

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

ADM TRONICS UNLIMITED INC/DE
Form 10QSB
November 20, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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.
(Name of Small Business Issuer in its Charter)

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

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

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

Check whether the Issuer (1) has 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 Issuer was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days:

YES NO

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

YES NO

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

53,882,037 shares of Common Stock, \$.0005 par value,
as of November 20, 2006

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

INDEX

| | Page Number ----- |
|--|----------------------|
| Part I. Financial Information | |
| Item 1. Consolidated Financial Statements: | |
| Consolidated Balance Sheet - September 30, 2006 (unaudited) | 3 |
| Consolidated Statements of Operations - For the three months and six months ended September 30, 2006 (unaudited) and 2005 (unaudited and restated) | 4 |
| Statement of Stockholders' Deficiency For the six months Ended September 30, 2006 | 5 |
| Consolidated Statements of Cash Flows - For the six months ended September 30, 2006 (unaudited) and 2005 (unaudited and restated) | 6 |
| Notes to Consolidated Financial Statements (unaudited) | 7 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 12 |
| Item 3. Controls and Procedures | 16 |
| Part II. Other Information | |
| Item 1. Legal Proceedings | 17 |
| Item 6. Exhibits | 18 |

ADM TRONICS UNLIMITED, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
September 30, 2006
(Unaudited)

ASSETS

Current assets:

| | |
|--|------------|
| Cash and cash equivalents | \$ 379,039 |
| Accounts receivable, net of allowance for doubtful accounts of \$24,537 | 289,184 |
| Inventories | 261,708 |
| Prepaid expenses and other current assets | 127,932 |
| | ----- |

Total current assets 1,057,863

Property and equipment, net of accumulated depreciation

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

| | |
|---|--------------|
| of \$258,185 | 38,483 |
| Inventories - long term portion | 305,424 |
| Loan receivable and accrued interest, officer | 92,196 |
| Other assets | 94,152 |
| Deferred charges | 1,502,071 |
| | ----- |
| Total assets | \$ 3,090,189 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | |
| Current liabilities: | |
| Accounts payable | \$ 969,410 |
| Accrued expenses and other current liabilities | 1,432,849 |
| Note payable - current | 250,000 |
| | ----- |
| Total current liabilities | 2,652,259 |
| Deferred revenue | 285,167 |
| Convertible debentures payable, net of unamortized debt discount of \$2,114,925 | 5,972,575 |
| Warrant and registration rights liabilities | 3,728,513 |
| | ----- |
| Total liabilities | 12,638,514 |
| | ----- |
| Stockholders' deficiency: | |
| 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, 53,882,037 shares issued and outstanding | 26,941 |
| Additional paid-in capital | 11,694,237 |
| Accumulated deficit | (21,269,503) |
| | ----- |
| Total stockholders' deficiency | (9,548,325) |
| | ----- |
| Total liabilities and stockholders' deficiency | \$ 3,090,189 |
| | ===== |

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

3

ADM TRONICS UNLIMITED, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND 2005

| Three Months Ended September 30, | | Six Months |
|----------------------------------|-------|------------|
| 2006 | 2005 | 2006 |
| ----- | ----- | ----- |

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

| | (Unaudited) | (Unaudited) (Restated) | (Unaudited) |
|--|----------------|---------------------------|----------------|
| Revenues | \$ 570,582 | \$ 497,801 | \$ 1,035,000 |
| Costs and expenses: | | | |
| Cost of sales | 128,096 | 136,014 | 251,000 |
| Research and development | 166,313 | 154,576 | 297,000 |
| Selling, general and administrative | 2,101,632 | 1,524,369 | 3,296,000 |
| Total operating expenses | 2,396,041 | 1,814,959 | 3,844,000 |
| Operating loss | (1,825,459) | (1,317,158) | (2,809,000) |
| Interest and finance costs, net | (885,272) | (405,756) | (1,865,000) |
| Change in fair value of warrant and registration rights liabilities | 198,158 | (298,034) | (25,000) |
| Net loss | \$ (2,512,573) | \$ (2,020,948) | \$ (4,700,000) |
| Net loss per share, basic and diluted: | \$ (0.05) | \$ (0.04) | \$ (0.04) |
| Weighted average number of shares outstanding | 53,882,037 | 53,882,037 | 53,882,037 |

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

4

ADM TRONICS UNLIMITED, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2006
(UNAUDITED)

| | Common Stock Shares | Amount | Additional Paid-in Capital | Accumulated Deficit |
|----------------------------|------------------------|-----------|----------------------------------|------------------------|
| | ----- | ----- | ----- | ----- |
| Balance, April 1, 2006 | 53,882,037 | \$ 26,941 | \$ 10,342,480 | \$ (16,569,228) |
| Share based compensation | -- | -- | 1,351,757 | -- |
| Net loss | -- | -- | -- | (4,700,275) |
| Balance September 30, 2006 | 53,882,037 | \$ 26,941 | \$ 11,694,237 | \$ (21,269,503) |

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

5

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

ADM TRONICS UNLIMITED, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

| | 2006 | 2005 |
|---|----------------|----------------|
| | ----- | ----- |
| | | (Restated) |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (4,700,275) | \$ (2,514,033) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation and amortization | 14,676 | 62,547 |
| Share based compensation | 1,351,757 | 93,975 |
| Amortization of loan costs and discount | 431,774 | 375,323 |
| Equity based penalty expense | 1,174,886 | 150,885 |
| Bad debts | 33,597 | 66,765 |
| Change in fair value of warrant and registration rights liabilities | 25,845 | (726,434) |
| Amortization of deferred revenue | (4,833) | -- |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (27,618) | (294,010) |
| Inventories | 33,804 | (79,037) |
| Prepaid expenses and other current assets | (114,480) | 153,435 |
| Deposits and other assets | (738) | -- |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses and other current liabilities | 1,143,790 | 242,218 |
| Deferred revenue | 290,000 | -- |
| | ----- | ----- |
| Net cash used by operating activities | (347,815) | (2,468,366) |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | -- | (21,963) |
| | ----- | ----- |
| Net cash used by investing activities | -- | (21,963) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from notes payable, net | 245,725 | -- |
| Deferred offering costs | (501,541) | (80,766) |
| | ----- | ----- |
| Net cash used by financing activities | (255,816) | (80,766) |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (603,631) | (2,571,095) |
| Cash and cash equivalents, beginning of period | 982,670 | 3,011,631 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 379,039 | \$ 440,536 |
| | ===== | ===== |

Supplemental information

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

| | | | |
|----------------|----|---------|-----------|
| Cash paid for: | | | |
| Interest | \$ | 110,226 | \$ 84,121 |
| Income taxes | | -- | -- |

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

6

ADM TRONICS UNLIMITED, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of ADM Tronics Unlimited, Inc. and its subsidiaries (collectively, the "Company" and alone "ADM"). These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-QSB and do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the interim periods have been included. Operating results for the three and six months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending March 31, 2007. The accompanying consolidated 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 Company's audited consolidated financial statements and related notes included in the Company's Form 10-KSB for the fiscal year ended March 31, 2006.

Ivivi Operations

The Company's majority owned subsidiary, Ivivi Technologies, Inc., filed a Registration Statement with the Securities and Exchange Commission ("SEC") for the initial public offering of a portion of its common stock. The Registration Statement was declared effective by the SEC during October 2006. As a result of the consummation of Ivivi's initial public offering, ADM no longer owns a majority of the outstanding common stock of Ivivi and does not control Ivivi's operations for accounting purposes, as a result ADM's investment in Ivivi will subsequently be reported under the equity method of accounting.

Going Concern

In connection with the consummation of Ivivi's initial public offering during October 2006, (i) Ivivi repaid advances made to it by the Company aggregating approximately \$2.6 million and (ii) the Company's outstanding convertible notes were converted into shares of Ivivi's common stock. Therefore, the Company believes that it can continue as a going concern for the next 12 months.

Restatement

The September 30, 2005 financial statements have been restated to record additional non-cash charges for equity based penalties and additional share based compensation aggregating \$70,840.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Per Share

Basic and diluted loss per common share for all periods presented is computed based on the weighted average number of common shares outstanding during the periods presented as defined by SFAS No. 128, "Earnings Per Share". The assumed exercise of common stock equivalents was not utilized for the six and three month periods ended September 30, 2006 and 2005 since the effect would be anti-dilutive. There were 53,682,342 common stock equivalents at September 30, 2006 and 50,182,342 at September 30, 2005.

Stock Options and Warrants

In April 2006 the Company adopted the fair value recognition provisions of SFAS No. 123(R), Accounting for Stock-Based Compensation, to account for compensation costs under The Company's stock option plans and those of the Company's subsidiary. The Company previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (as amended) ("APB 25"). Pro forma information is computed using the Black-Scholes model at the date of grant of the options based on the following assumptions ranges: risk free interest rates of 3.62% to 4.6%; dividend yield of 0%; volatility factors of the expected market price of our common stock of 60% to 67%; and expected lives of the options of 2.5 to 5 years. The foregoing option valuation model requires input of highly subjective assumptions. Because common share purchase options granted to employees and directors have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value of estimates, the existing model does not in the opinion of the Company's management necessarily provide a reliable single measure of fair value of common share purchase options the Company has granted to its employees and directors. Pro forma information relating to employee and director common share purchase options is as follows:

| | For the Three Months Ended September 30, 2005 ----- | Fo Mo Septe ----- |
|---|--|----------------------------|
| Net loss as reported | \$(2,020,948) | \$(|
| Shared based compensation expense included in reported net loss | 2,856 | |
| Share based compensation calculated under fair value method | (5,260) | |
| Pro forma net loss | \$(2,023,352) | \$(|

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

| | | | |
|---|----|--------|----|
| Basic and diluted historical loss per share | \$ | (0.04) | \$ |
| Pro forma basic and diluted loss per share | \$ | (0.04) | \$ |

8

NOTE 2 SEGMENT INFORMATION

Information about segment information is as follows:

| | CHEMICAL | MEDICAL | TOTAL |
|--|------------|-------------|--------------|
| Six Months Ended September 30, 2006: | | | |
| Revenues from external customers | \$ 400,707 | \$ 634,854 | \$ 1,035,561 |
| Segment loss (operating loss) | (469,004) | (2,340,003) | (2,809,007) |
| Six Months Ended September 30, 2005: | | | |
| Revenues from external customers | 464,429 | 354,382 | 818,811 |
| Segment loss (operating loss) | (28,352) | (2,440,777) | (2,469,129) |
| Three Months Ended September 30, 2006: | | | |
| Revenues from external customers | 201,172 | 369,410 | 570,582 |
| Segment loss (operating loss) | (454,595) | (1,370,864) | (1,825,459) |
| Three Months Ended September 30, 2005: | | | |
| Revenues from external customers | 183,987 | 313,814 | 497,801 |
| Segment loss (operating loss) | (55,891) | (1,261,267) | (1,317,158) |

NOTE 3 DEFERRED REVENUE

In August 2006, Ivivi sold to Ajax Capital LLC, an investment fund wholly-owned by the Chairman of the Board of Ivivi (who's appointment was effective on the initial public offering during October 2006), 15 units of the Roma3 and five units of the SofPulse M-10 at a purchase price of \$14,500 per unit, the then published wholesale unit price for the Roma3 and the SofPulse M-10, for an aggregate purchase price of \$290,000. In connection therewith, Ivivi entered into a revenue sharing agreement with Ajax Capital LLC, pursuant to which Ivivi agreed to use its commercially reasonable efforts to rent to third parties all of the units of the Roma3 and the SofPulse M-10 purchased by Ajax Capital LLC. Ajax Capital LLC will be entitled to receive revenues with respect to the rental of units of the Roma3 purchased by it in an amount equal to 50% of the aggregate of the gross proceeds from such rentals received by Ivivi during each month of the term. Ajax Capital LLC also will be entitled to receive revenues with respect to rental of the units of the SofPulse M-10 purchased by it in an amount equal to the net proceeds from such rentals received by Ivivi during each month of the term, reduced by (i) 11.5% of the gross proceeds for services related to marketing, billing, collections and account maintenance to be performed by Ivivi with respect to such units, received by Ivivi during such month, and (ii) in the case of each of the first three months during the term, a set up fee of \$2,000. In addition, Ajax Capital LLC will be entitled to receive 50% of any and all gross proceeds Ivivi receives from its sale of applicators for use in connection with the units of the Roma3 rented to third parties during the term of the agreement. The term of the agreement expires on August 28, 2011. As of September

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

30, 2006, we have recognized \$4,833 in revenue from this agreement leaving a balance in deferred revenue of \$285,167.

NOTE 4 SUBSEQUENT EVENTS

On October 24, 2006, Ivivi completed its initial public offering ("Offering"), selling 2.5 million shares of its common stock at \$6 per share with gross proceeds of \$15 million. The underwriters of the offering have been granted an option for a period of 45 days to purchase up to an aggregate of 375,000 additional shares of common stock from Ivivi to cover over-allotments, if any.

Net proceeds to Ivivi were approximately \$12.9 million after the payment of underwriting discounts and commissions and expenses related to the offering.

In addition, Ivivi paid approximately \$2.6 million to the Company representing the balance in inter-company accounts at October 24, 2006 due to the Company from Ivivi for product manufacturing and allocations of personnel, professional services, rent, utilities, insurance and office support services provided by the Company to Ivivi for the period from March 1989 to October 2006. Further, the Company's outstanding convertible notes were converted into shares of Ivivi's common stock.

9

On November 9, 2006, Ivivi entered into an exclusive worldwide distribution agreement (the "Agreement") with a wholly-owned subsidiary of Allergan, Inc. ("Allergan"), a global healthcare company that discovers, develops and commercializes pharmaceutical and medical device products in specialty markets. Pursuant to the Agreement, Ivivi granted Allergan's subsidiary, Inamed Medical Products Corporation and its affiliates ("Inamed") the exclusive worldwide right to market, sell and distribute certain of Ivivi's products, including all improvements, line extensions and future generations thereof (collectively, the "Product") in conjunction with any aesthetic or bariatric medical procedures (the "Field") in the Marketing Territory (as defined therein).

Under the Agreement, Ivivi also granted Inamed the right to rebrand the Product, with Inamed owning all rights to such brands developed by Inamed for such purpose. Under the Agreement, Ivivi received an initial payment of \$500,000 and will receive certain milestone payments of up to \$1,000,000 in the aggregate upon the Product's First Commercial Sale (as defined in the Agreement) in the United States and Europe. In addition, Inamed will purchase the Product from Ivivi at a pre-determined price and must meet certain minimum order requirements. Finally, Ivivi will receive royalty payments based on Inamed's net sales and number of units sold of the Product, subject to certain annual minimum royalty payments to be determined by the parties.

The Agreement has an eight year initial term beginning at the Product's First Commercial Sale. The initial term may be extended for two additional years without further payment at Inamed's option. Inamed may also pay Ivivi a \$2,000,000 extension fee and extend the term of the Agreement for up to eight additional years, for a total term of up to 18 years.

Inamed may only market, sell and distribute the Product under the Agreement in the "Marketing Territory," which is generally defined in the Agreement as the United States and such other jurisdictions for which all requisite regulatory approval has been obtained. If the marketing, sale or distribution of the

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

Product in a jurisdiction would infringe third-party intellectual property rights and likely result in a lawsuit against Ivivi or Inamed, Inamed could require Ivivi to use reasonable commercial efforts to obtain a license for, or redesign, the Product to be sold in that jurisdiction.

In the event Ivivi fails to supply Allergan or its subsidiaries certain minimum amounts of the Product and fails to procure alternate suppliers for such Products within certain timeframes, Inamed will have the right to use certain of Ivivi's intellectual property and/or other proprietary information to manufacture the Product until such time as Ivivi demonstrates to Inamed's reasonable satisfaction that it is fully able to resume its supply obligations. During such time as Inamed controls Product manufacturing, Ivivi's royalty rate would be significantly reduced.

In the event Inamed is required to discontinue the marketing, sale or distribution of the Product in the United States and/or any country in the European Union because of problems with regulatory approvals and/or other reasons related to the Product, Ivivi will be required to repay Inamed portions of the milestone payments up to \$1,000,000.

10

Inamed may terminate the Agreement by giving 90 to 180 days' prior written notice to Ivivi. Ivivi may terminate the Agreement by giving 12 months' prior written notice if Inamed fails to timely pay Ivivi minimum royalty amounts for any applicable year or fails to meet the minimum sales requirements set forth in the Agreement. A non-breaching party may terminate the Agreement following a material breach of the Agreement and the breaching party's failure to cure such breach during the applicable cure period by giving the breaching party proper prior written notice. If Ivivi is in material breach, and fails to cure, Inamed may have the right to use certain of Ivivi's intellectual property and/or other proprietary information to manufacture the Product. Ivivi's royalty rate would subsequently be significantly reduced.

Neither party may assign or otherwise transfer its right and obligations under the Agreement, including upon a change of control of such party (as defined in the agreement), without the prior written consent of the other party, which consent shall not be unreasonably withheld, except that Inamed may assign its rights and obligations without the prior written consent of Ivivi to Inamed's affiliates and upon a sale of all or substantially all of the assets or equity of the business entity, division or unit, as applicable, that markets, distributes or sells the Product.

The Agreement includes other terms and conditions, including provisions regarding regulatory responsibilities, audit rights, insurance, indemnification and confidentiality.

11

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the Company's operations and financial condition should be read in conjunction the Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-QSB.

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

Forward-Looking Statements

This Quarterly Report on Form 10-QSB contains forward-looking statements within the meaning of the "safe harbor" provisions under section 21E of the Securities and Exchange Act of 1934 and the Private Securities Litigation Act of 1995. The Company uses forward-looking statements in its description of its plans and objectives for future operations and assumptions underlying these plans and objectives. Forward-looking terminology includes the words "may", "expects", "believes", "anticipates", "intends", "forecasts", "projects", or similar terms, variations of such terms or the negative of such terms. These forward-looking statements are based on management's current expectations and are subject to factors and uncertainties which could cause actual results to differ materially from those described in such forward-looking statements. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this report to reflect any change in our expectations or any changes in events, conditions or circumstances on which any forward-looking statement is based. Factors which could cause such results to differ materially from those described in the forward-looking statements include those set forth under "Item. 1 Description of Business - Risk Factors" and elsewhere in, or incorporated by reference into the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 2006 and other filings with the Securities and Exchange Commission.

Critical Accounting Policies

Revenue Recognition:

Sales revenues are recognized when products are shipped to end users and rental and lease revenues are recognized principally on either a monthly or a pay-per use basis in accordance with individual rental or lease agreements and are recognized on a monthly basis as earned. Shipments to distributors are recognized as sales where no right of return exists. This is generally the case with sales of chemicals. This is generally not the case with sales of the medical products. The Company recognizes revenue from the sale of medical products when the products are shipped to end users. An increasing amount of rental revenue is recognized on a fixed monthly recurring basis as product is utilized by the end-user. Sales returns have been immaterial. Lease revenues through third party distributors have also been immaterial and there have been no sales through third party distributors. The Company's products are principally shipped on a "freight collect" basis. Shipping and handling charges are immaterial.

Use of Estimates:

The Company's discussion and analysis of its financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of

contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to reserves, deferred tax assets and valuation allowance, impairment of long-lived assets, fair value of equity instruments issued to consultants for services and fair value of equity instruments issued to others. The Company bases its estimates on historical

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

experience and on various other assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, the Company believes that its estimates, including those for the above-described items, are reasonable.

Business Overview

The Company is a corporation that was organized under the laws of the State of Delaware on November 24, 1969. During the three and six months ended September 30, 2006 and 2005, the Company's operations were conducted through the Company itself and its three subsidiaries, Ivivi Technologies, Inc., Pegasus Laboratories, Inc. and Sonotron Medical Systems, Inc.

The Company is a technology-based developer and manufacturer of diversified lines of products in the following three areas: (1) environmentally safe chemical products for industrial use, (2) therapeutic non-invasive electronic medical devices and (3) cosmetic and topical dermatological products. The Company has historically derived most of its revenues from the development, manufacture and sale of chemical products, and, to a lesser extent, from its therapeutic non-invasive electronic medical devices and topical dermatological products. However, during the three and six months ended September 30, 2006, the Company derived an increased amount of its revenue from the sale and rental of its therapeutic non-invasive medical devices.

The Company's majority owned subsidiary, Ivivi Technologies, Inc., filed a Registration Statement with the Securities and Exchange Commission ("SEC") for the initial public offering of a portion of Ivivi's common stock. The Registration Statement was declared effective by the SEC in October 2006. As a result of the consummation of Ivivi's initial public offering, ADM no longer owns a majority of the outstanding common stock of Ivivi and does not control Ivivi's operations for accounting purposes, as a result, ADM's investment in Ivivi will subsequently be reported under the equity method of accounting.

Results of Operations for the three months ended September 30, 2006 as compared to September 30, 2005

Revenues

Revenues were \$570,582 for the three months ended 2006 as compared to \$497,801 for the three months ended September 30, 2005, an increase of \$72,781, or 15%. Revenues from the Company's chemical and medical activities increased by \$17,185 and \$55,596 respectively in the 2006 period as compared to the 2005 period. The increase in revenues from the Company's medical technology activities was primarily due to increased sales and rentals of Ivivi's product.

Net (Loss)

Net loss for the three months ended September 30, 2006 was \$2,512,573, or \$0.05 per share, compared to a net loss for the three months ended September 30, 2005 of \$2,020,948, or \$0.04 per share due to the increased expenses at the Company's medical operation. Selling, general and administrative expenses increased by \$577,263, or 38% from \$1,524,369 to \$2,101,632 due to increased expenses at the Company's medical operation. Research and development expense was \$166,313 during the three months ended September 30, 2006 related to for laboratory studies for Ivivi's technology and \$154,576 in the comparable 2005 period, an increase of \$11,737 or 8%. Interest and finance costs net, increased \$479,516, a (100+%) increase, to \$980,151 in the three months ended September 30, 2006 from \$405,756 in the three months ended September 30, 2005, due to interest expense

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

and amortization of discount on the convertible notes issued in the Company's private placements partially offset by interest earned from amounts invested in

13

money market funds. During the three months ended September 30, 2006, the Company recorded a recovery expense of \$198,158 due to the decrease in the fair value of the liability for warrants issued with registration rights, compared to an expense of \$298,034 in the comparable 2005 period due to the increase in the fair value of the liability for the warrants.

Results of Operations for the six months ended September 30, 2006 as compared to September 30, 2005

Revenues

Revenues were \$1,035,561 for the six months ended September 30, 2006 as compared to \$818,811 for the six months ended September 30, 2005, an increase of \$216,750, or 26.5%. Revenues from the Company's chemical activities decreased by \$63,722 and revenues from the Company's medical technology activities increased by \$280,472 in the 2006 period, compared to the 2005 period. The increase in revenues from the Company's medical technology activities was primarily due to increased sales and rentals of Ivivi's products.

Net (Loss)

Net loss for the six months ended September 30, 2006 was \$4,700,275, or \$.09 per share, compared to a net loss for the six months ended September 30, 2005 of \$2,514,033, or \$.05 per share from \$2,696,739 to \$3,296,126 due to the increased expenses at the Company's medical operation. Selling, general and administrative expenses increased by \$599,387, or 22% from \$2,696,739 to \$3,296,126 due to increased expenses at the Company's medical operations. Research and development expense was \$297,391 during the six months ended September 30, 2006 related to laboratory studies for Ivivi's technology, and \$321,925 expense in the 2005 period, a decrease of \$24,534 or 8%. Interest and finance costs net increased \$1,094,085 (100+%) from \$771,338 to \$1,865,423 due to interest expense and amortization of discount on the convertible notes issued in the Company's private placements partially offset by interest earned from amounts invested in money market funds. During the six months ended September 30, 2006, the Company recorded an expense of \$25,845 due to the increase in the fair value of the liability for warrants issued with registration rights, compared to a recovery of expense of \$726,434 in the comparable 2005 period.

Liquidity and Capital Resources

At September 30, 2006, the Company had cash and equivalents of \$379,039 as compared to \$982,670 at March 31, 2006. The decrease was primarily the result of the increased operating expenses at the Company's subsidiary, Ivivi Technologies, Inc.

In connection with the consummation of Ivivi's initial public offering in October 2006, the Company received approximately \$2.6 million of the proceeds due to the Company from Ivivi for product manufacturing and allocations of personnel, professional services, rent, utilities, insurance and office support services provided by the Company to Ivivi for the period from March 1989 to October 2006. These proceeds will be used for increased administrative and marketing costs in order to attempt to increase the Company's revenue. Additionally, as a result of the consummation of Ivivi's initial public

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

offering, the Company no longer has debt outstanding and any related warrant obligations from the private placements of unsecured convertible notes issued jointly and severally by the Company and Ivivi in December 2004 and February 2005. This debt, which amounted to approximately \$8.1 million, was converted automatically into shares of Ivivi's common stock on the initial public offering date.

Operating Activities

Net cash flows used by operating activities were \$347,815 for the six months ended September 30, 2006 as compared to net cash flows used by operating activities of \$2,468,366 for the six months ended September 30, 2005. The use of cash in 2006 was primarily due to a net loss of \$4,700,275 related mostly to the Company's medical technologies activities. The net loss was partially offset by non cash charges for the amortization of loan costs and amortization of discount of \$431,774 on the convertible notes issued in the private placements, stock based compensation of \$1,351,757, equity based penalty expense of \$1,174,886 and increases in accounts payable and accrued expenses of \$1,143,790.

14

The use of cash in 2005 was primarily due to a net loss of \$2,514,033 related mostly to the Company's medical technologies activities. The net loss was partially offset by non cash charges for the amortization of loan costs and amortization of discount of \$375,323 on the convertible notes issued in the private placements, stock based compensation of \$93,975 and equity based penalty expense of \$150,885. The Company recorded a non-cash recovery of expense of \$726,434 due to the decrease in the fair value of the liability for warrants issued with registration rights in the 2005 period. In addition, the Company recorded an increase in accounts receivable of \$294,010

Investing Activities

For the six months ended September 30, 2006, cash used in investing activities was zero. For the six months ended September 30, 2005, \$21,963 was used for the purchase of equipment.

Financing Activities

During the six months ended September 30, 2006, the Company paid \$501,541 for deferred costs related to the private placements as compared to \$80,766 during the six months ended September 30, 2005. During the six months ended September 30, 2006, Ivivi had net proceeds from notes payable of \$245,725.

The Company does not have any material external sources of liquidity or unused sources of funds.

15

The Company's revenues, operations and cash flows over the past few years have declined. Management has recognized the situation and has developed a business plan to enhance the activities of its operations.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d - 15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives.

As of the end of the period covered by this Quarterly Report on Form 10-QSB, the Company carried out an evaluation, with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation as of September 30, 2006, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that the Company files or submits under the Securities Exchange Act is accumulated and communicated to the Company's management including its Chief Executive Officer and Chief Financial Officer, to ensure that such information is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Changes In Internal Controls Over Financial Reporting.

The financial statements contained in the Company's Quarterly Report on Form 10-QSB for the Company's fiscal quarter ended September 30, 2005, required restatement related to the accounting for the fair value of warrants issued with convertible debt, and a beneficial conversion feature related to the convertible debt issued with respect to the private placements completed in December 2004 and February 2005 as previously accounted for by the Company.

The Company has taken the following steps in connection with its internal controls: (i) during the quarter ended June 30, 2005, the Company retained a certified public accountant as a consultant to assist with the Company's financial reporting obligations and to improve its internal controls over financial reporting and (ii) during the quarter ended September 30, 2005, the Company hired a certified public accountant as a part-time employee responsible for assisting management with internal controls, financial reporting and closing the Company's books and records. In connection with Ivivi's initial public offering in October 2006, Ivivi hired a Chief Financial Officer and a Controller. Both individuals are certified public accountants and have vast public company experience.

Except as set forth above, there have been no changes in the Company's internal controls over financial reporting that occurred during the Company's last fiscal

Edgar Filing: ADM TRONICS UNLIMITED INC/DE - Form 10QSB

quarter to which this Quarterly Report on Form 10- QSB relates that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On May 25, 2005, Ivivi filed a complaint against Regensis Biomedical, Inc., Virginia Rybski, Vice President of Sales and Marketing of Regensis, Terrence Kennedy, Regional Sales Manager for the South Eastern Territories of Regensis, Mary Ritz, President of Regensis, and Frank George, Chief Science and Technology Officer of Regensis, in the Superior Court of New Jersey - Law Division - Bergen County, Docket 3724-05, alleging breach of contract, tortious interference and conversion. We are seeking money damages and an injunction against future sales of the competing product. On July 5, 2005, the defendants filed a motion to dismiss for lack of personal jurisdiction or for failure to state a claim upon which relief can be granted. The Court denied the defendants' motion and permitted a period of discovery to determine jurisdiction as to defendants, Terrence Kennedy, Mary C. Ritz and Frank R. George. In July 2006, Regensis filed counterclaims against us claiming unfair competition, tortious interference, employee piracy and tortious interference for allegedly falsely advising customers with regard to Regensis, and Ms. Rybski and Mr. Kennedy filed counterclaims against us alleging tortious interference with their prospective economic advantage. Although we and the other parties have exchanged draft settlement proposals with respect to this matter, the matter has not yet been resolved. By agreement and stipulation, dated October 13, 2006, signed by all parties to the litigation and their legal counsel, the parties agreed to dismiss with prejudice the complaint and counterclaim subject to the terms as set forth therein. The stipulation of dismissal and order was filed with the court on October 17, 2006.

On August 17, 2005, Ivivi filed a complaint against Conva-Aids, Inc. t/a New York Home Health Care Equipment, or NYHHC, in the Superior Court of New Jersey, Law Division, Docket No. BER-L-5792-05, alleging breach of contract with respect to a distributor agreement that we and NYHHC entered into on or about August 1, 2004, pursuant to which: (i) we appointed NYHHC as exclusive distributor of our products in a defined market place for so long as NYHHC secured a minimum number of placements of our products and (ii) NYHHC agreed to pay us \$2,500 per month for each product shipped to NYHHC. By letter, dated August 9, 2005, we terminated the agreement due to NYHHC's failure to make the payments required under the agreement and failure to achieve the minimum number of placements required under the agreement. We are seeking various forms of relief, including: (i) money damages, including amounts due under unpaid invoices in an aggregate amount of \$236,560, (ii) an accounting and (iii) the return of our products. The defendants filed a motion to dismiss alleging lack of jurisdiction and failure to state a claim with regard to Harry Ruddy. We opposed the defendant's motion to dismiss. On November 18, 2005, the Court denied the defendant's motion to dismiss, without prejudice, based upon lack of jurisdiction, which has not been completely decided. The Court permitted a period of discovery to determine the jurisdiction issue, which discovery is substantially complete. The defendants filed another motion to dismiss based upon a claim of lack of jurisdiction, which was heard and denied by the Court on June 9, 2006. On or about July 10, 2006, the defendants filed an answer and NYHHC filed counterclaims against us for breach of contract, breach of the implied covenant of good faith and fair dealing, restitution, unjust enrichment and fraudulent inducement. An answer to the counterclaim was filed on August 9, 2006.

On October 10, 2006, Ivivi received a demand for arbitration by Stonefield Josephson, Inc. with respect to a claim for fees for accounting services in the amount of approximately \$106,000, plus interest and attorneys fees. Stonefield Josephson had previously invoiced Ivivi for fees for accounting services in an amount which Ivivi has refuted. Ivivi intends to respond to Stonefield Josephson's demand for arbitration, which we believe is procedurally defective and premature due to Stonefield Josephson's failure to participate in required mediation, and to defend against the claim vigorously, although provision has been made for the amount of the claim in the financial statements. Moreover, Ivivi reserves all rights to pursue claims against Stonefield Josephson. On October 26, 2006, Ivivi sent a letter requesting the required mediation before arbitration.

Other than the foregoing, the Company is not a party to, and none of its property is the subject of, any pending legal proceedings other than routine litigation that is incidental to its business.

Item 6. Exhibits.

(a) Exhibit No.

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

ADM Tronics Unlimited, Inc.
(Registrant)

By: /s/ Andre' DiMino

Andre' DiMino, Chief Executive
Officer and Chief Financial Officer

Dated: Northvale, New Jersey
November 20, 2006