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

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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<br>(State or Other Jurisdiction<br>of Incorporation or organization) | 22-1896032<br>(I.R.S. Employer<br>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.

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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.

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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, | | Nine Months Ended December 31, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 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) | (132,276) | (217,536) |
| Three months ended December 31, 2007 | | | |
| Revenues from external customers | $ 209,031 | $ 287,230 | $ 496,261 |
| Segment operating profit (loss) | 9,717 | (140,204) | (130,487) |
| Nine months ended December 31, 2008 | | | |
| | $ 604,019 | $ 644,121 | $ 1,248,140 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Revenues from external customers | | | | | | |
| Segment operating (loss) | | (201,860) | | (283,207) | | (485,067) |
| | | | | | | |
| Nine months ended December 31, 2007 | | | | | | |
| Revenues from external customers | $ | 652,719 | $ | 536,475 | $ | 1,189,194 |
| Segment operating (loss) | | (249,133) | | (105,717) | | (354,850) |
| | | | | | | |
| Total assets at December 31, 2008 | $ | 2,543,894 | $ | 790,432 | $ | 3,334,326 |
| | | | | | | |
| Total assets at March 31, 2008 | $ | 4,592,031 | $ | 525,704 | $ | 5,117,735 |

NOTE 8 - RELATED PARTY TRANSACTIONS

ADVANCES TO RELATED PARTIES

As of December 31, 2008 and March 31, 2008, ADM was owed $50,843 and $74,299, respectively, from advances including accrued interest made to an officer and to an officer and his wife. No advances have been made since 2000. The advances bear interest at an effective rate of approximately 1% per year. Interest expense for the nine months ended December 31, 2008 and 2007 was $631 and $1,146, respectively.

MANAGEMENT SERVICES AGREEMENT

ADM entered into a management services agreement with Ivivi, as of August 15, 2001, as amended, under which ADM provides Ivivi with management services and allocates portions of its real property facilities for use by Ivivi for the conduct of its business. The management services provided by ADM under the management services agreement include managerial and administrative services, marketing and sales services, clerical and communication services, the maintenance of a checking account and the writing of checks, the maintenance of accounting records and other services in the ordinary course of business. Ivivi pays ADM for such services on a monthly basis pursuant to an allocation determined by ADM and Ivivi based on a portion of its applicable costs plus any invoices it receives from third parties specific to Ivivi. ADM and Ivivi also use office, manufacturing and storage space in a building located in Northvale, New Jersey, currently leased by ADM, pursuant to the terms of the management services agreement. ADM determines the portion of space allocated to Ivivi on a monthly basis, and Ivivi is required to reimburse ADM for its portion of the lease costs, real property taxes and related costs.

During the three months ended December 31, 2008 and December 31, 2007, Ivivi had $10,809 and $55,781, respectively, in management services provided to it by ADM pursuant to the management services agreement. During the nine months ended December 31, 2008 and December 31, 2007, Ivivi had $36,695 and $171,646, respectively, in management services provided to it by ADM pursuant to the management services agreement.

INFORMATION TECHNOLOGY SERVICE AGREEMENT

ADM entered into an information technology ("IT") service agreement with Ivivi on February 1, 2008, pursuant to which Ivivi, in conjunction with its outside IT professionals, will service ADM's IT needs on an as needed basis. Ivivi will invoice ADM monthly for any time it spends in providing such services to ADM. The rate that Ivivi will charge ADM will be determined at date of invoice. Such invoices that Ivivi issues ADM, with respect to such services, will be due within 30 days. IT services include, but are not limited to: computer hardware and software related issues, network administration, e-mail hosting and administration, telephone and cabling installations and maintenance. There were no charges under this agreement for the three and nine months ended December 31, 2008.

MANUFACTURING AGREEMENT

ADM and Ivivi are parties to a manufacturing agreement, dated as of August 15, 2001, and as amended in February, 2005. Under the terms of the agreement, ADM has agreed to serve as the exclusive manufacturer of all current and future medical and nonmedical electronic and other electronics or products to be sold or rented by Ivivi. For each product that ADM manufactures, Ivivi pays ADM an amount equal to 120% of the sum of (i) the actual, invoiced cost for raw materials, parts, components or other physical items that are used in the manufacture of the product and actually purchased for such entity by ADM, if any, plus (ii) a labor charge based on ADM's standard hourly manufacturing labor rate, which ADM believes is more favorable than could be attained from unaffiliated third parties. Under the terms of the agreement, if ADM is unable to perform its obligations to Ivivi under the manufacturing agreement or is otherwise in breach of any provision of the manufacturing agreement, Ivivi has the right, without penalty, to engage third parties to manufacture some or all of its products. In addition, if Ivivi elects to utilize a third-party manufacturer to supplement the manufacturing being completed by ADM, Ivivi has the right to require ADM to accept delivery of its products from these third-party manufacturers, finalize the manufacture of the products to the extent necessary and ensure that the design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process have been met.

Pursuant to the manufacturing agreement, sales and manufacturing charges to Ivivi during the three and nine months ended December 31, 2008 and December 31, 2007 were approximately $2,896 and $247,799, and $517,823 and $459,702, respectively.

NOTE 9 – ACQUISITIONS

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") for $265,000. From this date, all of the operations of Action are included in our consolidated financial statements. We acquired Action to continue to expand our electronics segment operations, and for the opportunity to expand its operations into the OEM market. The fair value assigned to the acquired assets was as follows:

| | |
|---|---|
| Inventory | $ 19,184 |
| Equipment | 9,140 |
| Non-Compete Agreement | 50,000 |
| Controller design | 100,000 |
| Customer list | 62,491 |
| Total | $ 240,815 |

The remaining costs were expensed.

The following table shows the Company's pro forma unaudited operating revenue, net loss and loss per share, assuming the acquisition of Action Spas had been made April 1, 2008:

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| | | Nine Months Ended December 31, 2008 |
|---|---|---|
| Revenue | $ | 1,348,221 |
| Net Loss | $ | (8,445,623) |
| Net loss per share | | (0.16) |

NOTE 10 – NOTE PAYABLE, BANK

On August 21, 2008, the Company entered into a note payable with a commercial bank in the amount of $200,000. This note bears interest at a rate of 2.98% and is secured by cash on deposit with the institution, which is classified as restricted cash. Amounts outstanding under the note are payable on demand, and interest is payable monthly.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our operations and financial condition should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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. We use forward-looking statements in our description of our 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. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this Form 10-Q 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 our Annual Report on Form 10-KSB for the fiscal year ended March 31, 2008.

CRITICAL ACCOUNTING POLICIES

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 5 year warranty on our spa/hot tub controller units. We have no other post shipment obligations and sales returns have been immaterial.

USE OF ESTIMATES:

Our discussion and analysis of our financial condition and results of operations is based upon our 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 us 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, we evaluate our 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. We base our estimates on historical experience and on various other assumptions that we believe 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, we believe that our estimates, including those for the above described items, are reasonable.

## BUSINESS OVERVIEW

ADM is a corporation that was organized under the laws of the State of Delaware on November 24, 1969. During the nine months ended December 31, 2008 and 2007, our operations were conducted through ADM itself and its subsidiaries, Action Industries Unlimited, LLC (formed August 20, 2008) (“Action”), Pegasus Laboratories, Inc. (“PLI”) and Sonotron Medical Systems, Inc (“SMS”). Our investment in Ivivi Technologies, Inc. (“Ivivi”) from October 18, 2006 to March 31, 2008 was reported 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, we 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.

We are 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) electronic products for numerous industries, including therapeutic non-invasive electronic medical devices and electronic controllers for spas and hot tubs, and (3) cosmetic and topical dermatological products. We have historically derived most of our revenues from the development, manufacture and sale of chemical products, and, to a lesser extent, from our electronics and topical dermatological products. Although, during the three and nine months ended December 31, 2008 and 2007, we derived an increased amount of our revenue from contract manufacturing of electronics for Ivivi, we have completed our scheduled production for Ivivi, and have not received any material additional purchase orders from Ivivi to date. Our Electronics segment includes our Action and SMS subsidiaries, and our Chemical segment includes our PLI subsidiary.

## RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2008 AS COMPARED TO DECEMBER 31, 2007

### REVENUES

Revenues were $257,609 for the three months ended December 31, 2008 as compared to $496,261 for the three months ended December 31, 2007, a decrease of $238,652, or 48%. The decrease resulted from declines in sales to existing chemical customers of approximately $26,361, and, decreased sales of approximately $243,065 in contract manufacturing for Ivivi partially offset by increased sales of approximately $24,000 of electronic controllers for spas and hot tubs being generated by our subsidiary Action. Gross profit was $74,255, or 29%, for the three months ended December 31, 2008 compared to $143,319, or 29%, for the three months ended December 31, 2007. The comparative gross margin for the periods was equal.

### OPERATING LOSS

Loss from operations for the three months ended December 31, 2008 was $217,536, compared to a loss from operations for the three months ended December 31, 2007 of $130,487. Selling, general and administrative expenses increased by $18,100, or 7%, from $273,691 to $291,791, mainly due to increased compensation and health insurance costs and rent, offset by a decrease in consulting expense and samples expense. Research and development expenses were zero during the three months ended December 31, 2008 compared to $115 during the three months ended December 31, 2007, as a result of no research and development activities during the third quarter of 2008.

### NET LOSS AND NET LOSS PER SHARE

Net loss for the three months ended December 31, 2008 was $860,999, or $0.02 per share, compared to a net loss for the three months ended December 31, 2007 of $703,357, or $0.01 per share. With the adoption of SFAS No. 159, “The Fair Value Option for Financial Assets and Liabilities”, we recorded a decrease in fair value of $650,000 with respect to our investment in Ivivi, for the three months ended December 31, 2008. During the three months ended December 31, 2007, we recorded an equity method investment loss of $594,446 from our investment in Ivivi. Net interest income decreased $15,039 to $6,537 in the three months ended December 31, 2008, from $21,576 in the three months ended December 31, 2007, primarily due to decreased funds invested in a money market account and lower interest rates on such funds, coupled with the interest expense on our borrowings under our bank loan

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED DECEMBER 31, 2008 AS COMPARED TO DECEMBER 31, 2007

REVENUES

Revenues were $1,248,140 for the nine months ended December 31, 2008 as compared to $1,189,194 for the nine months ended December 31, 2007, an increase of $58,946, or 5%. This increase was mainly the result of approximately $60,000 greater sales in contract manufacturing for Ivivi and approximately $31,000 in sales of electronic controllers for spas and hot tubs, being generated by our subsidiary Action, which were partially offset by declines in sales to our existing chemical customers of approximately $49,000. Gross profit was $407,305, or 33%, for the nine months ended December 31, 2008 compared to $417,023, or 35%, for the nine months ended December 31, 2007. Gross margins decreased as a result of margins on approximately $517,823 of sales of electronics at approximately 17% to Ivivi, as compared to margins achieved from chemical and spa controller product lines, which are generally higher.

OPERATING LOSS

Loss from operations for the nine months ended December 31, 2008 was $485,067, compared to a loss from operations for the nine months ended December 31, 2007 of $354,850. Selling, general and administrative expenses increased by $124,164, or 16%, from $768,208 to $892,372, mainly due to increased compensation costs, health insurance rates, reduced cost allocations to Ivivi, and the implementation of a new accounting software system offset by a decrease in accounting fees and consulting fees. Research and development expenses decreased by $3,665, or 100%, from $3,665 to zero, as a result of no research and development activities during the first three quarters of 2009.

NET LOSS AND NET LOSS PER SHARE

Net loss for the nine months ended December 31, 2008 was $8,489,701, or $0.16 per share, compared to a net loss for the nine months ended December 31, 2007 of $1,957,354, or $0.04 per share. With the adoption of SFAS No. 159 "The Fair Value Option for Financial Assets and Liabilities", we recorded a decrease in fair value of $10,465,000 with respect to our investment in Ivivi, for the nine months ended December 31, 2008. During the nine months ended December 31, 2007, we recorded an equity method investment loss of $1,674,870 from our investment in Ivivi. Net interest income decreased $37,188 to $35,178 during the nine months ended December 31, 2008, from $72,366 in the nine months ended December 31, 2007, primarily due to decreased funds invested in a money market account and lower interest rates on such funds, coupled with the interest expense on our borrowings under our bank loan. Income tax credits of $2,425,188 were recognized during the nine months ended December 31, 2008, as a result of the decrease in fair value of our investment in Ivivi.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008, we had cash and equivalents of $1,325,511 as compared to $2,072,325 at March 31, 2008. The $746,814 decrease was primarily the result of our loss from operations during the nine month period and $225,000 of cash that was placed on restriction in connection with the bank loan. To a lesser extent our cash was reduced by the investment we made to acquire Action Spas. Our cash will continue to be used for increased marketing costs, and the related administrative expenses, in order to attempt to increase our revenue. We expect to have enough cash to fund operations for the next twelve months. The market value of our investment in Ivivi at December 31, 2008 was $910,000. However, our common shares of Ivivi have not been registered with the SEC and are subject to restriction as a result of securities laws.

OPERATING ACTIVITIES

Net cash used by operating activities was $517,241 for the nine months ended December 31, 2008, as compared to net cash used by operating activities of $304,546 for the nine months ended December 31, 2007. The use of cash during the nine months ended December 31, 2008 was primarily due to a net loss of $8,489,701, recognition of a deferred tax benefit of $2,425,188 and decreases in operating liabilities of $289,001, which was primarily offset by a change in the fair market value of our investment in Ivivi of $10,465,000 and a decrease in net operating assets of $199,170. The use of cash during the nine months ended December 31, 2007 was primarily due to a net loss of $1,957,354 and an increase in net operating assets of $446,771, which was primarily offset by a non-cash charge for the equity investment loss in Ivivi of $1,674,870 and increases in operating liabilities of $413,355.

INVESTING ACTIVITIES

For the nine months ended December 31, 2008, net cash used by investing activities was $429,573. The primary use of cash was for our acquisition of Action Spas, whereby we acquired intangible assets of $200,000, property and equipment of $14,888, and $225,000 in operating cash pledged for collateral on borrowings under our bank loan. Uses of cash were partially offset by collections from related parties of $23,456, which was received from an officer for repayment of advances made prior to 2000. For the nine months ended December 31, 2007, cash used in investing activities was $2,140. Of this amount, $22,140 was used for the purchase of property and equipment and $20,000 was received from an officer for repayment of advances made prior to 2000.

FINANCING ACTIVITIES

During the nine months ended December 31, 2008, we borrowed $200,000 from a commercial bank to facilitate our acquisition of Action Spas. There was no such activity during the nine months ended December 31, 2007.

OFF BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements that have had or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Concentration of Credit Risk
Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and our investment in Ivivi. The Company has no control over the market value of its investment in Ivivi.

We maintain cash and cash equivalents with well-capitalized financial institutions.

Our sales are materially dependent on a small group of customers, as noted in Note 6 of our financial statements. We monitor our Credit risk associated with our receivables on a routine basis. We also maintain credit controls for evaluating and granting customer credit.

ITEM 4T. CONTROLS AND PROCEDURES
EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES
We maintain 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 our 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-Q, we carried out an evaluation, with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based on that evaluation as of December 31, 2008, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective, as of the date of their evaluation, to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING.
There were no changes in the our internal control over financial reporting that occurred during our last fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.
None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None

ITEM 5. OTHER INFORMATION
None

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
February 23, 2009

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