ADM TRONICS UNLIMITED INC/DE
Form 10-Q
February 23, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2008

OR

o TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

COMMISSION FILE NO. 0-17629

ADM TRONICS UNLIMITED, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or organization)	22-1896032 (I.R.S. Employer Identification Number)

224-S Pegasus Ave., Northvale, New Jersey 07647
(Address of Principal Executive Offices)

Registrant's Telephone Number, including area code: (201) 767-6040

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

State the number of shares outstanding of each of the Issuer's classes of common equity, as of the latest practicable date:

53,939,537 shares of Common Stock, $.0005 par value, as of February 16, 2009

ADM TRONICS UNLIMITED, INC.

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ADM TRONICS UNLIMITED, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2008 (Unaudited)	MARCH 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,325,511	$ 2,072,325
Accounts receivable, net of allowance for doubtful accounts of $1,088 and $1,088, respectively	103,990	101,270
Inventories	338,250	469,403
Prepaid expenses and other current assets	7,311	83,731
Restricted cash	225,650	-
Total current assets	2,000,712	2,726,729
Property and equipment, net of accumulated depreciation of $24,829 and $17,873, respectively	63,220	55,288
Inventory - long term portion	84,099	78,416
Investment in Ivivi	910,000	2,154,517
Advances to related parties	50,843	74,299
Other assets	225,452	28,486
Total assets	$ 3,334,326	$ 5,117,735
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 120,801	$ 237,331
Note payable – Bank	200,000	--
Accrued expenses and other current liabilities	48,698	87,439
Customer deposits – Ivivi	108,097	241,828
Total current liabilities	477,596	566,598
Stockholders' equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized, no shares issued and outstanding	--	--
Common stock, $.0005 par value; 150,000,000 shares authorized, 53,939,537 shares issued and outstanding at December 31, 2008 and March 31, 2008	26,970	26,970
Additional paid-in capital	32,153,597	32,153,597

Accumulated deficit		(29,323,837)		(27,629,430)
Total stockholders' equity		2,986,730		4,551,137
Total liabilities and stockholders' equity	$	3,334,326	$	5,117,735

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

ADM TRONICS UNLIMITED, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Nine Months Ended December 31, 2008	Nine Months Ended December 31, 2007
Revenues	$ 257,610	$ 496,261	$ 1,248,140	$ 1,189,194
Costs and expenses:				
Cost of sales	183,355	352,942	840,835	772,171
Research and development	-	115	-	3,665
Selling, general and administrative	291,791	273,691	892,372	768,208
Total operating expenses	475,146	626,748	1,733,207	1,544,044
Operating loss	(217,536)	(130,487)	(485,067)	(354,850)
Interest income, net	6,537	21,576	35,178	72,366
Change in fair value of investment in Ivivi	(650,000)	-	(10,465,000)	-
Equity in net loss of Ivivi	-	(594,446)	-	(1,674,870)
Net loss before income tax benefit	(860,999)	(681,348)	(10,914,889)	(1,957,354)
Income tax benefit		--	2,425,188	--
Net loss	$ (860,999)	$ (703,357)	$ (8,489,701)	$ (1,957,354)
Net loss per share, basic and diluted	$ (0.02)	$ (0.01)	$ (0.16)	$ (0.04)
Weighted average shares outstanding, basic and diluted	53,939,537	53,882,037	53,939,537	53,882,037

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

ADM TRONICS UNLIMITED, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2008 AND 2007
(Unaudited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (8,489,701)	$ (1,957,354)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	22,479	12,461
Deferred income tax benefit	(2,425,188)	--
Loss from equity investment		1,674,870
Interest accrued on officer loan	--	(1,107)
Change in fair value of investment in Ivivi	10,465,000	--
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(2,720)	(24,231)
Inventory	125,470	(484,418)
Prepaid expenses and other current assets	76,420	27,875
Other assets	--	34,003
Increase (decrease) in:		
Accounts payable and accrued expenses	(155,270)	89,911
Customer deposit – Ivivi	(133,731)	323,444
Net cash used by operating activities	(517,241)	(304,546)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(14,888)	(22,140)
Collections of advances to related parties	23,456	20,000
Acquired intangible assets	(212,491)	--
Deposit – restricted cash	(225,650)	--
Net cash used by investing activities	(429,573)	(2,140)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable – Bank	200,000	--
Net decrease in cash	(746,814)	(306,686)
Cash and cash equivalents, beginning of period	2,072,325	2,498,276
Cash and cash equivalents, end of period	$ 1,325,511	$ 2,191,590
Cash paid for:		
Interest	$ 2,677	$ --
Income taxes	$ --	$ 4,060

NONCASH FINANCING AND INVESTING ACTIVITIES:

During the nine months ended December 31, 2007, Ivivi recorded an increase in additional paid-in capital as a result of the recognition of compensation expense related to option grants to employees and others. We have recorded a proportional increase in our investment in Ivivi in the amount of $410,558, with a related credit to additional paid-in capital. We have also recorded a change of ownership percentage adjustment of $1,259,542.

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

ADM TRONICS UNLIMITED, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008
(Unaudited)

NOTE 1 - ORGANIZATIONAL MATTERS

ADM Tronics Unlimited, Inc. ("we", "us", the “Company" or "ADM"), was incorporated under the laws of the state of Delaware on November 24, 1969. We are authorized under our Certificate of Incorporation to issue 150,000,000 common shares, with $.0005 par value, and 5,000,000 preferred shares with $.01 par value.

The accompanying condensed consolidated financial statements as of December 31, 2008 (unaudited) and March 31, 2008 and for the three and nine month periods ended December 31, 2008 and 2007 (unaudited) have been prepared by ADM pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”), including Form 10-Q and Regulation S-X. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments), which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. We believe that the disclosures provided are adequate to make the information presented not misleading. These financial statements and the information included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" should be read in conjunction with the audited financial statements and explanatory notes for the year ended March 31, 2008 as disclosed in our Annual Report on Form 10-KSB for that year as filed with the SEC, as it may be amended. The results of the three and nine months ended December 31, 2008 (unaudited) are not necessarily indicative of the results to be expected for the pending full year ending March 31, 2009.

NATURE OF BUSINESS
We are a manufacturing and engineering concern whose principal lines of business are the production and sale of chemical products and the manufacture and sale of electronics. On August 27, 2008, we acquired all of the assets of Action Spas, a manufacturer of electronic controllers for spas and hot tubs, under our fully owned subsidiary Action Industries Unlimited, LLC (“Action”). With this acquisition, our previous Medical segment was redefined as our Electronics segment, and the ongoing operations of Action are now reported under this segment.

Our Chemical segment is principally comprised of water-based chemical products, used in the food packaging and converting industries. Our Electronics segment primarily consists of contract manufacturing of electronic devices in accordance with customer specifications and electronic controllers for spas and hot tubs. To a lesser extent, our electronics product line also includes certain proprietary electronic devices used in the treatment of joint pain, postoperative edema, and tinnitus. All of our products are sold to customers located in the United States, Australia, Asia and Europe.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION
The consolidated financial statements include the accounts of ADM Tronics Unlimited, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

USE OF ESTIMATES
These financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, accordingly, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and

expenses during the reporting period. Significant estimates made by management include expected economic life and value of our medical devices, deferred tax assets, option and warrant expenses related to compensation to employees and directors, consultants and investment banks, the value of warrants issued in conjunction with convertible debt, allowance for doubtful accounts, and warranty reserves. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS
On April 1, 2008, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements” and SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”. Please refer to Notes 4 , 5 and 10 for additional details. For certain of our financial instruments, including accounts receivable, inventories, notes payable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their relatively short maturities.

CASH AND EQUIVALENTS
Cash equivalents are comprised of certain highly liquid investments with maturity of three months or less when purchased. We maintain our cash in bank deposit accounts, which at times, may exceed federally insured limits. We have not experienced any losses to date as a result of this policy.

REVENUE RECOGNITION

CHEMICALS:
Revenues are recognized when products are shipped to end users. Shipments to distributors are recognized as sales where no right of return exists.

ELECTRONICS:
We recognize revenue from the sale of our electronic products when they are shipped to the purchaser. Revenue from the sale of the electronics we manufacture for Ivivi is recognized upon completion of the manufacturing process. Shipping and handling charges and costs are immaterial. We offer a limited 90 day warranty on our electronics products and a limited 5 year warranty on our electronic controllers for spas and hot tubs. We have no other post shipment obligations and sales returns have been immaterial.

ADVERTISING COSTS
Advertising costs are expensed as incurred and amounted to approximately $4,739 and $5,059 for the three months ended December 31, 2008 and 2007 respectively, and $19,049 and $21,586 for the nine months ended December 31, 2008 and 2007, respectively.

WARRANTY LIABILITIES
We offer a limited 90 day warranty on our electronics products and a 5 year limited warranty on all of our electronic controllers for spas and hot tubs sold through Action. This product lines' past experience has resulted in immaterial costs associated with warranty issues. Therefore, no warranty liabilities have yet been recorded.

RESTRICTED CASH
Restricted cash represents funds on deposit with a financial institution that secure our note payable.

NET LOSS PER SHARE
We use SFAS No. 128, "Earnings Per Share" for calculating basic and diluted loss per share. We compute basic loss per share by dividing net loss by the weighted average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential shares had been issued and if the additional shares were dilutive. Common equivalent shares are excluded from the computation of net loss per share if their effect is anti-dilutive.

Per share basic and diluted net loss amounted to $0.02 and $0.01, and $0.16 and $0.04, for the three and nine months ended December 31, 2008 and 2007, respectively. The assumed exercise of common stock equivalents was not utilized for the nine month periods ended December 31, 2008 and 2007, because the effect would be anti-dilutive. There were 11,626,854 common stock equivalents at December 31, 2008 and 2007.

RECENT ACCOUNTING PRONOUNCEMENTS
On October 10, 2008, the FASB issued Staff Position ("FSP") FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. This FSP clarifies the application of FASB Statement No. 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. We have completed our evaluation of the impact of the effect of the adoption of FSP FAS 157-3, and have determined it would have no impact on the Company's financial position, results of operations or cash flows.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

NOTE 3 - INVENTORY

Inventory at December 31, 2008 (unaudited) consists of the following:

	Current	Long Term	Total
Raw materials	$ 284,680	$ 45,462	$ 330,142
Finished goods	53,570	38,636	92,206
	$ 338,250	$ 84,099	$ 422,349

Inventory at March 31, 2008 consists of the following:

	Current	Long Term	Total
Raw materials	$ 361,897	$ 39,186	$ 401,083
Finished goods	107,506	39,230	146,736
	$ 469,403	$ 78,416	$ 547,819

NOTE 4 - INVESTMENT IN IVIVI

Our former majority owned subsidiary, Ivivi Technologies, Inc. ("Ivivi"), filed a Registration Statement with the Securities and Exchange Commission for the initial public offering of a portion of its common stock. The Registration Statement was declared effective by the SEC on October 18, 2006. As a result of the consummation of Ivivi's initial public offering, we no longer owned a majority of the outstanding common stock of Ivivi. Since October 18, 2006, we could exert significant influence based upon the percentage of Ivivi's stock we owned. As a result, our investment in Ivivi was reported during the period from October 18, 2006 until March 31, 2008 under the equity method of accounting, whereby we recognized our share of Ivivi's earnings or losses as they are incurred. Effective April 1, 2008 ("the Adoption Date"), we have adopted SFAS No. 159 "The Fair Value Option for Financial Assets and Liabilities" with respect to our investment in Ivivi, whereby we report our investment in Ivivi at fair value. Management's reason for electing the fair value option for its investment in Ivivi is to increase the efficiency of our financial reporting responsibilities. The fair value of our investment in Ivivi at the adoption date was approximately $11,375,000. The adoption of SFAS No. 159, with respect to our investment in Ivivi, resulted in the recognition of the following:

Pre-tax cumulative-effect adjustment to retained earnings:	$ 9,220,483
Deferred tax liability:	2,425,188
Post-tax cumulative-effect adjustment to retained earnings:	$ 6,795,295

As of December 31, 2008, the fair value of our investment in Ivivi was $910,000. Our common shares of Ivivi have not been registered with the SEC and are subject to restriction as a result of securities laws. Subsequent to the date of our financial statements, the fair value of our investment in Ivivi had decreased and Ivivi's ability to continue as a going concern is unknown.

The following table sets forth summarized results of operations of Ivivi for the nine months ended December 31, 2008 and 2007:

	Nine Months Ended December 31, 2008 unaudited)	Nine Months Ended December 30, 2007 (unaudited)
Revenue	$ 1,253,204	$ 1,080,347
Costs and expenses, net	7,143,144	6,350,824
Net loss	$ (5,589,940)	$ (5,270,477)
Assets at December 31, 2008	$ 3,453,986	
Liabilities at December 31, 2008	1,194,299	
Equity at December 31, 2008	$ 2,259,687	
Assets at December 31, 2007	$ 10,524,264	
Liabilities at December 31, 2007	1,534,307	

Equity at December 31, 2007	$	8,989,957

NOTE 5 – FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“Statement No. 157”) which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements.

In February 2008, the FASB issued FASB Staff Position 157-2, which provides for a one-year deferral of the provisions of Statement No. 157 for non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a non-recurring basis. The Company is currently evaluating the impact of adopting the provisions of Statement No. 157 for non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis.

Effective April 1, 2008, the Company adopted the provisions of Statement No. 157 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis. The adoption of the provisions of Statement No. 157 related to financial assets and liabilities and other assets and liabilities that are carried at fair value on a recurring basis did not materially impact the Company’s consolidated financial position and results of operations.

Statement No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Statement No. 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Statement No. 157 describes three levels of inputs that may be used to measure fair value:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 Quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The following table presents assets/(liabilities) measured at fair value on a recurring basis at December 31, 2008:

	Level 1	Level 2	Level 3
Investment in Ivivi	$ 910,000	$ --	$ --

NOTE 6 - CONCENTRATIONS

During the three month period ended December 31, 2008, four customers accounted for approximately 60% of our revenue. As of December 31, 2008, two customers represented approximately 68% of our accounts receivable.

During the three month period ended December 31, 2007, Ivivi accounted for approximately 52% of our revenue, and one other customer accounted for approximately 11% of our revenue. As of December 31, 2007, four customers represented approximately 73% of our accounts receivable.

During the nine month period ended December 31, 2008, Ivivi accounted for approximately 43% of our revenue, and one other customer accounted for approximately 14% or our revenue.

During the nine month period ended December 31, 2007, Ivivi accounted for approximately 40% of our revenue, and two other customers accounted for approximately 21% of our revenue.

NOTE 7 - SEGMENT INFORMATION

Information about segments is as follows:

	Chemical	Electronics	Total
Three months ended December 31, 2008			
Revenues from external customers	$ 182,670	$ 74,940	$ 257,610
Segment operating (loss)	(85,260)		