

ADM TRONICS UNLIMITED, INC.

Form 10-Q

August 22, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2016

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

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(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). YES [X] NO [ ]

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 [ ]

Accelerated filer [ ]

Non-accelerated filer [ ] (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 [ ] NO [X]

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

67,008,502 shares of Common Stock, \$.0005 par value, as of August 22, 2016.

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**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**

	June 30, 2016 (Unaudited)	March 31, 2016 (Audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,725,217	\$1,398,848
Accounts receivable, net of allowance for doubtful accounts of \$25,000 for each period	684,635	588,875
Inventories	310,503	216,108
Prepaid expenses and other current assets	28,136	18,419
Restricted cash	233,137	233,050
Deferred tax asset	410,000	410,000
 Total current assets	 3,391,628	 2,865,300
 Property and equipment, net of accumulated depreciation of \$79,751 and \$77,690, respectively	 29,768	 26,859
 Inventories - long-term portion	 38,974	 52,657
Intangible assets, net of accumulated amortization of \$155,410 and \$155,062, respectively	12,737	13,086
Other assets	17,644	17,644
Deferred tax asset	447,000	447,000
Total other assets	546,123	557,246
 Total assets	 \$3,937,751	 \$3,422,546
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Note payable - bank	\$90,966	\$96,966
Accounts payable	197,472	276,171
Accrued expenses and other current liabilities	395,649	331,231
Customer deposits	108,342	108,342
Due to shareholder	260,952	246,696
Total current liabilities	1,053,381	1,059,406

Total liabilities	1,053,381	1,059,406
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 authorized, 67,008,502 shares issued and outstanding at June 30, 2016 and March 31, 2016.	33,504	33,504
Additional paid-in capital	33,195,759	33,195,759
Accumulated deficit	(30,344,893)	(30,866,123)
Total stockholders' equity	2,884,370	2,363,140
Total liabilities and stockholders' equity	\$3,937,751	\$3,422,546

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

**ADM TRONICS UNLIMITED, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016 AND 2015**

(Unaudited)

	2016	2015
Net revenues	\$1,377,431	\$1,055,928
Cost of sales	459,927	300,873
Gross Profit	917,504	755,055
Operating expenses:		
Research and development	20,401	24,689
Selling, general, and administrative	374,607	295,221
Depreciation and amortization	1,452	597
Total operating expenses	396,460	320,507
Income from operations	521,044	434,548
Other income (expense):		
Interest income	698	321
Interest expense	(512)	(641)
Total other income (expense)	186	(320)
Net income	\$521,230	\$434,228
Basic and diluted net income per common share:	\$0.01	\$0.01
Weighted average shares of common stock outstanding - basic	67,008,502	64,939,537
Weighted average shares of common stock outstanding - diluted	67,008,502	65,539,537

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





**ADM TRONICS UNLIMITED, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2016 AND 2015**

(Unaudited)

	2016	2015
Cash flows from operating activities:		
Net income	\$521,230	\$434,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,410	800
Increase (decrease) in cash flows as a result of changes in assets and liabilities balances:		
Accounts receivable	(95,760 )	(134,733 )
Inventories	(80,712 )	(25,736 )
Prepaid expenses and other current assets	(9,717 )	(12,818 )
Accounts payable	(78,699 )	(156,075 )
Accrued expenses and other current liabilities	64,418	45,734
Due to shareholder	14,256	9,992
Net cash provided by operating activities	337,426	161,392
Cash flows from investing activities:		
Purchase of equipment	(4,970 )	-
Restricted cash	(87 )	(261 )
Net cash used in investing activities	(5,057 )	(261 )
Cash flows from financing activities:		
Repayments on note payable - Bank	(6,000 )	(7,000 )
Net cash used in financing activities	(6,000 )	(7,000 )
Net increase in cash and cash equivalents	326,369	154,131
Cash and cash equivalents - beginning of year	1,398,848	216,395
Cash and cash equivalents - end of year	\$1,725,217	\$370,526
Cash paid for:		
Interest	\$512	\$641

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)**

**JUNE 30, 2016 AND 2015**

**NOTE 1 - NATURE OF BUSINESS**

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 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 condensed consolidated financial statements as of June 30, 2016 (unaudited) and March 31, 2016 and for the three months ended June 30, 2016 and 2015 (unaudited) have been prepared by ADM pursuant to 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 accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These condensed 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 audited consolidated financial statements and explanatory notes for the year ended March 31, 2016 as disclosed in our annual report on Form 10-K for that year. The operating results and cash flows for three months ended June 30, 2016 (unaudited) are not necessarily indicative of the results to be expected for the pending full year ending March 31, 2017.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**PRINCIPLES OF CONSOLIDATION**

The condensed consolidated financial statements include the accounts of ADM Tronics Unlimited, Inc. and its subsidiary Sonotron. 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 accounting principles generally accepted in the United States of America and, accordingly, require 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

### CHEMICAL PRODUCTS:

Revenues are recognized when products are shipped to end users. Shipments to distributors are recognized as revenue when no right of return exists.

## ELECTRONICS:

We recognize revenue from the sale of our electronic products when they are shipped to the purchaser. 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. 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 months ended June 30, 2016 and 2015. 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.

## NET INCOME PER SHARE

Basic net income per share is calculated based on the weighted average number of common shares outstanding during the periods. Diluted net income per share is computed similar to basic income 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 net income amounted to \$0.01 and \$0.01 for the three months ended June 30, 2016 and 2015, respectively. There were 3,000,000 and 600,000 common stock equivalents at June 30, 2016 and 2015, respectively.

## RECLASSIFICATION

Certain items in the prior financial statements have been reclassified to conform to the current period presentation.

## RECENT ACCOUNTING PRONOUNCEMENTS

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

**NOTE 3 - INVENTORIES**

Inventories at June 30, 2016 consisted of the following:

	Current	Long Term	Total
Raw materials	\$291,644	\$38,364	\$330,008
Finished Goods	18,859	610	19,469
	\$310,503	\$38,974	\$349,477

Inventories at March 31, 2016 consisted of the following:

	Current	Long Term	Total
Raw materials	\$187,333	\$51,939	\$239,272
Finished Goods	28,775	718	29,493
	\$216,108	\$52,657	\$268,765

The Company values its inventories at the first in, first out ("FIFO") method at the lower of cost or market.

**NOTE 4 – CONCENTRATIONS**

During the three-month period ended June 30, 2016, one customer accounted for 57% of our revenue and two customers accounted for approximately 52% of our accounts receivable as of June 30, 2016.

During the three-month period ended June 30, 2015, one customer accounted for 46% of our revenue and approximately 48% of our accounts receivable as of June 30, 2015.

The Company's customer base is comprised of foreign and domestic entities with diverse demographics. Revenues from foreign customers represented \$88,849 of net revenue or 6.4% for the three months ended June 30, 2016 and \$101,313 of net revenue or 9.6% for the three months ended June 30, 2015.

As of June 30, 2016 and 2015, accounts receivable included \$5,029 and \$50,637, respectively, from foreign customers.

**NOTE 5 - SEGMENT INFORMATION**

Information about segments is as follows:

	Chemical	Electronics	Engineering	Total
Three months ended June 30, 2016				
Revenue from external customers	\$291,484	\$566,623	\$519,324	\$1,377,431
Segment operating income (loss)	\$(1,175 )	\$280,574	\$241,645	\$521,044
Three months ended June 30, 2015				
Revenue from external customers	\$365,944	\$175,229	\$514,755	\$1,055,928
Segment operating income	\$200,900	\$15,668	\$217,980	\$434,548
Total assets at June 30, 2016	\$833,283	\$1,619,845	\$1,484,623	\$3,937,751
Total assets at March 31, 2016	\$1,070,944	\$644,189	\$1,707,413	\$3,422,546

**NOTE 6 - OPTIONS OUTSTANDING**



On September 2, 2015, ADM granted an additional 3,000,000 stock options to employees at an exercise price of \$0.20 per option and with a term of three years. The options were valued at \$598,699 using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 2.03%, volatility of 353%, estimated useful life of 3 years and dividend rate of 0%.

The following table summarizes information on all common share purchase options issued by us as of June 30, 2016 and 2015.

	2016	Weighted	2015	Weighted
	# of	Average	# of	Average
	Shares	Exercise	Shares	Exercise
		Price		Price
Outstanding, beginning of year	3,000,000	\$ 0.20	600,000	\$ 0.01
Issued	-	\$ -	-	\$ -
Exercised	-	\$ -	-	\$ -
Expired	-	\$ -	-	\$ -
Outstanding, end of period	3,000,000	\$ 0.20	600,000	\$ 0.01
Exercisable, end of period	3,000,000	\$ 0.20	600,000	\$ 0.01

## NOTE 7 - COMMITMENTS AND CONTINGENCIES

We lease our office and manufacturing facility under a non-cancelable operating lease, which expires on June 30, 2019. The Company's future minimum lease commitment at June 30, 2016 is as follows:

For the twelve-month period ended June 30,	Amount
2017	\$ 104,625
2018	104,625
	\$209,250

Rent and real estate tax expense for all facilities for the three months ended June 30, 2016 and 2015 was approximately \$32,000 for each period.

## NOTE 8 - INCOME TAXES

At June 30, 2016, the Company had federal and state net operating loss carry-forwards ("NOL")'s of approximately \$2,995,000, which are due to expire through fiscal 2034. These NOLs may be used to offset future taxable income through their respective expiration dates and thereby reduce or eliminate our federal and state income taxes otherwise payable. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Ultimate utilization of such NOL's and credits is dependent upon the Company's ability to generate taxable income in future periods and may be significantly curtailed if a significant change in ownership occurs.

Due to the uncertainty related to future taxable income, the Company provides a partial valuation allowance for the deferred tax benefit resulting from the NOL's and depreciation and amortization. During the three months ended June 30, 2016, the Company utilized approximately \$520,000 in net operating losses and expects to utilize \$2,100,000 before expiration. For the three months ended June 30, 2016, the \$209,000 reduction in deferred income taxes was offset by a similar reduction in the valuation allowance.

## NOTE 9 – DUE TO SHAREHOLDER

The Company's President has been deferring his salary and bonuses periodically to assist the Company's cash flow. There are no repayment terms or interest accruing on this liability.

**NOTE 10 – SUBSEQUENT EVENTS**

We evaluated all subsequent events from the date of the condensed consolidated balance sheet through the issuance date of this report and determined that there are no events or transactions occurring during the subsequent event reporting period which require recognition or disclosure in the condensed consolidated financial statements.

## **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 condensed 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-K for the year ended March 31, 2016.

### **CRITICAL ACCOUNTING POLICIES**

#### **REVENUE RECOGNITION**

We recognize revenue from engineering services on a project or monthly basis and contract manufacturing revenues are recognized after shipment of completed products. For the sale of our electronic products, revenues are recognized when they are shipped to the purchaser. Shipping and handling charges and costs are de minimis. 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. Historically, the amount of warranty revenue included in the sales of our electronic products have been de minimis. We have no other post shipment obligations and sales returns have been de minimis.

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

## **USE OF ESTIMATES**

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed 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**

The Company is a technology-based developer and manufacturer of diversified lines of products and derives revenue 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 Company is a corporation that was organized under the laws of the State of Delaware on November 24, 1969. Our operations are conducted through ADM Tronics Unlimited, Inc. ("ADM") and its subsidiary Sonotron Medical Systems, Inc. ("SMI").

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30 2016 AS COMPARED TO JUNE 30, 2015****For the three months ended June 30, 2016**

	<b>Chemical</b>	<b>Electronics</b>	<b>Engineering</b>	<b>Total</b>
Revenue	\$ 291,484	\$ 566,623	\$ 519,324	\$ 1,377,431
Cost of Sales	208,763	122,962	128,202	459,927
Gross Profit	82,721	443,661	391,122	917,504
Gross Profit Percentage	28	% 78	% 75	% 67
Operating Expenses	83,896	163,087	149,477	396,460
Operating Income (Loss)	(1,175 )	280,574	241,645	521,044
Other income (expenses)	39	77	70	186
Income (loss) before benefit from income taxes	\$(1,136 )	\$ 280,651	\$ 241,715	\$ 521,230

**For the three months ended June 30, 2015**

	<b>Chemical</b>	<b>Electronics</b>	<b>Engineering</b>	<b>Total</b>
Revenue	\$ 365,944	\$ 175,229	\$ 514,755	\$ 1,055,928
Cost of Sales	53,949	106,350	140,574	300,873
Gross Profit	311,995	68,879	374,181	755,055
Gross Profit Percentage	85	% 39	% 73	% 72
Operating Expenses	111,073	53,203	156,231	320,507
Operating Income	200,922	15,676	217,950	434,548
Other income (expenses)	(154 )	(54 )	(112 )	(320 )
Income before benefit from income taxes	\$ 200,768	\$ 15,622	\$ 217,838	\$ 434,228



**Variance**

	<b>Chemical</b>	<b>Electronics</b>	<b>Engineering</b>	<b>Total</b>
Revenue	\$(74,460 )	\$ 391,394	\$ 4,569	\$321,503
Cost of Sales	154,815	16,611	(12,372 )	159,054
Gross Profit	(229,275)	374,783	16,941	162,449
Gross Profit Percentage	-57 %	39 %	3 %	-5 %
Operating Expenses	(27,178 )	109,884	(6,754 )	75,952
Operating Income (Loss)	(202,097)	264,899	23,695	86,497
Other income (expenses)	150	130	226	506
Income (loss) before benefit from income taxes	\$(201,947)	\$ 265,029	\$ 23,921	\$87,003

Revenues for the three months ended June 30, 2016 increased by \$321,503, or 30% due to an increase in engineering revenue of \$4,569 and an increase in electronics revenue of \$391,394 offset with a decrease in sales in our chemical division of \$74,460. The increase in the electronics division is primarily the result of increased sales volume from one customer. The decrease in the chemical division is primarily the result of decreased sales volume from one customer.

Gross profit for the three months ended June 30, 2016 increased by \$162,449. The increase in gross profit in the electronics and engineering segments for the three months ended June 30, 2016 resulted from changes in the mix of products sold, as well as increased sales volume. The decrease in gross profit in the chemical segment resulted from lower sales for the quarter.

We are highly dependent upon certain customers. During the three months ended June 30, 2016 one customer accounted for 57% of our revenue. During the three months ended June 30, 2015, one customer accounted for 46% of our revenue. The complete loss of or significant reduction in business from, or a material adverse change in the financial condition of any of our customers could cause a material and adverse change in our revenues and operating results.

Income from operations for the three months ended June 30, 2016 increased by \$86,497. Selling, general, and administrative expenses increased by \$79,386 or 27%, from \$295,221 to \$374,607 mainly due to the following increases: \$45,892 in professional fees and \$50,039 in contract services. The increases were partially offset by a \$35,797 decrease in royalties and commissions.

Interest income increased \$377 to \$698 in the three months ended June 20, 2016, from \$321 in the three months ended June 30, 2015 due to increased funds invested in a money market account.



The foregoing resulted in net income for the three months ended June 30, 2016 of \$521,230, or \$0.01 per share, compared to net income for the three months ended June 30, 2015 of \$434,228 or \$0.01 per share.

## **LIQUIDITY AND CAPITAL RESOURCES**

At June 30, 2016, we had cash and cash equivalents of \$1,725,217 as compared to \$1,398,848 at March 31, 2016. The \$326,369 increase was primarily the result of cash provided in operations during the three-month period in the amount of \$337,426 offset by cash used in financing activities in the amount of \$6,000 and cash used in investing activities of \$5,057. 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. Our note payable of \$90,966 at June 30, 2016, is secured and collateralized by restricted cash of \$233,137. This note bears an interest rate of 2% above the rate of the savings account. The interest rate at June 30, 2016 was 2.15% and is payable upon demand.

#### Future Sources of Liquidity:

We expect that growth in profitable revenues and continued focus on new customers will enable us to continue to generate cash flows from operating activities during fiscal 2016.

If we do not generate sufficient cash from operations, face unanticipated cash needs or do not otherwise have sufficient cash, we may need to consider the sale of certain intellectual property which does not support the Company's operations. In addition, we have the ability to reduce certain expenses depending on the level of business operation.

Based on current expectations, we believe that our existing cash of \$1,725,217 as of June 30, 2016 and other potential sources of cash will be sufficient to meet our cash requirements. Our ability to meet these requirements will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

#### **OPERATING ACTIVITIES**

Net cash provided by operating activities was \$337,426 for the three months ended June 30, 2016, as compared to net cash provided by operating activities of \$161,392 for the three months ended June 30, 2015. The cash provided during the three months ended June 30, 2016 was primarily due to net income of \$521,230 offset by increases net operating assets of \$186,189.

#### **INVESTING ACTIVITIES**

Cash was used in investing activities in the amount of \$5,057 consisting of deposits in the restricted cash account in the amount of \$87 and the purchase of equipment of \$4,970.

#### **FINANCING ACTIVITIES**

For the three months ended June 30, 2016 and 2015, net cash used in in financing activities were \$6,000 and \$7,000, respectively. For the three months ended June 30, 2016 and 2015, cash was used for repayments on a note from a

commercial bank to facilitate our acquisition of Action Industries Unlimited, Inc. (AIU).

## **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 ITI. We have no control over the market value of our investment in ITI.

We maintain cash and cash equivalents with FDIC insured financial institutions.

Our sales are materially dependent on a small group of customers, as noted in Note 4 of our condensed consolidated 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 4. CONTROLS AND PROCEDURES**

##### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were not effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. During the quarterly period ended June 30, 2016, there were no changes in the Company's internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

The determination that our disclosure controls and procedures were not effective as of June 30, 2016 are a result of:

a. *Deficiencies in Internal Control Structure Environment.* During the current year, the Company's focus was on expanding their customer base to initiate revenue production.

b. *Inadequate staffing and supervision within the accounting operations of our company.* The relatively small number of employees who are responsible for accounting functions prevents the Company from segregating duties within its internal control system. The inadequate segregation of duties is a weakness because it could lead to the untimely identification and resolution of accounting and disclosure matters or could lead to a failure to perform timely and effective reviews. The Company's plan is to expand its accounting operations as the business of the Company expands.

The Company believes that the financial statements fairly present, in all material respects, the Company's condensed consolidated balance sheets as of June 30, 2016 and March 31, 2016 and the related condensed consolidated statements of operations, and cash flows for the three months ended June 30, 2016 and 2015, in conformity with generally accepted accounting principles, notwithstanding the material weaknesses we identified.

## **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There were no changes in 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 1A. RISK FACTORS**

There have been no material changes to the risk factors contained in our Annual Report on Form 10-K for the year ended March 31, 2016.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None



**ITEM 4. MINE SAFETY DISCLOSURES**

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS.**

(a) Exhibit No.

31.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

101.INS\*\* XBRL Instance  
101.SCH\*\* XBRL Taxonomy Extension Schema  
101.CAL\*\* XBRL Taxonomy Extension Calculation  
101.DEF\*\* XBRL Taxonomy Extension Definition  
101.LAB\*\* XBRL Taxonomy Extension Labels  
101.PRE\*\* XBRL Taxonomy Extension Presentation

\*\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**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  
August 22, 2016