ITRONICS INC
Form 10QSB
August 15, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM l0-QSB

(Mark One)

(X) QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2005

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

For the transition period from______ to_____

Commission File Number 33-18582

ITRONICS INC.

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

TEXAS	75-2198369
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

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

(Address of principal executive offices)

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of July 31, 2005, 194,344,788 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

JUNE 30, 2005 AND DECEMBER 31, 2004

(UNAUDITED)

ASSETS

	June 30, 2005	December 31, 2004

CURRENT ASSETS		
Cash	$ -	$ 5,180
Accounts receivable, less allowance for		
doubtful accounts, 2005, $5,700; 2004, $5,700	152,035	188,805
Marketable securities, available for sale	112,004	26,180
Inventories	583,488	571,704
Prepaid expenses	120,135	142,509
Current portion of deferred loan fees	14,752	14,152
Total Current Assets	982,414	948,530
PROPERTY AND EQUIPMENT		
Land	215,000	215,000
Building and improvements	1,167,315	1,167,315
Design and construction in progress,		
manufacturing facility	136,921	121,171
Equipment and furniture	2,077,587	2,071,998
Vehicles	133,028	133,028
Equipment under capital lease	1,096,104	1,096,104
	4,825,955	4,804,616
Less: Accumulated depreciation and amortization	1,794,154	1,670,668
	3,031,801	3,133,948
OTHER ASSETS		
Intangibles, net of amortization	79,911	8,435
Deferred loan fees, less current portion, net of		
amortization	31,528	34,502

Deposits	22,525	22,525
	133,964	65,462
	$4,148,179	$4,147,940

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LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	June 30, 2005	December 31, 2004
CURRENT LIABILITIES		
Bank overdraft	$ 30,208	$ -
Accounts payable	590,709	558,566
Account receivable and inventory factoring	144,310	51,229
Accrued management salaries	528,799	389,127
Accrued expenses	322,083	398,731
Insurance contracts payable	34,327	15,048
Interest payable	277,080	211,216
Current maturities of long-term debt	179,222	522,845
Current maturities of capital lease obligations	768,723	807,746
Current maturities of advances from an officer/stockholder	246,525	161,525
Current maturities of capital lease due stockholder	5,600	5,420
Current maturities of convertible notes and accrued interest	2,760,504	1,020,946
Other	30,679	21,429
Total Current Liabilities	5,918,769	4,163,828

LONG-TERM LIABILITIES

Long-term debt, less current maturities	549,735	97,022
Convertible promissory notes, less current maturities	-	1,517,000
Accrued interest, convertible notes, less current maturities	-	925,216
Capital lease obligation, shareholder, less current		
maturities	6,326	9,144
Total Long-Term Liabilities	556,061	2,548,382
	6,474,830	6,712,210
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, par value $0.001 per share;		
authorized 999,500 shares, issued and outstanding		
2005, 0 shares; 2004, 0 shares	-	-
Common stock, par value $0.001 per share;		
authorized 250,000,000 shares, issued and outstanding,		
194,339,788 at June 30, 2005; 164,863,938 at		
December 31, 2004	194,340	164,864
Additional paid-in capital	21,475,837	19,438,213
Accumulated deficit	(24,677,953)	(22,944,959)
Common stock to be issued	663,242	786,426
Accumulated other comprehensive income (loss)	(19,642)	(9,568)
Common stock options outstanding, net	37,525	754
	(2,326,651)	(2,564,270)
	$4,148,179	$4,147,940

See Notes to Condensed Consolidated Financial Statements

ITRONICS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
REVENUES				
Fertilizer	$ 484,664	$ 476,910	$ 695,898	$ 706,389
Photochemical recycling	19,888	75,084	42,069	129,643
Silver	19,115	21,517	45,874	64,475
Mining technical services	33,661	52,659	83,460	132,503
Total Revenues	557,328	626,170	867,301	1,033,010
COST OF SALES	546,658	588,598	897,766	1,029,171
Gross Profit (Loss)	10,670	37,572	(30,465)	3,839
OPERATING EXPENSES				
Depreciation and amortization	65,442	79,338	130,884	157,449
Research and development	52,920	27,808	133,656	48,911
Sales and marketing	244,434	269,122	525,271	483,407
Delivery and warehousing	34,908	34,275	52,991	51,881
General and administrative	225,934	249,425	485,569	462,200
Total Operating Expenses	623,638	659,968	1,328,371	1,203,848
Operating (Loss)	(612,968)	(622,396)	(1,358,836)	(1,200,009)

OTHER INCOME (EXPENSE)				
Interest expense	(201,722)	(202,325)	(365,774)	(411,095)
Gain (loss) on sale of investments	(6,431)	22,044	(10,116)	97,802
Other	1,732	5	1,732	13
Total Other Income (Expense)	(206,421)	(180,276)	(374,158)	(313,280)
Income (Loss) before provision for income tax	(819,389)	(802,672)	(1,732,994)	(1,513,289)
Provision for income tax	-	-	-	-
Net Income(Loss)	(819,389)	(802,672)	(1,732,994)	(1,513,289)
Other comprehensive income (loss)				
Unrealized gains (losses) on securities	(1,192)	(105,099)	(10,074)	(289,853)
Comprehensive Income (Loss)	$(820,581)	$ (907,771)	$(1,743,068)	$(1,803,142)
Weighted average number of shares Outstanding (1,000 s)	192,661	137,761	183,628	132,651
Earnings (Loss) per share, basic and diluted	$(0.004)	$(0.006)	$(0.009)	$(0.011)

See Notes to Condensed Consolidated Financial Statements

ITRONICS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

(UNAUDITED)

	Six Months Ended June 30,	
	2005	2004
Cash flows from operating activities		
Net income (loss)	$(1,732,994)	$(1,513,289)
Adjustments to reconcile net loss to		
cash used by operating activities:		
Depreciation and amortization	130,884	157,449
Interest on convertible notes	180,038	261,411
Marketable securities received for services	(116,193)	(15,256)
(Gain) Loss on investments	10,116	(97,802)
Stock option compensation	37,112	123
Other	(1,725)	-
Expenses paid with issuance of common stock	429,453	310,925
(Increase) decrease in:		
Trade accounts receivable	36,770	(71,142)
Inventories	(11,784)	(104,371)
Prepaid expenses and deposits	(15,295)	1,805
Increase (decrease) in:		
Accounts payable	43,990	77,479
Accrued management salaries	139,672	52,431
Accrued expenses and contracts payable	(48,119)	58,077

Accrued interest	65,864	16,358
Net cash used by operating activities	(852,211)	(865,802)
Cash flows from investing activities:		
Acquisition of property and equipment	(5,589)	(8,922)
Acquisition of intangibles	(5,000)	-
Proceeds from sale of investments	10,177	223,139
Net cash provided (used) by investing activities	(412)	214,217
Cash flows from financing activities:		
Proceeds from sale of stock	570,000	712,000
Proceeds from debt, stockholder	90,000	-
Proceeds from short term debt, unrelated	125,000	-
Proceeds from receivable/inventory factoring, net	93,081	38,641
Payments on debt	(60,846)	(112,080)
Net cash provided by financing activities	817,235	638,561
Net increase (decrease) in cash	(35,388)	(13,024)
Cash, beginning of period	5,180	34,499
Cash, end of period	$ (30,208)	$ 21,475

See Notes to Condensed Consolidated Financial Statements

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(UNAUDITED)

1. The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and disclosures required by U.S. Generally Accepted Accounting Principles. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's Form 10-KSB for the year ended December 31, 2004. These financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly state the results for the interim periods reported. Certain amounts from the prior period have been reclassified to be consistent with the current period presentation.

2. The Company's consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company and its subsidiaries have reported recurring losses from operations, including a net loss of $1,732,994 during the six months ended June 30, 2005, a working capital deficit of $4,936,355, and a stockholders deficit balance of $2,326,651 as of June 30, 2005. These factors indicate the Company and its subsidiaries' ability to continue in existence is dependent upon their ability to obtain additional long-term debt and/or equity financing and achieve profitable operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company and its subsidiaries be unable to continue in existence. The results of operations for the six months ended June 30, 2005 were affected by rainy weather in California and are not necessarily indicative of the results to be expected for the full year.

3. A Private Placement of restricted stock with attached three year warrants was closed in June 2005. Terms of the Placement included an offering price of $0.05 per share, plus an attached three year warrant for one half the number of shares with an exercise price of $0.075 for the first year, double that amount for the second year, and triple that amount for the third year. During the six months ended June 30, 2005 $570,000 was received from this private placement.

4. In June 2005 the Company obtained short term financing totaling $125,000. Subsequent to June 30, 2005, the Company arranged convertible debt financing from four unrelated Investors totaling up to $3,250,000. The first funding of the loan was for $1,250,000 and the Company received net proceeds after financing costs of $866,200 plus payment of the above mentioned short term loan and accrued interest. The second funding, for gross proceeds of $1,000,000, will be received once a registration statement is filed with the U.S. Securities and Exchange Commission, and the third funding, for gross proceeds of $1,000,000, will be received once the registration statement becomes effective. The loans are for three years and they accrue interest at 8% per annum. The Investors will receive five year warrants to acquire 3,000,000 Company common shares at an exercise price of $0.15 per share. The warrants will be issued proportionally as each of the fundings is completed. The loans are convertible into common shares at the lesser of $0.10 or 55% of the average of the lowest 3 trading prices during the 20 trading day period ending one trading day before the conversion date. The loans are secured by a

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security interest in substantially all of the Company s assets, including the assets of its wholly owned subsidiaries, and intellectual property. The loans are further secured by 14,550,558 Company common shares owned by an officer/stockholder.

During the second quarter of 2005, the Company renegotiated its account receivable factoring arrangement. The Company now factors specified raw material inventory items, the related finished GOLD n GRO fertilizer products, and the related accounts receivable from the sale of the specified GOLD n GRO fertilizers. The Company also factored the sale of two Photochemical Concentrators during the quarter. The balance due under these arrangements was $144,310 at June 30, 2005. These loans are secured by a security interest in the related inventory and account receivable items.

5. In August 2002 a supplier of equipment for the Stead manufacturing plant filed suit against the Company and its subsidiary, Itronics Metallurgical, Inc. (IMI) in Johnson County, Indiana for the unpaid amount of $64,234 plus attorney s fees and court costs. On October 1, 2002 the plaintiff received a default judgment awarding the $64,234 plus $1,500 attorney s fees plus 8% interest. On November 5, 2002 the plaintiff filed a "Notice of Filing of Foreign Judgment" in Washoe County, Nevada and has received the judgment. In December 2003 a settlement agreement was accepted that required a $10,000 payment in December 2003 plus monthly payment of $5,161 over twelve months in 2004. Payments were delinquent as of June 30, 2005, but subsequently, payment terms were renegotiated, with six monthly payments of $3,964 due beginning August 5, 2005.

As of June 30, 2005 a total of nine lawsuits filed in 2003 and prior years remain outstanding against the Company s subsidiaries by various equipment lessors. Five of the suits were filed in Washoe County, Nevada, two in Cook County, Illinois, one in Los Angeles County, California, and one in

Oakland County, Michigan. Three additional suits covering six leases were filed in Washoe County, Nevada in 2004. The suits seek a total of $839,934 plus attorneys fees and other costs. Six of these suits, seeking a total of $306,990 plus costs, were settled by restructuring the leases, signing stipulated judgments and agreeing to pay total payments of $258,390. Monthly payments on the settlements total $12,935 and are paid over various periods ranging from 18 to 31 months. If the restructured leases are defaulted, judgments for the original claimed amounts can be entered and further collection action, including repossession of the secured equipment, can be taken. Payments on the six restructured leases were in default as of June 30, 2005, but subsequently, payments on four of the leases were brought current and one was paid off. Of the six remaining unsettled suits, three have received judgments, one of which the Company has agreed to payment terms without a formal stipulation. Legal counsel is actively negotiating two of the unsettled suits. No further action has occurred on the other unsettled suit.

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

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has occurred on this claim. In April 2005 a trade creditor filed suit against IMI in Washoe County, Nevada seeking a total of $21,788 plus attorney and other costs. Legal counsel will attempt to negotiate payment terms.

As of December 31, 2004 the Company s subsidiaries were delinquent on approximately $206,200 in federal payroll taxes. The Company engaged a consultant to assist in working with the IRS to formulate a payment plan. A plan was negotiated to pay specified portions of the liability on or before January 31, 2005 and on the fifteenth of each month beginning March 15, 2005 until paid off on May 15, 2005. The Company made the required payments in January and March 2005, and paid a total of $115,586, but did not make the subsequent payments as they became due. The Company received notice of intent to levy on the subsidiaries IMI and ICI for a total amount due of $93,273. The notices were dated May 12, 2005. The IRS also filed federal tax liens for the amounts due. Subsequent to June 30, 2005, the taxes were paid in full and the liens will be released.

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

6. As of June 30, 2005 lease payments totaling $796,216 were in arrears. As required by U.S. Generally Accepted Accounting Principles, the principal balance of the leases that are in default have been classified as current liabilities. The Company is in ongoing communication with the lessors to avoid action that may be adverse to the Company.

In 2003 an offer was made to extend the Series 2000 Convertible Promissory Notes. The holders of $80,000 of the Notes have not responded to the offer and that amount, plus $55,452 in accrued interest, remains in default.

As of June 30, 2005, the Company was delinquent on real property taxes in the amount of $14,630 plus interest and penalties and was delinquent two monthly payments totaling $13,202 plus late charges on the promissory note. This is a default of the promissory note and deed of trust secured by the Stead manufacturing facility. The lender was aware of the situation and took no collection action. Subsequent to June 30, 2005 the taxes and payments were brought current. In accordance with U.S. Generally Accepted Accounting Principles, the long term portion of the principal balance of the note, in the amount of $458,081, which would otherwise have been classified as a current liability, has been classified as a long term liability.

7. During the six months ended June 30, 2005 convertible promissory notes totaling $626,100 principal and $256,596 accrued interest were converted into common stock at $0.10 per share.

8. Significant non-cash operating, investing, and financing activities for the six months ended June 30, 2005 include the conversion of $882,696 in convertible promissory notes and accrued interest into restricted common stock and the acquisition of the product rights to GOLD n GRO Guardian fertilizer for $71,500 in restricted common stock.

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9. Warrants, options, and shares to be issued, totaling 62,553,670 and 66,217,576 shares as of June 30, 2005 and 2004, respectively, would dilute future Earnings Per Share (EPS). No diluted EPS is presented as the effect of including these shares is antidilutive.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenues:				
Photochemical Fertilizer	$ 523,667	$ 573,511	$783,841	$ 900,507
Mining Technical Services	33,661	52,659	83,460	132,503
Consolidated Revenues	$ 557,328	$ 626,170	$867,301	$ 1,033,010
Gross Profit (Loss):				
Photochemical Fertilizer	$ 20,718	$ 42,372	$(21,446)	$ 6,733
Mining Technical Services	(10,048)	(4,800)	(9,019)	(2,894)
Consolidated Gross Profit (Loss)	$ 10,670	$ 37,572	$(30,465)	$ 3,839
Operating Income (Loss):				
Photochemical Fertilizer	$(494,262)	$(508,586)	$(1,097,807)	$(992,089)
Mining Technical Services	(118,706)	(113,810)	(261,029)	(207,920)
Consolidated Operating Income (Loss)	$(612,968)	$(622,396)	$(1,358,836)	$(1,200,009)
Other Income (Expense):				

Photochemical Fertilizer	$(201,722)	$(202,325)	$(365,774)	$(411,095)
Mining Technical Services	(4,699)	22,049	(8,384)	97,815
Consolidated Other Income				
(Expense)	$(206,421)	$(180,276)	$(374,158)	$(313,280)
Net Income (Loss) before taxes:				
Photochemical Fertilizer	$(695,984)	$(710,911)	$(1,463,581)	$(1,403,184)
Mining Technical Services	(123,405)	(91,761)	(269,413)	(110,105)
Consolidated Net Income				
(Loss) before taxes	$(819,389)	$(802,672)	$(1,732,994)	$(1,513,289)

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(UNAUDITED)

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

	June 30, 2005	December 31, 2004
Current Assets:		
Photochemical Fertilizer	$768,540	$ 684,754
Mining Technical Services	129,433	157,603
	897,973	842,357
Property and Equipment, net:		

Photochemical Fertilizer	2,924,166	3,010,749
Mining Technical Services	107,210	122,342
	3,031,376	3,133,091
Other Assets, net:		
Photochemical Fertilizer	116,199	52,697
Mining Technical Services	826,117	1,246,824
	942,316	1,299,521
Total Assets:		
Photochemical Fertilizer	3,808,905	3,748,200
Mining Technical Services	1,062,760	1,526,769
Total Segment Assets	4,871,665	5,274,969
Itronics Inc. assets	23,373,109	22,504,867
Less: inter-company elimination	(24,096,595)	(23,631,896)
Consolidated Assets	$ 4,148,179	$ 4,147,940

ITRONICS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(UNAUDITED)

11. Following are the components of Other Comprehensive Income:

	Three Months Ended June 30,	Six Months Ended June 30,

	2005	2004	2005	2004
Unrealized holding gains (losses)				
arising during the period	$(13,031)	$ (57,886)	$(18,043)	$(110,588)
Reclassification adjustment	11,839	(47,213)	7,969	(179,265)
Other Comprehensive Income (Loss)	$ (1,192)	$(105,099)	$(10,074)	$(289,853)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Option Compensation Expense:				
As reported	$ 4,178	$ -	$ 37,112	$ 123
Adjustment for additional expense				
for fair value of options	623	38,296	3,755	39,418
Pro forma	$ 4,801	$ 38,296	$ 40,867	$ 39,541
Net Income (Loss):				
As reported	$(819,389)	$ (802,672)	$(1,732,994)	$(1,513,289)
Adjustment for additional expense				
for fair value of options	(623)	(38,296)	(3,755)	(39,418)
Pro forma	$(820,012)	$ (840,968)	$(1,736,749)	$(1,552,707)

Earnings (Loss) per share,				
basic and diluted				
As reported	$(0.004)	$(0.006)	$(0.009)	$(0.011)
Pro forma	$(0.004)	$(0.006)	$(0.009)	$(0.012)

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

I. Results of Operations

The Company reported consolidated revenues of $557,328 for the quarter ended June 30, 2005, compared to $626,170 for the prior year quarter, a decrease of 11%. The decrease was due to a decrease in Photochemical Fertilizer segment revenue of $49,800, or 9% and to a decrease of $19,000 in Mining Technical Services segment revenues, a decrease of 36%. The consolidated net loss was $819,389, or $0.004 per share, for the quarter ended June 30, 2005, compared to a net loss of $802,672 or $0.006 per share for the comparable 2004 period, an increased loss of $16,700, or 2%. Consolidated revenues for the first six months of 2005 were $867,301 compared to $1,033,010 for the prior year period, a decrease of 16%. The consolidated net loss was $1,732,994 or $0.009 per share, for the six months ended June 30, 2005, compared to a net loss of $1,513,289 or $0.011 per share for the comparable 2003 period, an increased loss of 15%.

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

PHOTOCHEMICAL FERTILIZER

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

	Three months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenues	$ 523,667	$ 573,511	$ 783,841	$ 900,507
Gross profit (loss)	$ 20,718	$ 42,372	$ (21,446)	$ 6,733
Operating income (loss)	$(494,262)	$(508,586)	$(1,097,807)	$ (992,089)

Other income (loss)	$(201,722)	$(202,325)	$ (365,774)	$ (411,095)
Net income (loss) before taxes	$(695,984)	$(710,911)	$(1,463,581)	$(1,403,184)

Total segment revenues for the second quarter of 2005 were approximately $523,700, a decrease of 9% from the prior year second quarter. Fertilizer sales for the quarter were $484,700, compared to $476,900 for the 2004 second quarter, an increase of 2%. The expected fertilizer sales increase did not occur due to rainy weather in the Central Valley of California that continued into late May 2005. Total photochemical recycling revenue for the quarter decreased by 74%, on decreased volume of 73%, compared to the second quarter of 2004. The decrease is due to the December 2004 mutual termination of a significant photochemical recycling customer. To offset this loss of revenue, the Company is concentrating its efforts on sales of Photochemical Silver Concentrators. During the first quarter of 2005 the Company received an order for two

Concentrators and several leads and viable requests for proposal from several other potential customers. The Company presently has proposals out to potential customers that could lead to more than $500,000 in sales of the Photochemical Silver Concentrators. This marks the beginning of a shift in market focus from obtaining the majority of photochemical raw materials by picking up the materials by truck directly from the customer s location to obtaining the majority of its photochemical raw materials by receiving concentrated material through the interstate commercial trucking system. Silver sales decreased $2,400 from the second quarter of 2004, a decrease of 11%. Cost of sales decreased $28,200 due primarily to a decrease of $20,700 in payroll and related costs. The segment recorded a gross profit of $20,700 for the quarter, compared to a gross profit of $42,400 for the second quarter of 2004, a decreased gross profit of $21,700, or 51%.

Segment operating expenses decreased $36,000 from the second quarter of 2004. This resulted from modest decreases in most all of the operating expense categories.

These factors resulted in a 2005 second quarter segment operating loss of $494,300 compared to a loss of $508,600 for the second quarter of 2004, a decreased operating loss of $14,300, or 3%.

Other expense decreased nominally.

The changes in operating loss and other expenses resulted in a segment net loss before taxes of $696,000 for the quarter ended June 30, 2005, compared to a loss of $710,900 for the prior year quarter, a decreased loss of $14,900 or 2%.

For the first six months of 2005 revenues were $783,800, compared to $900,500 for the comparable 2004 period, a decrease of 13%. The decline is due primarily to the prior year mutual termination of a significant photochemical recycling customer. Gross loss for the first six months of 2005 was $21,400, compared to a gross profit of $6,700 for the comparable prior year period, a decline of $28,200. Operating loss for the first six months of 2005 was approximately $1,097,800 compared to $992,100 for the first six months of 2004, an increased loss of $105,700, or 11%.

Other expense decreased $45,300 due to a decrease in interest expense resulting from prior and current year conversions of convertible promissory notes into common stock.

The changes in operating loss and other expenses resulted in a segment net loss before taxes of $1,463,600 for the six months ended June 30, 2005, compared to a loss of $1,403,200 for the prior year period, an increased loss of $60,400 or 4%.

MINING TECHNICAL SERVICES

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

the U.S. and foreign governments, and the United Nations and the World Bank.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenues	$ 33,661	$ 52,659	$ 83,460	$ 132,503
Gross profit (loss)	$ (10,048)	$ (4,800)	$ (9,019)	$ (2,894)
Operating income (loss)	$(118,706)	$(1		