

PRO DEX INC  
Form 10-Q  
November 13, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended

SEPTEMBER 30, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-14942

PRO-DEX, INC.

(Exact name of registrant as specified in its charter)

COLORADO  
(State or other jurisdiction  
of incorporation or organization)

84-1261240  
(I.R.S. Employer  
Identification No.)

2361 McGaw Avenue, Irvine, California 92614  
(Address of principal executive offices and zip code)

(949) 769-3200  
(Registrant's telephone number, including area code)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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  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 o No x

Indicate the number of shares outstanding of each of the registrant's classes of common stock outstanding as of the latest practicable date: 4,169,666 shares of common stock, no par value, as of October 28, 2014.

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PRO-DEX, INC. AND SUBSIDIARIES  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2014

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## PRO-DEX, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share amounts)

	September 30, 2014	June 30, 2014
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,609	\$ 3,188
Accounts receivable, net of allowance for doubtful accounts of \$34 and \$29, respectively	1,094	1,776
Unbilled receivables	1,228	1,073
Other current receivables	20	31
Inventory	2,587	2,600
Prepaid expenses	95	110
Deferred income taxes	115	115
Total current assets	8,748	8,893
Investments	1,082	1,058
Equipment and leasehold improvements, net	1,473	1,575
Intangibles	165	105
Other assets	77	77
Total assets	\$ 11,545	\$ 11,708
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 617	\$ 744
Accrued expenses	1,211	1,090
Deferred revenue	247	232
Income taxes payable	48	53
Capital lease obligations	9	8
Total current liabilities	2,132	2,127
Deferred income taxes	115	115
Deferred rent	232	243
Capital lease obligations, net of current portion	4	7
Total non-current liabilities	351	365
Total liabilities	2,483	2,492
Shareholders' equity:		
Common shares; no par value; 50,000,000 shares authorized; 4,203,354 and 4,211,019 shares issued and outstanding at September 30, 2014 and June 30, 2014, respectively	18,587	18,582
Accumulated other comprehensive income	213	202

Accumulated deficit	(9,738 )	(9,568 )
Total shareholders' equity	9,062	9,216
Total liabilities and shareholders' equity	\$ 11,545	\$ 11,708

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

PRO-DEX, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands, except share and per share amounts)

	Three Months Ended September 30,	
	2014	2013
Net sales	\$ 2,595	\$ 2,555
Cost of sales	1,767	1,610
Gross profit	828	945
Operating expenses:		
Selling expenses	142	92
General and administrative expenses	491	457
Research and development costs	384	375
Total operating expenses	1,017	924
Operating income (loss)	(189 )	21
Other income (expense):		
Interest income	1	—
Interest expense	(2 )	(2 )
Total other income (expense)	(1 )	(2 )
Income (loss) from continuing operations before income taxes	(190 )	19
Provision (benefit) for income taxes	(9 )	1
Income (loss) from continuing operations	(181 )	18
Income from discontinued operations, net of income taxes	11	194
Net income (loss)	\$ (170 )	\$ 212
Other comprehensive income, net of tax:		
Unrealized gain from marketable equity investments	12	56
Comprehensive income (loss)	\$ (158 )	\$ 268
Basic and diluted income (loss) per share:		
Net income (loss) from continuing operations	\$ (0.04 )	\$ 0.00
Income from discontinued operations	0.00	0.06
Net income (loss)	\$ (0.04 )	\$ 0.06
Weighted average common shares outstanding - basic	4,208,957	3,344,697
Weighted average common shares outstanding - diluted	4,227,650	3,353,447

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



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

	2014	Three Months Ended September 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (170 )	\$ 212
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	127	132
Gain on sale of real estate held for sale	—	(167 )
Share-based compensation	8	20
Allowance for doubtful accounts	5	3
Changes in operating assets and liabilities:		
Accounts receivable and other receivables	688	(8 )
Unbilled receivables	(155 )	(154 )
Inventory	13	(139 )
Prepaid expenses and other assets	15	18
Accounts payable, accrued expenses and deferred rent	(18 )	(500 )
Deferred revenue	15	71
Income taxes payable	(5 )	—
Net cash provided by (used in) operating activities	523	(512 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of equipment	(25 )	—
Proceeds from sale of real estate held for sale	—	900
Proceeds from sale of equipment	—	6
Increase in intangibles	(60 )	(17 )
Purchase of investments	(12 )	(228 )
Net cash provided by (used in) investing activities	(97 )	661
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on capital lease	(2 )	—
Payments made for common stock rights offering costs	(3 )	—
Net cash used in financing activities	(5 )	—
Net increase in cash and cash equivalents	421	149
Cash and cash equivalents, beginning of period	3,188	1,680
Cash and cash equivalents, end of period	\$ 3,609	\$ 1,829

Supplemental disclosures of cash flow information:

Cash paid during the period for:



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Interest	\$ 2	\$ 2
Income taxes	\$ 8	\$ —

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

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, 2014. 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, 2014.

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers,” which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 requires an entity to recognize revenue depicting the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires enhanced revenue related disclosures. ASU 2014-09 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016. The Company has not yet determined the impact of ASU 2014-09 on its consolidated results of operations, financial condition, or cash flows.

In April 2014, the FASB issued ASU 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” ASU 2014-08 requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity’s financial results or a business activity classified as held for sale should be reported as discontinued operations. ASU 2014-08 also expands the disclosure requirements for discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. ASU 2014-08 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014. The impact of ASU 2014-08 is dependent upon the nature of dispositions, if any, after adoption.

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

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

	September 30, 2014	June 30, 2014
Raw materials /purchased components	\$ 820	\$ 878
Work in process	750	525
Sub-assemblies /finished components	801	823
Finished goods	216	