

PRO DEX INC  
Form 10QSB  
November 15, 2004

**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 September 30, 2004**

**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 by check mark whether the Registrant (1) has filed all reports required 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  No

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock outstanding as of the latest practicable date: 8,995,593 shares of Common Stock, no par value, as of November 1, 2004.

Transitional Small Business Disclosure Format: Yes  No

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

	<i>September 30, 2004</i> <i>(unaudited)</i>	<i>June 30, 2004</i> <i>(audited)</i>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,097,000	\$ 2,070,000
Accounts receivable, net of allowance for doubtful accounts of \$45,000 at Sept. 30 and \$40,000 at June 30	2,086,000	2,370,000
Inventories, net	2,885,000	2,542,000
Prepaid expenses	266,000	76,000
Deferred income taxes	793,000	793,000
Total current assets	8,127,000	7,851,000
Equipment and leasehold improvements, net	994,000	1,030,000
Other assets:		
Goodwill	1,110,000	1,110,000
Deferred income taxes	788,000	788,000
Other	46,000	16,000
Total other assets	1,944,000	1,914,000
Total assets	\$ 11,065,000	\$ 10,795,000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long term debt to shareholder	\$ 71,000	\$ 70,000
Accounts payable	545,000	397,000
Accrued expenses	401,000	780,000
Income taxes payable	786,000	809,000
Total current liabilities	1,803,000	2,056,000
Long-term debt to a shareholder, net of current portion	57,000	75,000
Total liabilities	1,860,000	2,131,000
Commitments and contingencies		
Shareholders' equity:		
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	283,000	283,000
Common shares; no par value; 50,000,000 shares authorized; 8,858,600 shares issued and outstanding,	15,148,000	15,075,000
Accumulated deficit	(6,207,000)	(6,669,000)
	9,224,000	8,689,000
Receivable for stock purchase	(19,000)	(25,000)
Total shareholders' equity	9,205,000	8,664,000
Total liabilities and shareholders' equity	\$ 11,065,000	\$ 10,795,000

*See notes to consolidated financial statements.*

**PRO-DEX, INC. and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Three months ended September 30 (unaudited)**

	2004	2003
Net sales	\$ 3,332,000	\$ 3,528,000
Cost of sales	1,472,000	1,987,000
Gross profit	1,860,000	1,541,000
Operating expenses:		
Selling	200,000	205,000
General and administrative expenses	544,000	614,000
Research and development costs	418,000	387,000
Total operating expenses	1,162,000	1,206,000
Income from operations	698,000	335,000
Other income (expense):		
Other income, net	39,000	6,000
Royalty income	40,000	-
Interest expense	(7,000)	(19,000)
Total	72,000	(13,000)
Income before provision for income taxes	770,000	322,000
Provision for income taxes	308,000	129,000
Net income	\$ 462,000	\$ 193,000
Net Income per share:		
Basic	\$ 0.05	\$ 0.02
Diluted	\$ 0.05	\$ 0.02
Weighted average shares outstanding - basic	8,863,902	8,776,600
Weighted average shares outstanding - diluted	9,470,127	9,413,505

*See notes to consolidated financial statements.*

**PRO-DEX, INC. and SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Three months ended September 30 (unaudited)**

	<i>2004</i>	<i>2003</i>
Cash Flows from Operating Activities:		
Net Income	\$ 462,000	\$ 193,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	84,000	90,000
Provision for doubtful accounts	5,000	20,000
(Recovery) reserve for obsolete inventory	29,000	(122,000)
Stock based compensation	6,000	6,000
Deferred taxes	-	20,000
Changes in:		
(Increase) decrease in accounts receivable	278,000	(651,000)
Increase in inventories	(372,000)	(110,000)
Increase in prepaid expenses	(190,000)	(12,000)
(Increase) decrease in other assets	(30,000)	9,000
Increase (decrease) in accounts payable and accrued expenses	(232,000)	34,000
Increase (decrease) in income taxes payable	(22,000)	129,000
Net Cash provided by (used in) Operating Activities	18,000	(394,000)
Cash Flows From Investing Activities:		
Purchases of equipment and leasehold improvements	(47,000)	(90,000)
Net Cash used in Investing Activities	(47,000)	(90,000)
Cash Flows from Financing Activities:		
Principal payments on long-term shareholder borrowings	(17,000)	(22,000)
Net borrowings on line of credit	-	284,000
Proceeds from option and warrant exercise	73,000	35,000
Net Cash provided by Financing Activities	56,000	297,000
Net Increase (decrease) in Cash and Cash Equivalents	27,000	(187,000)
Cash and Cash Equivalents, beginning of period	2,070,000	795,000