PRO DEX INC
Form 10-Q/A
May 19, 2011

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q/A No. 2

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

**For the quarterly period ended September 30, 2010**

**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** | **84-1261240** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(IRS Employer Identification No.)** |

**2361 McGaw Avenue, Irvine, California 92614**

**(Address of Principal Executive Offices)**

**Registrant s telephone number: 949-769-3200**

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 twelve 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 ninety 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ 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 under Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company | x |

Indicate whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ 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: 3,251,850 shares of Common Stock, no par value, as of October 28, 2010.

**EXPLANATORY NOTE**

On November 9, 2010, Pro-Dex, Inc. (the Company) filed its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 with the Securities and Exchange Commission. On May 6, 2011, the Company filed Form 10-Q/A No. 1 with the Securities and Exchange Commission to amend the aforementioned Quarterly Report on Form 10-Q for the following:

In Item 4T of the Form 10-Q, the conclusions of the Company s principal executive and principal financial officers regarding the effectiveness of the Company s disclosure controls and procedures were made for the quarter ended September 30, 2010, rather than as of September 30, 2010 as required by Item 307 of Regulation S-K. In the Form 10-Q/A No. 1, the effective period covered by the conclusions regarding the Company s controls, as described above, has been corrected.

The second paragraph of Item 4T of the Form 10-Q addressed direct changes in our internal controls over financial reporting whereas Item 308(c) of Regulation S-K does not limit the disclosure requirement to direct changes. As there were no changes in our internal controls over financial reporting as of September 30, 2010, the word direct has been deleted from the second paragraph of Item 4T in the Form 10-Q/A No. 1.

In Item 2 in the Form 10-Q, the Company described its accounting policy for recording owned land and buildings as at the value of their best and highest use. In the Form 10-Q/A No. 1, the description of this policy has been clarified to indicate that property, plant, equipment and leasehold improvements is recorded at historical cost.

In Exhibits 31.1 and 31.2 to the Form 10-Q, certain wording was not in conformity with the requirements of Exchange Act Rule 13a-14(a). In the Form 10-Q/A No. 1, such wording has been corrected.

This Form 10-Q/A No. 2 is being filed to amend the aforementioned Form 10-Q, as amended by Form 10-Q/A No. 1, by providing the complete text of each of the Items in the aforementioned Quarterly Report on Form 10-Q that were affected by the changes described above.

Other than the changes described in this Explanatory Note, the Company is not amending or updating any information contained within its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010 (the Initial Filing ).

Therefore, this Form 10-Q/A No. 2 should be read in conjunction with the Company s other filings made with the Securities and Exchange Commission subsequent to the date of the Initial Filing.

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

**COMPANY OVERVIEW**

The following discussion and analysis provides information that our management believes is relevant to an assessment and understanding of the results of operations and financial condition of Pro-Dex, Inc. ( Company , Pro-Dex , we , our or us ) for each of the three month periods ended September 30, 2010 and 2009. This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the Notes thereto included elsewhere in this report. This report contains certain forward-looking statements and information. The cautionary statements included herein should be read as being applicable to all related forward-looking statements wherever they may appear. Our actual future results could differ materially from those discussed herein. Our critical accounting policies relate to revenue recognition, inventory valuation for slow moving items, warranty reserves, and recoverability of deferred income tax assets.

Except for the historical information contained herein, the matters discussed in this report, including, but not limited to, discussions of our product development plans, business strategies and market factors influencing our results, are forward-looking statements that involve certain risks and uncertainties. Actual results may differ from those anticipated by us as a result of various factors, both foreseen and unforeseen, including, but not limited to, our ability to continue to develop new products and increase sales in markets characterized by rapid technological evolution, consolidation within our target marketplace and among our competitors, and competition from larger, better capitalized competitors. Many other economic, competitive, governmental and technological factors could impact our ability to achieve our goals. You are urged to review the risks, uncertainties and other cautionary language described in this report, as well as in our other public disclosures and reports filed with the Securities and Exchange Commission ( SEC ) from time to time, including, but not limited to, the risks, uncertainties and other cautionary language discussed in our Annual Report on Form 10-K for our fiscal year ended June 30, 2010.

With operations in Irvine, California, Beaverton, Oregon and Carson City, Nevada, we provide power and control products used in medical, aerospace, military, research and industrial applications. Experience in multi-axis motion control, fractional horsepower motors and rotary drive systems allows us to develop products that require high precision in harsh environments.

Our products are found in hospitals, dental offices, medical engineering labs, commercial and military aircraft, scientific research facilities and high tech manufacturing operations around the world. The names of Micro Motors, Oregon Micro Systems, and Astromec are used for marketing purposes as brand names.

Our principal headquarters are located at 2361 McGaw Avenue, Irvine, California 92614 and our phone number is 949-769-3200. Our Internet address is www.pro-dex.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other SEC filings, are available free of charge through our website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. In addition, our Code of Ethics and other corporate governance documents may be found on our website at the Internet address set forth above. Our filings with the SEC may also be read and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov and company specific information at www.sec.gov/edgar/searchedgar/companysearch.html.

**Critical Accounting Estimates and Judgments**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ( GAAP ). The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The significant accounting policies that are believed to be the most critical to fully understanding and evaluating our reported financial results include revenue recognition, inventory valuation for slow moving items, warranty reserves and the recoverability of deferred income tax assets.

**Revenue Recognition**

Revenue on product sales is recognized upon shipment to the customer based on its terms of FOB shipping point, where the risk of loss and title transfer to the customer. We record sales in accordance with ASC 605 (Formerly SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*.) Under these guidelines, revenue is recognized when all of the following exist: persuasive evidence that a sale arrangement exists, delivery of the product has occurred, the price is fixed or determinable, and payment is reasonably assured. We sell some of our products with a warranty that provides for repairs or replacement of any defective parts for a period after the sale, which is generally one year. At the time of the sale, the Company accrues an estimate of the cost of providing the warranty based on prior experience but the Company does not accrue an allowance for sales returns as there have been minimal returns for credit. The Company recognizes revenue under research and development agreements as certain deliverables are met as specified in each development contract.

**Inventories**

We determine our inventory value at the lower of cost (first-in, first-out method) or market value, and we determine market value of our inventory based on the age and quantity of inventory on hand. Generally, a reserve for slow-moving inventory will be established when the quantity of inventory on hand exceeds the sum of (i) orders on hand and (ii) estimated 12 months of usage.

**Accounts Receivable**

We determine an allowance for doubtful accounts based the length of time that has passed since the related sale was recognized as revenue. An allowance for doubtful accounts is generally established for accounts receivable more than 90 days old or for those accounts receivable subject to identified collection risk subsequent to recognition of the related sale. The allowance varies from 10% to 100% of the amount of the related receivable, depending on credit and collection history. Accounts receivable are charged against the allowance when it is determined that the receivable is uncollectible.

**Warranties**

The warranty accrual is based on the estimated return rates of products in the field and the estimated costs to repair such returned good. These assumptions are reviewed quarterly.

**Property, Plant, Equipment & Leasehold Improvements, Net**

Property, plant, equipment and leasehold improvements is recorded at historical cost.

| | September 30, 2010 (unaudited) | June 30, 2010 |
|---|---|---|
| Land | $ 279,000 | $ 279,000 |
| Building | 641,000 | 641,000 |
| Leasehold Improvements | 2,286,000 | 2,286,000 |
| Equipment | 6,753,000 | 6,745,000 |
| Total | 9,959,000 | 9,951,000 |
| Accumulated Depreciation | (6,032,000) | (5,859,000) |
| Total property, plant & equipment, net | $ 3,927,000 | $ 4,092,000 |

Depreciation is calculated based on a straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Building | 39 years |
| Leasehold improvements | Term of the lease or estimated useful life, whichever is shorter |
| Equipment | Three to ten years |

**Stock-Based Compensation**

We are subject to ASC 718 (formerly Statement of Financial Accounting Standards ( SFAS ) No. 123 (R) *Accounting for Stock-Based Compensation* as revised December 2004.) This standard establishes the accounting standards for equity compensation, and applies to us in the recognition of the cost of stock options awarded based on the grant-date fair value of those awards.

**Income Taxes**

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating the actual current tax liabilities together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet. The most significant deferred tax assets are future deductions that may arise from the realization of inventory currently reserved and from available net operating loss carry forwards and available research and development tax credits. We must then assess the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, a valuation allowance must be established. To the extent we establish a valuation allowance or increase or decrease this allowance in a period, the impact will be included in the provision for income taxes in our income statement.

Significant management judgment is required in determining our provision for income taxes and the recoverability of our deferred tax assets. Such determination is based primarily on our historical taxable income, with consideration given to our estimates of future taxable income by jurisdictions in which we operate and the period over which our deferred tax assets will be recoverable. We carry a valuation allowance against our deferred tax assets and changes in this allowance are reflected through the provision for income taxes.

**Description of Business**

The majority of our revenue is derived from the following sources: designing, developing and manufacturing rotary drive systems for the medical device and dental industries that are manufactured in our Irvine, California facility; multi-axis motion control hardware and software used to regulate the motion of servo and stepper motors, predominantly for the factory automation, scientific research, and medical analysis equipment industries, and manufactured in our Beaverton, Oregon facility; and high-reliability fractional horsepower DC motors designed for harsh environments, aerospace and military and medical applications, and manufactured in our Carson City, Nevada facility.

Our revenue is derived from five main customer types. The sales and proportion of total sales (including repair sales) related to each customer type are noted in the table below (unaudited):

| Customer type | Three months Ended September 30, 2010 | | 2009 | |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Dental | $ 435 | 7% | $ 572 | 10% |
| Medical | 3,403 | 58% | 3,461 | 61% |
| Industrial | 897 | 15% | 446 | 8% |
| Aerospace | 602 | 10% | 613 | 11% |
| Government and other | 493 | 8% | 541 | 10% |
| Total sales | $ 5,829 | 100% | $ 5,633 | 100% |

Our Irvine, California facility bears a US FDA Establishment Registration and a State of California Device Manufacturing License (Dept of Public Health Food and Drug Branch), and is Certified to ISO 13485:2003, Medical Device Directive 93/42/EEC Annex II, and Canadian Medical Device Conformity Assessment System (CMDCAS). Our Carson City, Nevada facility is Certified to ISO 9001:2003.

Presently, we are generally able to fill orders within sixty days. At September 30, 2010, we had a backlog, including orders for delivery beyond sixty days, of $10.6 million, compared with a backlog of $8.1 million at September 30, 2009. We expect to ship most of our backlog in fiscal year 2011 and the remainder in fiscal years 2012 and 2013. The increase in backlog is due to normal fluctuations in the timing of receipt and shipment of orders. We may experience variability in our new order bookings due to the timing of major new product launches and customer planned inventory builds. However, we do not typically experience seasonal fluctuations in our shipments and revenues.

**RESULTS OF OPERATIONS**

**Comparison of the three-month periods ended September 30, 2010 and 2009**

The following table sets forth the relationships in dollars and as a percentage of net sales of our operations:

| | Three Months Ended September 30, 2010 | | 2009 | |
|---|---|---|---|---|
| | Dollars in thousands | | | |
| Net sales | $ 5,829 | 100% | $ 5,633 | 100% |
| Cost of sales | 3,645 | 63% | 3,759 | 67% |
| Gross profit | 2,184 | 37% | 1,874 | 33% |
| Selling, general and administrative expenses | 1,188 | 20% | 1,016 | 18% |
| Research and development costs | 591 | 10% | 621 | 11% |
| Income from operations | 405 | 7% | 237 | 4% |
| Net interest and other expense | 57 | 1% | 50 | 1% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income before provision for income taxes | | 348 | 6% | | 187 | 3% |
| Provision for income taxes | | 6 | 0% | | 4 | 0% |
| Net income | $ | 342 | 6% | $ | 183 | 3% |

Net sales for the three months ended September 30, 2010 increased $196,000 to $5,829,000 from $5,633,000 for the three months ended September 30, 2009 resulting from growth across a broad base of customers for medical and motion control products whose orders had been negatively impacted by the relatively slower economic climate in 2009.

Gross profit for the three months ended September 30, 2010 increased $310,000 or 17% compared to the corresponding period in 2009. Gross profit as a percentage of sales improved 4 basis points to 37% for the three months ended September 30, 2010 compared to 33% for the three months ended September 30, 2009. The increase in gross profit results from higher sales volumes as discussed above. The increase in gross profit as a percentage of sales was due to a favorable shift in sales mix in 2010 to industrial motion control sales and away from lower margin dental products.

Selling expenses increased $135,000, or 47%, to $424,000 for the three months ended September 30, 2010 from $289,000 for the corresponding period in 2009. This increase is attributable primarily to the costs of improvements made in the 2010 period to our website, amounting to $68,000, the addition of advertising campaigns resulting in an increase of $49,000 from 2009 to 2010, and increased participation in trade shows resulting in an increase of $22,000 from 2009 to 2010.

General and administrative expenses increased $37,000, or 5%, to $798,000 for the three months ended September 30, 2010 from $761,000 for the corresponding period in 2009, due primarily to legal and consulting expenses, which increased $60,000 and $40,000, respectively, from 2009 to 2010, both increases due to higher levels of projects and associated fees incurred in 2010. Partially offsetting these increases were reductions in employee stock-based compensation expense, Sarbanes-Oxley administration costs and information technology costs, amounting to $31,000, $12,000 and $17,000, respectively.

Research and development cost decreased $30,000, or 5%, to $591,000 for the three months ended September 30, 2010 from $621,000 for the three months ended September 30, 2009. The decrease was due primarily to reduced small motor development costs, offset by increased labor expense.

As a result of the foregoing, operating income for the three months ended September 30, 2010 increased to $405,000 compared to $237,000 for the corresponding period in 2009.

Net interest expense for the three months ended September 30, 2010 was $59,000 compared to $51,000 for the three months ended September 30, 2009 due to prepayment fees in connection with our repayment and retirement, prior to its maturity, of the mortgage collateralized by the land and building owned in Carson City.

**Income Tax Provision**. Our estimated effective combined federal and state tax rate on income from operations was 2% for each of the three-month periods ended September 30, 2010 and 2009. The reduced tax rate is due to the reduction of the deferred tax asset valuation allowance previously recorded against our current and long term deferred tax assets. The deferred tax valuation allowance is more fully described in Note 6 of the accompanying Condensed Consolidated Financial Statements (Unaudited), Income Taxes.

Based on the fluctuations discussed above, net income for the three months ended September 30, 2010 was $342,000, or $0.11 and $0.10 per share on a basic and diluted basis, respectively, as compared to net income of $183,000, or $0.06 per share on a basic and diluted basis, for the three months ended September 30, 2009.

**Liquidity and Capital Resources**

The following table presents selected financial information as of September, 30 2010, September 30, 2009 and June 30, 2010:

| | September 30, | | June 30, |
|---|---|---|---|
| | 2010 (unaudited) | 2009 (unaudited) | 2010 (unaudited) |
| Cash and cash equivalents | $ 2,541,000 | $ 1,378,000 | $ 3,794,000 |
| Working capital | $ 4,426,000 | $ 4,810,000 | $ 6,369,000 |
| Credit line outstanding balance | $ | $ | $ |
| Net debt (cash) | $ (1,275,000) | $ 1,840,000 | $ (900,000) |
| Tangible book value per common share | $ 2.45 | $ 2.35 | $ 2.36 |
| | 43 | 46 | 43 |

Number of days of sales outstanding (DSO) in accounts receivable
at end of quarter

Working capital as of September 30, 2010 decreased to $4.4 million compared to $4.8 million as of September 30, 2009 and $6.4 million as of June 30, 2010. A component of the decreases in working capital from both September 30, 2009 and June 30, 2010 is the reclassification in the 2010 period of the bank term loan to current liabilities (see Note 5 of Notes to Condensed Consolidated Financial Statements and Changes in Bank Debt and Credit Facilities below). Also contributing to the decrease in working capital from June 30, 2010 is the repayment and retirement of the mortgage loan collateralized by the Carson City property, discussed above.

Net cash provided by operations during the three months ended September 30, 2010 was $381,000 and did not differ materially from cash provided by operations amounting to $409,000 during the three months ended September 30, 2009. The decrease between periods was comprised primarily of an increase in inventories in the 2010 period of $621,000 as compared to an increase in the corresponding 2009 period of $167,000, net of an increase in accounts receivable in 2010 of $18,000 as compared with an increase in accounts receivable in 2009 of $343,000.

Net cash used in investing activities consists of capital expenditures for manufacturing equipment and did not differ materially from the three months ended September 30, 2009 to the corresponding period in 2010.

Net cash used in financing activities for the three months ended September 30, 2010 was $1.5 million, as compared to $108,000 in the corresponding 2009 period. This increased use of cash is due to our payment, during the 2010 period, of the remaining $1,519,000 balance due on the Union Bank mortgage, fully retiring such indebtedness (see Note 5 of Notes to Condensed Consolidated Financial Statements).

**Potential Reduction in Large Customer Orders**

In December 2009, our largest customer informed us that it was in the process of developing, and planned to eventually manufacture, its own surgical hand pieces which are functionally comparable to the two products we currently provide to the customer. We have been the exclusive manufacturer of these products since they were developed.

We currently provide this Customer with two products ( Product A and Product B ) and repair services for such products. Sales for each of these categories for the three months ended September 30, 2010 and 2009 are as follows:

| | Three Months Ended September 30, 2010 | 2009 | Average of Total |
|---|---|---|---|
| Product A | $ 1,642,000 | $ 1,349,000 | 56% |
| Product B | $ 894,000 | $ 923,000 | 34% |
| Repairs | $ 247,000 | $ 250,000 | 10% |
| | $ 2,783,000 | $ 2,522,000 | 100% |

The Customer has indicated that it has successfully developed, tested, and released its version of Product A and is currently shipping such product to new accounts. The Customer has also indicated that it intends to continue to purchase sufficient levels of Product A from us to support replacement units for its existing customers in the U.S. and Europe through at least the end of calendar year 2011 and will also purchase Product A from us for all its requirements in the South American market through approximately the end of fiscal year 2012.

Product B is a more complex device. The Customer has indicated that the development and testing of Product B has been less successful and that we can expect continued orders from the Customer for Product B through the end of calendar year 2011.

In addition, the Customer has indicated that it intends to continue to use our repair services for all our products for an undetermined period, except in South America, where it will purchase components from us to do its own repairs locally.

As a result of the foregoing, we expect that approximately one-third of the revenue otherwise attributable to this Customer during the calendar year 2011 could be displaced by the Customer s own production. However, the Customer is not obligated either to abide by the timetables it has communicated to us or to update us as to the status of its product development efforts. Accordingly, we are unable to know or predict the status of the customer s initiatives on an ongoing basis. The Customer could accelerate, delay or terminate its transition to its own products at any time and without notice to us, which could have a material impact on our revenues. The identity of the Customer is protected by a confidentiality agreement.

Our intent is to identify additional revenue opportunities and to reduce operating costs as necessary to minimize the impact of a potential revenue reduction. In the event that the Customer s future purchases are reduced beyond the realization of such opportunities or cost reductions, the Company is likely to experience a material and adverse impact on its business.

**Changes in Bank Debt and Credit Facilities**

During the three months ended September 30, 2010, we had a credit facility with Wells Fargo Bank, N.A. ( Wells Fargo ) and a mortgage loan with Union Bank of California, N.A ( Union Bank ), as further described below.

*Wells Fargo Credit Facility*

As of September 30, 2010, we had a credit facility with Wells Fargo having two components:

- a revolving credit line of up to $1,000,000 in borrowing availability, under which no amounts were outstanding at September 30, 2010 or 2009, and

- a five-year term loan with an initial balance of $2,000,000, of which $1,267,000 and $1,367,000 was outstanding at September 30, 2010 and June 30, 2010, respectively.

If borrowings under the credit line were to have exceeded $500,000, the maximum amount of borrowing was limited to the lesser of $1,000,000 or 70% of the eligible accounts receivable plus 40% of the eligible inventories. Its terms required monthly interest payments at either (i) the prime rate of interest (3.25% at September 30, 2010) plus 1.50%, or (ii) three month LIBOR (0.290% at September 30, 2010) plus 2.50%, at our discretion, based on outstanding borrowings. The line of credit expired on November 1, 2010. We had been charged an unused credit line fee of 1.50% per annum payable quarterly on the average balance of the line of credit that is not used. There were no outstanding balances under the credit line as of September 30, 2010 and 2009. Therefore, the total eligible additional borrowing capacity under the line of credit as of each of those dates was $1,000,000.

The term loan had an initial balance of $2,000,000, the borrowings from which were used for construction of tenant improvements in our Irvine, California facility. Its terms require monthly principal and interest payments over the 60-month life of the loan, based on outstanding borrowings. The interest rate is fixed at 5.72% over the life of the loan.

All assets of the Company except our Carson City land and building collateralize the outstanding borrowings under the Wells Fargo credit facility.

There are certain financial and non-financial covenants that we must meet to be in compliance with the terms of the Wells Fargo credit facility. As of September 30, 2010, we were in violation of covenants that are based on 12-month historical profitability computations as a result of write-offs we recorded in the fourth quarter of our fiscal year ended June 30, 2010. On October 8, 2010, we were informed by Wells Fargo that the bank did not intend to renew the revolving credit line which expired as of November 1, 2010. With respect to the term loan, Wells Fargo, by a letter agreement dated November 4, 2010, waived the rights it would have otherwise had with respect to the covenant violations discussed above. Because there is uncertainty as to whether (a) we can comply with such covenants in future quarters during which the write-offs taken in fiscal 2010 remain in the profitability computations discussed above, and (b) Wells Fargo will continue to waive its rights should we continue to violate such covenants, the entire outstanding balance of the term loan, amounting to $1,267,000, is presented as a current liability in the accompanying September 30, 2010 balance sheet. In addition, we are actively pursuing a new credit relationship, the success or timing of which cannot currently be assessed. Our current liquidity position would allow for repayment of the term loan from existing cash on hand should that become necessary before a new credit arrangement is in place.

*Union Bank Mortgage*

In March 2006, we entered into a ten-year mortgage with Union Bank for $1,650,000. The principal balance of the mortgage bore interest at a fixed annual rate of 6.73%. Payments on the mortgage were $11,379 per month (based on a 25-year amortization), with the balance of $1,291,666 in principal due on April 1, 2016. The mortgage was collateralized by our Carson City land and building. On September 16, 2010, we paid the remaining $1,519,000 balance due on the Union Bank mortgage, fully retiring such indebtedness.

At September 30, 2010, we had cash and cash equivalents of $2,541,000, which, together with expected cash flows from operations, we believe will be sufficient to meet our working capital and capital expenditure requirements for the 12 months.

**Item 4T. Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer (the principal executive officer and principal financial officer, respectively) conducted an evaluation of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ( Exchange Act )). Based on that evaluation as of September 30, 2010, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective.

During the three months ended September 30, 2010, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Item 6. Exhibits.**

Exhibits:

31.1 Certification of Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with the requirements of Section 13 or 15(d) 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.

Date: May 19, 2011

PRO-DEX INC.

By: / s / Mark Murphy

Mark Murphy
Chief Executive Officer

Date: May 19, 2011

PRO-DEX INC.

By: / s / Harold A. Hurwitz

Harold A. Hurwitz
Secretary and Chief Financial Officer

(Principal Financial and Accounting Officer)