ADM TRONICS UNLIMITED, INC.
Form 10-Q
February 19, 2019

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, 2018

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.
(Exact name of registrant as specified in its charter)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES [X] NO [ ]

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]
	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

YES [ ] NO [X]

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

67,588,492 shares of Common Stock, $.0005 par value, as of February 19, 2019.

ADM TRONICS UNLIMITED, INC. AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ADM TRONICS UNLIMITED, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2018 (Unaudited)	March 31, 2018 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$1,480,778	$1,693,532
Accounts receivable, net of allowance for doubtful accounts of $125,000	1,249,237	1,207,493
Inventories	356,453	201,023
Prepaid expenses and other current assets	30,149	12,156
Total current assets	3,116,617	3,114,204
Property and equipment, net of accumulated depreciation of $98,723 and $70,440, at December 31, 2018 and March 31, 2018, respectively	104,837	133,120
Inventories - long-term portion	111,051	111,051
Intangible assets, net of accumulated amortization of $11,686 and $10,639, at December 31, 2018 and March 31, 2018, respectively	9,248	10,295
Other assets	90,764	91,464
Deferred tax asset	1,189,000	1,092,000
Total other assets	1,504,900	1,437,930
Total assets	$4,621,517	$4,552,134
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Capital lease payable	$31,196	$31,196
Accounts payable	348,285	286,964
Accrued expenses and other current liabilities	127,028	149,382
Customer deposits	182,307	122,167

Due to stockholder	126,857	130,551
Total current liabilities	815,673	720,260
Long-term liabilities		
Capital lease payable, net of current portion	30,497	54,637
Total liabilities	846,170	774,897
Stockholders' equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $0.0005 par value; 150,000,000 shares authorized, 67,588,492 shares issued and outstanding	33,794	33,794
Additional paid-in capital	33,294,069	33,294,069
Accumulated deficit	(29,552,516)	(29,550,626)
Total stockholders' equity	3,775,347	3,777,237
Total liabilities and stockholders' equity	$4,621,517	$4,552,134

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

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ADM TRONICS UNLIMITED, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF Operations

FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2018 AND 2017

(Unaudited)

	Three months ended December 31, 2018	Three months ended December 31, 2017	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Net revenues	$739,538	$1,021,042	$2,351,201	$3,098,536
Cost of sales	506,562	471,062	1,143,600	1,443,751
Gross Profit	232,976	549,980	1,207,601	1,654,785
Operating expenses:				
Research and development	115,202	109,167	331,785	398,351
Selling, general and administrative	337,696	357,038	992,187	1,092,083
Total operating expenses	452,898	466,205	1,323,972	1,490,434
Income (loss) from operations	(219,922)	83,775	(116,371)	164,351
Other income (expense):				
Interest income	6,846	5,258	20,292	11,806
Interest and finance expenses	(838)	(728)	(2,811)	(2,183)
Total other income (expense)	6,008	4,530	17,481	9,623
Income (loss) before provision for income taxes	(213,914)	88,305	(98,890)	173,974
Provision (benefit) for income taxes:				
Current	(6,000)	1,000	-	5,000
Deferred	(65,000)	235,000	(97,000)	389,000
Total provision (benefit) for income taxes	(71,000)	236,000	(97,000)	394,000
Net (loss)	$(142,914)	$(147,695)	$(1,890)	$(220,026)
Basic and diluted earnings per common share:	$(0.00)	$(0.00)	$(0.00)	$0.00
	67,588,492	67,588,492	67,588,492	67,588,492

Weighted average shares of common stock outstanding -
basic and diluted

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

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ADM TRONICS UNLIMITED, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED DECEMBER 31, 2018 AND 2017

(Unaudited)

	2018	2017
Cash flows from operating activities:		
Net (loss)	$(1,890)	$(220,026)
Adjustments to reconcile net (loss) to net cash used in operating activities:		
Depreciation and amortization	29,331	29,455
Deferred taxes	(97,000)	389,000
(Increase) decrease in operating assets:		
Accounts receivable	(41,744)	(630,756)
Inventories	(155,430)	99,501
Prepaid expenses and other current assets	(17,293)	32,312
Increase (decrease) in operating liabilities:		
Accounts payable	61,321	39,363
Customer deposits	60,140	-
Accrued expenses and other current liabilities	(22,354)	(10,949)
Due to shareholder	(3,694)	(65,011)
Net cash (used in) operating activities	(188,613)	(337,111)
Cash flows from financing activities:		
Repayments on capital lease payable	(24,141)	(20,827)
Net cash (used in) financing activities	(24,141)	(20,827)
Net (decrease) in cash and cash equivalents	(212,754)	(357,938)
Cash and cash equivalents - beginning of period	1,693,532	1,982,276
Cash and cash equivalents - end of period	$1,480,778	$1,624,338
Cash paid for:		
Interest	$2,811	$2,183

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

ADM TRONICS UNLIMITED, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

DECEMBER 31, 2018 AND MARCH 31, 2018

NOTE 1 - NATURE OF BUSINESS

ADM Tronics Unlimited, Inc., incorporated under the laws of the state of Delaware on November 24, 1969, and subsidiary (collectively, “we”, “us”, the “Company” or “ADM”), is a technology-based developer and manufacturer of diversified lines of products and derive revenues from the production and sale of electronics for medical devices and other applications; environmentally safe chemical products for industrial, medical and cosmetic uses; and, research, development, regulatory and engineering services.

The accompanying unaudited condensed consolidated financial statements have been prepared by ADM pursuant to accounting principles generally accepted in the United States (“US GAAP”) and the rules and regulations of the Securities and Exchange Commission (“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 condensed financial position and operating results for the respective periods. Certain information and footnote disclosures normally present in annual financial statements prepared in accordance with US GAAP have been omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and explanatory notes for the year ended March 31, 2018 as disclosed in our annual report on Form 10-K for that year. The operating results and cash flows for the three and nine months ended December 31, 2018 (unaudited) are not necessarily indicative of the results to be expected for the pending full year ending March 31, 2019.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements include the accounts of ADM Tronics Unlimited, Inc. and its wholly owned subsidiary, Sonotron Medical Systems, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

USE OF ESTIMATES

These unaudited condensed consolidated financial statements have been prepared in accordance with US GAAP and, accordingly, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. Significant estimates made by management include expected economic life and value of our medical devices, reserves, deferred tax assets, 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, option and warrant expenses related to compensation to employees and directors, consultants and investment banks, allowance for doubtful accounts, and warranty reserves. Actual results could differ from those estimates.

REVENUE RECOGNITION

In May 2014, the FASB issued guidance codified in ASC 606 which amends the guidance in former ASC 605, “Revenue Recognition.” The core principle of the standard is to recognize revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. The standard also requires additional disclosures around the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

We typically extend credit terms to our customers based on their credit worthiness and generally do not receive advance payments. As such, we record accounts receivable at the time of shipment, when our right to the consideration becomes unconditional. Accounts receivable from our customers are typically due within 30 days of invoicing. An allowance for doubtful accounts is provided based on a periodic analysis of individual account balances, including an evaluation of days outstanding, payment history, recent payment trends, and our assessment of our customers' creditworthiness.

CHEMICAL PRODUCTS:

Revenues are recognized upon shipment to a customer because that is when the customer obtains control of the promised good.

ELECTRONICS:

We recognize revenue from the sale of our electronic products upon shipment to a customer because that is when the customer obtains control of the promised good. We offer a limited 90-day warranty on our electronics products. We have no other post shipment obligations. Based on prior experience, no amounts have been accrued for potential warranty costs and actual costs were less than $2,000, for each of the three and nine months ended December 31, 2018 and 2017. For contract manufacturing, revenues are recognized after shipment of the completed products.

ENGINEERING SERVICES:

We provide certain engineering services, including research, development, quality control, and quality assurance services along with regulatory compliance services. We recognize revenue from engineering services as the services are provided.

EARNINGS PER SHARE

Basic earnings per share is calculated based on the weighted average number of common shares outstanding during the periods. Diluted earnings per share is computed similar to basic earnings 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.

Per share basic and diluted earnings amounted to $0.00 for both the three and nine months ended December 31, 2018 and December 31, 2017, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

In accordance with the Company's implementation of ASU 2015-17 "Income Taxes, Balance Sheet Classification of Deferred Taxes", deferred tax assets and liabilities have been netted and presented as one non-current amount. The Company has applied this standard retroactively to all periods presented. The implementation of this standard did not have an impact on the Company's financial statements.

Effective April 1, 2018 the Company adopted ASC Topic 606 “Revenue from Contracts with Customers”, using the modified retrospective method. This guidance supersedes nearly all existing revenue recognition guidance under US GAAP. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The Company has drafted its accounting policy for the new standard based on a detailed review of its business and contracts. Based on the new guidance, the Company will continue recognizing revenue at the time its products are shipped, and therefore adoption of the standard did not have a material impact on its consolidated financial statements and is not expected to have a material impact in the future.

In July 2015, the FASB issued ASU 2015 - 11, “ Inventory. Simplifying the Measurement of Inventory.” This amendment requires companies to measure inventory at the lower of cost and net realizable value. The Company adopted this amendment in April 2017, and the implementation did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which is intended to improve financial reporting for lease transactions. This ASU will require organizations that lease assets, such as real estate and manufacturing equipment, to recognize both assets and liabilities on their balance sheet for the rights to use those assets for the lease term and obligations to make the lease payments created by those leases that have terms of greater than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as finance or operating lease. This ASU will also require disclosures to help investors and other financial statement users better understand the amount and timing of cash flows arising from leases. These disclosures will include qualitative and quantitative requirements, providing additional information about the amounts recorded in the consolidated financial statements. This ASU will be adopted by the Company in April 2019. We do not believe that this ASU will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU-2016-13 “Financial Instruments – Credit Losses”. This guidance affects organizations that hold financial assets and net investments in leases that are not accounted for at fair value with changes in fair value reported in net income. The guidance requires organizations to measure all expected credit losses for financial instruments at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. It is effective for fiscal years beginning after December 15, 2019. The Company is evaluating the potential impact on the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “Income Statement- Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This guidance gives businesses the option of reclassifying to retained earnings the so-called “stranded tax effects” left in accumulated other comprehensive income due to the reduction in the corporate income tax rate resulting from the 2017 Tax Cuts and Jobs Act. This amendment is effective for all organizations for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is allowed. We do not believe that this ASU will have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, “Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.” This guidance intends to reduce cost and complexity and to improve financial reporting for share-based payments issued to nonemployees. This amendment is effective for public companies with fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. This ASU does not apply to the company at this time.

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

NOTE 3 - INVENTORIES

Inventories at December 31, 2018 consisted of the following:

	Current	Long Term	Total
Raw materials	$313,777	$110,433	$424,210
Finished goods	42,676	618	43,294
	$356,453	$111,051	$467,504

Inventories at March 31, 2018 consisted of the following:

	Current	Long Term	Total
Raw materials	$168,640	$110,433	$279,073
Finished goods	32,383	618	33,001
	$201,023	$111,051	$312,074

The Company values its inventories at the lower of cost and net realizable value using the first in, first out (“FIFO”) method.

NOTE 4 – CONCENTRATIONS

During the three months ended December 31, 2018 two customers accounted for 61% of our net revenue. During the nine months ended December 31, 2018 two customers accounted for 56% of our net revenue.

As of December 31, 2018, three customers represented 99% of our net accounts receivable.

During the three months ended December 31, 2017 three customers accounted for 52% of our net revenue. During the nine months ended December 31, 2017 three customers accounted for 59% of our net revenue.

As of March 31, 2018, two customers represented 93% of our net accounts receivable.

The Company's customer base is comprised of foreign and domestic entities with diverse demographics. Net revenues from foreign customers for the three and nine months ended December 31, 2018 was $77,275 or 10% and $324,814 or 14%, respectively.

Net revenues from foreign customers for the three and nine months ended December 31, 2017, was $92,967 or 9% and $251,825 or 8%, respectively.

As of December 31, 2018, and March 31, 2018, accounts receivable included $38,999 and $39,995, respectively, from foreign customers.

NOTE 5 - DISAGGREGATED REVENUES AND SEGMENT INFORMATION

The following tables show the Company's revenues disaggregated by reportable segment and by product and service type:

	Three months Ended December 31, 2018	2017
Net Revenue in the US		
Chemical	$204,156	$342,976
Electronics	181,779	120,545
Engineering	276,328	464,554
	662,263	928,075

Net Revenue outside the US