



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  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the Registrant’s classes of Common Stock outstanding as of the latest practicable date: 4,211,019 shares of Common Stock, no par value, as of May 2, 2014.

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**PRO-DEX, INC. AND SUBSIDIARIES**

**QUARTERLY REPORT ON FORM 10-Q**

**FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2014**

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**Table of Contents****PART I — FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****PRO-DEX, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands, except share amounts)**

	March 31, 2014	June 30, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,926	\$ 1,680
Accounts receivable, net of allowance for doubtful accounts of \$42 and \$24, respectively	1,102	1,339
Unbilled receivables	998	244
Other current receivables	68	34
Inventory	3,184	3,834
Prepaid expenses	206	157
Deferred income taxes	60	59
Total current assets	7,544	7,347
Investments	834	370
Equipment and leasehold improvements, net	1,682	2,065
Real estate held for sale	—	733
Intangibles	53	—
Other assets	77	80
Total assets	\$ 10,190	\$ 10,595
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		

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Current Liabilities:			
Accounts payable	\$	603	\$ 844
Accrued expenses		1,270	1,276
Deferred revenue		277	141
Income taxes payable		48	48
Capital lease obligations		7	5
Total current liabilities		2,205	2,314
Deferred income taxes		60	59
Deferred rent		245	270
Capital lease obligations, net of current portion		9	15
Total non-current liabilities		314	344
Total liabilities		2,519	2,658
Shareholders' equity:			
Common shares; no par value; 50,000,000 shares authorized; 3,343,954 and 3,348,184 shares issued and outstanding at March 31, 2014 and June 30, 2013, respectively		17,061	17,012
Accumulated other comprehensive income		202	5
Accumulated deficit		(9,592 )	(9,080 )
Total shareholders' equity		7,671	7,937
Total liabilities and shareholders' equity	\$	10,190	\$ 10,595

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

**Table of Contents****PRO-DEX, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS****(Unaudited)****(In thousands, except per share amounts)**

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Net sales	\$2,404	\$3,060	\$7,599	\$9,527
Cost of sales	1,864	2,177	5,564	6,376
Gross profit	540	883	2,035	3,151
Operating expenses:				
Selling expenses	177	311	408	907
General and administrative expenses	420	853	1,304	2,087
Research and development costs	381	490	1,121	1,360
Total operating expenses	978	1,654	2,833	4,354
Operating loss	(438 )	(771 )	(798 )	(1,203 )
Interest expense	(2 )	(2 )	(7 )	(8 )
Interest income	1	—	11	—
Realized gain on sale of investments	27	—	27	—
Loss from continuing operations before income taxes	(412 )	(773 )	(767 )	(1,211 )
Income tax benefit	(54 )	(8 )	(88 )	(27 )
Loss from continuing operations	(358 )	(765 )	(679 )	(1,184 )
Income (loss) from discontinued operations, net of income taxes	(27 )	18	167	72
Net loss	\$(385 )	\$(747 )	\$(512 )	\$(1,112 )
Other comprehensive income, net of tax:				
Unrealized gain from marketable equity investments	20	—	225	—
Less: Reclassification of gains included in net loss	(27 )	—	(27 )	—
Comprehensive loss	\$(392 )	\$(747 )	\$(314 )	\$(1,112 )
Basic and diluted loss per share:				
Loss from continuing operations	\$(0.11 )	\$(0.23 )	\$(0.20 )	\$(0.36 )
Income (loss) from discontinued operations	(0.01 )	0.01	0.05	0.02
Net loss	\$(0.12 )	\$(0.22 )	\$(0.15 )	\$(0.34 )

Weighted average common shares outstanding:

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Basic	3,342	3,341	3,344	3,313
Diluted	3,342	3,341	3,344	3,313
Common shares outstanding	3,344	3,341	3,344	3,341

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



**Table of Contents****PRO-DEX, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

	Nine Months Ended March 31, 2014    2013	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Loss from continuing operations	\$(679 )	\$(1,184)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:		
Depreciation and amortization	398	443
Gain on sale of investments	(27 )	—
Loss on retirement of equipment	6	—
Share-based compensation	42	107
Allowance for doubtful accounts receivable	18	5
Changes in operating assets and liabilities:		
Accounts receivable and other current receivables	189	86
Unbilled receivables	(754 )	—
Inventory	650	(955 )
Prepaid expenses and other assets	(46 )	(35 )
Accounts payable, accrued expenses and deferred rent	(272 )	134
Deferred revenue	136	—
Income taxes receivable and payable	(4 )	46
Net cash used in continuing operating activities	(343 )	(1,353)
Income from discontinued operations	167	72
Adjustments to reconcile income from discontinued operations to net cash provided by discontinued operating activities:		
Gain on sale of real estate held for sale	(167 )	—
Net cash provided by discontinued operating activities	—	72
Net cash used in operating activities	(343 )	(1,281)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(327 )	—
Purchases of equipment and leasehold improvements	(25 )	(68 )
Proceeds from sale of equipment	4	—
Proceeds from sale of investments	88	—
Acquisition of intangibles	(53 )	—
Net cash used in continuing investing activities	(313 )	(68 )
Net cash provided by discontinued investing activities:		
Proceeds from sale of real estate held for sale	900	—
Net cash provided by (used in) investing activities	587	(68 )

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from exercise of stock options	6	50
Principal payments on capital lease and bank term loan	(4 )	(774 )
Net cash provided by (used in) financing activities	2	(724 )
Net increase (decrease) in cash and cash equivalents	246	(2,073)
Cash and cash equivalents, beginning of period	1,680	4,112
Cash and cash equivalents, end of period	\$1,926	\$2,039

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

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PRO-DEX, INC. AND SUBSIDIARIES

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**

**(Unaudited)**

**(In thousands)**

	Nine Months Ended March 31, 2014	2013
Supplemental disclosures of cash flow information:		
Noncash investing and financing activities:		
Capital lease agreement for the acquisition of equipment	\$—	\$22
Cash paid during the period for:		
Interest	\$7	\$10
Income taxes	\$7	\$5

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

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PRO-DEX, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

**NOTE 1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Pro-Dex, Inc. (“we”, “us”, “our”, “Pro-Dex” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Regulation S-K. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements presented in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results of operations for such interim periods are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2013.

**Recent Accounting Standards**

In August 2013, the FASB issued ASU No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists,” that sets forth circumstances in which an unrecognized tax benefit, generally reflecting the difference between a tax position taken or expected to be taken on a company’s income tax return and the benefit recognized on its financial statements, should be presented in the company’s financial statements as a liability rather than as a reduction of a deferred tax asset. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The adoption of these provisions is not expected to have a material impact on the consolidated financial statements of the Company.

**Reclassifications**

Certain prior period balances have been reclassified to conform to the current period presentation. The reclassifications have no effect on previously reported results of operations or accumulated deficit.

**NOTE 2. COMPOSITION OF CERTAIN FINANCIAL STATEMENT ITEMS**

**Inventory**

Inventory is stated at the lower of cost (first-in, first-out) or market and consists of the following (in thousands):

March	June
31,	30,
2014	2013

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Raw materials /purchased components	\$1,170	\$1,640
Work in process	700	572
Sub-assemblies /finished components	977	1,291
Finished goods	337	331
Total inventory	\$3,184	\$3,834

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PRO-DEX, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

**Investments**

Investments are stated at market value and consist of the following (in thousands):

	March 31, 2014	June 30, 2013
Marketable equity securities	\$ 834	\$ 370

Investments at March 31, 2014 and June 30, 2013 had an aggregate cost basis of \$632,000 and \$365,000, respectively, gross unrealized gains aggregating \$220,000 and \$5,000, respectively, and unrealized losses of 18,000 and \$0, respectively. During the three and nine months ended March 31, 2014, we sold certain of our investments in marketable equity securities of publicly held companies and recorded realized gains of \$27,000.

**Intangibles**

Intangibles at March 31, 2014 consist of legal fees incurred in connection with patent applications, and will be amortized over the life of the applicable patent upon its issuance.

**NOTE 3. WARRANTY**

The warranty accrual is based on historical costs of warranty repairs and expected future identifiable warranty expenses, and is included in accrued expenses in the accompanying consolidated balance sheets. As of March 31, 2014 and June 30, 2013, the warranty reserve related to continuing operations amounted to \$224,000 and \$321,000, respectively. Warranty expenses are included in cost of sales in the accompanying consolidated statements of operations. Changes in estimates to previously established warranty accruals result from current period updates to assumptions regarding repair costs and warranty return rates, and are included in current period warranty expense. Total warranty expense for the three months ended March 31, 2014 and 2013 was \$53,000 and \$127,000, respectively, and for the nine months ended March 31, 2014 and 2013 was \$81,000 and \$252,000, respectively.

Information regarding the accrual for warranty costs for the three and nine months ended March 31, 2014 and 2013 are as follows (in thousands):

As of and for  
 the  
 Three  
 Months  
 Ended

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	March 31,	
	2014	2013
Beginning balance	\$200	\$361
Accruals during the period	70	107
Changes in estimates of prior period warranty accruals	(17)	20
Warranty amortization	(29)	(89)
Ending balance	\$224	\$399

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PRO-DEX, INC. AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)

	As of and for the Nine Months Ended March 31,	
	2014	2013
Beginning balance	\$321	\$526
Accruals during the period	167	261
Changes in estimates of prior period warranty accruals	(86 )	(9 )
Warranty amortization	(178)	(379)
Ending balance	\$224	\$399

**NOTE 4. NET INCOME (LOSS) PER SHARE**

The Company calculates basic net earnings (loss) per share by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share reflects the effects of potentially dilutive securities, which consist entirely of outstanding stock options.

Potential common shares of 38,771 and 27,019 have been excluded from diluted weighted average common shares for the three months ended March 31, 2014 and 2013, as the effect would have been anti-dilutive. Similarly, potential common shares of 25,648 and 13,487 have been excluded from diluted weighted average common shares for the nine months ended March 31, 2014 and 2013, as the effect would have been anti-dilutive.

The following table presents reconciliations of the numerators and denominators of the basic and diluted earnings (loss) per share computations for net income (loss). In the tables below, income (loss) amounts represent the numerator, and share amounts represent the denominator (in thousands, except per share amounts):

	Three Months Ended March 31, 2014	Nine Months Ended March 31, 2013
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Basic & Diluted:  
 Loss from continuing operations