

PRO DEX INC  
Form 10QSB  
May 12, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-QSB**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended March 31, 2003

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 small business issuer as specified in its charter)

Colorado  
(State or Other Jurisdiction of  
Incorporation or Organization)

84-1261240  
(IRS Employer Identification No.)

151 E. Columbine Avenue, Santa Ana, California 92707  
(Address of Principal Executive Offices)

Issuer's telephone number: (714) 241-4411

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock outstanding as of the latest practicable date: 8,720,900 shares of Common Stock, no par value, as of May 7, 2003.

Transitional Small Business Disclosure Format: Yes  No

**Item 1. Financial Statements****PRO-DEX, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

	<i>March 31, 2003</i> <i>(unaudited)</i>	<i>June 30, 2002</i> <i>(audited)</i>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 324,000	\$ 236,000
Funds held in escrow, net	--	790,000
Accounts receivable, net of allowance for doubtful accounts of \$75,000 and \$26,000	2,146,000	1,620,000
Inventories, net	2,943,000	2,924,000
Prepaid expenses	106,000	84,000
Deferred taxes	454,000	454,000
Income tax receivable	330,000	330,000
Total current assets	6,303,000	6,438,000
Equipment and leasehold improvements, net	1,034,000	1,025,000
Other assets:		
Other	34,000	37,000
Deferred tax assets	1,326,000	1,326,000
Patents, net of accumulated amortization of \$2,692,000 and \$2,660,000	--	32,000
Goodwill	1,110,000	1,110,000
Total other assets	2,470,000	2,505,000
Total assets	\$ 9,807,000	\$ 9,968,000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long term debt to shareholders	\$ 65,000	\$ 126,000
Notes payable	6,000	8,000
Credit line payable	627,000	638,000
Accounts payable	1,072,000	765,000
Accrued expenses	418,000	801,000
Income taxes payable	115,000	101,000
Total current liabilities	2,303,000	2,439,000
Long-term debt to a shareholder, net of current portion	177,000	211,000
Total liabilities	2,480,000	2,650,000
Commitments and contingencies		
Shareholders' equity:	283,000	283,000

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Series A convertible preferred shares; no par value;  
liquidation preference of \$3.60 per share; 10,000,000  
shares authorized; 78,129 shares issued and outstanding

Common shares; no par value; 50,000,000 shares  
authorized; 8,723,700 and 8,787,300 shares issued and  
outstanding, respectively

Accumulated deficit	15,002,000	15,033,000
	(7,901,000)	(7,922,000)
	7,384,000	7,394,000
Receivable for stock purchase	(57,000)	(76,000)
Total shareholders' equity	7,327,000	7,318,000
Total liabilities and shareholders' equity	\$ 9,807,000	\$ 9,968,000

*See notes to consolidated financial statements.*

**PRO-DEX, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	<i>Three Months Ended March 31,</i>	
	<i>2003</i>	<i>2002</i>
Net sales	\$ 3,079,000	\$ 2,509,000
Cost of sales (includes rent paid to a director of \$12,000 in 2002)	1,899,000	1,393,000
Gross profit	1,180,000	1,116,000
Operating expenses:		
Selling	229,000	122,000
General and administrative expenses	547,000	619,000
Research and development costs	298,000	413,000
Amortization	--	123,000
Total operating expenses	1,074,000	1,277,000
Income (Loss) from operations	106,000	(161,000)
Other income (expense):		
Other income, net	8,000	23,000
Interest (expense)	(21,000)	(24,000)
Total	(13,000)	(1,000)
Income (Loss) from continuing operations before provision for income tax (credits)	93,000	(162,000)
Provision for income taxes (credits)	37,000	(65,000)
Income (Loss) from continuing operations	56,000	(97,000)
(Loss) from discontinued operations net of tax credit of (\$160,000)	--	(240,000)
Net Income (loss)	\$ 56,000	\$ (337,000)
Net Income (loss) per share from continuing operations:		
Basic	\$ 0.01	\$ (0.01)
Diluted	\$ 0.01	\$ (0.01)
Net Income (loss) per share from discontinued operations:		
Basic	--	\$ (0.03)
Diluted	--	\$ (0.03)
Net Income (loss) per share:		
Basic	\$ 0.01	\$ (0.04)
Diluted	\$ 0.01	\$ (0.04)

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Weighted average shares outstanding - basic	8,723,700	8,787,300
Weighted average shares outstanding - diluted	8,910,899	8,787,300

*See notes to consolidated financial statements.*

**PRO-DEX, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	<i>Nine Months Ended March 31,</i>	
	<i>2003</i>	<i>2002</i>
Net sales	\$ 8,678,000	\$ 7,841,000
Cost of sales (includes rent paid to a director of \$86,000 in 2002)	5,090,000	4,349,000
Gross profit	3,588,000	3,492,000
Operating expenses:		
Selling	540,000	435,000
General and administrative expenses	1,849,000	2,221,000
Research and development costs	1,071,000	1,120,000
Amortization	32,000	367,000
Total operating expenses	3,492,000	4,143,000
Income (Loss) from operations	96,000	(651,000)
Other income (expense):		
Other income, net	4,000	77,000
Interest (expense)	(65,000)	(60,000)
Total	(61,000)	17,000
Income (Loss) from continuing operations before provision for income tax (credits)	35,000	(634,000)
Provision for income taxes (credits)	14,000	(254,000)
Income (Loss) from continuing operations	21,000	(380,000)
(Loss) from discontinued operations net of tax credit of (\$315,000)	--	(474,000)
Net Income (Loss)	\$ 21,000	\$ (854,000)
Net Income (Loss) per share from continuing operations:		
Basic	\$ 0.00	\$ (0.04)
Diluted	\$ 0.00	\$ (0.04)
Net Income (Loss) per share from discontinued operations:		
Basic	--	\$ (0.06)
Diluted	--	\$ (0.06)
Net Income (Loss) per share:		
Basic	\$ 0.00	\$ (0.10)
Diluted	\$ 0.00	\$ (0.10)

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Weighted average shares outstanding - basic	8,752,374	8,787,300
Weighted average shares outstanding - diluted	8,892,995	8,787,300

*See notes to consolidated financial statements.*

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

*Nine Months Ended March 31,*  
2003                      2002

## Cash Flows from Operating Activities:

Net Income (loss)	\$ 21,000	\$ (854,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	285,000	667,000
Loss on disposal of discontinued operations	--	623,000
Provision for doubtful accounts	49,000	(9,000)
Reserve for obsolete inventory	--	50,000
Non-cash compensation	19,000	19,000
Deferred taxes	--	(562,000)
Changes in:		
(Increase) in accounts receivable	(575,000)	(15,000)
(Increase) in inventories	(19,000)	(373,000)
(Increase) decrease in prepaid expenses	(22,000)	2,000
Decrease in other assets	3,000	90,000
(Decrease) increase in accounts payable and accrued expense	(76,000)	(220,000)
(Decrease) increase in income taxes payable	15,000	(246,000)
Net Cash (used in) Operating Activities	(300,000)	(828,000)
 Cash Flows From Investing Activities:		
Proceeds from sale of discontinued operations	790,000	739,000
Proceeds from sale of real estate available for sale	--	68,000
Purchases of equipment and leasehold improvements	(262,000)	(134,000)
 Net Cash provided by Investing Activities	528,000	673,000
 Cash Flows from Financing Activities:		
Principal payments on long-term borrowings	(97,000)	(50,000)
Net payments on line of credit	(11,000)	--
Stock repurchases	(32,000)	--
 Net Cash (used in) Financing Activities	(140,000)	(50,000)
 Net Increase (decrease) in Cash and Cash Equivalents	88,000	(205,000)
Cash and Cash Equivalents, beginning of period	236,000	698,000
Cash and Cash Equivalents, end of period	\$ 324,000	\$ 493,000



*Supplemental Information*

Cash payments for interest	\$68,000	\$38,000
Cash payments for income taxes	\$2,000	\$254,000

*See notes to consolidated financial statements.*

**PRO-DEX, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with the audited financial statements presented in the Company's Annual Report for the fiscal year ended June 30, 2002. In the opinion of management, all adjustments (consisting of normal recurring accruals) 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 the Company's Annual Report on Form 10-KSB for the year ended June 30, 2002.

**STOCK OPTIONS AND WARRANTS**

During the quarter ended March 31, 2003, the Company granted no Common Stock Options.

During the quarter ended March 31, 2003, 30,000 Common Stock Options under the Employee's Plan and 20,000 Common Stock Options under the Director's Plan and 25,000 Common Stock Warrants expired unexercised.

**Accounting for Stock-based Compensation**

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. This statement amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of accounting for stock-based employee compensation. This Statement also amends the disclosure requirement of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the effect on reported net income (loss) of an entity's accounting policy decisions with respect to stock-based employee compensation. The Company adopted this Statement in fiscal year 2003.

The Company accounts for stock-based employee compensation under the requirements of Accounting Principles Board (APB) Opinion No. 25, which does not require compensation to be recorded if the consideration to be received is at least e