---------------------------------|--------------|--------------|
| | <u>2007</u> | <u>2006</u> |
| Current Assets: | | |
| GOLD n GRO Fertilizer | \$ 1,230,107 | \$ 638,562 |
| Mining Technical Services | 133,716 | 4,304 |
| | 1,363,823 | 642,866 |
| Property and Equipment, net: | | |
| GOLD n GRO Fertilizer | 2,873,398 | 2,857,051 |
| Mining Technical Services | 92,457 | 86,487 |
| | 2,965,855 | 2,943,538 |
| Other Assets, net: | | |
| GOLD n GRO Fertilizer | 110,760 | 111,573 |
| Mining Technical Services | 3,483 | 3,483 |
| | 114,243 | 115,056 |
| Total Assets: | | |
| GOLD n GRO Fertilizer | 4,214,265 | 3,607,186 |
| Mining Technical Services | 229,656 | 94,274 |
| Total Segment Assets | 4,443,921 | 3,701,460 |
| Itronics Inc. assets | 27,894,598 | 27,028,313 |
| Less: inter-company elimination | (27,330,100) | (26,464,234) |
| Consolidated Assets | \$ 5,008,419 | \$4,265,539 |

11. The Company holds marketable securities that are available for sale, which consist solely of equity securities. The carrying amount on the balance sheets of these securities is adjusted to fair value at each balance sheet date. The adjustment to fair value is an unrealized holding gain or loss that is reported in Other Comprehensive Income. At present, these unrealized gains or losses are the only component of Accumulated and Other Comprehensive Income. The Company had Accumulated Unrealized Holding Gains of \$2,247 at March 31, 2007 and \$-0- at December 31, 2006. No gains were reclassified out of accumulated other comprehensive income into earnings during the three months ended March 31, 2006. The table below illustrates the amount of unrealized holding gains and losses included in other comprehensive income, net of tax effects of \$0. The reclassification adjustment listed in the below table represents unrealized holding gains and losses transferred into earnings as securities are sold.

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ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(UNAUDITED)

Following are the components of Other Comprehensive Income:

| | <u>Three Months Ended Mar. 31.</u> | |
|-----------------------------|------------------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Unrealized holding gains | | |
| arising during the period | \$ 2,247 | \$58,623 |
| Reclassification adjustment | - | 29,049 |
| Other Comprehensive Income | \$ 2,247 | \$87,672 |

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

:

| Three Months Ended | |
|--------------------|-------------|
| March 31, | |
| <u>2007</u> | <u>2006</u> |

| | | |
|--|------|------------|
| Gross proceeds from sale of securities | \$ - | \$ 144,329 |
| Gross gains from sale of securities | \$ - | \$ 54,231 |
| Gross losses from sale of securities | - | - |
| Net Gains from Sale of Securities | \$ - | \$ 54,231 |

12. In February 2007 the Company exchanged its membership interest in its worker's compensation mutual insurance company for \$205,938 cash and \$138,353 in marketable securities of a New York Stock Exchange traded stock insurance company. The total of \$344,291 is reported as a gain on sale of investments in the Condensed Consolidated Statements of Operations.

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

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

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

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

Results of Operations

We reported consolidated revenues of \$536,187 for the quarter ended March 31, 2007, compared to \$352,262 for the prior year quarter, an increase of 52%. The increase was due to an increase in GOLD n GRO Fertilizer segment revenue of \$199,400, or 60%, which was partially offset by a decrease of \$15,500 in Mining Technical Services segment revenues, a decrease of 76%. The consolidated net loss was \$468,365, or \$0.001 per share, for the quarter ended March 31, 2007, compared to a net loss of \$279,196 or \$0.001 per share for the comparable 2006 period, an increased loss of \$189,200.

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

GOLD n GRO FERTILIZER

| | Three months Ended March 31, | |
|--------------------------------|------------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Revenues | | |
| Fertilizer | \$ 417,055 | \$ 240,069 |
| Photochemical recycling | 45,332 | 19,397 |
| Silver | 68,847 | 72,345 |
| Total Revenue | 531,234 | 331,811 |
| Gross profit (loss) | 19,363 | (11,407) |
| Operating income (loss) | (490,069) | (443,638) |
| Other income (loss) | 63,319 | 224,970 |
| Net income (loss) before taxes | (426,750) | (218,668) |

Total segment revenues for the first quarter of 2007 were approximately \$531,200, an increase of 60% from the prior year first quarter. Total fertilizer sales for the quarter were \$417,100 (480 tons), compared to \$240,100 (330 tons) for the 2006 first quarter, an increase of 74% in dollars and an increase of 46% in tonnage. Sales of bulk Chelated Liquid Micro-nutrients were

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\$357,500 (374 tons) and \$202,800 (246 tons) for the first quarter of 2007 and 2006, respectively, an increase of 76% in dollars and an increase of 52% in tonnage. Sales of bulk Chelated Liquid Multi-nutrients were \$43,800 (107 tons) and \$32,300 (84 tons) for the first quarter of 2007 and 2006, respectively, an increase of 35% in dollars and 27% in tonnage. The overall increase was due to a combination of price increases of the GOLD n GRO fertilizers, sale of a greater volume of products in all categories, and a shift in sales efforts toward higher value products. Total photochemical recycling revenue for the quarter increased \$25,900, or 134%, on an increased volume of 385% due to the addition of two new wholesale customers in the fourth quarter of 2006. Silver sales were \$68,800 (5,022 ounces) for the quarter, compared to \$72,300 (6,789 ounces) for the prior year first quarter, a decrease of 5% in dollars and 26% in ounces. The decrease is due to a shutdown of the refinery for more than one month while installation of an air purification system was completed. The refinery was operational again in mid-March 2007.

Cost of sales increased \$168,700 due primarily to increases in raw material costs of \$126,400 related to increased sales and payroll and related benefits of \$21,300 related to the increase in photochemical recycling volume and fertilizer sales. The segment recorded a gross profit of \$19,400 for the quarter, compared to a gross loss of \$11,400 for the first quarter of 2006, an improvement of \$30,800.

We are continuing our efforts on sales of Photochemical Silver Concentrators in order to provide a long term base of

used photochemical supply. In March 2007 we received a deposit on a Photochemical Silver Concentrator and expect to deliver it late second quarter or early third quarter 2007. We also are now aggressively seeking new large scale photochemical recycling customers, and between August 2006 and April 2007, we obtained three new significant wholesale customers. As a result of these new customers, we expect the rate of growth in sales volume will be significantly greater than the rate of growth in sales dollars. The addition of these customers is expected to increase photochemical raw material (on an unconcentrated basis) up to 400% greater than the volume in 2006.

We have also initiated discussions with other large scale potential customers. We anticipate that the new customers, along with our existing suppliers, will provide sufficient raw material for fertilizer production into the spring 2008 fertilizer season. If we are successful in gaining some of the other potential customers, we expect raw material needs to be met well into the future.

Segment operating expenses increased \$77,200 from the first quarter of 2006. This was primarily from increases in research and development costs of \$13,800 related to EPA registration of the GOLD n GRO Guardian and research on application of GOLD n GRO fertilizers on corn, and \$55,500 in sales and marketing expenses related to increased corporate marketing and the addition of a part time agronomist to the staff in May 2006.

These factors resulted in a 2007 first quarter segment operating loss of \$490,100 compared to a loss of \$443,600 for the first quarter of 2006, an increased operating loss of \$46,400, or 10%.

Other income was \$63,300 for the quarter, compared to \$225,000 for the 2006 first quarter, a decreased other income of \$161,700. The decrease in other income is due to a reduction in gain on derivative instruments of \$363,900, which was partially offset by a gain of \$205,900 from

the sale of a membership interest in the Company's worker's compensation mutual insurance company. The gain or loss on derivatives is calculated each quarter and is subject to material changes, either up or down, based on changes in our stock price, which is highly volatile.

The changes in operating loss and other income resulted in a segment net loss before taxes of \$426,800 for the quarter ended March 31, 2007, compared to a loss of \$218,700 for the prior year quarter, an increased loss of \$208,100, or 95%.

MINING TECHNICAL SERVICES

| | Three Months Ended March 31, | |
|-------------------------|---------------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Revenues | \$ 4,953 | \$ 20,451 |
| Gross profit (loss) | (3,110) | 4,642 |
| Operating income (loss) | (179,968) | (114,759) |
| Other income (expense) | 138,353 | 54,231 |

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| | | |
|-----------------------------------|----------|----------|
| Net income (loss) before taxes | (41,615) | (60,528) |
|-----------------------------------|----------|----------|

Mining technical services revenue was \$5,000 for the quarter ended March 31, 2007, compared to \$20,500 for the comparable quarter of 2006, a decrease of 76%. Cost of sales decreased by \$7,700, due primarily to decreases of payroll and related costs due to reduced technical services consulting. These factors resulted in a third quarter gross loss for the segment of \$3,100 compared to a gross profit of \$4,600 for the prior year first quarter, a reduction of \$7,800.

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 GOLD n GRO fertilizer 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 GOLD n GRO fertilizer segment, while at the same time added a potential source of revenue that is not dependent upon labor sales and which can be managed by a professional staff. The information portal also better utilizes the Whitney & Whitney, Inc. library and information resources that are already in existence. For the three months ended March 31, 2007 and 2006 we allocated costs of approximately \$61,900 and \$50,800, 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 and adding new profiled companies. We expect this level of development spending to continue into at least the third quarter of 2007. In recent months traffic volume has expanded to a level that we believe makes

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it worthwhile for gold exploration companies to begin paid advertising on the website. A program to solicit advertising customers is being developed and is being offered to gold exploration companies. We hired a manager of marketing and sales in October 2006. He is responsible for marketing efforts for both the insidemetals.com website and for technical consulting services to the mining industry.

Total segment operating expenses for the first quarter of 2007 increased \$57,500 due primarily to increased research and development costs related to the insidemetals.com website discussed above and to \$35,700 in increased sales and marketing related to the insidemetals.com website, including the new marketing person discussed above.

The combination of these factors resulted in a 2007 first quarter segment operating loss of \$180,000, compared to an operating loss of \$114,800 for the first quarter of 2006, an increased operating loss of \$65,200, or 57%.

Other income (loss) for the first quarter of 2007 was \$138,400 compared to \$54,200 for the prior year first quarter, an increase of \$84,100. The increase was due to the sale of a membership interest in the Company's worker's compensation mutual insurance company.

The changes in operating loss and other income resulted in a segment net loss before taxes of \$41,600 for the quarter ended March 31, 2007, compared to a loss of \$60,500 for the prior year quarter, a decreased loss of \$18,900, an improvement of 31%.

SUMMARY

On a consolidated basis the various changes in revenues and cost of revenues resulted in a gross profit of \$16,300 for the three months ended March 31, 2007, compared to a gross loss of \$6,800 for the prior year first quarter, an improvement of \$23,000. Operating loss for the first quarter 2007 was \$670,000, compared to \$558,400 for the first quarter of 2006, an increased operating loss of \$111,600, or 20%. Net loss before taxes for the first quarter 2007 was \$468,400 compared to a loss of \$279,200 for the prior year first quarter, an increased loss of \$189,200, or 68%.

Changes in Financial Condition; Capitalization

Cash amounted to \$406,800 as of March 31, 2007, compared to \$171,700 as of March 31, 2006. Net cash used for operating activities was approximately \$632,100 for the first three months of 2007. The cash used for operating activities during the period was financed primarily by gross proceeds of \$1,000,000 from the issuance of callable secured convertible notes, less \$70,000 in debt issuance costs, and sale of investments of \$206,000.

Total assets increased \$742,900 during the three months ended March 31, 2007 to \$5,008,400. Current assets increased \$695,900 due to increases in cash of \$406,800, accounts receivable of \$83,200, marketable securities of \$140,600, and inventory of \$90,100. Net property and equipment increased \$22,300 due to costs related to an air purification system in the refinery, which was partially offset by current period depreciation and amortization. Other assets

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increased \$24,700 due to an increase in net deferred loan fees related to the callable secured convertible note financing.

Current liabilities increased during the three months ended March 31, 2007 by \$965,900 and total liabilities increased by \$947,100. The increase is primarily due to an increase of \$816,100 in the estimated fair value of derivative instruments. The major components of this increase include \$1,000,000 in new convertible debt borrowing and an increase in the estimated fair value of warrants and options of \$1,084,100, which were partially offset by the conversion of \$108,800 of convertible debt into common stock and a decrease in the estimated fair value of convertible debt derivatives of \$1,226,500. Other changes in current liabilities include increases of \$62,200 in accrued management salaries, \$36,500 in interest payable to officer/stockholders, \$95,900 in current maturities of convertible notes and accrued interest, and \$63,700 in other liabilities. These increases were partially offset by decreases of \$71,100 in accounts payable and \$36,000 in current maturities of capital lease obligations.

Liquidity and Capital Resources

During the three months ended March 31, 2007, working capital decreased by \$270,000 to a deficit balance of \$10,409,600. The decline is due primarily to the increase in warrant and option liabilities discussed above.

In order to solve the Company's liquidity problems, management has implemented a plan of financing its operations through the 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 Company obtained financing of \$2 million and \$2.25 million in 2006 and 2005, respectively, through the issuance of callable secured convertible debt. During the first quarter of 2007, the Company obtained \$1 million from the issuance of callable secured convertible debt. For the immediate future, the Company plans to obtain additional debt financing from this investor group.

We are 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.

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.

In addition, to meet short term cash needs, we have negotiated a 10 day payment period on invoices to our primary distributor, at a cost of 1% of the invoice amount. We also periodically factor certain inventory items and receivables to help with short term cash needs. These arrangements are with unrelated individuals, carry interest at 2% to 3% per month, and the lenders are secured by a blanket UCC on specified inventory items and on specified

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invoices. As of March 31, 2007, no factored inventory and receivables were outstanding.

The Company is focusing on expanding GOLD n GRO fertilizer sales and the related photochemical and silver sales necessary to achieve profitability, but this growth is subject to a number of uncertainties, including the annual seasonal nature of fertilizer sales related to crop cycles, short term weather patterns in specific markets, the rate of GOLD n GRO fertilizer adoption in existing and new markets, and the availability of funding to support sales growth.

Growth Plans and Implementation

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

The Mining Technical Services segment 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 has been 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 and can be accessed 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 GOLD n GRO Fertilizer segment, and with the launch of the insidemetals.com 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.

GOLD n GRO Fertilizer Segment (Itronics Metallurgical, Inc.)

Our manufacturing plant is presently configured to produce 2.4 million gallons of GOLD n GRO fertilizer annually (about 11,400 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 2006 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.

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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.

We are performing field trials in Idaho, Oregon, and Washington for applications on onions, potatoes, and winter wheat. We also have begun field trials in Rhode Island for lawn, landscape, and nursery application and have started several new trials in California for silage corn applications.

A GOLD'n GRO base liquid nutrition program is 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 is expected to produce substantial increases in the tonnage of GOLD'n GRO fertilizer sales.

In 2006 we began contributing to an ongoing Zinc Nutrition Research Program at Utah State University in Logan, Utah. To date, the research has demonstrated the effectiveness of GOLD n GRO 9-0-1+7% Zinc as a chelated liquid zinc micronutrient fertilizer for zinc deficient corn. Results include preventing visual symptoms of zinc deficiency, significantly increased tissue concentration of zinc compared to untreated plants, and doubled dry mass.

3. Expand sales to new territories.

The GOLD'n GRO products are being sold in Arizona, California, Colorado, Idaho, Nevada, Oregon, Rhode Island, Washington, and Utah, with the majority of our sales in central California. We completed registration of select GOLD n GRO fertilizers in Idaho, Oregon and Washington in 2005 and in Utah in 2006; 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. Based on our experience, commercial sales can be generated approximately one to two years 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, Washington, and Utah is being managed by one field agronomist. 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 2007, 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. In 2006 we added a Ph.D. agronomist, to support GOLD n GRO sales efforts.

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, 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 California. Sales development started in the second quarter of 2006. The registration of GOLD n GRO 8-0-0+3% Mg is planned for the second quarter of 2007 at which time sales development will be started.

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 we believe that there is a real opportunity for a line of

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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.

We acquired ownership interest in the GOLD n GRO Guardian trademark, product rights, and the repelling product in 2005. 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 have engaged consultants experienced in the EPA registration process. We are presently working with them to plan the process and lab work needed to complete the registration.

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.

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

We are developing applications of our technology to extract silver from photoliquids to the mining sector. This work is being 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. The first phase, construction of a containment area, was substantially completed in late 2006. While we believe that we can handle expected growth in 2007 with the existing load-out module, we hope to complete

construction on the new load out equipment during the second half of 2007, subject to the availability of financing.

In the first quarter of 2006 the Company tripled silver recovery capacity. With this expansion, the refinery operations became large enough to require the installation of an air purification system so that emissions from the expanded operation could be completely controlled. Planning and permitting for this installation were undertaken in the second and third quarters of 2006. Installation began in the fourth quarter of 2006 and operation start up was completed in mid-March 2007.

During the first quarter 2007 GOLD n GRO fertilizer manufacturing expanded to a level that requires an air purification system so that emissions can be completely controlled. Work to design and permit this system is underway and is targeted for completion in the third quarter. The schedule for installation has not yet been established.

Both the refinery air purification system and the fertilizer manufacturing air purification system perform the purification by wet scrubbing which produces water containing fertilizer ingredients. Part of the expansion planning that is now underway includes developing and implementing methods to utilize the water generated by air purification in fertilizer manufacturing. Normal industrial air purification systems generally produce waste which must be disposed off-site and requires payment of disposal fees. The Company's technology is being integrated so that the scrubbing water becomes a viable raw material for use in fertilizer manufacturing. The Company's air purification technology has the advantage of being "zero discharge" and is expected to be lower cost by producing a fertilizer raw material and by not having off-site waste disposal costs.

The Company reduced work on implementing its new iron and sulfur leach process while the refinery air purification system was being developed, installed, and started up. The work level required to complete development, specify, and size the equipment required for the new leach circuit was expanded early in the second quarter 2007, but with other higher priority planning and expansion activities that are underway, the Company has revised its plan for starting up this operation and now expects to have the leaching circuit completed to where intermittent operations can begin in the first quarter of 2008.

The refinery currently produces three products; silver bullion, silver-bearing iron matte, and glass which contains a small amount of silver. The refinery currently has solids drying capabilities, but the iron matte and the glass, which were formerly produced in relatively small amounts have been stored for future processing. This year's projected increase in silver output and the next refinery expansion will increase production of iron matte and glass to levels that require expanded solids handling capabilities which include crushing, grinding, screening, one or more solids separation processes, liquid-solids separation, drying, and expanded storage capabilities. In addition, the stored matte and glass when combined with on-going production have now reached a volume that is sufficient to justify processing.

Because the solids handling requirements are not fully known at this time, the Company is utilizing modular development to create the individual process systems with the objective that when the actual larger scale requirements are better known it can integrate the individual processing systems into a viable solids processing flow sheet. The individual process systems

for crushing and screening are in final stages of specification and sizing. The Company plans to install and start up the solids screening system during the second and third quarter of 2007. This system will be used initially to process silver-bearing iron matte and is expected to generate an increase in silver sales in the third and fourth quarters of 2007. The crushing system will be installed after the screening system is operational and is expected to produce further increases in silver output. Additional solids processing modules are being developed and will be discussed in more detail in the second quarter report.

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. Further acquisitions will depend on the potential benefits and suitable financing.

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

Historically, this division provided consulting services to the mining industry. In August 2005, we launched an Information Portal on 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

We intend to continue a low level effort to solicit and perform technical services for mining companies and other businesses or government agencies that have mineral interests or minerals related responsibilities

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

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 is beginning to generate revenue by charging a subscription fee for monthly access to the site and by selling advertising to gold exploration companies. 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.

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.

In recent months, traffic volume on the website has expanded to a level that we believe is sufficient to make it worthwhile for gold exploration companies to begin paid advertising on the website. A program to solicit advertising customers is being developed and is being offered to gold exploration companies beginning in the first quarter of 2007. To assist with the sales development program of the website, we hired a manager of marketing and sales in October 2006. He is responsible for marketing efforts for both the insidemetals.com website and for technical consulting services to the mining industry.

Item 3. Controls and Procedures

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

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

PART II- OTHER INFORMATION

Item 1. Legal Proceedings

As of March 31, 2007 we have accrued for liabilities, including interest, of \$543,125 which relate to various lawsuits and claims for the collection of the funds due. These include 8 leases totaling \$381,858 (reflected in Capital Lease Obligations) plus \$51,035 in additional interest (reflected in Accrued Interest) and one trade payable totaling \$85,801 (reflected in Accounts Payable) plus \$24,431 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 three cases that are seeking \$251,522, which we believe are probable. The creditors have received judgments in these cases, but have taken no further collection action. We will continue to accrue interest until these cases are settled or paid in full.

We have a total of two cases, that originally sought \$171,853, that we deem to have a remote possibility of incurring an additional unrecorded loss. We have negotiated payment agreements on these cases and, as of March 31, 2007, the recorded liability for these cases was \$178,628. We are current in our payments 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 \$198,620, that are in default. 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.

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. We are not 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.

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Item 2. Changes in Securities and Use of Proceeds

(c) Recent Sales of Unregistered Securities:

In February 2007, we issued an aggregate of 2,500 shares of common stock valued at \$38 to John W. Whitney, our President, as compensation for services performed on our behalf in his capacity as a director of our Company for the fourth quarter of 2006.

In February 2007, we issued an aggregate of 37,500 shares of common stock valued at \$3,000 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 periods in 2003 and prior.

In February 2007, we issued an aggregate of 16,667 shares of common stock valued at \$250 to one of our employees as compensation for services performed on our behalf in his capacity as an employee of our Company for the fourth quarter of 2006.

In January and March 2007, we entered into Securities Purchase Agreements with four accredited investors (the "Investors") for an aggregate amount of (i) \$500,000 each in secured convertible notes, and (ii) warrants to purchase 20,000,000 shares each of our common stock (the "Financing").

The Investors received three year convertible notes (the "Notes") bearing simple interest at 6% per annum. The Notes are convertible into our common stock at a price equal to the lesser of (i) \$0.10 or (ii) 55% of the average of the lowest 3 intraday trading prices during the 20 trading day period ending one trading day before the conversion date. Further, the Investors received seven year warrants to purchase a total of 40,000,000 shares of our common stock at an exercise price of \$0.01 per share.

In March 2007 we issued an aggregate 3,603,320 shares of common stock to the four Investors discussed above upon the conversion of \$24,142 in callable secured convertible notes.

We issued options to purchase an aggregate of 9,000 shares of common stock to Michael C. Horsley, our Controller, on February 1, 2007. The options are exercisable at \$0.15 per share

and expire three years after grant.

We issued options to purchase an aggregate of 71,000 shares of common stock to six of our employees in January and February 2007. The options are exercisable at \$0.15 to \$0.20 per share and expire in three to ten years from grant.

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. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

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

Item 3. Defaults Upon Senior Securities

In the first quarter of 2006 all of the Series 2000 Convertible Promissory Notes became due and are now in default. The total principal and interest due at March 31, 2007 is \$3,399,966. The Company is formulating a plan to seek extensions of these notes. No collection action has been taken to date.

In addition to the above leases that are subject to litigation, there are four leases, with a recorded liability of \$198,620, that are in default. 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.

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Item 6. Exhibits

Exhibit 31.1 CERTIFICATION OF PRESIDENT PURSUANT TO RULES

13a-14(A) AND 15d-14(A) OF THE EXCHANGE ACT. 35

Exhibit 31.2 CERTIFICATION OF CONTROLLER PURSUANT TO RULES

13a-14(A) AND 15d-14(A) OF THE EXCHANGE ACT 37

Exhibit 32 CERTIFICATIONS OF PRESIDENT AND CONTROLLER

PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED

PURSUANT SECTION 906 OF THE SARBANES-OXLEY ACT

OF 2002 39

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934,

the registrant has duly caused this report to be signed on its behalf by the

undersigned, thereunto duly authorized.

ITRONICS INC.

DATED: May 14, 2007

By: /S/JOHN W. WHITNEY

John W. Whitney

President

(Principal Executive Officer)

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

DATED: May 14, 2007

By: /S/JOHN W. WHITNEY

John W. Whitney

President

(Principal Executive Officer)

DATED: May 14, 2007

By: /S/MICHAEL C. HORSLEY

Michael C. Horsley

Controller

(Principal Accounting Officer)