UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

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

For the fiscal year ended June 30, 2023

OR

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

For the transition period from ____________ to ____________

Commission File Number: 000-14942

PRO-DEX, INC.

(Exact name of registrant as specified in its charter)

Colorado	**84-1261240**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
2361 McGaw Avenue, Irvine, CA	**92614**
(Address of Principal Executive Offices)	*(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	PDEX	NASDAQ Capital Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

As of December 31, 2022, the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing sales price on the Nasdaq Capital Market was approximately $32.5 million. For the purpose of this calculation shares owned by officers, directors, and 10% shareholders known to the registrant have been deemed to be owned by affiliates. This calculation does not reflect a determination that persons are affiliates for any other purposes.

As of September 29, 2023, 3,547,330 shares of the registrant's no par value common stock were outstanding.

Documents incorporated by reference:

Part III of this report incorporates by reference certain information from the registrant's definitive proxy statement (the "Proxy Statement") for its 2023 Annual Meeting of Shareholders. The Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

PRO-DEX, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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EXPLANATORY NOTE

This Annual Report on Form 10-K for the year ended June 30, 2023, (this “Form 10-K”), of Pro-Dex, Inc. (“Company,” “Pro-Dex,” “we,” “our,” “us”) includes amended and restated consolidated financial statements and related financial information as of and for the years ended June 30, 2022 and 2021. This Form 10-K also includes restated quarterly information for the quarters ended March 31, 2023, December 31, 2022, September 30, 2022, March 31, 2022, December 31, 2021, September 30, 2021, March 31, 2021, December 31, 2020, and September 30, 2020. This information is disclosed in Note 2 of the Notes to Consolidated Financial Statements.

Background of the Restatement

As described in the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission (“SEC”) on September 28, 2023, in connection with preparing the Company’s financial statements for the fiscal year ended June 30, 2023, the Company determined its calculation of the estimated fair value of a warrant (the “Monogram Warrant”), which the Company was granted on December 20, 2018, representing the Company’s right to purchase up to 5% of the outstanding stock of Monogram Orthopaedics Inc. calculated on a fully diluted basis, was materially understated for fiscal years ended June 30, 2020, 2021 and 2022 and all interim periods commencing with the quarter ended September 30, 2020 through the quarter ended March 31, 2023.

On September 27, 2023, management and the Audit Committee of the Board of Directors of the Company (the “Audit Committee”), after consultation with Moss Adams, LLP, the Company’s independent registered public accounting firm, determined that the Company’s previously issued financial statements referenced above should be restated to reflect the impact of the error, and accordingly, should no longer be relied upon.

As a result of the information described above, management has concluded that the Company’s disclosure controls and procedures were not effective at a reasonable assurance level and the Company’s internal control over financial reporting was not effective as of the end of each of the periods covered by the restatement. The Company has identified a material weakness in internal control over financial reporting related to its application of ASC 815, *Derivatives and Hedging* related to the Monogram Warrant. Please see Item 9A (Controls and Procedures) in this Form 10-K for a description of these matters, and of certain remediation measures that we plan to take to strengthen our internal control over financial reporting.

Reliance on Prior Consolidated Financial Statements

We have not amended our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods effected by the restatement. The information that has been previously filed or otherwise reported for these periods is superseded by the information in this Form 10-K. As such, we do not anticipate amending our previously filed Annual Reports on Form 10-K or our Quarterly Reports on Form 10-Q for any prior periods. Accordingly, the consolidated financial statements and related financial information contained in such previously filed reports should no longer be relied upon.

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of federal securities laws. Forward-looking statements are not based on historical facts but instead reflect the Company's expectations, estimates or projections concerning future results or events. These statements generally can be identified by the use of forward-looking words or phrases such as "believe," "expect," "anticipate," "may," "could," "intend," "intent," "belief," "estimate," "project," "forecast," "plan," "likely," "will," "should" or similar words or phrases. These statements are not guarantees of performance and are inherently subject to known and unknown risks, uncertainties, and assumptions that are difficult to predict and could cause actual results, performance, or achievements to differ materially from those expressed or indicated by those statements. The Company cannot assure you that any of its expectations, estimates or projections will be achieved.

Forward-looking statements included in this report are only made as of the date of this report and the Company disclaims any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances.

Numerous factors could cause the Company's actual results and events to differ materially from those expressed or implied by forward-looking statements, including, without limitation: loss of a significant customer, entry of new and stronger competitors, capital availability, unexpected costs, compliance with contractual obligations, the impact of the COVID-19 pandemic, failure to capitalize upon access to new customers, marketplace delisting, the ramifications of industry consolidation of medical products manufacturers, dealers and distributors, managed health care, failure to mitigate supply chain issues, market acceptance and support of new products, cancellation of existing contracts, customer "in house" production of products previously designed by and/or acquired from the Company, invalidity or unenforceability of the Company's patents and other intellectual property, maintaining favorable supplier relationships, the Company's ability to engage qualified human resources as needed, regulatory compliance, general economic conditions, and other factors described under Item 1A (Risk Factors) of this report. This list of factors is illustrative, but by no means exhaustive. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

ITEM 1. BUSINESS

Company Overview

Pro-Dex, Inc. ("Company," "Pro-Dex," "we," "our," "us") specializes in the design, development, and manufacture of autoclavable, battery-powered and electric, multi-function surgical drivers and shavers used primarily in the orthopedic, thoracic, and craniomaxillofacial ("CMF") markets. We have patented adaptive torque-limiting technology and proprietary sealing solutions which appeal to our customers, primarily medical device distributors. We also manufacture and sell rotary air motors to a wide range of industries.

Our patented adaptive torque-limiting software has been very well received in the CMF and thoracic markets and we have continued investment in this area with research and development focused on applying this technology to other surgical applications.

In November 2020, we purchased an approximate 25,000 square foot industrial building in Tustin, California (the "Franklin Property"). This building is located approximately four miles from our Irvine, California headquarters and was acquired to provide us additional capacity for our expected continued future growth. We substantially completed the build-out of the property during fiscal 2022 and concluded various verification and validation activities during fiscal 2023. We moved our entire assembly and repairs operations to the new facility in the fourth quarter of fiscal 2023 and we are now fully operational in the new facility. We believe the new facility will create additional capacity for our expected continued growth over the next several years.

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 certain other Securities and Exchange Commission (“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.

All years relating to financial data herein shall refer to fiscal years ended June 30, unless indicated otherwise.

Description of Business

The majority of our revenue is derived from designing, developing and manufacturing surgical devices for the medical device industry. The proportion of total sales by type is as follows (in thousands, except percentages):

	Years Ended June 30,			
	2023		2022	
	(In thousands)			
		% of Revenue		% of Revenue
Medical devices	$ 30,740	66%	$ 34,004	81%
Industrial and scientific	865	2%	919	2%
NRE & Prototypes	2,695	6%	1,014	2%
Dental and component	257	1%	465	1%
Repairs	12,617	27%	6,610	16%
Discounts & Other	(1,087)	(2%)	(971)	(2%)
Total Sales	$ 46,087	100%	$ 42,041	100%

Our medical device products utilize proprietary designs developed by us primarily under exclusive development and supply agreements and are currently machined in our Irvine, California facility, and assembled in our Tustin, California facility, as are our rotary air motors. Our medical device products are sold primarily to original equipment manufacturers and our air motors are sold primarily to a wide range of distributors and end users.

In fiscal 2023, our top three customers accounted for 92% of our sales compared to 88% in fiscal 2022. In fiscal 2023, we had one customer, included in both medical device and repairs revenue above, that accounted for 67% of sales with our next largest customer accounting for 16% of sales. This compares to fiscal 2022, when these same two customers accounted for 66% and 14%, respectively, of our total sales. In many cases, including our largest customers, disclosure of customer names is prohibited by confidentiality agreements with such entities. We have no plans to discontinue the sales relationships with our existing significant customers, nor does management have any knowledge that any existing significant customer intends to terminate its relationship with us.

Our business today is almost entirely driven by sales of our medical devices. Many of our significant customers place purchase orders for specific products that were developed under various development and/or supply agreements. Our customers may request that we design and manufacture a custom surgical device or they may hire us as a contract manufacturer to manufacture a product of their own design. In either case, we have extensive experience with autoclavable, battery-powered and electric, multi-function surgical drivers and shavers. We continue to focus a significant percentage of our time and resources on providing outstanding products and service to our valued principal customers. During the first quarter of fiscal 2021, our largest customer executed an amendment to our existing supply agreement such that we will continue to supply their surgical handpieces to them through calendar 2025 and, during the fourth quarter of fiscal 2021, they executed a product development agreement and related statement of work for our assistance with the next generation of this handpiece. Additionally, we continue to invest in property and equipment as well as personnel to expand our capacity to achieve higher sales volumes.

To that end, we purchased the Franklin Property in November 2020. This building is located approximately four miles from our Irvine, California headquarters and was acquired to provide us additional capacity for our expected continued future growth. We began operations in the new facility during the fourth quarter of fiscal 2023. While we believe that the efforts we completed to bring the facility operational will allow us ample capacity to increase revenues significantly in future years, there can be no assurance that we will increase revenue.

Simultaneously, we are working to build top-line sales through active proposals of new medical device products with new and existing customers. Our patented adaptive torque-limiting software has been very well received in the CMF and thoracic markets. Additionally, we have other significant engineering projects under way described more fully below under “Results of Operations.”

The majority of the raw materials and components used to manufacture our products are purchased and are available from several sources, including through our own in-house machining capabilities. Portescap, Fischer Connectors, and Tadiran Batteries are examples of key suppliers. We have no exclusive arrangements with any of our suppliers, but in several instances only one supplier is used for certain high-value components. In most of such instances, secondary suppliers have been identified, although it is likely that any transition to a new or different supplier would result in a delay in the supply chain. We consider our relationships with our suppliers and manufacturers to be good, however, during fiscal 2022 and continuing into fiscal 2023, many of our suppliers have increased lead times, experienced delays in shipments and raised prices or temporarily added surcharges. We do not intend to terminate any such relationship at this time, nor does management have knowledge that any supplier or manufacturer intends to terminate its relationship with us.

Our commitment to product design, manufacturing, and quality systems are supported by our compliance with several regulatory agency requirements and standards. We hold a U.S. Food and Drug Administration (“FDA”) Establishment Registration and a State of California Device Manufacturing License (Department of Public Health Food and Drug Branch) with respect to our Irvine and Tustin, California facilities. In addition, both facilities produce products that are certified to ISO 13485:2016, Medical Device Directive 93/42/EEC – Annex II.

At June 30, 2023, we had a backlog of $41.6 million compared with a backlog of $16.5 million at June 30, 2022. Our backlog represents firm purchase orders received and acknowledged from our customers and does not include all revenue expected to be generated from existing customer contracts. Of our backlog at June 30, 2023, $31.4 million, as well as certain purchase orders received subsequent to June 30, 2023, are expected to be delivered during fiscal 2024 and the balance of $10.2 million is expected to be delivered in fiscal 2025. We have experienced, and may continue to experience, variability in our new order bookings due to, among other reasons, the launch of new products, the timing of customer orders based on end-user demand, and customer inventory levels. We do not typically experience seasonal fluctuations in our shipments and revenues.

Segments

We have only one operating segment as our business is currently operated.

Competition

The markets for products in the industries served by our customers are intensely competitive, and we face significant competition from a number of different sources. Several of our competitors have significantly greater name recognition, as well as substantially greater financial, technical, product development, and marketing resources, than us.

We compete in all of our markets with other major medical device companies. As a provider of outsourced services, we also compete with our customers’ own internal development and manufacturing groups. Competitive pressures and other factors, such as new product or new technology introductions by us, our customers’ internal development and manufacturing departments, or our competitors, may result in price or market share erosion that could have a material adverse effect on our business, results of operations, and financial condition. Also, there can be no assurance that our products and services will achieve broad market acceptance or will successfully compete with other products targeting the same customers.

Research and Development

We conduct research and development activities to both maintain and improve our market position. Our research and development efforts involve the design and manufacture of products that perform specific applications for our existing and prospective customers. Our research and development activities are focused on:

- expanding our knowledge base in the medical device industry to solidify our products with current customers and expand our customer base;
- advancing applicable technologies;
- introducing new products; and
- enhancing our existing product lines.

In certain instances, we may share research and development costs with our customers by billing for non-recurring engineering services often provided for under development portions of certain contracts. Revenue recognized for non-recurring engineering services represented 6% of our revenue in fiscal 2023 and 2% of our revenue in fiscal 2022.

During the fiscal years ended June 30, 2023 and 2022, we incurred research and development expenses amounting to $2.8 million and $3.0 million, respectively, which costs exclude labor and related expenses of approximately $724,000 and $739,000 in fiscal 2023 and 2022, respectively, that were reimbursed by our customers through billings for non-recurring engineering services.

Human Capital Management

Our employees are among our most critical assets. The success and growth of our business depends on our ability to attract, reward, retain and develop talent in all levels of our organization, including, but not limited to, machine operators, assembly technicians, engineers, and management.

In order to attract and retain highly qualified employees, we offer the following:

- Competitive, reasonable, and equitable compensation programs;
- Comprehensive and highly competitive health and welfare benefits to promote our employees' physical health, as well as a 401(k) plan to support our employees' financial health;
- An Employee Stock Purchase Plan and equity compensation to provide financial value, align employee's interests with those of our shareholders, and incentivize retention;
- Flexible paid vacation and sick time, as well as paid volunteer time; and
- Education/tuition reimbursement and referral programs.

Our employee turnover for the fiscal years ended June 30, 2023 and 2022 was 16% and 14%, respectively. We consider the turnover rate a valuable metric to measure the effectiveness of our programs and to assist in developing new programs.

Employees

At June 30, 2023, we had 146 employees, one of whom was part time, working at our two office locations in California and one employee working remotely out of state. At June 30, 2022, we had 135 employees, one of whom was part-time, working at either our corporate office in Irvine, California or our Franklin office in Tustin, California and one employee working remotely out of state. None of our employees are a party to any collective bargaining agreements with us. We consider our relationships with our employees to be good.

Government Regulations

The manufacture and distribution of medical devices are subject to state and federal requirements set forth by various agencies, including the FDA, and state medical boards. The statutes, regulations, administrative orders, and advisories that affect our businesses are complex and subject to diverse, often conflicting, interpretations. While we make every effort to maintain full compliance with all applicable laws and regulations, we are unable to eliminate the ongoing risk that one or more of our activities or devices may at some point be determined to be non-compliant. The penalties for non-compliance could range from an administrative warning to termination of a portion of our business. Furthermore, even if we are subsequently determined to have fully complied with applicable laws or regulations, the costs to achieve such a determination and the intervening loss of business could adversely affect or result in the cessation of a portion of our business. A change in such laws or regulations at any time may have an adverse effect on our operations.

The FDA designates all medical devices into one of three classes (Class I, II, or III) based on the level of control necessary to assure the safety and effectiveness of the device (with Class I requiring the lowest level of control and Class III requiring the greatest level of control). The surgical instrumentation we manufacture is generally classified into Class I. The FDA has broad enforcement powers to recall and prohibit the sale of products that do not comply with federal regulations and to order the cessation of non-compliant processes. No claim has been made to date by the FDA regarding any of our products or processes. Nevertheless, as is common in the industry, certain of our products and processes have been the subject of routine governmental reviews and investigations.

The total cost of providing health care services has been and will continue to be subject to review by governmental agencies and legislative bodies in the major world markets, including the United States, which are faced with significant pressure to lower health care costs.

We believe that our business is conducted in a manner consistent with the Environmental Protection Agency (“EPA”) and other agency regulations governing disposition of industrial waste materials.

While we believe that our products and processes fully comply with applicable laws and regulations, we are unable to predict the outcome of any investigation or review which may be undertaken in the future with respect to our products or processes.

Management believes that each of our facilities has manufacturing systems and processes that are based on established Quality Management System standards. In addition, we believe that both our Irvine, California and Tustin, California facilities are compliant with applicable Good Manufacturing Practices promulgated by the FDA and are compliant with applicable ISO standards set forth by the International Organization for Standardization.

Patents, Trademarks, and Licensing Agreements

We hold US and foreign patents relating to our handheld medical devices and torque-limiting screwdrivers. Our patents have varying expiration dates. The near-term expiration of the patents, if any, is not expected to cause any change in our revenue-generating operations as changing the legal manufacturer of medical devices is a significant undertaking and the expiration of a patent would offer minimal inducement to make such a change.

We have no reason to believe that our activities infringe upon the intellectual property of any third party. With respect to our own patents, we have no reason to believe that our patents are invalid, and we believe that at least some of our patents cover certain aspects of our products. Although we are currently unaware of any reason that would cause us to assert or defend a claim of patent infringement, any such assertion or defense could materially and adversely affect our business and results of operations due to the costs involved.

We have certain federally registered trademarks relating to our products, including Pro-Dex®, along with a number of other common law trademarks.

We have not entered into any franchising agreements. We have not granted, nor do we hold any, third-party licenses having terms under which we earn revenue or incur expense in material amounts.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information contained in this report, before deciding whether to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition, operating results, and prospects would suffer. In that case, the trading price of our common stock would likely decline and you might lose all or part of your investment in our common stock. The risks described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our operations and business results.

Risks Related to Our Business and the Industry in Which We Operate

A substantial portion of our revenue is derived from a few customers. If we were to lose a key customer, it would have a material adverse effect on our business, financial condition, and results of operations.

In fiscal 2023, our top three customers accounted for 92% of our sales, with our current largest customer accounting for 67% of our sales. This customer has made purchase commitments to us through a supply agreement to purchase surgical handpieces through calendar 2025. We provide this customer with a device used primarily in elective surgeries and although this customer has not requested a reduction or delay to their planned shipments, if the COVID-19 pandemic were to again materially adversely impact the United States and other markets where our products are sold, coupled with any new recommended deferrals of elective procedures by governments and other authorities, we would expect to see a decline in demand from our principal customer. The loss of this customer or any of our significant customers would severely impact us, including having a material adverse effect on our business, financial condition, cash flows, revenue, and results of operations.

A substantial portion of our business is derived from our core business area that, if not serviced properly, may result in a material adverse impact upon our business, financial condition, and results of operations.

In fiscal 2023, we derived 97% of our revenue from sales of our medical device products and related services. We believe that a primary factor in the market acceptance of our products and services is the value they create for our customers. Our future financial performance will depend in large part on our ability to continue to meet the increasingly sophisticated needs of our customers through the timely development, and successful introduction and implementation, of new and enhanced products and services, while at the same time continuing to provide the value our customers have come to expect from us. We have historically expended a significant percentage of our revenue on product development and believe that significant continued product development efforts will be required to sustain our growth. Continued investment in our sales and marketing efforts will also be required to support future growth.

There can be no assurance that we will be successful in our product development efforts, that the market will continue to accept our existing products, or that new products or product enhancements will be developed and implemented in a timely manner, meet the requirements of our customers, or achieve market acceptance. If the market does not continue to accept our existing products, or our new products or product enhancements do not achieve market acceptance, our business, financial condition, and results of operations could be materially adversely affected.

Our customers may cancel or reduce their orders, change production quantities, or delay production, any of which would reduce our sales and adversely affect our results of operations.

Since most of our customers purchase our products from us on a purchase order basis, they may cancel, change, or delay product purchase commitments with little notice to us. As a result, we are not always able to forecast with certainty the sales that we will make in a given period and sometimes we may increase our inventory, working capital, and overhead in expectation of orders that may never be placed, or, if placed, may be delayed, reduced, or canceled.

The following factors, among others, affect our ability to forecast accurately our sales and production capacity:

- Changes in the specific products or quantities our customers order; and

- Long lead times and advance financial commitments for components required to complete actual/anticipated customer orders.

In addition to reducing our sales, delayed, reduced, or canceled purchase orders also may result in our inability to recover costs that we incur in anticipation of those orders, such as costs associated with purchased raw materials and write-offs of obsolete inventory.

In recent years, we have launched several new medical device products and our estimates of warranty claims are based largely on our previous history from similar legacy products. If actual warranty claims exceed our estimates, it could have an adverse effect on our results of operations and financial condition.

In recent years, we have completed significant medical device development projects in the CMF and thoracic surgical segments for which we have made estimates of product warranty claims based upon similar, legacy products. If the actual repair volumes or repair costs exceed the estimates that we have been using, we may incur additional costs which could be materially adverse to our results of operations and financial condition.

We face significant competition from a number of different sources, which could negatively impact our results of operations.

The markets for products in the industries served by our customers are intensely competitive, and we face significant competition from a number of different sources. Several of our competitors have significantly greater name recognition, as well as substantially greater financial, technical, product development and marketing resources, than us.

We compete in all of our markets with other major surgical device and related companies. As a provider of outsourced products and services, we also compete with our customers' own internal development groups. Competitive pressures and other factors, such as new product or new technology introductions by us, our customers' internal development and manufacturing departments, or our competitors, may result in price or market share erosion that could have a material adverse effect on our business, results of operations and financial condition. Also, there can be no assurance that our products and services will achieve broad market acceptance or will successfully compete with other products.

The industry in which we operate is subject to significant technological change and any failure or delay in addressing such change could adversely affect our competitive position or could make our current products obsolete.

The medical device market is generally characterized by rapid technological change, changing customer needs, frequent new product introductions and evolving industry standards. The introduction of products incorporating new technologies and the emergence of new industry standards could render our existing products obsolete and unmarketable. There can be no assurance that we will be successful in developing and marketing new products that respond to technological changes or evolving industry standards.

New product development requires significant research and development expenditures that we have historically funded through operations; however, we may be unable to do so in the future. Any significant decrease in revenues or research funding could impair our ability to respond to technological advances in the marketplace and to remain competitive. If we are unable, for technological or other reasons, to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, our business, results of operations, and financial condition may be materially adversely affected. Although we continue to target new markets for access, develop new products, and update existing products, there can be no assurance that we will do so successfully or that, even if we are successful, such efforts will be completed concurrently with or prior to the introduction of competing products. Any such failure or delay could adversely affect our competitive position or could make our current products obsolete.

We rely heavily on our proprietary technology, which, if not properly protected or if deemed invalid, could have a material adverse effect on our business, financial condition, and results of operations.

We are dependent on the maintenance and protection of our proprietary technology and rely on patent filings, exclusive development and supply agreements, confidentiality procedures and employee nondisclosure agreements to protect it. There can be no assurance that the legal protections and precautions taken by us will be adequate to prevent misappropriation of our technology or that competitors will not independently develop technologies equivalent or superior to ours. Further, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States and are often not enforced as vigorously as those in the United States.

We do not believe that our operations or products infringe on the intellectual property rights of others. However, there can be no assurance that others will not assert infringement or trade secret claims against us with respect to our current or future products. Assertions or claims by others, whether or not valid, could cause us to incur significant legal costs defending our intellectual property rights and potentially require us to enter into a license agreement or royalty arrangement with the party asserting the claim or to cease our use of the infringing technology, any of which could have a material adverse effect on our business, financial condition and results of operations.

If our technology infrastructure is compromised, damaged or interrupted by a cybersecurity incident, data security breach or other security problems, our results of operations and financial condition could be adversely affected.

We use technology in substantially all aspects of our business operations, and our ability to serve customers most effectively depends on the reliability of our technology systems. We use software and other technology systems, among other things, to generate sales orders, job orders, and purchase orders and to monitor and manage our business on a day-to-day basis. Cybersecurity incidents can include computer viruses, computer denial-of-service attacks, worms, and other malicious software programs or other attacks, covert introduction of malware to computers and networks, impersonation of authorized users, and efforts to discover and exploit any design flaws, bugs, security vulnerabilities or security weaknesses, as well as intentional or unintentional acts by employees or other insiders with access privileges, intentional acts of vandalism by third parties and sabotage.

In addition, our technology infrastructure and systems are vulnerable to damage or interruption from natural disasters, power loss and telecommunications failures. Any such disruption to our systems, or the technology systems of third parties on which we rely, the failure of these systems to otherwise perform as anticipated, or the theft, destruction, loss, misappropriation, or release of sensitive and/or confidential information or intellectual property, could result in business disruption, negative publicity, loss of customers, potential liability, including litigation or other legal actions against us or the imposition of penalties, fines, fees or liabilities, which may not be covered by our insurance policies, and competitive disadvantage, any or all of which would potentially adversely affect our customer service, decrease the volume of our business and result in increased costs and lower profits. Moreover, a cybersecurity breach could require us to devote significant management resources to address the problems associated with the breach and to expend significant additional resources to upgrade further the security measures we employ to protect information against cyber-attacks and other wrongful attempts to access such information, which could result in a disruption of our operations.

While we have invested, and continue to invest, in technology security initiatives and other measures to prevent security breaches and cyber incidents, as well as disaster recovery plans, these initiatives and measures may not be entirely effective to insulate us from technology disruption that could result in adverse effects on our results of operations and financial condition.

To service our debt obligations, we will require a significant amount of cash. However, our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on, and to refinance, our debt obligations and to fund capital expenditures, will depend on our ability to generate cash in the future, which, in turn, is subject to general economic, financial, competitive, regulatory and other factors, many of which are beyond our control.

Our business may not generate sufficient cash flow from operations, and we may not have available to us future borrowings in an amount sufficient to enable us to pay our debt obligations or to fund our other liquidity needs. In these circumstances, we may need to refinance all or a portion of our debt obligations on or before maturity. We may not be able to refinance any of our debt obligations, on commercially reasonable terms, or at all. Without this financing, we could be forced to sell assets or secure additional financing to make up for any shortfall in our payment obligations under unfavorable circumstances. However, we may not be able to secure additional financing on terms favorable to us or at all and, in addition, the agreements governing our debt obligations limit our ability to sell assets. In addition, we may not be able to sell assets quickly enough or for sufficient amounts to enable us to meet our obligations.

Our cash and cash equivalents may be exposed to banking institution risk.

We hold our cash balances with a single financial institution which institution is subject to risks, which may include failure or other circumstances that limit our access to deposits or other banking services. For example, in March 2023, Silicon Valley Bank ("SVB") was unable to continue their operations and the Federal Deposit Insurance Corporation ("FDIC") was appointed as receiver for SVB. However, if further failures in financial institutions occur where we hold deposits, we could experience additional risk. Any such loss or limitation on our cash and cash equivalents would adversely affect our business.

In addition, in such circumstances we might not be able to receive timely payment from customers. We and they may maintain cash balances that are not insured or are in excess of the FDIC's insurance limit. Any delay in ours or our customers' ability to access funds could have a material adverse effect on our operations. If any parties with which we conduct business are unable to access funds pursuant to such instruments or lending arrangements with such a financial institution, such parties' ability to continue to fund their business and perform their obligations to us could be adversely affected, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

We periodically invest surplus cash in marketable securities and other investments in order to realize a positive return, although there can be no assurance that a positive return will be realized, and we could lose some or all of our investments, which could adversely affect our financial condition and results of operation.

We invest a significant portion of our excess capital in marketable securities, including equity securities of publicly traded companies. At June 30, 2023, the fair value of our investments was approximately $8.7 million. Of that amount $6.2 million relates to an investment in Monogram Orthopaedics Inc. ("Monogram") described more fully in Note 5 to the consolidated financial statements contained elsewhere in this report. The investment in Monogram is also the subject of the restatement of our previous financial statements described in Note 2 to the consolidated financial statements contained elsewhere in this report. Our initial investment in Monogram was an $800,000 loan which we made primarily in exchange for exclusive development and supply rights. At that time, we believed that this long-term strategic investment would likely take several years to cultivate, which it has. While we intend to hold our investments, including our investment in Monogram, until such time as we believe it is appropriate to sell them in accordance with our overall investment policy, we may have unexpected cash requirements that could necessitate the sale of some or all of these investments for a loss. Additionally, these investments are subject to changes in their valuation, which could cause us to record a significant unrealized loss in the future.

We may not be able to successfully integrate our business acquisitions, which could adversely affect our business, financial condition, and results of operations.

We have acquired, and may acquire in the future, businesses, products, and technologies that complement or expand our current operations. Acquisitions could require significant capital investments and require us to integrate with companies that have different cultures, management teams, and business infrastructure. Depending on the size and complexity of an acquisition, our successful integration of the acquisition could depend on several factors, including:

- Difficulties in assimilating and integrating the operations, products, and workforce of an acquired business;
- The retention of key employees;
- Management of facilities and employees in separate geographic areas;
- The integration or coordination of different research and development and product manufacturing facilities;
- Successfully converting information and accounting systems; and
- Diversion of resources and management attention from our other operations.

If market conditions or other factors require us to change our strategic direction, we may fail to realize the expected value from one or more of our acquisitions. Our failure to successfully integrate any future acquisitions or realize the expected value from past or future acquisitions could harm our business, financial condition, and results of operations.

We have experienced losses in the past, and we cannot be certain that we will sustain our current profitability; we may need additional capital in the future to fund our businesses, which we may not be able to obtain on acceptable terms.

We have experienced operating losses in the past. Our ability to achieve or sustain profitability is based on a number of factors, many of which are out of our control, including the material costs for our products and the demand for our products.

We currently anticipate that our available capital resources, including our existing cash and cash equivalents and accounts receivable balances, will be sufficient to meet our expected working capital and capital expenditure requirements as our business is currently conducted for at least the next 12 months. We may also attempt to raise additional funds through public or private debt or equity financings, if such financings become available on acceptable terms. We cannot be certain that any additional financing we may need will be available on terms acceptable to us, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of opportunities, develop new products, or otherwise respond to competitive pressures, and our operating results and financial condition could be adversely affected.

Our operations are dependent upon our key personnel. If such personnel were to leave unexpectedly, we may not be able to execute our business plan.

Our future performance depends in significant part upon the continued service of our key technical and senior management personnel. Because we have a relatively small number of employees when compared to other companies in the same industry, our dependence on maintaining our relationship with key employees is particularly significant. We are also dependent on our ability to attract and retain high quality personnel, particularly in the areas of product development, operations management, marketing and finance.

A high level of employee mobility and the aggressive recruiting of skilled personnel characterize the medical device industry. There can be no assurance that our current employees will continue to work for us. Loss of services of key employees could have a material adverse effect on our business, results of operations, and financial condition. Furthermore, we may need to provide enhanced forms of incentive compensation to attract and retain such key personnel, which could potentially dilute the holdings of other shareholders.

Risks Related to Ownership of Our Common Stock

Two of our directors hold voting power with respect to a substantial portion of our outstanding common stock that enables them to have significant influence over the outcome of all matters submitted to our shareholders for approval, which influence may conflict with our interests and the interests of other shareholders.

As of August 12, 2023, two of our directors, Nicholas J. Swenson and Raymond E. Cabillot, directly or indirectly, controlled voting power over approximately 39% (29% and 10%, respectively) of the outstanding shares of our common stock. As a result of such voting control, these directors will have significant influence over all matters submitted to our shareholders for approval, including the election of our directors and other corporate actions, and may have interests that conflict with our interests and the interests of other shareholders.

Our quarterly results can fluctuate significantly from quarter to quarter, which may negatively impact the price of our shares and/or cause significant variances in the prices at which our shares trade.

Our sales have fluctuated in the past, and may fluctuate in the future from quarter to quarter and period to period, as a result of a number of factors, including, without limitation: the size and timing of orders from customers; the length of new product development cycles; market acceptance of new technologies; changes in pricing policies or price reductions by us or our competitors; the timing of new product announcements and product introductions by us or our competitors; the financial stability of major customers; our success in expanding our sales and marketing programs; acceleration, deferral, or cancellation of customer orders and deliveries; changes in our strategy; revenue recognition policies in conformity with accounting principles generally accepted in the United States ("U.S. GAAP"); personnel changes; and general market and economic factors.

Because a significant percentage of our expenses are fixed, a variation in the timing of sales can cause significant fluctuations in operating results from quarter to quarter. As a result, we believe that interim period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Further, our historical operating results are not necessarily indicative of future performance for any particular period.

In addition, it is possible that our operating results in future quarters may be below the expectations of public market analysts and investors. In such an event, the price of our common stock could be materially adversely affected.

Regulatory & Compliance Risks

Our operations are subject to a number of complex government regulations, the violation of which could have a material adverse effect on our business.

The manufacture and distribution of medical devices are subject to state and federal requirements set forth by various government agencies including the FDA and EPA. The statutes, regulations, administrative orders, and advisories that affect our businesses are complex and subject to diverse, often conflicting, interpretations. While we make every effort to maintain full compliance with all applicable laws and regulations, we are unable to eliminate the ongoing risk that one or more of our activities may at some point be determined to be non-compliant. The penalties for non-compliance could range from an administrative warning to termination of a portion of our business. Furthermore, even if we are subsequently determined to have fully complied with applicable laws or regulations, the costs to achieve such a determination and the intervening loss of business could adversely affect or result in the cessation of a portion of our business. A change in such laws or regulations at any time may have an adverse effect on our operations.

The FDA designates all medical devices into one of three classes (Class I, II, or III) based on the level of control necessary to assure the safety and effectiveness of the device (with Class I requiring the lowest level of control and Class III requiring the greatest level of control). The surgical instrumentation we manufacture is generally classified into Class I. The FDA has broad enforcement powers to recall and prohibit the sale of products that do not comply with federal regulations and to order the cessation of non-compliant processes. No claim has been made to date by the FDA regarding any of our products or processes. Nevertheless, as is common in the industry, certain of our products and processes are from time to time subject to routine governmental reviews and investigations. We are also subject to EPA regulations concerning the disposal of industrial waste.

While management believes that our products and processes fully comply with applicable laws and regulations, we are unable to predict the outcome of any such future review or investigation.

We face risks and uncertainties associated with potential litigation by or against us, which could have a material adverse effect on our business, financial condition, and results of operations.

We continually face the possibility of litigation as either a plaintiff or a defendant. It is not reasonably possible to estimate the awards or damages, or the range of awards or damages, if any, that we might incur in connection with such litigation.

Many of our products are complex and technologically advanced. Such products may, from time to time, be the subject of claims concerning product performance and construction, including warranty and patent infringement claims. While we are committed to investigating such concerns and correcting them, there is no assurance that solutions will be found on a timely basis, if at all, to satisfy customer demands or to avoid potential claims or litigation. Also, due to the location of our facilities, as well as the nature of our business activities, there is a risk that we could be subject to litigation related to environmental remediation claims. We maintain insurance to protect against claims associated with the manufacture and use of our products as well as environmental pollution, but there can be no assurance that our insurance coverage will adequately cover any claim asserted against us.

The uncertainty associated with potential litigation may have an adverse impact on our business. In particular, litigation could impair our relationships with existing customers and our ability to obtain new customers. Defending or prosecuting litigation could result in significant legal costs and a diversion of management’s time and attention away from business operations, either of which could have a material adverse effect on our business, financial condition, and results of operations. There can be no assurance that litigation would not result in liability in excess of our insurance coverage, that our insurance will cover such claims, or that appropriate insurance will continue to be available to us in the future at commercially reasonable rates.

The agreements governing our various debt obligations impose restrictions on our business and could adversely affect our ability to undertake certain corporate actions.

The agreements governing our debt obligations include covenants imposing significant restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. These covenants place restrictions on our ability to, among other things:

- incur additional debt;
- declare or pay dividends to shareholders;
- create liens or use assets as security in other transactions;
- be acquired by a third party;
- pursue strategic acquisitions;
- engage in transactions with affiliates; and
- sell or transfer assets.

The agreements governing our debt obligations also require us to comply with a number of financial ratios, borrowing base requirements and additional covenants.

Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial, and industry conditions. These covenants could adversely affect our business by limiting our ability to take advantage of financing, merger and acquisition, or other corporate opportunities. The breach of any of these covenants or restrictions could result in a default under our debt obligations. If we were unable to repay our debt or are otherwise in default under any provision governing our secured debt obligations, our lender could proceed against us and against the collateral securing that debt.

We are subject to changes in and interpretations of financial accounting matters that govern the measurement of our performance, compliance with which could be costly and time-consuming.

We are subject to changes in and interpretations of financial accounting standards that govern the measurement of our performance. Based on our reading and interpretations of relevant pronouncements, guidance, or concepts issued by, among other authorities, the Financial Accounting Standards Board, the SEC, and the American Institute of Certified Public Accountants, management believes our performance, including current sales contract terms and business arrangements, has been properly reported. However, there continue to be issued pronouncements, interpretations, and guidance for applying the relevant standards to a wide range of contract terms and business arrangements that are prevalent in the industries in which we operate. Future interpretations or changes by the regulators of existing accounting standards or changes in our business practices may result in future changes in our accounting policies and practices that could have a material adverse effect on our business, financial condition, cash flows, revenue, and results of operations.

Our evaluation of internal controls and remediation of potential problems is costly and time-consuming and could expose weaknesses in financial reporting.

Section 404 of the Sarbanes-Oxley Act of 2002, as amended, requires management’s assessment of the effectiveness of our internal control over financial reporting. This process is expensive and time consuming and requires significant attention of management. Management can give no assurance that material weaknesses in internal controls will not be discovered. The material weakness discovered in conjunction with the preparation of our consolidated financial statements for the fiscal year ended June 30, 2023, as described in Note 2 to the consolidated financial statements contained elsewhere in this report, for example, has been time consuming and costly. The disclosure of a material weakness, even if quickly remedied, could reduce the market’s confidence in our financial statements and harm our stock price, especially if a restatement of financial statements for past periods is required.

Risks Related to COVID-19

The COVID-19 pandemic, or the perception of its effects, could have a material adverse effect on our business, financial condition, and results of operations.

To date, COVID-19 has not had a material adverse impact on our business or results of operations, but due to the uncertainties surrounding this pandemic, it may adversely impact us in the future. We have and may continue to experience disruptions in our supply chain and critical suppliers may delay or be unable to deliver products we have ordered. Additionally, our customers could reduce planned orders, request cancelations of existing orders, and/or delay payment to us due to financial hardship they may experience as a result of this healthcare and resulting economic crisis. Therefore, it is impossible to predict the future impact of the pandemic on our business, financial condition, and results of operations.

The ability of our employees to work may be significantly impacted by the COVID-19 crisis.

Substantially all of our employees worked in the office during fiscal 2023. The health of our workforce is of primary concern and we may need to enact further precautionary measures to help minimize the risk of our employees being exposed to the coronavirus. Further, our management team is focused on mitigating the adverse effects of the COVID-19 pandemic, which has required and may continue to require a large investment of time and resources across the entire Company, thereby diverting their attention from other priorities that existed prior to the outbreak of the pandemic. To date, several of our employees have had COVID-19, but all have made full recoveries and returned to work. If more of our employees test positive for COVID-19, or these conditions worsen, or last for an extended period of time, our ability to manage our business may be impaired, and operational risks, cybersecurity risks, and other risks facing us even prior to the pandemic may be elevated.

General Risks

The global economic environment may impact our business, financial condition, and results of operations.

Changes in the global economic environment have caused, and may cause in the future, a general tightening in the credit markets, lower levels of liquidity, increases in rates of default and bankruptcy, high rates of inflation, higher interest rates, and extreme volatility in credit, equity and fixed income markets. These macroeconomic developments could negatively affect our business, operating results or financial condition should they cause, for example, current or potential customers to become unable to fund purchases of our products, in turn resulting in delays, decreases or cancellations of purchases of our products and services, or causing the customer to not pay us or to delay paying us for previously purchased products and services. In addition, financial institution failures may cause us to incur increased expenses or make it more difficult either to obtain financing for our operations, investing activities (including the financing of any future acquisitions), or financing activities. Additional economic risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition, and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive offices and manufacturing facility are located at 2361 McGaw Avenue, Irvine, California 92614. We lease the 28,000 square foot facility from an unrelated third party at a current base monthly lease rate of approximately $42,000 with 3% annual escalations through the expiration of the lease in September 2027. The building is a one-story, stand-alone structure of concrete “tilt-up” construction, approximately 45 years old and in good condition.

Our Franklin Property, located at 14401 Franklin Avenue, Tustin, California 92780, is used primarily for our assembly and repairs operations. We purchased this 25,000 square foot facility in November 2020 from an unrelated third party through a loan (See Note 5 of to the consolidated financial statements contained elsewhere in this report). The building is a one-story, stand-alone structure of concrete “tilt-up” construction, approximately 45 years old and in good condition.

We believe that our facilities are adequate for our current and expected future needs and are in full compliance with applicable state, EPA and other agency environmental standards.

ITEM 3. LEGAL PROCEEDINGS

See Note 10 to the consolidated financial statements contained elsewhere in this report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is quoted under the symbol "PDEX" on the Nasdaq Capital Market ("NASDAQ"). The following table sets forth for the quarters indicated the high and low sales prices of our common stock as reported by NASDAQ. The quotations reflect inter-dealer prices, without retail markup, markdown, or commissions, and may not necessarily represent actual transactions. On September 29, 2023, the last sale price of our common stock as reported by NASDAQ was $15.70 per share.

	High	Low
Year ended June 30, 2023:		
First Quarter	$ 20.25	$ 14.94
Second Quarter	19.93	15.80
Third Quarter	17.71	15.29
Fourth Quarter	19.24	15.50
Year ended June 30, 2022:		
First Quarter	$ 31.51	$ 23.78
Second Quarter	25.90	20.44
Third Quarter	25.81	15.00
Fourth Quarter	16.51	13.16

Holders

As of September 29, 2023, there were 120 holders of record of our common stock. This number does not include beneficial owners including holders whose shares are held in nominee, or "street," name.

Dividends

We have never paid a cash dividend with respect to our common stock. The current policy of our Board of Directors is to retain any future earnings to provide funds for the operation and expansion of our business or for repurchases of our common stock pursuant to our repurchase plans. Any determinations to pay dividends in the future will be at the discretion of our Board of Directors.

Repurchases

During the fourth quarter of fiscal 2023 and 2022, we repurchased 0 and 22,532 shares of our common stock, respectively, at an aggregate cost of $0 and $350,000, respectively, through Board approved prearranged share repurchase plans intended to qualify for the safe harbor under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

ITEM 6. RESERVED

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto contained elsewhere in this report, as well as the Risk Factors included in Item 1A of this report. The following discussion contains forward-looking statements. (See "Cautionary Note Regarding Forward-Looking Statements" included in Part I of this report.)

Overview

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of our results of operations and financial condition for the fiscal years ended June 30, 2023 and 2022.

We specialize in the design, development, and manufacture of autoclavable, battery-powered and electric, multi-function surgical drivers and shavers used primarily in the orthopedic, thoracic, and CMF markets. Additionally, we provide engineering, quality, and regulatory consulting services to our customers. We also sell rotary air motors. Our products are found in hospitals, medical engineering labs, scientific research facilities, and high-tech manufacturing operations around the world. We are headquartered in Irvine, California.

COVID-19 Pandemic

We have adjusted certain policies and procedures based on applicable national, state, and local emergency orders and safety guidance that may be issued from time to time, in order to effectively manage our business during the pandemic and to keep our employees safe. These measures have changed over time and continue to change as our specific circumstances change.

While we have yet to see any decline in our customer orders, we have received and accepted some customer requests to delay the shipment of their existing orders. We are focused on the health and safety of all those we serve – our customers, our communities, our employees, and our suppliers. We are supporting our customers according to their priorities and working with them to the degree that we can offer relief in the form of delayed shipments. We are focused on continuity of supply by working with our suppliers, some of whom have delivered our orders late and are quoting longer lead times.

During fiscal 2022, we began to see some challenges in our supply chain in the form of delayed shipments, longer lead times, higher prices, and surcharges, much of which our suppliers indicate have been caused by the COVID-19 pandemic. We have largely been able to mitigate our biggest supply chain concerns by sourcing replacement chips through alternative suppliers, albeit at much higher prices, for many of our printed circuit board assemblies. In so doing, our cost of sales increased during the second half of fiscal 2022 and in fiscal 2023. We continue to implement plans and processes to mitigate these challenges that many manufacturers similarly face. Our long-term prospects remain positive, and we believe these challenges will negatively impact us only in the short-term.

Critical Accounting Policies

Our financial statements are prepared in accordance with U.S. 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.

Revenue Recognition

Under Accounting Standards Update ("ASU") 2014-09, (Topic 606) "*Revenue From Contracts with Customers*," we recognize revenue from the sales of products and services by applying the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied. We primarily sell finished products and recognize revenue at point of sale or delivery. However, we also perform services when we are engaged to design a product for a customer and there is more judgment involved in determining the amount and timing of revenue recognition under those types of contracts. In fiscal 2023, the revenue from non-recurring engineering ("NRE") and prototype services represents approximately 6% of total revenue.

Returns of our product for credit are not material; accordingly, we do not establish a reserve for product returns at the time of sale.

Estimated Losses on Product Development Services

Cost and revenue estimates related to the product development service portions of development and supply contracts are reviewed and updated quarterly. An expected loss on development service contracts is recognized immediately in cost of sales. Losses recorded in fiscal 2023 and 2022 related to these services totaled $108,000 and $0, respectively.

Owing to the complexity of many of the contracts we have undertaken, the cost estimation process requires significant judgment. It is based upon the knowledge and experience of our project managers, engineers, and finance professionals. Factors that are considered in estimating the cost of work to be completed and ultimate profitability of the fixed price product development portion of development and supply contracts include the nature and complexity of the work to be performed, availability and productivity of labor, the effect of change orders, the availability of materials, performance of subcontractors, and expected costs for specific regulatory approvals.

Warranties

Most of our products are sold with a warranty that provides for repairs or replacement of any defective parts for a period, generally one to two years, after the sale. At the time of the sale, we accrue an estimate of the cost of providing the warranty based on prior experience with such factors as return rates and repair costs, which factors are reviewed quarterly.

Warranty expenses, including changes of estimates, are included in cost of sales in our statements of operations.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Reductions to estimated net realizable value are recorded, and charged to cost of sales, when indicated based on a formula that compares on-hand quantities to both historical usage and estimated demand over the ensuing 12 months from the measurement date.

Accounts Receivable

Trade receivables are stated at their original invoice amounts, less an allowance for doubtful portions of such accounts. Management determines the allowance for doubtful accounts based on facts and circumstances related to specific accounts, and on historical experience related to the age of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously reserved are offset against the allowance when received.

Deferred Costs

Deferred costs reflect costs incurred related to non-recurring engineering services under the terms of the related development and supply contracts. These costs get recorded to cost of sales in the period that the revenue is recognized.

Investments

Investments consist of marketable equity securities of publicly held companies and a warrant (the "Monogram Warrant") to purchase common stock of a publicly held company. The investments were made to realize a reasonable return, although there is no assurance that positive returns will be realized. Investments are marked to market at each measurement date, with unrealized gains and losses presented in other income (expense) in our consolidated income statements. Some of our investments include the common stock of public companies that are thinly traded. Certain of these investments are classified as long-term in nature, as we may not be able to liquidate the investments in a timely manner even if we wish to sell them. Thinly traded investments were subject to a valuation analysis as of June 30, 2023 and 2022. The Monogram Warrant is the subject of the restatement of our previous financial statements described in Note 2 to the consolidated financial statements contained elsewhere in this report. As previously disclosed, from the time we were issued the Monogram warrant through the fourth quarter of fiscal 2023, we considered the Monogram warrant to be of little value and did not record it as an investment in our consolidated balance sheet.

Long-lived Assets

We review the recoverability of long-lived assets, consisting of building, equipment, and improvements, when events or changes in circumstances occur that indicate carrying values may not be recoverable.

Building, equipment, and improvements are recorded at historical cost and depreciation is provided using the straight-line method over the following periods:

Building	Thirty years
Equipment	Three to ten years
Improvements	Shorter of the remaining life of the underlying building, lease term, or the asset's estimated useful life

Intangibles

Other intangibles consist of legal fees incurred in connection with patent applications. The legal fees will be amortized over the estimated life of the product(s) that will be utilizing the technology or expensed immediately in the event the patent office denies the issuance of the patent. The expense associated with the amortization of the patent costs is recognized in research and development costs.

Income Taxes

We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities, along with net operating loss and tax credit carryovers. Deferred tax assets and liabilities at June 30, 2023 and 2022 consisted primarily of basis differences related to unrealized gain/loss related to investments, stock-based compensation, fixed assets, accrued expenses and inventories. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Significant management judgment is required in determining our provision for income taxes and the recoverability of our deferred tax assets. Such determination is based on our historical taxable income, with consideration given to our estimates of future taxable income and the periods over which deferred tax assets will be recoverable. In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence, including reversals of deferred tax liabilities, projected future taxable income, and results of recent operations. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying business. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income (loss).

Results of Operations for the Fiscal Year Ended June 30, 2023 Compared to the Fiscal Year Ended June 30, 2022

The following tables set forth results from operations for the fiscal years ended June 30, 2023 and 2022:

	Years Ended June 30,			
	2023		2022 (Restated)	
	Dollars in thousands			
		% of Net Sales		% of Net Sales
Net sales	$ 46,087	100%	$ 42,041	100%
Cost of sales	33,338	72%	28,909	69%
Gross profit	12,749	28%	13,132	31%
Selling expenses	155	—	91	—
General and administrative expenses	4,028	9%	4,903	12%
Loss from disposal of equipment	—	—	35	—
Research and development costs	2,804	6%	2,980	7%
Total operating expenses	6,987	15%	8,009	19%
Operating income	5,762	13%	5,123	12%
Other income (loss), net	3,666	7%	571	1%
Income before income taxes	9,428	20%	5,694	13%
Income tax expense	2,354	5%	1,122	2%
Net income	$ 7,074	15%	$ 4,572	11%

Net Sales

The majority of our revenue is derived from designing, developing, and manufacturing powered surgical instruments for medical device original equipment manufacturers. We also manufacture and sell rotary air motors to a wide range of industries. The proportion of total sales by product/service type is as follows:

	Years Ended June 30,				Increase (Decrease) From 2022 To 2023
	2023		2022		
	Dollars in thousands				
		% of Net Sales		% of Net Sales	
Net sales:					
Medical devices	$ 30,740	66%	$ 34,004	81%	(10%)
Industrial and scientific	865	2%	919	2%	(6%)
NRE & Prototype services	2,695	6%	1,014	2%	166%
Dental and component	257	1%	465	1%	(45%)
Repairs	12,617	27%	6,610	16%	91%
Discounts & Other	(1,087)	(2%)	(971)	(2%)	12%
	$ 46,087	100%	$ 42,041	100%	10%

Net sales in fiscal 2023 increased by $4.0 million, or 10%, as compared to fiscal 2022, due primarily to an increase in repair revenue of $6.0 million and an increase in NRE and prototype services of $1.7 million offset by a decrease in medical device revenue of $3.3 million. Details of our medical device sales by type is as follows:

	Years Ended June 30,				Increase (Decrease) From 2022 To 2023
	2023		2022		
	Dollars in thousands				
		% of Total		% of Total	
Medical device sales:					
Orthopedic	$ 19,688	64%	$ 21,877	64%	(10%)
CMF	8,497	28%	10,277	30%	(17%)
Thoracic	2,555	8%	1,850	6%	38%
Total	$ 30,740	100%	$ 34,004	100%	(10%)

Sales of our medical device products decreased $3.3 million, or 10%, during fiscal 2023 as compared to fiscal 2022. During fiscal 2023, thoracic sales increased by $705,000 to $2.6 million, up from $1.9 million in fiscal 2022, due to additional orders from our single distributor of this driver. In late fiscal 2023, we executed a supply agreement with another distributor for a thoracic driver and we expect an increase in revenue of thoracic products in fiscal 2024. Recurring revenue from distributors of CMF drivers decreased $1.8 million in fiscal 2023 compared to fiscal 2022. We do not have much visibility into our customers' distribution networks, but we surmise the decline relates to a buildup of customer inventory. Our orthopedic sales decreased $2.2 million in fiscal 2023 compared to fiscal 2022, in part, due to our largest customer shifting priorities to an enhanced repair program (described under the discussion of repair revenue below).

Sales of our industrial and scientific products, which consist primarily of our compact pneumatic air motors, decreased $54,000, or 6%, for fiscal 2023 compared to fiscal 2022. The revenue decrease is expected as these are legacy products with no substantive marketing or sales efforts.

Sales of our NRE & prototype services increased $1.7 million or 166% compared to fiscal 2022 and relates to billable engagement for multiple engineering projects.

Sales of our dental products and components in fiscal 2023 decreased $208,000, or 45%, as compared to fiscal 2022. The decrease is as expected because in fiscal 2022 we sold components of excess inventory directly to our largest customer due to the release of their next generation device. We expect future declines in this area as we are no longer manufacturing dental products, but rather are simply selling remaining component inventory.

Our fiscal 2023 repair revenue increased approximately $6.0 million, or 91%, to $12.6 million, as compared to fiscal 2022, due to increased repairs of the orthopedic handpiece we sell to our largest customer. We expected repair revenue to increase based upon the customer's requested refurbishments to upgrade previously purchased handpieces to the next generation, which we collectively term "enhanced repairs". We are rapidly refurbishing these handpieces and we believe that our largest customer will request enhanced repairs for a similar volume or number of handpieces in fiscal 2024, but there are no assurances that our customer will return the same volume of handpieces.

At June 30, 2023, we had a backlog of $41.6 million compared with a backlog of $16.5 million at June 30, 2022. Our backlog represents firm purchase orders received and acknowledged from our customers and does not include all revenue expected to be generated from existing customer contracts. Of our backlog at June 30, 2023, $31.4 million, as well as certain purchase orders received subsequent to June 30, 2023, are expected to be delivered during fiscal 2024 and the balance of $10.2 million is expected to be delivered in fiscal 2025. We have experienced, and may continue to experience, variability in our new order bookings due to, among other reasons, the launch of new products, the timing of customer orders based on end-user demand, and customer inventory levels. We do not typically experience seasonal fluctuations in our shipments and revenues.

Cost of Sales and Gross Margin

	Years Ended June 30,				Increase (Decrease) From 2022 To 2023
	2023		2022		
	Dollars in thousands				
Cost of sales:		% of Net Sales		% of Net Sales	
Product costs	$ 29,600	64%	$ 26,296	63%	13%
NRE and Prototype services costs	1,724	4%	774	2%	123%
Under (over)-absorption of manufacturing overhead	1,724	4%	877	2%	97%
Inventory and warranty charges	290	—	962	2%	(70%)
Total cost of sales	$ 33,338	72%	$ 28,909	69%	15%

Cost of sales in fiscal 2023 increased $4.4 million, or 15%, from fiscal 2022, primarily due to the increase in product costs, consistent with the 10% increase in net sales, coupled with higher material and labor costs. During fiscal 2023, we experienced $1.7 million of under-absorption of manufacturing costs compared to $877,000 in fiscal 2022, due primarily to actual production hours being less than planned. Costs related to inventory and warranty charges decreased $672,000 in fiscal 2023 compared to fiscal 2022, primarily due to sourcing of components for our printed circuit board assemblies at prices higher than usual in fiscal 2022 coupled with reduced warranty repairs related to the handpiece we sell to our largest customer in fiscal 2023.

Operating Expenses

	Years Ended June 30,				Increase (Decrease) From 2022 To 2023
	2023		2022		
	(Dollars in thousands)				
		% of Net Sales		% of Net Sales	
Operating expenses:					
Selling expenses	$ 155	—	$ 91	—	70%
General and administrative expenses	4,028	9%	4,903	12%	(18%)
Research and development costs	2,804	6%	2,980	7%	(6%)
	$ 6,987	15%	$ 7,974	19%	(12%)

Selling expenses consist of salaries and other personnel-related expenses related to our business development department, as well as trade show attendance, advertising and marketing expenses, and travel and related costs incurred in generating and maintaining customer relationships. Selling expenses increased $64,000, or 70%, compared to fiscal 2022, primarily due to increased sales commissions.

General and administrative expenses ("G&A") consist of salaries and other personnel-related expenses for corporate, accounting, finance, and human resource personnel, as well as costs for outsourced information technology services, professional fees, directors' fees, and costs associated with being a public company. The $875,000 decrease in G&A expenses from fiscal 2022 to 2023 is due primarily to reduced legal and settlement expenses related to employment matters and reduced non-cash compensation expense related to stock compensation.

Research and development costs generally consist of salaries, employer-paid benefits, and other personnel- related costs of our engineering and support personnel, as well as allocated facility and information technology costs, professional and consulting fees, patent-related fees, lab costs, materials, and travel and related costs incurred in the development and support of our products. Research and development costs decreased $176,000 from fiscal 2022 to 2023 due to increased personnel and related costs of $333,000 as well as increased legal fees related to IP matters of $89,000 offset by decreased spending on internal product development projects of $604,000. In fiscal 2023, our engineering department has continued to be engaged in billable customer projects and therefore those costs are shifted to cost of sales instead of research and development.

Although the majority of our research and development costs relate to sustaining activities related to products we currently manufacture and sell, we have created a product roadmap to develop future products. Many of our product development efforts are undertaken only upon completion of an analysis of the size of the market, our ability to differentiate our product from our competitors', as well as an analysis of our specific sales prospects with new and/or existing customers. Research and development costs represent between 37% and 40% of total operating expenses during fiscal 2022 and 2023 and are expected to increase in the future as we continue to invest in product development. The amount spent on projects under development is summarized below (in thousands):

	Years Ended June 30, 2023	Years Ended June 30, 2022	Expected Market Launch(1)	Estimated Annual Revenue(2)
	Dollars in thousands			
Total Research and Development costs:	$ 2,804	$ 2,980		
Products in development:				
ENT Shaver	$ 51	$ 282	Q4 2023	$ 1,000
Vital Ventilator	—	115	(3)	$ 1,500
Sustaining & Other	2,753	2,583		
Total	$ 2,804	$ 2,980		

(1) Represents the calendar quarter of expected market launch.

(2) The products in development include risks that they could be abandoned in the future prior to completion, they could fail to become commercialized, or the actual annual revenue realized may be less than the amount estimated.

(3) We have suspended the vital ventilator project at this time.

As we introduce new products into the market, we expect to see an increase in sustaining and other engineering expenses. Typical examples of sustaining engineering activities include, but are not limited to, end-of- life component replacement, especially in electronic components found in our printed circuit board assemblies, analysis of customer complaint data to improve process and design, replacement and enhancement of tooling and fixtures used in the machine shop, assembly operations, and inspection areas to improve efficiency and through-put. Additionally, these costs include development projects that may be in their infancy and may or may not result in a full-fledged product development effort.

Other Income (Expense)

Interest and Dividend Income

Our interest and dividend income earned in fiscal 2023 and 2022 includes income earned from our interest-bearing money market accounts and portfolio of equity investments.

Unrealized gain (loss) on investments

The unrealized gain (loss) on investments relates to our investment portfolio, which is the subject of our restatement described in Note 2 to the consolidated financial statements contained elsewhere in this report. Additional information related to the nature of our investments is more fully described in Note 5 to the consolidated financial statements contained elsewhere in this report.

Gain on Sale of Investments

During fiscal 2023, we liquidated some of the investments in our portfolio of equity investments receiving proceeds of $89,000 and recording a gain of $6,000. During fiscal 2022, we liquidated some of the investments in our portfolio of equity investments receiving proceeds of $770,000 and recording a gain of $28,000.

Interest Expense

Interest expense incurred in fiscal 2023 and 2022 consists primarily of interest expense related to our debt with Minnesota Bank & Trust ("MBT") described more fully in Note 8 to the consolidated financial statements contained elsewhere in this report.

Income Taxes

The effective tax rate for the fiscal years ended June 30, 2023 and 2022 was 26% and 20%, as restated, respectively, slightly less than our combined expected federal and applicable state corporate income tax rates due primarily to federal and state research credits.

Liquidity and Capital Resources

The following table is a summary of our Statements of Cash Flows and Cash and Working Capital as of and for the fiscal years ended June 30, 2023 and 2022:

	As of and for the Years Ended June 30,	
	2023	**2022**
	(In thousands)	
Cash provided by (used in):		
Operating activities	$ 5,462	$ (847)
Investing activities	$ (885)	$ (1,235)
Financing activities	$ (2,490)	$ (790)
Cash, cash equivalents and working capital:		
Cash and cash equivalents	$ 2,936	$ 849
Working capital	$ 21,303	$ 19,812

Cash Flows from Operating Activities

Cash provided by operating activities during fiscal 2023 totaled $5.5 million. Our net income was $7.1 million and included $3.9 million of unrealized gains on certain equity investments, as well as $857,000 of depreciation and amortization and $766,000 of non-cash stock compensation. Additionally, our accounts receivable decreased by $5.4 million due to the variability in the timing of shipments and our prepaid expenses and deferred income taxes decreased by $494,000 and $264,000, respectively. Offsetting this net inflow of cash, inventory increased by $3.5 million and our accounts payable and accrued expenses and deferred revenue decreased by $1.1 million and $1.0 million, respectively.

Cash used in operating activities totaled $847,000 during fiscal 2022. Our net income was $4.6 million and included $931,000 of unrealized gains on certain equity investments, as well as non-cash stock compensation expense and depreciation and amortization expense in the amount of $1.3 million and $726,000, respectively. Additionally, our accounts payable and accrued expenses increased by $2.0 million. Offsetting these inflows of cash, our accounts receivable and inventory balances grew by $4.4 million and $4.2 million, respectively.

Cash Flows from Investing Activities

Net cash used in investing activities in fiscal 2023 was $885,000. During the 2023 fiscal year, we made capital expenditures in the amount of $974,000 primarily for the Franklin Property and we received proceeds of $89,000 from the sales of marketable equity securities.

Net cash used in investing activities in fiscal 2022 was $1.2 million and related primarily to $1.6 million in purchases of equipment and improvements as well as the purchase of $334,000 of marketable equity securities, offset by $770,000 in proceeds from sales of marketable equity securities.

Cash Flows from Financing Activities

Net cash used in financing activities for fiscal 2023 totaled $2.5 million and included $809,000 in net principal payments of various notes payable to MBT more fully described in Note 8 to the consolidated financial statements contained elsewhere in this report, and $1.5 million related to the repurchase of 86,422 shares of our common stock pursuant to our share repurchase program, as well as payment of $223,000 of employee payroll taxes related to the award of 37,500 shares of common stock to employees under previously granted performance awards.

Net cash used in financing activities for fiscal 2022 totaled $790,000 and related primarily to the $1.6 million repurchase of 75,250 shares of our common stock pursuant to our share repurchase program, as well as $1.2 million of principal payments primarily related to our various loans from MBT offset by the $2.0 million in new borrowings from MBT more fully described in Note 8 to the consolidated financial statements contained elsewhere in this report.

Liquidity Requirements for the Next 12 Months

As of June 30, 2023, our working capital was $21.3 million. We currently believe that our existing cash and cash equivalent balances, together with our account receivable balances, and anticipated cash flows from operations will provide us sufficient funds to satisfy our cash requirements as our business is currently conducted for at least the next 12 months. In addition to our cash and cash equivalent balances, we expect to derive a portion of our liquidity from our cash flows from operations. We may also liquidate some or all of our investment portfolio or borrow further against our $7.0 million Amended Revolving Loan with MBT (see Note 8 to condensed consolidated financial statements contained elsewhere in this report), under which we had availability of $4.5 million as of June 30, 2023.

We are focused on preserving our cash balances by monitoring expenses, identifying cost savings, and investing only in those development programs and products that we believe will most likely contribute to our profitability. As we execute our current strategy, however, we may require debt and/or equity capital to fund our working capital needs and requirements for capital equipment to support our manufacturing and inspection processes. In particular, we have experienced negative operating cash flow in the past, especially as we procure long-lead time materials to satisfy our backlog, which can be subject to extensive variability. We believe that if we need additional capital to fund our operations, we can borrow against our revolving loan with MBT.

Surplus Capital Investment Policy

During fiscal 2013, our Board approved a Surplus Capital Investment Policy (the “Policy”) that provides, among other items, for the following:

(a) Determination by our Board of Directors of (i) our surplus capital balance and (ii) the portion of such surplus capital balance to be invested according to the Policy;

(b) Selection of an Investment Committee responsible for implementing the Policy; and

(c) Objectives and criteria under which investments may be made.

The Investment Committee is comprised of Messrs. Swenson (Chair), Cabillot, and Van Kirk. Both Mr. Cabillot and Mr. Swenson are active investors with extensive portfolio management expertise. We leverage the experience of these committee members to make investment decisions for the investment of our surplus operating capital or borrowed funds. Additionally, many of our securities holdings include stocks of public companies that either Messrs. Swenson or Cabillot or both may own from time to time either individually or through the investment funds that they manage, or other companies whose boards they sit on. The Investment Committee approved each of the investments comprising the $8.8 million of investments consisting of a warrant to purchase common stock of a publicly held company and marketable public equity securities held at June 30, 2023, which amount includes unrealized holding gains in the amount of $6.1 million at June 30, 2023.

In December 2019, our Board approved a new share repurchase program authorizing us to repurchase up to one million shares of our common stock, as the prior repurchase plan, authorized by our Board in 2013, authorizing the repurchase of 750,000 shares of common stock was nearing completion. In accordance with, and as part of, these share repurchase programs, our Board has approved the adoption of several prearranged share repurchase plans intended to qualify for the safe harbor Rule 10b5-1 under the Securities Exchange Act of 1934, as amended ("10b5-1 Plan" or "Plan").

During the fiscal year ended June 30, 2023, we repurchased 86,422 shares at an aggregate cost, inclusive of fees under the Plan, of $1.5 million. During the fiscal year ended June 30, 2022, we repurchased 75,250 shares at an aggregate cost, inclusive of fees under the Plan, of $1.6 million. On a cumulative basis, we have repurchased a total of 1,197,168 shares under the share repurchase programs at an aggregate cost, inclusive of fees under the Plan, of $17.2 million. All repurchases under the 10b5-1 Plans were administered through an independent broker.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PRO-DEX, INC. AND SUBSIDIARIES
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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors
Pro-Dex, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Pro-Dex Inc. (the “Company”) as of June 30, 2023 and 2022, the related consolidated income statements, shareholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2023 and 2022, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2023, in conformity with accounting principles generally accepted in the United States of America.

Restatement of Previously Issued Financial Statements

As described in Note 2, the Company has restated its consolidated financial statements as of June 30, 2022, and for the years ended June 30, 2022 and 2021, for the correction of errors.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements, and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Warrant Valuation

As described in Notes 2 and Note 5 to the consolidated financial statements, the Company holds a warrant to purchase common stock of a publicly traded company, which has an estimated fair value of $6,160,000 at June 30, 2023 and resulted in an unrealized gain of $3,856,000 during the year ended June 30, 2023. The warrant was determined to be a derivative financial instrument that is subject to remeasurement at each balance sheet date with changes in fair value recognized in earnings.

We identified the valuation of the warrant as a critical audit matter. See also the “Restatement of Previously Issued Financial Statements” section of our report. The estimated fair value of the warrant was determined using a Black Scholes Option Pricing (“BSOP”) model. The principal considerations for our determination that auditing the estimated fair value of the warrant is a critical audit matter are (i) the judgment required by management in the determination of the significant assumptions used, including the underlying stock price, strike price of the warrant, volatility, risk-free rate, discount for lack of marketability and time-to-maturity (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to the significant assumptions used in the BSOP model; and (iii) the use of professionals with specialized skill and knowledge.

The primary procedures we performed to address this critical audit matter included:

- reading the agreements and evaluating management’s process for determining the estimated fair value of the warrant.
- testing management’s process included (i) evaluating the method used by management to determine the estimated fair value of the warrant; (ii) testing the mathematical accuracy of management’s model; (iii) evaluating the reasonableness of the significant assumptions used in the model and (iv) testing the completeness and accuracy of the data used.
- professionals with specialized skill and knowledge were used to assist in evaluating the appropriateness of the BSOP model used by management to determine the estimated fair value of the warrant, and evaluating whether the significant assumptions used in the BSOP model were reasonable.

/s/ Moss Adams LLP

Irvine, California
October 13, 2023

We have served as the Company’s auditor since 2003.

PRO-DEX, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2023	June 30, 2022 (Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,936	$ 849
Investments	1,134	755
Accounts receivable, net of allowance for doubtful accounts of $0 at June 30, 2023 and 2022	9,952	15,384
Deferred costs	494	710
Inventory	16,167	12,678
Prepaid expenses	296	790
Total current assets	30,979	31,166
Land and building, net	6,249	6,343
Equipment and improvements, net	5,079	4,833
Right of use asset, net	1,872	2,248
Intangibles, net	81	118
Deferred income taxes, net	—	256
Investments	7,521	4,083
Other assets	42	42
Total assets	$ 51,823	$ 49,089
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,261	$ 3,761
Accrued liabilities	3,135	2,751
Income taxes payable	453	544
Deferred revenue	—	1,013
Notes payable	3,827	3,285
Total current liabilities	9,676	11,354
Non-current liabilities:		
Lease liability, net of current portion	1,638	2,054
Deferred income taxes, net	8	—
Notes payable, net of current portion	8,911	10,250
Total non-current liabilities	10,557	12,304
Total liabilities	20,233	23,658
Commitments and Contingencies:		
Shareholders' equity:		
Common stock, no par value, 50,000,000 shares authorized; 3,545,309 and 3,596,131 shares issued and outstanding at June 30, 2023 and 2022, respectively	6,767	7,682
Retained earnings	24,823	17,749
Total shareholders' equity	31,590	25,431
Total liabilities and shareholders' equity	$ 51,823	$ 49,089

See notes to consolidated financial statements.

PRO-DEX, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(In thousands, except share and per share data)

	Years Ended June 30, 2023	2022 (Restated)	2021 (Restated)
Net sales	$ 46,087	$ 42,041	$ 38,029
Cost of sales	33,338	28,909	24,454
Gross profit	12,749	13,132	13,575
Operating expenses:			
Selling expenses	155	91	590
General and administrative expenses	4,028	4,903	4,076
Loss on disposal of equipment	—	35	—
Research and development costs	2,804	2,980	4,384
Total operating expenses	6,987	8,009	9,050
Operating income	5,762	5,123	4,525
Other income (expense):			
Interest and dividend income	294	76	126
Unrealized gain on investments	3,899	931	1,990
Gain on sale of investments	6	28	1,327
Interest expense	(533)	(464)	(352)
Total other income	3,666	571	3,091
Income before income taxes	9,428	5,694	7,616
Income tax expense	2,354	1,122	1,446
Net income	$ 7,074	$ 4,572	$ 6,170
Basic & Diluted income per share:			
Basic net income per share	$ 1.98	$ 1.26	$ 1.63
Diluted net income per share	$ 1.95	$ 1.21	$ 1.57
Weighted-average common shares outstanding:			
Basic	3,571,044	3,635,894	3,796,516
Diluted	3,636,944	3,763,345	3,936,194

See notes to consolidated financial statements.

PRO-DEX, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For The Years Ended June 30, 2023, 2022 (Restated) and 2021 (Restated)
(In thousands, except share data)

	Common Shares						
	Number of Shares		Amount		Retained Earnings		Total
Balance at June 30, 2020	3,811,137	$	12,752	$	6,310	$	19,062
Cumulative effect of restatement[1]	—		—		697		697
Net income, restated	—		—		6,170		6,170
ESPP shares issued	2,677		57		—		57
Shares issued in connection with performance award vesting	40,000		—		—		—
Shares withheld from common stock issued to pay employee payroll taxes	(14,371)		(259)		—		(259)
Exercise of stock options[2]	22,388		39		—		39
Share-based compensation	—		901		—		901
Share repurchases	(216,171)		(5,537)		—		(5,537)
Balance at June 30, 2021	3,645,660	$	7,953	$	13,177	$	21,130
Net income, restated	—				4,572		4,572
ESPP shares issued	2,576		60		—		60
Exercise of stock options[3]	23,145		—		—		—
Share-based compensation	—		1,275		—		1,275
Share repurchases	(75,250)		(1,606)		—		(1,606)
Balance at June 30, 2022	3,596,131	$	7,682	$	17,749	$	25,431
Net income	—		—		7,074		7,074
ESPP shares issued	5,459		77		—		77
Shares issued in connection with performance award vesting	37,500		—		—		—
Shares withheld from common stock issued to pay employee payroll taxes	(13,859)		(223)		—		(223)
Exercise of stock options	6,500		12		—		12
Share-based compensation	—		766		—		766
Share repurchases	(86,422)		(1,547)		—		(1,547)
Balance at June 30, 2023	3,545,309	$	6,767	$	24,823	$	31,590

(1) This is the estimated fair value of the Monogram Warrant as of June 30, 2020. (See Note 2)
(2) Excludes 112 shares forfeited to affect a cashless exercise.
(3) Excludes 1,855 shares forfeited to affect a cashless exercise.

See notes to consolidated financial statements.

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

	Years Ended June 30,		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		(Restated)	(Restated)
Net income	$ 7,074	$ 4,572	$ 6,170
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	857	726	686
Unrealized gain on investments	(3,899)	(931)	(1,990)
Gain on sale of investments	(6)	(28)	(1,327)
Impairment of long-lived assets	—	84	—
Non-cash lease expense (recovery)	(2)	13	26
Loss on sale or disposal of equipment	—	35	—
Amortization of loan fees	12	9	49
Share-based compensation	766	1,275	901
Deferred income taxes	264	(63)	89
Bad debt expense (recovery)	—	(2)	5
Changes in operating assets and liabilities:			
Accounts receivable	5,432	(4,449)	(5,783)
Deferred costs	216	(517)	(38)
Inventory	(3,489)	(4,241)	(199)
Prepaid expenses	494	(331)	(314)
Accounts payable and accrued expenses	(1,153)	1,991	105
Deferred revenue	(1,013)	863	(50)
Income taxes payable	(91)	147	(408)
Net cash provided by (used in) operating activities	5,462	(847)	(2,078)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of equipment and improvements	(974)	(1,638)	(1,769)
Purchase of land and building	—	—	(6,499)
Proceeds from sale of investments	89	770	4,596
Increase in intangibles	—	(33)	(38)
Purchase of investments	—	(334)	—
Net cash used in investing activities	(885)	(1,235)	(3,710)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on notes payable	(6,093)	(1,244)	(351)
Borrowing from revolving loan, net of loan origination fees	5,284	2,000	9,139
Repurchases of common stock	(1,547)	(1,606)	(5,537)
Payments of employee taxes on net issuance of common stock	(223)	—	(259)
Proceeds from exercise of stock options and ESPP contributions	89	60	96
Net cash provided by (used in) financing activities	(2,490)	(790)	3,088
Net increase (decrease) in cash and cash equivalents	2,087	(2,872)	(2,700)
Cash and cash equivalents, beginning of year	849	3,721	6,421
Cash and cash equivalents, end of year	$ 2,936	$ 849	$ 3,721

See notes to consolidated financial statements.

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

	Years Ended June 30,		
	2023	2022	2021
Supplemental disclosures of cash flow information:			
Non-cash investing and financing activity:			
Cashless stock option exercise	$ —	$ 45	$ 4
Cash paid during the period for:			
Income taxes, net of refunds	$ 1,655	$ 1,565	$ 1,767
Interest	$ 521	$ 463	$ 330

See notes to consolidated financial statements.

1. DESCRIPTION OF BUSINESS

We specialize in the design, development and manufacture of autoclavable, battery-powered and electric, multi-function surgical drivers and shavers used primarily in the orthopedic, thoracic, and craniomaxillofacial markets. We have patented adaptive torque-limiting technology and proprietary sealing solutions which appeal to our customers, primarily medical device distributors. We also manufacture and sell rotary air motors to a wide range of industries.

In August 2020, we formed a wholly owned subsidiary, PDEX Franklin, LLC ("PDEX Franklin"), to hold title for an approximate 25,000 square foot industrial building in Tustin, California (the "Franklin Property") that we acquired on November 6, 2020, in order to allow for the continued growth of our business. The consolidated financial statements include the accounts of the Company and PDEX Franklin and all significant inter-company accounts and transactions have been eliminated. This subsidiary has no separate operations.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company has restated its consolidated financial statements as of and for the years ended June 30, 2022 and 2021 and as of and for the first three quarters of fiscal 2021, 2022 and 2023. The restatement corrects the error related to the fair value of the Monogram Warrant which had been understated (See Note 5). The restatement records the investment at its estimated fair value for all restated periods, records the unrealized gain on investments for each restated period, and records the deferred income tax expense associated with the corresponding unrealized gain on investments. The restatement does not impact previously reported revenues, operating income, cash or cash flows for any previous periods.

Presented below are the changes to each financial statement line item which changed as a result of the restatement.

June 30, 2022 Balance Sheet

	As Previously Reported	Restatement	As Restated
Deferred income taxes, net	$ 797	$ (541)[a]	$ 256
Investments	1,779	2,304 [b]	4,083
Total assets	47,326	1,763	49,089
Retained earnings	15,986	1,763	17,749
Total liabilities and shareholders' equity	47,326	1,763	49,089

(a) This amount represents the income tax expense associated with the Monogram Warrant.
(b) This amount represents the estimated fair value of the Monogram Warrant at June 30, 2022.

Fiscal 2022 Income Statement

	As Previously Reported	Restatement	As Restated
Unrealized gain (loss) on investments	$ (57)	$ 988(a)	$ 931
Total other income (loss)	(417)	988	571
Income before income taxes	4,706	988	5,694
Income tax expense	851	271(b)	1,122
Net income	3,855	717	4,572
Basic income per share	$ 1.06	$ 0.20	$ 1.26
Diluted income per share	$ 1.02	$ 0.19	$ 1.21

(a) This amount represents the unrealized gain on the Monogram Warrant for the fiscal year 2022.
(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant for the fiscal year 2022.

Fiscal 2021 Income Statement

	As Previously Reported	Restatement	As Restated
Unrealized gain on investments	$ 1,371	$ 619(a)	$ 1,990
Total other income	2,472	619	3,091
Income before income taxes	6,997	619	7,616
Income tax expense	1,176	270(b)	1,446
Net income	5,821	349	6,170
Basic income per share	$ 1.53	$ 0.10	$ 1.63
Diluted income per share	$ 1.48	$ 0.09	$ 1.57

(a) This amount represents the unrealized gain on the Monogram Warrant for the fiscal year 2021.
(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant for the fiscal year 2021.

	Fiscal 2023 Unaudited Quarterly Periods		
	September 30, 2022	December 31, 2022	March 31, 2023
Net income, as previously reported	$ 1,076	$ 879	$ 1,313
Adjustments to net income:			
Unrealized gain on investments[(a)]	175	2,582	419
Income tax expense[(b)]	48	709	115
Net income, as restated	$ 1,203	$ 2,752	$ 1,617
Basic & Diluted income per share as previously reported:			
Basic net income per share	$ 0.30	$ 0.25	$ 0.37
Diluted net income per share	$ 0.29	$ 0.24	$ 0.36
Basic & Diluted income per share as restated:			
Basic net income per share	$ 0.33	$ 0.80	$ 0.46
Diluted net income per share	$ 0.33	$ 0.79	$ 0.45
Weighted-average common shares outstanding:			
Basic	3,616,000	3,574,000	3,548,000
Diluted	3,695,000	3,652,000	3,623,000

(a) This amount represents the unrealized gain on the Monogram Warrant.

(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant.

	Fiscal 2022 Unaudited Quarterly Periods			
	September 30, 2021	December 31, 2021	March 31, 2022	June 30, 2022
Net income as previously reported	$ 1,064	$ 925	$ 462	$ 1,405
Adjustments to net income:				
Unrealized gain on investments[(a)]	22	216	155	595
Income tax expense[(b)]	6	59	43	163
Net income as restated	$ 1,080	1,082	$ 574	1,837
Basic & Diluted income per share as previously reported				
Basic net income per share	$ 0.29	$ 0.25	$ 0.13	$ 0.39
Diluted net income per share	$ 0.28	$ 0.25	$ 0.12	$ 0.38
Basic & Diluted income per share as restated				
Basic net income per share	$ 0.30	$ 0.30	$ 0.16	$ 0.51
Diluted net income per share	$ 0.29	$ 0.29	$ 0.15	$ 0.49
Weighted-average common shares outstanding:				
Basic	3,651,000	3,657,000	3,626,000	3,609,000
Diluted	3,777,000	3,767,000	3,749,000	3,731,000

(a) This amount represents the unrealized gain on the Monogram Warrant.

(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant.

	Fiscal 2021 Unaudited Quarterly Periods			
	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021
Net income as previously reported	$ 1,158	$ 1,750	$ 2,131	$ 782
Adjustments to net income:				
Unrealized loss on investments[(a)]	(59)	51	42	585
Income tax (benefit) expense[(b)]	(16)	14	12	260
Net income as restated	$ 1,115	1,787	$ 2,161	1,107
Basic & Diluted income per share as previously reported				
Basic net income per share	$ 0.30	$ 0.45	$ 0.56	$ 0.23
Diluted net income per share	$ 0.29	$ 0.44	$ 0.54	$ 0.22
Basic & Diluted income per share as restated				
Basic net income per share	$ 0.29	$ 0.46	$ 0.57	$ 0.29
Diluted net income per share	$ 0.28	$ 0.45	$ 0.54	$ 0.28
Weighted-average common shares outstanding:				
Basic	3,851,000	3,861,000	3,817,000	3,656,000
Diluted	3,975,000	4,012,000	3,966,000	3,796,000

(a) This amount represents the unrealized gain on the Monogram Warrant.

(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant.

September 30, 2020 Unaudited Balance Sheet (First Quarter Fiscal 2021)

	As Previously Reported	Restatement	As Restated
Deferred income taxes, net	$ 259	$ 16(a)	$ 275
Investments	2,309	638(b)	2,947
Total assets	30,797	654	31,451
Retained earnings	7,468	654	8,122
Total liabilities and shareholders' equity	30,797	654	31,451

(a) This amount represents the income tax benefit associated with the Monogram Warrant.
(b) This amount represents the estimated fair value of the Monogram Warrant at September 30, 2020.

First Quarter Fiscal 2021 Unaudited Income Statement – Three months ended September 30, 2020

	As Previously Reported	Restatement	As Restated
Unrealized gain (loss) on investments	$ (107)	$ (59)(a)	$ (166)
Total other income (expense)	(108)	(59)	(167)
Income before income taxes	1,441	(59)	1,382
Income tax expense	283	(16)(b)	267
Net income	1,158	(43)	1,115
Basic income per share	$ 0.30	$ (0.01)	$ 0.29
Diluted income per share	$ 0.29	$ (0.01)	$ 0.28

(a) This amount represents the unrealized loss on the Monogram Warrant for the three months ended September 30, 2020.
(b) This amount represents the income tax benefit related to the unrealized loss on the Monogram Warrant for the three months ended September 30, 2020.

December 31, 2020 Unaudited Balance Sheet (Second Quarter Fiscal 2021)

	As Previously Reported	Restatement	As Restated
Deferred income taxes, net	$ 259	$ 2(a)	$ 261
Investments	3,238	689(b)	3,927
Total assets	38,372	691	39,063
Retained earnings	9,218	691	9,909
Total liabilities and shareholders' equity	38,372	691	39,063

(a) This amount represents the income tax benefit associated with the Monogram Warrant.
(b) This amount represents the estimated fair value of the Monogram Warrant at December 31, 2020.

Three months ended December 31, 2020 Unaudited Income Statement (Second Quarter Fiscal 2021)

	As Previously Reported	Restatement	As Restated
Unrealized gain (loss) on investments	$ 1,413	$ 51(a)	$ 1,464
Total other income (expense)	1,358	51	1,409
Income before income taxes	1,879	51	1,930
Income tax expense	129	14(b)	143
Net income	1,750	37	1,787
Basic income per share	$ 0.45	$ 0.01	$ 0.46
Diluted income per share	$ 0.44	$ 0.01	$ 0.45

(a) This amount represents the unrealized gain on the Monogram Warrant for the three months ended December 31, 2020.
(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant for the three months ended December 31, 2020.

March 31, 2021 Unaudited Balance Sheet (Third Quarter Fiscal 2021)

	As Previously Reported	Restatement	As Restated
Deferred income taxes, net	$ 259	$ (9)(a)	$ 250
Investments	3,026	731(b)	3,757
Total assets	42,315	722	43,037
Retained earnings	11,349	722	12,071
Total liabilities and shareholders' equity	42,315	722	43,037

(a) This amount represents the income tax expense associated with the Monogram Warrant.
(b) This amount represents the estimated fair value of the Monogram Warrant at March 31, 2021.

Three months ended March 31, 2021 Unaudited Income Statement (Third Quarter Fiscal 2021)

	As Previously Reported	Restatement	As Restated
Unrealized gain (loss) on investments	$ 136	$ 42(a)	$ 178
Total other income (expense)	858	42	900
Income before income taxes	2,723	42	2,765
Income tax expense	592	12(b)	604
Net income	2,131	30	2,161
Basic income per share	$ 0.56	$ 0.01	$ 0.57
Diluted income per share	$ 0.54	$ 0.01	$ 0.54

(a) This amount represents the unrealized gain on the Monogram Warrant for the three months ended March 31, 2021.
(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant for the three months ended March 31, 2021.

September 30, 2021 Unaudited Balance Sheet (First Quarter Fiscal 2022)

	As Previously Reported	Restatement	As Restated
Deferred income taxes, net	$ 463	$ (276)(a)	$ 187
Investments	1,656	1,338(b)	2,994
Total assets	41,865	1,062	42,927
Retained earnings	13,195	1,062	14,257
Total liabilities and shareholders' equity	41,865	1,062	42,927

(a) This amount represents the income tax expense associated with the Monogram Warrant.
(b) This amount represents the estimated fair value of the Monogram Warrant at September 30, 2021.

First Quarter Fiscal 2022 Unaudited Income Statement – Three months ended September 30, 2021

	As Previously Reported	Restatement	As Restated
Unrealized gain(loss) on investments	$ 149	$ 22(a)	$ 171
Total other income (expense)	53	22	75
Income before income taxes	1,371	22	1,393
Income tax expense	307	6(b)	313
Net income	1,064	16	1,080
Basic income per share	$ 0.29	$ 0.01	$ 0.30
Diluted income per share	$ 0.28	$ 0.01	$ 0.29

(a) This amount represents the unrealized gain on the Monogram Warrant for the three months ended September 30, 2021.
(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant for the three months ended September 30, 2021.

December 31, 2021 Unaudited Balance Sheet (Second Quarter Fiscal 2022)

	As Previously Reported	Restatement	As Restated
Deferred income taxes, net	$ 463	$ (335)(a)	$ 128
Investments	1,940	1,554(b)	3,494
Total assets	42,114	1,219	43,333
Retained earnings	14,119	1,219	15,338
Total liabilities and shareholders' equity	42,114	1,219	43,333

(a) This amount represents the income tax expense associated with the Monogram Warrant.
(b) This amount represents the estimated fair value of the Monogram Warrant at December 31, 2021.

Three months ended December 31, 2021 Unaudited Income Statement (Second Quarter Fiscal 2022)

	As Previously Reported	Restatement	As Restated
Unrealized gain(loss) on investments	$ (300)	$ 216(a)	$ (84)
Total other income (expense)	(392)	216	(176)
Income before income taxes	1,210	216	1,426
Income tax expense	285	59(b)	344
Net income	925	157	1,082
Basic income per share	$ 0.25	$ 0.05	$ 0.30
Diluted income per share	$ 0.25	$ 0.04	$ 0.29

(a) This amount represents the unrealized gain on the Monogram Warrant for the three months ended December 31, 2021.
(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant for the three months ended December 31, 2021.

March 31, 2022 Unaudited Balance Sheet (Third Quarter Fiscal 2022)

	As Previously Reported	Restatement	As Restated
Deferred income taxes, net	$ 463	$ (378)(a)	$ 85
Investments	1,778	1,709(b)	3,487
Total assets	43,884	1,331	45,215
Retained earnings	14,581	1,331	15,912
Total liabilities and shareholders' equity	43,884	1,331	45,215

(a) This amount represents the income tax expense associated with the Monogram Warrant.
(b) This amount represents the estimated fair value of the Monogram Warrant at March 31, 2022.

Three months ended March 31, 2022 Unaudited Income Statement (Third Quarter Fiscal 2022)

	As Previously Reported	Restatement	As Restated
Unrealized gain(loss) on investments	$ (275)	$ 155(a)	$ (120)
Total other income (expense)	(387)	155	(232)
Income before income taxes	634	155	789
Income tax expense	172	43(b)	215
Net income	462	112	574
Basic income per share	$ 0.13	$ 0.03	$ 0.16
Diluted income per share	$ 0.12	$ 0.03	$ 0.15

(a) This amount represents the unrealized gain on the Monogram Warrant for the three months ended March, 31, 2022.
(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant for the three months ended March 31, 2022.

September 30, 2022 Unaudited Balance Sheet (First Quarter Fiscal 2023)

	As Previously Reported	Restatement	As Restated
Deferred income taxes, net	$ 764	$ (589)(a)	$ 175
Investments	1,889	2,479(b)	4,368
Total assets	47,965	1,890	49,855
Retained earnings	17,062	1,890	18,952
Total liabilities and shareholders' equity	47,965	1,890	49,855

(a) This amount represents the income tax expense associated with the Monogram Warrant.
(b) This amount represents the estimated fair value of the Monogram Warrant at September 30, 2022.

First Quarter Fiscal 2023 Unaudited Income Statement – Three months ended September 30, 2022

	As Previously Reported	Restatement	As Restated
Unrealized gain(loss) on investments	$ 250	$ 175(a)	$ 425
Total other income (expense)	344	175	519
Income before income taxes	1,294	175	1,469
Income tax expense	218	48(b)	266
Net income	1,076	127	1,203
Basic income per share	$ 0.30	$ 0.03	$ 0.33
Diluted income per share	$ 0.29	$ 0.04	$ 0.33

(a) This amount represents the unrealized gain on the Monogram Warrant for the three months ended September 30, 2022.
(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant for the three months ended September 30, 2022.

December 31, 2022 Unaudited Balance Sheet (Second Quarter Fiscal 2023)

	As Previously Reported	Restatement	As Restated
Deferred income taxes, net	$ 764	$ (764)(a)	$ —
Investments	1,726	5,061(b)	6,787
Total assets	47,579	4,297	51,876
Deferred income taxes	—	534	534
Total liabilities	23,105	534	23,639
Retained earnings	17,941	3,763	21,704
Total liabilities and shareholders' equity	47,579	4,297	51,876

(a) This amount represents the income tax expense associated with the Monogram Warrant.
(b) This amount represents the estimated fair value of the Monogram Warrant at December 31, 2022.

Three months ended December 31, 2022 Unaudited Income Statement (Second Quarter Fiscal 2023)

	As Previously Reported	Restatement	As Restated
Unrealized gain(loss) on investments	$ 158	$ 2,582(a)	$ 2,740
Total other income (expense)	37	2,582	2,619
Income before income taxes	1,174	2,582	3,756
Income tax expense	295	709(b)	1,004
Net income	879	1,873	2,752
Basic income per share	$ 0.25	$ 0.55	$ 0.80
Diluted income per share	$ 0.24	$ 0.55	$ 0.79

(a) This amount represents the unrealized gain on the Monogram Warrant for the three months ended December 31, 2022.
(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant for the three months ended December 31, 2022.

March 31, 2023 Unaudited Balance Sheet (Third Quarter Fiscal 2023)

	As Previously Reported	Restatement	As Restated
Deferred income taxes, net	$ 764	$ (764)(a)	$ —
Investments	1,534	5,480(b)	7,014
Total assets	46,975	4,716	51,691
Deferred income taxes	—	649	649
Total liabilities	21,136	649	21,785
Retained earnings	19,254	4,067	23,321
Total liabilities and shareholders’ equity	46,975	4,716	51,691

(a) This amount represents the income tax expense associated with the Monogram Warrant.
(b) This amount represents the estimated fair value of the Monogram Warrant at March 31, 2023.

Three months ended March 31, 2023 Unaudited Income Statement (Third Quarter Fiscal 2023)

	As Previously Reported	Restatement	As Restated
Unrealized gain(loss) on investments	$ (177)	$ 419(a)	$ 242
Total other income (expense)	(297)	419	122
Income before income taxes	1,768	419	2,187
Income tax expense	455	115(b)	570
Net income	1,313	304	1,617
Basic income per share	$ 0.37	$ 0.09	$ 0.46
Diluted income per share	$ 0.36	$ 0.09	$ 0.45

(a) This amount represents the unrealized gain on the Monogram Warrant for the three months ended March 31, 2023.
(b) This amount represents the income tax expense related to the unrealized gain on the Monogram Warrant for the three months ended March 31, 2023.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies presented below is designed to assist the reader in understanding our consolidated financial statements. Such consolidated financial statements and related notes are the representations of management, who is responsible for their integrity and objectivity. In the opinion of management, these accounting policies conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") in all material respects and have been consistently applied in preparing the accompanying consolidated financial statements.

Net Sales

Net sales consists of the sale of products and services, as well as shipping and handling costs billed to our customers and is net of volume rebates and discounts and excludes sales tax.

Revenue Recognition

Revenue from product sales is recognized as promulgated by the Financial Accounting Standards Board ("FASB") in Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* once our contract(s) with a customer and the performance obligations in the contract have been identified, and the transaction price has been allocated to the performance obligations and revenue is recorded when (or as) we satisfy each performance obligation, generally upon shipment.

Revenue from services, typically non-recurring engineering services related to the design or customization of a medical device, is typically recognized over time. The customer funding for costs incurred for non-recurring engineering services is deferred and subsequently recognized as revenue as under-lying products or services are delivered to the customers. Additionally, expenses incurred, up to the customer agreed funding amount, are deferred as an asset and recognized as cost of sales when the under-lying products or services are delivered to the customer. The deferred customer funding and costs result in recognition of deferred costs (asset) and deferred revenue (liability) on our consolidated balance sheets.

One of our customer contracts can give rise to variable consideration due to volume rebates. We estimate variable consideration at the most likely amount we will receive from our customer. Our estimates of variable consideration are based on an assessment of our anticipated performance and all information (historical, current, and forecasted) that is reasonably available to us.

Returns of our product for credit are minimal; accordingly, we do not establish a reserve for product returns at the time of sale.

Cost of Sales

Cost of sales consists primarily of the purchase price of goods and cost of services rendered including freight costs. Cost of sales also includes production labor and overhead costs for all of our manufacturing and assembly operations, which overhead includes all indirect labor and expenses associated with our inspection, warehousing, material planning and quality departments.

Estimated Losses on Product Development Services

Cost and revenue estimates related to the product development service portions of development and supply contracts are reviewed and updated quarterly. An expected loss on development service contracts is recognized immediately in cost of sales. Losses recorded in fiscal 2023 and 2022 related to these services totaled $108,000 and $0, respectively.

Owing to the complexity of many of the contracts we have undertaken, the cost estimation process requires significant judgment. It is based upon the knowledge and experience of our project managers, engineers, and finance professionals. Factors that are considered in estimating the cost of work to be completed and ultimate profitability of the fixed price product development portion of development and supply contracts include the nature and complexity of the work to be performed, availability and productivity of labor, the effect of change orders, the availability of materials, performance of subcontractors, and expected costs for specific regulatory approvals.

Warranties

Certain of our products are sold with a warranty that provides for repairs or replacement of any defective parts for a period, generally one to two years, after the sale. At the time of the sale, we accrue an estimate of the cost of providing the warranty based on prior experience with such factors as return rates and repair costs, which factors are reviewed quarterly.

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 balance sheets. Warranty expenses are included in cost of sales in the accompanying 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.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of ninety days or less to be cash equivalents. At June 30, 2023 and 2022, cash equivalents consisted of investments in money market funds.

Accounts Receivable

Trade receivables are stated at their original invoice amounts, less an allowance for doubtful portions of such accounts. Management determines the allowance for doubtful accounts based on facts and circumstances related to specific accounts and the age of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously reserved are offset against the allowance when received.

Deferred Costs

Deferred costs reflect costs incurred related to non-recurring engineering services under the terms of the related development and/or supply contracts. These costs get recorded to cost of sales in the period that the revenue is recognized.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. Reductions to estimated market value are recorded and charged to cost of sales, when indicated based on a formula that compares on-hand quantities to both historical usage and estimated demand over the ensuing 12 months from the measurement date. On an ongoing basis, we evaluate inventory for obsolescence and slow-moving items. This evaluation includes analysis of historical sales and usage, existing demand, as well as specific factors known to management. As of June 30, 2023 and 2022, there was approximately $637,000 and $177,000, respectively, of inventory in-transit from suppliers.

Investments

Investments at June 30, 2023 and 2022, consist of marketable equity securities of publicly held companies as well as a warrant to purchase common stock of a company whose common stock first became publicly traded in May 2023. The investments were made to realize a reasonable return, although there is no assurance that positive returns will be realized. Investments are marked to market at each measurement date, with unrealized gains and losses presented separately within other income and expense on the consolidated income statement. Certain investments consist of common stocks of public companies that are thinly traded. These investments were subject to a valuation analysis as of June 30, 2023 and 2022.

Long-lived Assets

We review the recoverability of long-lived assets, consisting of the land and building that we own, equipment, and improvements, including leasehold improvements, when events or changes in circumstances occur that indicate carrying values may not be recoverable.

Our building, equipment and improvements are recorded at historical cost and depreciation is provided using the straight-line method over the following periods:

Building	Thirty years
Equipment	Three to ten years
Improvements	Shorter of the remaining life of the underlying building, lease term, or the asset’s estimated useful life

Intangibles

Intangibles consist of legal fees incurred in connection with patent applications. Our patent costs are being amortized over a period of four to seven years. The expense associated with the amortization of the patent costs is recognized in research and development costs.

Income Taxes

We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities along with net operating losses and tax credit carryovers. Net deferred tax assets or liabilities at both June 30, 2023 and 2022 consisted primarily of basis differences related to unrealized gain/loss related to investments, stock-based compensation, fixed assets, accrued expenses, and inventories. Our fiscal 2023 deferred tax assets also includes capitalization of our research expenditures as prescribed by the Tax Cuts and Jobs Act.

Significant management judgment is required in determining the provision for income taxes, the recoverability of deferred tax assets, and the extinguishment of deferred tax liabilities. Such determination is based on historical taxable income, with consideration given to estimates of future taxable income and the periods over which deferred tax assets will be recoverable and deferred tax liabilities will be extinguished. We record a valuation allowance against deferred tax assets to reduce the net carrying value to an amount that we believe is more likely than not to be realized. When we establish or reduce the valuation allowance against deferred tax assets, the provision for income taxes will increase or decrease, respectively, in the period such determination is made.

Uncertain Tax Positions

We record uncertain tax positions in accordance with Accounting Standards Codification (“ASC”) 740 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position, and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Shipping and Handling

Payments from customers for shipping and handling are included in net sales. Shipping expenses, consisting primarily of payments made to freight companies, are included in cost of sales.

Concentration of Credit Risk

Financial instruments that potentially subject us to credit risk consist principally of cash, cash equivalents, and trade receivables. We place our cash and cash equivalents with major financial institutions. At June 30, 2023 and 2022, and throughout the fiscal years then ended, we had deposits in excess of federally insured limits. Credit sales are made to medical device distributors, original equipment manufacturers, and resellers throughout the world, and sales to such customers account for a substantial portion of our trade receivables. While such receivables are not collateralized, we evaluate their collectability based on several factors including customers’ payment histories.

Compensation Plans

We recognize compensation expense for the share-based awards that vest subject to market conditions under ASC 718, *Compensation-Stock Compensation* by estimating their fair value using a Monte Carlo simulation. The fair value using a Monte Carlo simulation model is affected by assumptions regarding a number of complex judgments including expected stock price volatility, risk free interest rates, and the forecasted future value and trading volume of our stock. The awards are considered granted for accounting purposes on the date the awards were approved by the Compensation Committee of our Board of Directors and we recognize compensation expense, based on the estimated fair value of the award, on a straight-line basis over the requisite service period.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Our operations are affected by numerous factors including market acceptance of our products, supply chain disruptions, changes in technologies, and new laws, effects from the COVID-19 pandemic, government regulations, and policies. We cannot predict what impact, if any, the occurrence of these or other events might have on our operations. Significant estimates and assumptions made by management include, but are not limited to, revenue recognition, share-based compensation, the allowance for doubtful accounts, accrued warranty expense, investments, inventory valuation, the carrying value of long-lived assets, and the recoverability/extinguishment of deferred income tax assets and liabilities.

Basic and Diluted Per Share Information

Basic per share amounts are computed on the basis of the weighted-average number of common shares outstanding during each period presented. Diluted per share amounts assume the issuance of all potential common stock equivalents, consisting of outstanding stock options and performance awards as discussed in Note 13, unless the effect of such exercise is to increase income, or decrease loss, per common share.

Fair Value Measurements

Fair value is measured based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Cash and cash equivalents: The carrying value of cash and cash equivalents is considered to be representative of their fair values based on the short-term nature of these instruments. As such, cash and cash equivalents are classified within Level 1 of the valuation hierarchy.

Investments: Investments consist of marketable equity securities of publicly held companies as well as a warrant to purchase outstanding stock of a publicly traded company. Due to the thinly traded nature of these stocks and the lack of an active market for the warrant, all of our investments are classified within Level 2 of the valuation hierarchy. The estimated fair value of the warrant is measured using pricing models with no observable inputs and is therefore considered a Level 3 measurement within the valuation hierarchy. The fair value of all of our investments at June 30, 2023 and 2022 was based upon a valuation analysis.

Although the methods above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values, we believe our valuation methods are appropriate.

Advertising

Advertising costs are charged to selling or general and administrative expense as incurred and amounted to $4,000 and $1,000 for the fiscal years ended June 30, 2023 and 2022, respectively.

Recently Issued and Not Yet Adopted Accounting Standards

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, Financial Instruments—Credit Losses (Topic 326). ASU 2016-13 revises the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in more timely recognition of losses on financial instruments, including, but not limited to, available for sale debt securities and accounts receivable. The guidance is effective for the Company’s annual reporting period beginning after December 15, 2022 and interim reporting periods within that annual reporting period. The Company does not expect the adoption of this ASU to have a material impact on the consolidated financial statements.

4. NET SALES

The following table presents the disaggregation of net sales by revenue recognition model (in thousands):

	Year ended June 30, 2023	Year ended June 30, 2022
Net Sales:		
Over-time revenue recognition	$ 2,695	$ 1,014
Point-in-time revenue recognition	43,392	41,027
Total net sales	$ 46,087	$ 42,041

The timing of revenue recognition, billings, and cash collections results in billed accounts receivables, unbilled receivables (presented as deferred costs on our consolidated balance sheets) and customer advances and deposits (presented as deferred revenue on our consolidated balance sheets), where applicable. Amounts are generally billed as work progresses in accordance with agreed upon milestones. The over-time revenue recognition model consists of non-recurring engineering ("NRE") and prototype services and typically relates to NRE services related to the evaluation, design or customization of a medical device and is typically recognized over time utilizing an input measure of progress based on costs incurred compared to the estimated total costs upon completion. During the fiscal years ended June 30, 2023 and 2022, we recorded $1.0 million and $98,000, respectively, of revenue that had been included in deferred revenue in the prior year. The revenue recognized from the contract liabilities consisted of satisfying our performance obligations during the normal course of business.

The following tables summarize our contract assets and liability balances (in thousands):

	June 30, 2023	June 30, 2022
Contract assets at beginning of year	$ 710	$ 193
Expenses incurred during the year	1,545	1,319
Amounts reclassified to cost of sales	(1,710)	(774)
Amounts allocated to discounts for standalone selling price	(51)	(28)
Contract assets at end of year	$ 494	$ 710

	June 30, 2023	June 30, 2022
Contract liabilities at beginning of year	$ 1,013	$ 150
Payments received from customers	781	1,482
Amounts reclassified to revenue	(1,794)	(619)
Contract liabilities at end of year	$ —	$ 1,013

5. COMPOSITION OF CERTAIN FINANCIAL STATEMENT ITEMS

Investments

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

	Years Ended June 30,	
	2023	2022
Current:		(Restated)
Marketable equity securities – short-term	$ 1,134	$ 755
Long-term:		
Warrant	6,160	2,304
Marketable equity securities – long-term	1,361	1,779
Total Investments	$ 8,655	$ 4,838

Marketable equity securities at June 30, 2023 and 2022 had an aggregate cost basis of $2,714,000 and $2,796,000, respectively. Both current and long-term marketable equity securities include equity securities of public companies that are thinly traded. We classified certain investments as long term in nature because even if we decide to sell the stocks we may not be able to sell our position within one year. At June 30, 2023, the investments included net unrealized losses of $219,000 (gross unrealized losses of $286,000 offset by gross unrealized gains of $67,000). At June 30, 2022, the investments included net unrealized losses of $262,000 (gross unrealized losses of $369,000 offset by gross unrealized gains of $107,000).

Of the total marketable equity securities at June 30, 2023 and 2022, $1,134,000 and $755,000, respectively, represent an investment in the common stock of Air T, Inc. Two of our Board members, Messrs. Swenson and Cabillot, are also board members of Air T, Inc. and both either individually or through affiliates own an equity interest in Air T, Inc. Mr. Swenson, our Chairman, also serves as the chief executive officer and chairman of Air T, Inc. Another of our Board members is employed by Air T as its Chief of Staff. The shares have been purchased through 10b5-1 Plans that, in accordance with our internal policies regarding the approval of related-party transactions, were approved by our then three Board members that are not affiliated with Air T, Inc.

The warrant represents our right to purchase up to 5% of the outstanding stock of Monogram Orthopaedics Inc. (“Monogram”) which we were granted on December 18, 2018. By way of background, we invested in Monogram, a medical device start-up specializing in precision, patient specific implants in fiscal 2017, by making an $800,000 loan to Monogram pursuant to a promissory note in the same amount. At that time, our Chief Executive Officer, Mr. Van Kirk, was appointed to Monogram’s board of directors, a position he has held through the date of this filing. We impaired our entire $800,000 investment in the fourth quarter of fiscal 2018 due to indications that Monogram had exhausted its cash and had been unable to obtain additional financing to enable continued research to commercialize their technology. In fiscal 2019, we modified the promissory note to allow Monogram more time to re-pay the note and, concurrently, we were issued the warrant, with an exercise price of $1,250,000, which at the time we deemed of de minimis value. During the fourth quarter of fiscal 2020, Monogram repaid the promissory note with interest, but at that time and through the end of the third quarter of fiscal 2023, we considered the warrant to be of little value and therefore did not record it as an investment on our consolidated balance sheet. In May of 2023, Monogram raised funds through a Regulation A+ offering filed with the Securities and Exchange Commission and contemporaneously converted all of its outstanding preferred stock to common shares and publicly listed its common shares on the NASDAQ under the ticker symbol MGRM. The valuation of the warrant for all prior periods is the subject of the restatement of our previous financial statements because the value of $0 we had ascribed to the Monogram Warrant in previous periods want not based on its estimated fair value (See Note 2).

At June 30, 2023 and 2022, the warrant was exercisable into a total of 1,823,058 and 783,386 shares of Monogram's outstanding stock. The estimated fair value of the warrant at June 30, 2023 and 2022 was $6,160,000 and $2,304,000, respectively, using a Black-Scholes valuation model with the following assumptions:

	June 30, 2023	June 30, 2022
Stock Price (common)	$ 3.98	$ 3.02
Strike Price (common)	$ .69	$ 1.60
Time until expiration (years)	2.48	3.48
Volatility	60.0%	60.0%
Risk-free interest rate	4.68%	3.00%

We invest surplus cash from time to time through our Investment Committee, which is comprised of one management director, Mr. Van Kirk, and two non-management directors, Mr. Cabillot and Mr. Swenson, who chairs the committee. Both Mr. Cabillot and Mr. Swenson are active investors with extensive portfolio management expertise. We leverage the experience of these committee members to make investment decisions for the investment of our surplus operating capital or borrowed funds. Additionally, many of our securities holdings include stocks of public companies that either Messrs. Swenson or Cabillot or both may own from time to time either individually or through the investment funds that they manage, or other companies whose boards they sit on, such as Air T, Inc.

Inventory

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

	June 30,	
	2023	2022
Raw materials /purchased components	$ 8,824	$ 6,323
Work in process	3,686	3,463
Sub-assemblies /finished components	2,387	2,118
Finished goods	1,270	774
Total inventory	$ 16,167	$ 12,678

Land and Building

Land and building consist of the following (in thousands):

	June 30, 2023	June 30, 2022
Land	$ 3,684	$ 3,684
Building	2,815	2,815
Total	6,499	6,499
Less: accumulated depreciation	(250)	(156)
	$ 6,249	$ 6,343

On November 6, 2020, we acquired the Franklin Property for a total purchase price of $6.5 million, of which we paid $1.3 million in cash and the balance of $5.2 million we financed through Minnesota Bank & Trust ("MBT") (see Note 8). We substantially completed the build-out of the property in the first quarter of fiscal 2022. In the fourth quarter of fiscal 2023 we substantially completed all of our validation activities, and we moved our repairs and assembly departments to the new facility. The building is being amortized on a straight-line basis over a period of 30 years.

Equipment and Improvements

Equipment and improvements consist of the following (in thousands):

	June 30, 2023	June 30, 2022
Office furnishings and fixtures	$ 1,957	$ 2,224
Machinery and equipment	6,675	6,661
Automobiles	21	21
Improvements	4,737	4,271
Total	13,390	13,177
Less: accumulated depreciation and amortization	(8,311)	(8,344)
	$ 5,079	$ 4,833

Depreciation expense for the years ended June 30, 2023 and 2022 amounted to $727,000 and $616,000, respectively. During fiscal 2023, fully depreciated assets in the amount of $760,000 were retired. During fiscal 2022, $87,000 of assets were retired either due to physical disposal or major part replacement with a net book value of $35,000 recorded as a loss on disposal of equipment in our consolidated income statement.

Intangibles

Intangibles consist of the following (in thousands):

	June 30, 2023	June 30, 2022
Patent-related costs	$ 208	$ 208
Less accumulated amortization	(127)	(90)
	$ 81	$ 118

Amortization expense for the years ended June 30, 2023 and 2022 amounted to $37,000 and $16,000, respectively.

Patent-related costs consist of legal fees incurred in connection with both patent applications and patent issuances, and will be amortized over the estimated life of the product(s) that is or will be utilizing the technology, or expensed immediately in the event the patent office denies the issuance of the patent. During fiscal 2022, we impaired $84,000 of previously capitalized legal fees due to uncertainty relating to future benefit. This impairment expense was included in research and development costs in our consolidated income statement. Future amortization expense is estimated to be no more than $30,000 per year and all remaining costs are expected to be fully amortized within three years.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2023	June 30, 2022
Payroll and related items	$ 650	$ 509
Accrued inventory in transit	637	177
Accrued legal and professional fees	216	275
Accrued bonuses	400	430
Current portion of lease liability	416	379
Warranty	200	340
Accrued customer rebate	480	517
Other	136	124
	$ 3,135	$ 2,751

6. WARRANTY ACCRUAL

Information relating to the accrual for warranty costs for the years ended June 30, 2023 and 2022, is as follows (in thousands):

	June 30, 2023	June 30, 2022
Balance at beginning of year	$ 340	$ 221
Accruals during the year	161	177
Change in estimates of prior period accruals	(109)	54
Warranty amortization/utilization	(192)	(112)
Balance at end of year	$ 200	$ 340

Warranty expense relating to new product sales and changes to estimates was $52,000 and $231,000, respectively, for the fiscal years ended June 30, 2023 and 2022.

7. INCOME TAXES

The provision for income taxes consists of the following amounts (in thousands):

	Years Ended June 30, 2023	Years Ended June 30, 2022 (Restated)
Current:		
Federal	$ 1,745	$ 733
State	345	451
Deferred:		
Federal	6	23
State	258	(85)
Income tax expense	$ 2,354	$ 1,122

The effective income tax rate from income from continuing operations differs from the United States statutory income tax rates for the reasons set forth in the table below (in thousands, except percentages).

	Years Ended June 30, 2023 Amount	2023 Percent Pretax Income	2022 (Restated) Amount	2022 (Restated) Percent Pretax Income
Income before income taxes	$ 9,428	100%	$ 5,694	100%
Computed “expected” income tax expense on income before income taxes	$ 1,979	21%	$ 1,183	21%
State tax, net of federal benefit	672	7%	266	5%
Tax incentives	(229)	(2%)	(205)	(4%)
Uncertain tax position	(119)	(1%)	(76)	(1%)
Stock based compensation	(114)	(1%)	—	—
Other	165	1%	(46)	(1%)
Income tax expense	$ 2,354	25%	$ 1,122	20%

Deferred income taxes reflect the net effects of loss and credit carryforwards and temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities for federal and state income taxes are as follows (in thousands):

	June 30, 2023	2022 (Restated)
Deferred tax assets:		
Federal and state NOL carryforward	$ 22	$ 22
Research and other credits	65	65
Reserves	122	163
Accruals	267	322
Stock based compensation	814	651
Unrealized losses	—	35
Section 174 capitalization	830	—
Lease liability	599	713
Inventory	351	514
Deferred state tax	31	—
Total gross deferred tax assets	$ 3,101	$ 2,485
Less: valuation allowance	(91)	(98)
Total deferred tax assets	3,010	2,387
Deferred tax liabilities:		
Property and equipment, principally due to differing depreciation methods	$ (767)	$ (820)
Right of use asset	(546)	(658)
Deferred state tax	—	(77)
Unrealized gains	(1,705)	(541)
Other	—	(35)
Total gross deferred tax liabilities	(3,018)	(2,131)
Net deferred tax assets (liabilities)	$ (8)	$ 256

Realization of our deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. As of June 30, 2023, our deferred tax asset valuation allowance primarily consists and the state net operating loss carryforwards for states in which we have filed a final return. For the fiscal year ended June 30, 2023, we recorded a net decrease to our valuation allowance of $7,000 on the basis of management’s reassessment of the amount of our deferred tax assets that are more likely than not to be realized.

As of June 30, 2023, we did not have any net operating losses for federal and state income tax purposes for state jurisdictions in which we currently operate. We have no federal or state research and development and alternative minimum tax credit carry forwards at June 30, 2023.

As of June 30, 2023, we have accrued $345,000 of unrecognized tax benefits related to federal and state income tax matters that would reduce our income tax expense if recognized. If we are eventually able to recognize our uncertain tax positions, our effective tax rate would be reduced. Any adjustment to our uncertain tax positions would result in an adjustment of our tax credit carryforwards rather than resulting in a cash outlay.

Information with respect to our accrual for unrecognized tax benefits is as follows (in thousands):

	June 30,	
	2023	2022
Unrecognized tax benefits:		
Beginning balance	$ 509	$ 550
Additions based on federal tax positions related to the current year	16	33
Additions based on state tax positions related to the current year	19	26
Additions (reductions) for tax positions of prior years	(95)	9
Reductions due to lapses in statutes of limitation	(104)	(109)
Ending balance	$ 345	$ 509

Although it is reasonably possible that certain unrecognized tax benefits may increase or decrease within the next twelve months due to tax examinations, settlement activities, expirations of statute of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities, we do not anticipate any significant changes to unrecognized tax benefits over the next twelve months.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense when applicable. As of June 30, 2023, $45,000 of interest applicable to our unrecognized tax benefits have been accrued.

We are subject to U.S. federal income tax, as well as income tax of California, Colorado, and Massachusetts. We are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended June 30, 2020, and later. However, because of our prior net operating losses and research credit carryovers, our tax years from June 30, 2008, are open to audit.

8. NOTES PAYABLE AND FINANCING TRANSACTIONS

Minnesota Bank & Trust

On November 6, 2020 (the “Closing Date”), PDEX Franklin, a newly created wholly owned subsidiary of the Company, purchased the Franklin Property. A portion of the purchase price was financed by a loan from MBT to PDEX Franklin in the principal amount of approximately $5.2 million (the “Property Loan”) pursuant to a Loan Agreement, dated as of the Closing Date, between PDEX Franklin and MBT (the “Property Loan Agreement”) and corresponding Term Note (the “Property Note”) issued by PDEX Franklin in favor of MBT on the Closing Date. The Property Loan is secured by the Franklin Property pursuant to a Deed of Trust with Assignment of Leases and Rents, Security Agreement and Fixture Filing in favor of MBT (the “Deed”) and by an Assignment of Leases and Rents by PDEX Franklin in favor of MBT (the “Rents Assignment”). We paid loan origination fees to MBT on the Closing Date in the amount of $26,037.

The Property Loan bears interest at a fixed rate of 3.55% per annum, which is subject to a 3% increase upon an event of default. Accrued interest was paid on December 1, 2020, and both principal and interest in the amount of approximately $30,000 are due and payable on the first day of each subsequent month until the maturity date of November 1, 2030 (the “Maturity Date”), at which time a balloon payment in the amount of $3.1 million is due. Any prepayment of the Property Loan (other than monthly scheduled interest and principal payments), is subject to a prepayment fee equal to 4% of the principal amount prepaid for any prepayment made during the first or second year, 3% of the principal amount prepaid for any prepayment made during the third or fourth year, 2% of the principal amount prepaid for any prepayment made during the fifth or sixth year, and 1% of the principal amount prepaid for any prepayment made during the seventh or eighth year. The Property Loan Agreement, Property Note, Deed, and Rents Assignment each contain representations, warranties, covenants, and events of default that are customary for a loan of this type. The balance owed on the Property Loan at June 30, 2023 is $4,746,000.

On the Closing Date, we also entered into an Amended and Restated Credit Agreement with MBT (the "Amended Credit Agreement"), providing for a $7,525,000 amended and restated term loan (the "Term Loan A"), a $1,000,000 term loan (the "Term Loan B"), and a $2,000,000 amended and restated revolving loan (the "Revolving Loan" and, together with the Term Loan A and the Term Loan B, collectively, the "Loans"), evidenced by an Amended and Restated Term Note A ("Term Note A"), a Term Note B, and an Amended and Restated Revolving Credit Note (the "Revolving Note") made by us in favor of MBT. The Loans are secured by substantially all of the Company's assets pursuant to a Security Agreement entered into on September 6, 2018 between the Company and MBT. The Term Note A had an outstanding principal balance of $3,770,331 as of the Closing Date and could be borrowed against through May 30, 2021 (the "Commitment Period"). During the third quarter ended March 31, 2021, we borrowed an additional $3,000,000 against Term Note A for the purpose of repurchasing our common stock as described in Note 13. The Term Note B had a zero balance as of the Closing Date and we borrowed the full $1,000,000 during the third quarter ended March 31, 2021, for the purpose of making improvements to the Franklin property described in Note 4.

The Term Loan A matures on November 1, 2027 and bears interest at a fixed rate of 3.84% per annum. Initial payments on the Term Loan A of interest only were due on December 1, 2020 through June 1, 2021. Commencing July 1, 2021 and continuing on the first day of each month thereafter until the maturity date, we are required to make payments of principal and interest on Term Loan A of approximately $97,000 plus any additional accrued and unpaid interest through the date of payment. The balance owed on Term Loan A as of June 30, 2023, is $4,832,000.

The Term Loan B matures on November 1, 2027 and bears interest at a fixed rate of 3.84% per annum. Initial payments on the Term Loan B of interest only were due on December 1, 2020 through June 1, 2021. Commencing July 1, 2021 and continuing on the first day of each month thereafter until the maturity date, we are required to make payments of principal and interest on Term Loan B of approximately $15,000, plus any additional accrued and unpaid interest through the date of payment. As of March 31, 2021, we had drawn fully against Term Note B and the balance outstanding on Term Note B was $719,000 on June 30, 2023.

On December 29, 2022 (the "Amendment Date"), we entered into Amendment No. 2 to Amended and Restated Credit Agreement (the "Amendment") with MBT, which amends the Amended Credit Agreement and provides for a supplemental line of credit in the amount of $3,000,000 (the "Supplemental Loan"). The Supplemental Loan is evidenced by a Supplemental Revolving Credit Note (the "Supplemental Note") made by us in favor of MBT. The purpose of the Supplemental Loan is for financing acquisitions and repurchasing shares of our common stock. The Supplemental Loan may be borrowed against from time to time through its maturity date of December 29, 2024, on the terms set forth in the Amended Credit Agreement. As of June 30, 2023, no amounts have been drawn against the Supplemental Loan.

The Revolving Loan was also amended (the "Amended Revolving Loan") in connection with the Amendment to extend the maturity date from November 5, 2023 to December 29, 2024, to increase the Revolving Loan facility from $2,000,000 to $7,000,000, and to increase the interest rate on the Revolving Loan (as described below), evidenced by an Amended and Restated Revolving Credit Note (the "Amended Revolving Note") made by us in favor of MBT. The Amended Revolving Loan may be borrowed against from time to time by us through its maturity date on the terms set forth in the Amended Credit Agreement. As of June 30, 2023, we had drawn $2,500,000 against the Amended Revolving Loan. Loan origination fees in the amount of $16,000 were paid to MBT in conjunction with the Amended Revolving Loan and the Supplemental Loan.

The Amended Revolving Loan and Supplemental Loan bear interest at an annual rate equal to the greater of (a) 5.0% or (b) SOFR for a one-month period from the website of the CME Group Benchmark Administration Limited plus 2.5% (the "Adjusted Term SOFR Rate"). Commencing on the first day of each month after we initially borrow against the Amended Revolving Loan and/or the Supplemental Loan and each month thereafter until maturity, we are required to pay all accrued and unpaid interest on the Amended Revolving Loan and Supplemental Loan through the date of payment. Any principal on the Amended Revolving Loan and/or Supplemental Loan that is not previously prepaid shall be due and payable in full on the maturity date (or earlier termination of the Amended Revolving Loan and/or Supplemental Loan).

Any payment on the Term Loan A, the Term Loan B, the Amended Revolving Loan or the Supplemental Loan (collectively, the “Loans”) not made within seven days after the due date is subject to a late payment fee equal to 5% of the overdue amount. Upon the occurrence and during the continuance of an event of default, the interest rate of all Loans will be increased by 3% and MBT may, at its option, declare all of the Loans immediately due and payable in full.

The Amended Credit Agreement, Amended Security Agreement, Term Note A, Term Note B, Amended Revolving Note and Supplemental Note contain representations and warranties, affirmative, negative and financial covenants, and events of default that are customary for loans of this type. We believe that we are in compliance with all of our debt covenants as of June 30, 2023, but there can be no assurance that we will remain in compliance for the duration of the term of these loans.

Scheduled principal maturities of our loans, assuming repayment of our revolver in full next fiscal year and exclusive of unamortized loan origination fees in the amount of $59,000, for future fiscal years ending June 30 are as follows (in thousands):

	Term Loan Principal Payments
Fiscal Year:	
2024	$ 3,844
2025	1,397
2026	1,451
2027	1,508
2028	908
Thereafter	3,689
Total principal payments	$ 12,797

9. LEASES

Our operating lease ROU asset and long-term liability are presented separately on our balance sheet. The current portion of our operating lease liability, exclusive of imputed interest, as of June 30, 2023, in the amount of $416,000, is presented within accrued expenses on the balance sheet. As of June 30, 2023, the maturity of our lease liability is as follows:

	Operating Lease
Fiscal Year:	
2024	$ 519
2025	535
2026	551
2027	567
2028	143
Total lease payments	2,315
Less imputed interest:	(261)
Total	$ 2,054

As of June 30, 2023, our operating lease has a remaining lease term of four years and three months and an imputed interest rate of 5.3%. Cash paid for amounts included in the lease liability for the fiscal years ended June 30, 2023 and 2022 was $504,000 and $489,000, respectively.

10. COMMITMENTS AND CONTINGENCIES

Leases

We lease our office, production, and warehouse facility in Irvine, California (our "corporate office") under an agreement that expires in September 2027. Our corporate office lease requires us to pay insurance, taxes, and other expenses related to the leased space.

Rent expense in fiscal 2023 and 2022 was $563,000 and $559,000, respectively.

Compensation Arrangements

Retirement Savings 401(k) Plan

The Pro-Dex, Inc. Retirement Savings 401(k) Plan (the "401(k) Plan") is a defined contribution plan we administer that covers substantially all our employees and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. Employees are eligible to participate in the 401(k) Plan when they have attained 19 years of age and then can enter into the 401(k) Plan on the first day of each calendar quarter. Participants are eligible to receive non-discretionary matching contributions by the Company equal to 25% of their contributions up to 5% of eligible compensation through December 15, 2022 and 50% of their contributions up to 5% of eligible compensation thereafter. For the fiscal years ended June 30, 2023 and 2022, we recognized compensation expense amounting to $164,000 and $72,000, respectively, in connection with the 401(k) Plan. During our fiscal years ended June 30, 2023 and 2022, we used approximately $13,000 and $25,000, respectively, of forfeited match contributions to reduce our match expense.

Legal Matters

We may be involved in legal proceedings arising either in the ordinary course of our business or incidental to our business. There can be no certainty, however, that we may not ultimately incur liability or that such liability will not be material or adverse.

11. SHARE-BASED COMPENSATION

Stock Option Plans

Through 2014, we had two equity compensation plans, the Second Amended and Restated 2004 Stock Option Plan (the "Employee Stock Option Plan") and the Amended and Restated 2004 Directors' Stock Option Plan (the "Directors' Stock Option Plan") (collectively, the "Former Stock Option Plans"). The Employee Stock Option Plan and Director's Stock Option Plan were terminated in June 2014 and December 2014, respectively.

In September 2016, our Board approved the establishment of the 2016 Equity Incentive Plan, which was approved by our shareholders at our 2016 Annual Meeting. The 2016 Equity Incentive Plan provides for the award of up to 1,500,000 shares of our common stock in the form of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted shares, restricted stock units, performance awards, and other stock-based awards.

Former Stock Option Plans

No options were granted under the Former Stock Option Plans during the fiscal years ended June 30, 2023 and 2022. As of June 30, 2023, there was no unrecognized compensation cost under the Former Stock Option Plans and all remaining outstanding stock options were exercised during fiscal 2023.

The following is a summary of stock option activity under the Former Stock Option Plans for the fiscal years ended June 30, 2023 and 2022:

	2023		2022	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at July 1,	6,500	$ 1.82	31,500	$ 1.81
Options granted	—	—	—	—
Options exercised	(6,500)	1.82	(25,000)	1.80
Options forfeited	—	—	—	—
Outstanding at end of period	—	$ —	6,500	$ 1.82
Stock Options Exercisable at June 30,	—	$ —	6,500	$ 1.82

Performance Awards

In December 2017, the Compensation Committee of our Board of Directors granted 200,000 performance awards to our employees under the 2016 Equity Incentive Plan, which upon vesting will generally be paid in shares of our common stock. Whether any performance awards vest, and the amount that does vest, is tied to the completion of service periods that range from 7 months to 9.5 years at inception and the achievement of our common stock trading at certain pre-determined prices. The weighted-average fair value of the performance awards granted was $4.46, calculated using the weighted-average fair market value for each award, using a Monte Carlo simulation. In February 2020, the Compensation Committee reallocated 48,000 previously forfeited awards, having the same remaining terms and conditions, to certain current employees. The weighted average fair value of the performance awards granted in fiscal 2020 was $16.90, calculated using the weighted-average fair market value for each award, using a Monte Carlo simulation. In December 2021, the Compensation Committee reallocated an additional 17,500 previously forfeited awards, having the same remaining terms and conditions, to other employees. The weighted average fair value of the performance awards reallocated in 2021 was $20.34, calculated using the weighted average fair market value for each award, using a Monte Carlo simulation. We recorded share-based compensation expense of $106,000 and $194,000 for the fiscal years ended June 30, 2023 and 2022, respectively, related to these performance awards. On June 30, 2023, there was approximately $98,000 of unrecognized compensation cost related to these non-vested performance awards expected to be expensed over the weighted-average period of 2.0 years.

On July 1, 2022, it was determined by the Compensation Committee of our Board of Directors that the vesting of performance awards for 37,500 shares of common stock had been achieved. Each participant elected a net issuance to cover their individual withholding taxes and therefore we issued 23,641 shares and paid $223,000 of participant-related payroll tax liabilities.

The following is a summary of performance awards activity for the fiscal years ended June 30, 2023 and 2022:

	2023		2022	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at July 1,	117,500	$ 8.52	105,000	$ 6.95
Granted	—	—	17,500	20.34
Vested	(37,500)	7.84	—	—
Forfeited	(15,200)	16.54	(5,000)	16.90
Outstanding at end of period	64,800	$ 7.03	117,500	$ 8.52

Non-Qualified Stock Options

In December 2020, the Compensation Committee of our Board of Directors granted 310,000 non-qualified stock options to our directors and certain employees under the 2016 Equity Incentive Plan. Whether any stock options vest, and the amount that does vest, is tied to the completion of service periods that range from 18 months to 10.5 years at inception and the achievement of our common stock trading at certain pre-determined prices. We recorded compensation expense of $647,000 and $1,070,000 for the fiscal year ended June 30, 2023 and 2022, respectively, related to these options. The weighted average fair value of the stock option awards granted was $16.72, calculated using a Monte Carlo simulation. As of June 30, 2023, there was approximately $2.4 million of unrecognized compensation cost related to these non-vested non-qualified stock options.

In February 2021, the Compensation Committee of our Board of Directors granted 62,000 non-qualified stock options to our directors and certain employees under the 2016 Equity Incentive Plan. Whether any stock options vest, and the amount that does vest, was tied to the completion of service periods that ranged from 4 months to 1.3 years at inception and the achievement of our common stock trading at certain pre-determined prices. Of these 62,000 stock options, 57,750 vested on July 1, 2021, as our common stock met the pre-determined prices set forth in the underlying agreements. We recorded compensation expense of $182,000 for the fiscal year ended June 30, 2021 related to these options. The weighted average fair value of the stock option awards granted was $3.16, calculated using a Monte Carlo simulation. In December 2021 the Compensation Committee of our Board of Directors granted, 5,000 previously forfeited non-qualified stock options to another employee.

The following is a summary of non-qualified stock option activity under the 2016 Equity Incentive Plan for the fiscal year ended June 30, 2023 and 2022:

	2023		2022	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at July 1,	346,500	$ 41.83	346,500	$ 41.83
Options granted	—	—	5,000	44.70
Options exercised	—	—	—	—
Options forfeited	(47,563)	39.60	(5,000)	44.70
Outstanding at end of period	298,937	$ 42.19	346,500	$ 41.83
Stock Options Exercisable at June 30,	57,750	$ 27.50	57,750	$ 27.50

Employee Stock Purchase Plan

In September 2014, our Board approved the establishment of an Employee Stock Purchase Plan (the “ESPP”). The ESPP conforms to the provisions of Section 423 of the Internal Revenue Code, has coterminous offering and purchase periods of six months, and bases the pricing at which participant’s purchase shares of our common stock on a formula so as to result in a per share purchase price that approximates a 15% discount from the market price of a share of our common stock at the end of the purchase period. Our Board of Directors also approved the provision that shares formerly reserved for issuance under the Former Stock Option Plans in excess of shares issuable pursuant to outstanding options, aggregating 704,715 shares, be reserved for issuance pursuant to the ESPP. The ESPP was approved by our shareholders at our 2014 Annual Meeting. On February 2, 2015, the Company filed a Registration Statement on Form S-8 registering the 704,715 shares issuable under the ESPP under the Securities Act of 1933.

During the fiscal years ended June 30, 2023 and 2022, shares totaling 5,459 and 2,576, respectively, were purchased pursuant to the ESPP and allocated to participating employees based upon their contributions at weighted- average prices of $14.21 and $23.33, respectively. On a cumulative basis, since the inception of the ESPP, employees have purchased a total of 32,498 shares. During the fiscal years ended June 30, 2023 and 2022, we recorded stock compensation expense in the amount of $14,000 and $11,000, respectively, relating to the ESPP.

12. MAJOR CUSTOMERS & SUPPLIERS

Customers that accounted for more than 10% of our total sales in either of fiscal year 2023 or 2022, is as follows (in thousands, except percentages):

	Years Ended June 30,			
	2023		2022	
	Amount	Percent of Total	Amount	Percent of Total
Net sales	$ 46,087	100%	$ 42,041	100%
Customer concentration:				
Customer 1	$ 30,892	67%	$ 27,686	66%
Customer 2	7,583	16%	5,788	14%
Total	$ 38,475	83%	$ 33,474	80%

Information with respect to accounts receivable from those customers who comprised more than 10% of our gross accounts receivable at either June 30, 2023 or June 30, 2022 is as follows (in thousands, except percentages):

	June 30, 2023		June 30, 2022	
Total gross accounts receivable	$ 9,952	100%	$ 15,384	100%
Customer concentration:				
Customer 1	$ 7,231	73%	$ 11,551	75%
Customer 2	1,951	19%	2,152	14%
Total.	$ 9,182	92%	$ 13,703	89%

During fiscal 2023 and 2022, we had four suppliers that accounted for more than 10% of total inventory purchases, as follows (in thousands, except percentages):

	June 30, 2023		June 30, 2022	
Total inventory purchases	$ 19,835	100%	$ 19,640	100%
Supplier concentration:				
Supplier 1	$ 4,595	23%	$ 2,735	14%
Supplier 2	2,406	12%	2,335	12%
Supplier 3	2,135	11%	2,199	11%
Supplier 4	2,059	10%	2,587	13%
Total.	$ 11,195	56%	$ 9,856	50%

Information with respect to accounts payable due to those suppliers who comprised more than 10% of our accounts payable at either June 30, 2023 or June 30, 2022 is as follows (in thousands, except percentages):

	June 30, 2023		June 30, 2022	
Total accounts payable	$ 2,261	100%	$ 3,761	100%
Supplier concentration:				
Supplier 1	$ 620	27%	$ 721	19%
Supplier 4	—	—	430	11%
Supplier 2	41	2%	372	10%
Total.	$ 661	29%	$ 1,523	40%

13. NET INCOME PER SHARE

We calculate basic earnings per share by dividing net income by the weighted-average number of common shares outstanding during the reporting period. Diluted earnings per share reflects the effects of potentially dilutive securities. The summary of the basic and diluted earnings per share calculations for the years ended June 30, 2023 and 2022 is as follows (in thousands, except per share data):

	Years Ended June 30,	
	2023	2022 (Restated)
Basic:		
Net income	$ 7,074	$ 4,572
Weighted-average shares outstanding	3,571	3,636
Basic earnings per share	$ 1.98	$ 1.26
Diluted:		
Net income	$ 7,074	$ 4,572
Weighted-average shares outstanding	3,571	3,636
Effect of dilutive securities – stock options & performance awards	66	127
Weighted-average shares used in calculation of diluted earnings per share	3,637	3,763
Diluted earnings per share	$ 1.95	$ 1.21

14. COMMON STOCK – Share Repurchase Program

In December 2019, our Board approved a new share repurchase program authorizing us to repurchase up to one million shares of our common stock, as the prior repurchase plan authorized by our Board in 2013 was nearing completion. In accordance with, and as part of, these shares repurchase programs, our Board approved the adoption of several prearranged share repurchase plans intended to qualify for the safe harbor provided by Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (“10b5-1 Plan” or “Plan”). During the fiscal year ended June 30, 2023, we repurchased 86,422 shares at an aggregate cost, inclusive of fees under the Plan, of $1.5 million. During the fiscal year ended June 30, 2022, we repurchased 75,250 shares at an aggregate cost, inclusive of fees under the Plan, of $1.6 million. On a cumulative basis, we have repurchased a total of 1,197,168 shares under the share repurchase programs at an aggregate cost, inclusive of fess under the Plan, of $17.2 million. All repurchases under the 10b5-1 Plans were administered through an independent broker.

15. SUBSEQUENT EVENTS

On October 6, 2023, in conjunction with the execution of a supply agreement, we exercised our Monogram Warrant in full in cash totaling $1,250,000 and have received 1,828,551 shares of Monogram common stock (NasdaqCM: MGRM). The closing price of Monogram stock on October 6, 2023, was $2.67 per share.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our principal financial officer and principal accounting officer) have concluded, based on their evaluation as of June 30, 2023, that 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”)) were not effective at a reasonable assurance level to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, including to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management is responsible for establishing and maintaining adequate “internal control over financial reporting” (as defined in Rule 13a-15(f) under the Exchange Act). Under the supervision and with the participation of our management, including our principal executive officer, principal financial officer, and principal accounting officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in the *2013 Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in May 2013. Based on this evaluation, and as a result of the material weakness described below, our management concluded that our internal control over financial reporting was not effective as of June 30, 2023.

Our internal control over financial reporting is supported by written policies and procedures that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our Company are being made only in accordance with authorizations of our management and directors; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that apply to certain smaller reporting companies that permit us to provide only management’s attestation in this annual report.

Material Weakness

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company’s annual and interim financial statements will not be detected or prevented on a timely basis.

In connection with preparing our financial statements for the year ended June 30, 2023, and evaluating the fair value of one of our investments, we re-evaluated the guidance in ASC Topic 815, *Derivatives and Hedging* and determined upon reassessment that the historical de minimis values we assigned to the Monogram Warrant were incorrect. We have determined that there is a deficiency in the design of the Company’s internal control relating to the valuation and disclosure of level 3 financial instruments, including the valuation of warrant derivative instruments. As a result, we have concluded that the Company’s internal control over financial reporting was not effective as of the end of each of the periods covered by the restatement. In connection with the restatement, the Company has identified a material weakness in internal control over financial reporting related to its investment in the Monogram Warrant.

Remediation Measures

Management is committed to implementing changes to our internal control over financial reporting to ensure our material weakness is remediated. To remediate this material weakness, we are in the process of improving the design of our control related to to the valuation and disclosure of level 3 financial instruments. Management believes the control will prevent the conditions that led to the material weakness described above.

While the foregoing measures are intended to effectively remediate the material weakness described in Item 9A, and these procedures will be applied to any future warrant, derivative or other level 3 instrument we receive, it is possible that additional remediation steps will be necessary. As such, as we continue to evaluate and implement our plan to remediate the material weakness, our management may decide to take additional measures to address the material weakness. The material weakness cannot be considered remediated until the applicable controls operate for a period of time and management has concluded, through testing, that these controls are operating effectively. We plan to continue to perform additional analyses and other procedures to help ensure that our consolidated financial statements are prepared in accordance with GAAP.

Changes in Internal Control Over Financial Reporting

Except as discussed above, during the quarter ended June 30, 2023, 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 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement, which will be filed within 120 days of June 30, 2023, and delivered to shareholders in connection with our 2023 annual meeting of shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement, which will be filed within 120 days of June 30, 2023, and delivered to shareholders in connection with our 2023 annual meeting of shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement, which will be filed within 120 days of June 30, 2023, and delivered to shareholders in connection with our 2023 annual meeting of shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement, which will be filed within 120 days of June 30, 2023, and delivered to shareholders in connection with our 2023 annual meeting of shareholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement, which will be filed within 120 days of June 30, 2023, and delivered to shareholders in connection with our 2023 annual meeting of shareholders.

PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules

(1) Financial Statements are listed in the index included under Item 8 of this Report.

(b) Exhibits

Exhibit Number	Exhibit Description	Form	Exhibit	Filed or Furnished: Filing Date	Filed or Furnished: Herewith
3.1	Articles of Incorporation	8-K	3.1	4/23/2007	
3.2	Articles of Amendment to Articles of Incorporation	8-K	3.1	12/5/2007	
3.3	Articles of Amendment to Articles of Incorporation	8-K	3.1	6/18/2010	
3.4	Amended and Restated Bylaws, dated January 31, 2011	8-K	3.1	2/4/2011	
4.1	Description of Company's Common Stock Registered Pursuant to Section 12 of the Securities Act of 1934				X
10.1*	Second Amended and restated 2004 Stock Option Plan	S-8	4.1	2/15/2012	
10.2*	Amended and Restated 2004 Directors Stock Option Plan	S-8	4.2	2/15/2012	
10.3*	Pro-Dex, Inc. 2016 Equity Incentive Plan	14A	Appendix A	10/17/2016	
10.4*	Form of Indemnification Agreement for directors and certain officers	8-K	10.1	10/29/2008	
10.5	Lease agreement with Irvine Business Properties, dated August 3, 2007	8-K	10.1	8/23/2007	
10.6	First Amendment to Lease - July 2013 by and between Irvine Business Properties and Pro-Dex, Inc. dated effective July 1, 2013	8-K	10.1	7/17/2013	
10.7*	Pro-Dex, Inc. Amended and Restated Employee Severance Policy effective as of September 16, 2016	10-Q	10.5	5/14/2015	
10.8	Second Amended to Standard Industrial/Commercial Multi-Tenant Lease - Net by and between Irvine Business Properties and Pro-Dex, Inc., dated September 19, 2017	8-K	10.1	9/20/2017	

Exhibit Number	Exhibit Description	Form	Exhibit	Filed or Furnished	
				Filing Date	Herewith
10.9*	Form of Performance Award Agreement for Employees of Pro-Dex, Inc. - 2016 Equity Incentive Plan	8-K	10.1	12/8/2017	
10.10	Credit Agreement, dated September 6, 2018 between Pro-Dex, Inc. and Minnesota Bank & Trust	8-K	10.1	9/7/2018	
10.11	Security Agreement, dated September 6, 2018 by Pro-Dex, Inc. in favor of Minnesota Bank & Trust	8-K	10.2	9/7/2018	
10.12	Term Note A, dated September 6, 2018 by Pro-Dex, Inc. in favor of Minnesota Bank & Trust	8-K	10.3	9/7/2018	
10.13	Revolving Credit Note, dated September 6, 2018 by Pro-Dex, Inc. in favor of Minnesota Bank & Trust	8-K	10.4	9/7/2018	
10.14	Change in Terms Agreement dated September 6, 2018 by Pro-Dex, Inc. in favor of Minnesota Bank & Trust	8-K	10.1	10/1/2019	
10.15	Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate by and between Pro-Dex, Inc. and 14401 Franklin, LLC	8-K	10.1	9/8/2020	
10.16	Loan Agreement dated November 6, 2020 made by and between PDEX Franklin LLC and Minnesota Bank & Trust	8-K	10.1	11/12/2020	
10.17	Term Note dated November 6, 2020 made by PDEX Franklin LLC in favor of Minnesota Bank & Trust	8-K	10.2	11/12/2020	
10.18	Deed of trust with Assignment of Leases and Rents, Security Agreement and Fixture Filing dated November 6, 2020 by and between PDEX Franklin LLC and Minnesota Bank & Trust	8-K	10.3	11/12/2020	
10.19	Assignment of Leases and Rents dated November 6, 2020 by and between PDEX Franklin LLC and Minnesota Bank & Trust	8-K	10.4	11/12/2020	
10.20	Amended and Restated Credit Agreement dated November 6, 2020 by and between Pro-Dex, Inc. and Minnesota Bank & Trust	8-K	10.5	11/12/2020	

Exhibit Number	Exhibit Description	Form	Exhibit	Filed or Furnished	
				Filing Date	Herewith
10.21	Amended and Restated Term Note A dated November 6, 2020 made by Pro-Dex, Inc. in favor of Minnesota Bank 7 Trust	8-K	10.6	11/12/2020	
10.22	Term Note B dated November 6, 2020 made by Pro-Dex, Inc. in favor of Minnesota Bank & Trust	8-K	10.7	11/12/2020	
10.23	Amended and Restated Revolving Credit Agreement dated November 6, 2020 made by Pro-Dex, Inc. in favor of Minnesota Bank & Trust	8-K	10.8	11/12/2020	
10.24*	Form of Stock Option Agreement for Directors and Employees of Pro-Dex, Inc. - 2016 Equity Incentive Plan	8-K	10.1	12/11/2020	
10.25	At the Market Offering Agreement dated December 31, 2020, by and between Pro-Dex, Inc. and Ascendiant Capital Markets, LLC	8-K	10.1	12/31/2020	
10.26	Amendment No. 1 to Amended and Restated Credit Agreement dated November 5, 2021 by and between Pro-Dex, Inc. and Minnesota Bank & Trust	8-K	10.1	11/9/2021	
10.27	Amended and Restated Revolving Credit Note dated November 5, 2021 made by Pro-Dex, Inc. in favor of Minnesota Bank & Trust	8-K	10.2	11/9/2021	
10.28	Amendment No. 2 to Amended and Restated Credit Agreement dated December 29,2022 by and between Pro-Dex, Inc. and Minnesota Bank & Trust, a division of HTLF Bank	8-K	10.1	1/5/2023	
10.29	Amended and Restated Revolving Credit Note dated December 29, 2022made by Pro-Dex, Inc. in favor of Minnesota Bank & Trust, a division of HTLF Bank	8-K	10.2	1/5/2023	
10.30	Supplemental Revolving Credit Note dated December 29, 2022 made by Pro-Dex, Inc. in favor of Minnesota Bank & Trust, a division of HTLF Bank	8-K	10.3	1/5/2023	
10.31	Warrant to Purchase Stock dated December 20, 2018 made by Monogram Orthopaedics Inc. in favor of Pro-Dex, Inc.				X
10.32	Warrant Exercise Side Letter Dated October 2, 2023 by and between Monogram Orthopaedics Inc. and Pro-Dex, Inc.				X

Exhibit Number	Exhibit Description	Form	Exhibit	Filed or Furnished	
				Filing Date	Herewith
21	Subsidiaries				X
23	Consent of Independent Registered Public Accounting Firm				X
31.1	Certification of the 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				X
31.2	Certification of the 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				X
32	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
101.INS	Inline XBRL Instance Document				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				X
104	Cover Page Interactive Date File				X

* Denotes management contract or compensatory arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to 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, on October 13, 2023.

PRO-DEX, INC.

By: Richard L. Van Kirk
Richard L. Van Kirk
President, Chief Executive Officer and Director
(Principal Executive Officer)

POWER OF ATTORNEY

We, the undersigned directors and officers of Pro-Dex, Inc., do hereby constitute and appoint Richard L. Van Kirk, as our true and lawful attorney-in-fact and agent with power of substitution, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which such attorney-in-fact and agent may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically but without limitation, power and authority to sign for us or any of us in our names in the capacities indicated below, any and all amendments hereto; and we do hereby ratify and confirm all that said attorney-in-fact and agent shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Richard L. Van Kirk **Richard L. Van Kirk**	President, Chief Executive Officer, and Director (Principal Executive Officer)	October 13, 2023
/s/ Alisha K. Charlton **Alisha K. Charlton**	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	October 13, 2023
/s/ Nicholas J. Swenson **Nicholas J. Swenson**	Chairman of the Board, Director	October 13, 2023
/s/ Raymond E. Cabillot **Raymond E. Cabillot**	Director	October 13, 2023
/s/ Angelita R. Domingo **Angelita R. Domingo**	Director	October 13, 2023
/s/ William J. Farrell III **William J. Farrell III**	Director	October 13, 2023
/s/ David C. Hovda **David C. Hovda**	Director	October 13, 2023
/s/ Katrina M.K. Philp **Katrina M.K. Philp**	Director	October 13, 2023

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed April 23, 2007).
3.2	Articles of Amendment to Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed December 5, 2007).
3.3	Articles of Amendment to Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed June 18, 2010).
3.4	Amended and Restated Bylaws, dated January 31, 2011 (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed February 4, 2011).
4.1 Ω	Description of the Company's Common Stock Registered Pursuant to Section 12 of the Securities Act of 1934.
10.1*	Second Amended and Restated 2004 Stock Option Plan (incorporated herein by reference to Exhibit 4.1 to the Company's Form S-8 filed February 15, 2012).
10.2*	Amended and Restated 2004 Directors Stock Option Plan (incorporated herein by reference to Exhibit 4.2 to the Company's Form S-8 filed February 15, 2012).
10.3*	Pro-Dex, Inc. 2016 Equity Incentive Plan (incorporated herein by reference to Appendix A to our Schedule 14A filed October 17, 2016).
10.4*	Form of Indemnification Agreement for directors and certain officers (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed October 29, 2008).
10.5	Lease agreement with Irvine Business Properties, dated August 3, 2007 (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed August 23, 2007).
10.6	First Amendment To Lease – July 2013 by and between Irvine Business Properties and Pro-Dex, Inc., dated effective July 1, 2013 (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed July 17, 2013).
10.7*	Pro-Dex, Inc. Amended and Restated Employee Severance Policy effective as of September 16, 2014 (incorporated herein by reference to Exhibit 10.5 to the Company's Form 10-Q filed May 14, 2015).
10.8	Second Amendment to Standard Industrial/Commercial Multi-Tenant Lease – Net by and between Irvine Business Properties and Pro-Dex, Inc., dated September 19, 2017 (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on September 20, 2017).
10.9*	Form of Performance Award Agreement for Employees of Pro-Dex, Inc. – 2016 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on December 8, 2017).
10.10	Credit Agreement, dated September 6, 2018 between Pro-Dex, Inc. and Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on September 7, 2018).

10.11	Security Agreement, dated September 6, 2018 by Pro-Dex, Inc. in favor of Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed on September 7, 2018).
10.12	Term Note A, dated September 6, 2018 by Pro-Dex, Inc. in favor of Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K filed on September 7, 2018).
10.13	Revolving Credit Note, dated September 6, 2018 by Pro-Dex, Inc. in favor of Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K filed on September 7, 2018).
10.14	Change in Terms Agreement dated September 6, 2019 by and between Minnesota Bank & Trust and Pro-Dex, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on October 1, 2019).
10.15	Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate by and between Pro-Dex, Inc. and 14401 Franklin, LLC. (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed on September 8, 2020).
10.16	Loan Agreement dated November 6, 2020 by and between PDEX Franklin LLC and Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed November 12, 2020).
10.17	Term Note dated November 6, 2020 made by PDEX Franklin LLC in favor of Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed November 12, 2020).
10.18	Deed of Trust with Assignment of Leases and Rents, Security Agreement and Fixture Filing dated November 6, 2020 by and between PDEX Franklin LLC and Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K filed November 12, 2020).
10.19	Assignment of Leases and Rents dated November 6, 2020 by and between PDEX Franklin LLC and Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K filed November 12, 2020).
10.20	Amended and Restated Credit Agreement dated November 6, 2020 by and between Pro-Dex, Inc. and Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.5 to the Company's Form 8-K filed November 12, 2020).
10.21	Amended and Restated Term Note A dated November 6, 2020 made by Pro-Dex, Inc. in favor of Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.6 to the Company's Form 8-K filed November 12, 2020).
10.22	Term Note B dated November 6, 2020 made by Pro-Dex, Inc. in favor of Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.7 to the Company's Form 8-K filed November 12, 2020).
10.23	Amended and Restated Revolving Credit Agreement dated November 6, 2020 made by Pro-Dex, Inc. in favor of Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.8 to the Company's Form 8-K filed November 12, 2020).

10.24*	Form of Stock Option Agreement for Directors and Employees of Pro-Dex, Inc. – 2016 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed December 11, 2020).
10.25	At the Market Offering Agreement dated December 31, 2020, by and between Pro-Dex, Inc. and Ascendiant Capital Markets, LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed December 31, 2020).
10.26	Amendment No. 1 to Amended and Restated Credit Agreement dated November 5, 2021 by and between Pro-Dex, Inc. and Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed November 9, 2021).
10.27	Amended and Restated Revolving Credit Note dated November 5, 2021 made by Pro-Dex, Inc. in favor of Minnesota Bank & Trust (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed November 9, 2021).
10.28	Amendment No. 2 to Amended and Restated Credit Agreement dated December 29, 2022 by and between Pro-Dex, Inc. and Minnesota Bank & Trust, a division of HTLF Bank (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed January 5, 2023).
10.29	Amendment and Restated Revolving Credit Note dated December 29, 2022 made by Pro-Dex, Inc. in favor of Minnesota Bank & Trust, a division of HTLF Bank (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K filed January 5, 2023).
10.30	Supplemental Revolving Credit Note dated December 29, 2022 made by Pro-Dex, Inc. in favor of Minnesota Bank & Trust, a division of HTLF Bank (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K filed January 5, 2023.
10.31 Ω	Warrant to Purchase Stock dated December 20, 2018 made by Monogram Orthopaedics Inc. in favor of Pro-Dex, Inc.
10.32 Ω	Warrant Exercise Side Letter Dated October 2, 2023 by and between Monogram Orthopaedics Inc. and Pro-Dex, Inc.
21 Ω	Subsidiaries
23 Ω	Consent of Independent Registered Public Accounting Firm.
31.1 Ω	Certification of the 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 Ω	Certification of the 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.
32 Ω	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
Ω	Filed herewith.
*	Denotes management contract or compensatory arrangement.

EXHIBIT 4.1

Description of the Company's Common Stock
Registered Pursuant to Section 12 of the
Securities Exchange Act of 1934

The following summary of Pro-Dex, Inc.'s common stock does not purport to be complete and is subject to and qualified in its entirety by reference to our Articles of Incorporation, as amended ("Articles of Incorporation"), and Amended and Restated Bylaws ("Bylaws"). For a complete description of the terms and provisions of our capital stock, including our common stock, refer to the Articles of Incorporation and the Bylaws, which are filed as exhibits to this Annual Report on Form 10-K.

General

As of September 6, 2023, our authorized capital stock consists of (i) 50,000,000 shares of common stock, no par value per share, and (ii) 10,000,000 shares of preferred stock, no par value per share. As of September 6, 2023, 3,547,330 shares of common stock were issued and outstanding and no shares of preferred stock were issued and outstanding. Our common stock is our only class of securities registered under Section 12 of the Securities Exchange Act of 1934.

Common Stock

The holders of our common stock are entitled to one vote for each share of common stock held of record on all matters submitted to a vote of our shareholders, including the election of directors, and do not have cumulative voting rights. Subject to preferences that may be applicable to any outstanding of our preferred stock, holders of common stock are entitled to receive ratably those dividends, if any, as may be declared by our Board of Directors out of legally available funds. Subject to the rights of any outstanding preferred stock, upon the Company's liquidation, dissolution or winding-up, the holders of common stock will be entitled to share ratably in the net assets legally available for distribution to our shareholders after the payment of all of our debts and other liabilities. Holders of common stock have no preemptive or conversion rights or other subscription rights and there are no redemption or sinking fund provisions applicable to our common stock. All outstanding shares of common stock are fully paid and nonassessable.

Our Board of Directors has the authority, without further action by our shareholders (other than such approval rights as may be granted to any outstanding series of preferred stock), to designate and issue one or more series of preferred stock and to fix the rights, powers, preferences, qualifications, limitations and restrictions of each series of preferred stock to the maximum extent permitted by Colorado law. The issuance of preferred stock could decrease the amount of earnings and assets available for distribution to holders of common stock or adversely affect the rights and powers, including voting rights, of the holders of common stock. The existence of authorized but unissued preferred stock may also discourage or render more difficult attempts to take control of the Company, as described in more detail below under "Anti-Takeover Provisions of Governing Documents."

Broadridge Corporate Issuer Solutions, Inc. is the transfer agent for our common stock.

Our common stock is listed on the NASDAQ Capital Market under the symbol "PDEX".

Anti-Takeover Provisions of Governing Documents

Our Bylaws require that our shareholders satisfy certain advance notice and other requirements in order to properly submit proposals or director nominees for consideration at our annual meetings of shareholders.

As discussed above, our Board of Directors has the authority, without further action by our shareholders (other than such approval rights as may be granted to any outstanding series of preferred stock), to designate and issue one or more series of preferred stock and to fix the rights, powers, preferences, qualifications, limitations, and restrictions of each series of preferred stock to the maximum extent permitted by Colorado law. The existence of authorized but unissued preferred stock may enable our Board of Directors to render more difficult or to discourage an attempt to obtain control of the Company by means of a merger, tender offer, proxy contest or otherwise. Among other things, if in the due exercise of its fiduciary obligations, our Board of Directors were to determine that a takeover proposal is not in the best interests of the Company and our shareholders, our Board of Directors could cause shares of preferred stock to be designated and issued without further shareholder approval in one or more private offerings or other transactions that might dilute the voting or other rights of the proposed acquirer or insurgent shareholder or shareholder group.

THIS WARRANT HAS BEEN, AND THE SHARES OF STOCK WHICH MAY BE RECEIVED PURSUANT TO THE EXERCISE OF THIS WARRANT WILL BE, ACQUIRED BY THE HOLDER HEREOF SOLELY FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR RESALE IN CONNECTION WITH, ANY DISTRIBUTION THEREOF EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”). WITHOUT LIMITATION TO THE OTHER RESTRICTIONS ON TRANSFER OF THIS WARRANT SET FORTH HEREIN, NEITHER THIS WARRANT NOR SUCH SHARES HAVE BEEN REGISTERED UNDER THE ACT OR QUALIFIED UNDER ANY STATE SECURITIES LAWS. SUCH SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF SUCH REGISTRATION OR QUALIFICATION OR AN OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH DISPOSITION IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE ACT AND ANY REGISTRATION OR QUALIFICATION REQUIREMENTS UNDER APPLICABLE STATE SECURITIES LAWS.

Dated: December 20, 2018

MONOGRAM ORTHOPAEDICS INC.

WARRANT TO PURCHASE STOCK

MONOGRAM ORTHOPAEDICS INC., a Delaware corporation (the “**Company**"), for value received, hereby grants to **PRO-DEX, INC**. or its permitted assigns (the “**Holder**”) this Warrant (this “**Warrant**”) to purchase from the Company the number Warrant Shares (as defined below) determined in accordance with Section 2 below, for a price per Warrant Share equal to the Exercise Price (as defined below).

1. <u>Definitions</u>. As used herein:

(a) “**Aggregate Exercise Price**” means $1,250,000.

(b) “**Warrant Shares**” means Common Shares and, if applicable, Preferred Shares that this Warrant is exercisable for.

(c) “**Common Shares**” means shares of common stock (regardless of class or series) of the Company outstanding as of the date of exercise of this Warrant.

(d) “**Preferred Shares**” means shares of preferred stock (regardless of class or series) of the Company outstanding as of the date of exercise of this Warrant.

(e) “**Exercise Price**” means (A) if the Warrant Shares consist solely of Common Stock, then a price per each Warrant Share equal to the amount obtained by dividing (x) $1,250,000 by (y) the number of Warrant Shares issuable hereunder and (B) if the Warrant Shares consist of both Common Stock and Preferred Stock, then the Holder and the Company shall reasonably allocate the Aggregate Exercise Price on a per-share basis to each respective class and series of Warrant Share.

(t) “**Fully-Diluted Capitalization**” means, as of any date and subject to Section 2(ii) below, the total number of Common Shares outstanding on such date determined on a fully diluted basis assuming full conversion or exercise of all preferred stock and other convertible and exercisable securities then outstanding (including outstanding options and warrants, but excluding this Warrant).

2. **Number of Warrant Shares**. The total number of Warrant Shares for which this Warrant shall be exercisable shall be:

(i) Preferred Shares of each class or series of preferred stock of the Company outstanding on the date or dates of exercise, up to an aggregate amount for each such class or series equal to five percent (5%) (calculated on a post-exercise basis) of the total issued and outstanding number of Preferred Shares of such class or series; *plus*

(ii) Common Shares equal to five percent (5%) (calculated on a post-exercise basis) of the Fully-Diluted Capitalization as of the date or dates of exercise; provided, that any Preferred Shares that this Warrant has been or may be exercised for, as of the time of calculation, shall be excluded for purposes of determining Fully-Diluted Capitalization.

3. **Exercise**.

(a) This Warrant may be exercised by the Holder, in whole or in part, at any time prior to the Expiration Date (as defined in Section 8 below) by the tender to the Company at its principal office of a notice of exercise in the form of Exhibit A (the "**Notice of Exercise**"), duly completed and executed by or on behalf of the Holder, together with the surrender of this Warrant and the payment to the Company of an amount equal to (x) the Exercise Price multiplied by (y) the number of Warrant Shares being purchased, by wire transfer or certified, cashier's or other check acceptable to the Company and payable to the order of the Company.

(b) In lieu of exercising this Warrant pursuant to Section 3(a), if the fair market value of one Warrant Share is greater than the Exercise Price (at the date of calculation as set forth below), the Holder may elect to receive a number of Warrant Shares equal to the value of this Warrant (or of any portion of this Warrant being canceled) by surrender of this Warrant at the principal office of the Company together with a properly completed and executed Notice of Exercise reflecting such election, in which event the Company shall issue to the Holder that number of Warrant Shares computed using the following formula:

$$X = \frac{Y\ (A - B)}{A}$$

Where:

X = The number of Warrant Shares to be issued to the Holder

Y = The number of Warrant Shares purchasable under this Warrant Of, if only a portion of the Warrant is being exercised, the portion of the Warrant being canceled (at the date of such calculation)

A = The fair market value of one Warrant Share (at the date of such calculation)

B = The Exercise Price (as adjusted to the date of such calculation)

For purposes of the calculation above, the fair market value of one Warrant Share shall be determined by the Board of Directors of the Company (the "**Board**") acting in good faith based on the then current enterprise value of the Company (without any discount for lack of control, lack of marketability or any similar discount) as of the date of exercise and may, in the case of Preferred Shares, take into account all liquidation preferences and other senior rights attaching to such Preferred Shares. The determination of the fair market value of each Warrant Share shall be subject to the reasonable approval of the Holder. If the Company and the Holder cannot agree to the fair market value of each Warrant Share, the Company and the Holder shall submit such determination to a business valuation expert. The cost of the business valuation expert shall be paid one-half by the Company and one-half by the Holder. The determination of the business valuation shall be final and binding on the Company and the Holder, except in the case of manifest error.

(c) The rights under this Warrant shall be deemed to have been exercised and the Warrant Shares issuable upon such exercise shall be deemed to have been issued immediately prior to the close of business on the date this Warrant is exercised in accordance with its terms, and the person entitled to receive the Warrant Shares issuable upon such exercise shall be treated for all purposes as the holder of record of such Warrant Shares as of the close of business on such date. As promptly as reasonably practicable on or after such date, the Company shall issue and deliver to the person or persons entitled to receive the same a certificate or certificates for that number of Warrant Shares issuable upon such exercise. If the rights under this Warrant are exercised in part and have not expired, the Company shall execute and deliver a new Warrant reflecting the number of Warrant Shares that remain subject to this Warrant.

(d) The Holder may exercise this Warrant conditioned upon (and effective immediately prior to) consummation of any transaction that would cause the expiration of this Warrant pursuant to Section 8 by so indicating in the Notice of Exercise.

(e) In the event that, upon the Expiration Date, the formula in Section 3(b) would result in a net positive number of Warrant Shares issuable to the Holder, then this Warrant shall automatically be deemed on and as of such date to be exercised in full pursuant to Section 3(b) without any action on behalf of the Holder.

4. <u>Transfers; Preferred Share Documents</u>.

(a) Neither this Warrant nor any Warrant Shares issuable upon exercise hereof may be sold, assigned, transferred, pledged, conveyed or otherwise encumbered (each a "**Transfer**"), whole or part, except in compliance with the Securities Act and applicable state securities laws and, if applicable, the terms of any agreement entered into pursuant to Section 4(b). The Company may condition consent to any such Transfer upon receipt of a written acknowledgement of the transferee to be bound by the terms and conditions of this Warrant. Without limiting the foregoing, the Holder acknowledges that this Warrant and the Warrant Shares have not been registered under the Securities Act of 1933, as amended (the "**Securities Act**"), and agrees that the Holder shall not be permitted to Transfer this Warrant or any Warrant Shares issued upon its exercise in the absence of (i) an effective registration statement under the Securities Act as to this Warrant or such Warrant Shares and registration or qualification of this Warrant and such Warrant Shares under any applicable U.S. federal or state securities law then in effect, or (ii) an opinion of counsel, satisfactory to the Company in its sole discretion, that such registration and qualification are not required. Each certificate or other instrument for Warrant Shares issued upon the exercise of this Warrant shall bear a legend substantially to the foregoing effect.

(b) In connection with the Exercise of this Warrant for any Preferred Shares, the Holder shall be required to execute any deliver any agreements and documents entered into among the holders of Preferred Shares generally, including any investors' rights agreement, voting agreement or similar investment-related agreements.

5. **No Impairment**. The Company will not, by amendment of its Certificate of Incorporation or through reorganization, consolidation, merger, dissolution, sale of assets or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against impairment.

6. **Representations and Warranties of the Holder**. This Warrant is issued to the Holder in reliance upon the following representations and warranties made by the Holder to the Company:

(a) Acquired Entirely for Own Account. This Warrant is, and the Warrant Shares to be issued upon exercise of this Warrant will be, acquired by the Holder for investment for the Holder's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof except as permitted by the Securities Act and applicable state securities laws, and that the Holder has no present intention of selling, granting any participation in, or otherwise distributing the same. The Holder further represents that the Holder does not presently have any contract, undertaking, agreement or arrangement with any person to Transfer or grant participations to such person or to any third person, with respect to this Warrant or the Warrant Shares. The Holder has not been formed for the specific purpose of acquiring the Securities.

(b) Restricted Securities. The Holder understands that this Warrant and the Warrant Shares have not been, and will not be, registered under the Securities Act, by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Holder's representations as expressed herein. The Holder understands that the Securities are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, the Holder must hold the Warrant Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. The Holder acknowledges that the Company has no obligation to register or qualify the Warrant Shares for resale. The Holder further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Warrant Shares, and on requirements relating to the Company which are outside of the Holder's control, and which the Company is under no obligation and may not be able to satisfy.

(c) No Public Market. The Holder understands that no public market now exists for any of the securities issued by the Company, and that the Company has made no assurances that a public market will ever exist for the Warrant Shares.

(d) Accredited Investor. The Holder is an accredited investor as defined in Rule 501 (a) of Regulation D promulgated under the Securities Act.

7. Lock-up Agreement. If requested by the Company or any underwriter in connection with an Initial Public Offering (as defined below), the Holder will agree not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company (other than any securities specifically in the registration for the Initial Public Offering) without the prior written consent of the Company or such underwriter, as the case may be, for such period of time as may be requested by the Company or such underwriter, such period not to exceed (x) 180 days plus (y) such extension or extensions as may be required by the underwriter in order to publish research reports while complying with the rules of the Financial Industry Regulatory Authority. The Holder agrees to execute such written agreements reflecting the foregoing as may be requested by the underwriters at the time of Initial Public Offering. In order to enforce the foregoing covenants, the Company may impose stop-transfer instructions with respect to the securities of the Holder.

8. Termination. This Warrant (and the right to purchase Warrant Shares upon exercise hereof) shall terminate upon the earliest to occur of the following (the “**Expiration Date**”): (i) the seventh (7^{th}) anniversary of the date of this Warrant; (ii) the closing of an initial public offering of the Company's securities (an “**IPO**”) or (iii) the consummation of a Deemed Liquidation Event. As used herein, a “**Deemed Liquidation Event**” means (a) if such term is used and defined in the Company's Certificate of Incorporation as then in effect, the meaning given to such term and (b) if not, any of: (1) the acquisition of a majority of the voting capital stock Company (or its successor by way of merger) by a third party or group of third parties, by means of any transaction or series of related transactions, including any stock acquisition, reorganization, merger or consolidation (but excluding any sale of stock principally for bona fide capital raising purposes, or a transaction or series of related transactions in which the holders of the voting securities of the Company outstanding immediately prior to such transaction or series of related transactions continue to hold at least a majority o the voting power of the surviving or resulting entity in substantially the same proportions); (2) a sale, lease, exclusive license or other disposition of all or substantially all of the assets of the Company and its subsidiaries taken as a whole by means of any transaction or series of related transactions (except where such sale, lease or other disposition is to a wholly-owned subsidiary of the Corporation); or (3) any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary.

9. Notices of Certain Transactions. In case of (i) a Deemed Liquidation Event; (ii) an IPO; (iii) the Company's common stock being listed on a securities exchange or quoted on any inter-dealer quotation system; or (iv) any capital reorganization or reclassification of the Company's capital stock, then, and in each such case, the Company will provide written notice to the Holder specifying, as the case may be, the effective date on which such Deemed Liquidation Event, Public Offering, reorganization or reclassification is to take place, and the time, if any is to be fixed, as of which the holders of record of common stock of the Company are to be determined. Such notice shall be given by the Company at least (x) 10 business days prior to the record date or effective date for the event specified in such notice, or (y) if the record date or effective date is less than 10 business days from the date on which the Company reasonably determines that the event will in fact occur, such lesser number of days.

10. Reservation of Stock. The Company will at all times reserve and keep available sufficient number of shares of common stock and, if applicable, preferred stock for issuance and delivery upon the exercise in full of this Warrant. If at any time prior to the Expiration Date or earlier termination of this Warrant the number of authorized but unissued shares of common stock and, if applicable, preferred stock shall not be sufficient to permit exercise in full of this Warrant, then the Company shall promptly take such corporate action as is necessary to increase the Company's authorized but unissued shares of common stock and, if applicable, preferred stock to such number of shares as shall be sufficient for such purposes.

11. Replacement. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation oft his Warrant and (in the case of loss, theft or destruction) upon delivery of an indemnity agreement (without any obligation for surety or bond), or (in the case of mutilation) upon surrender and cancellation of this Warrant, the Company will issue, in lieu thereof, a new Warrant of like tenor.

12. No Rights as Stockholder. Until the exercise of this Warrant and delivery of the Warrant Shares in respect thereof, the Holder shall not have or exercise any rights by virtue hereof as a stockholder of the Company.

13. No Fractional Shares. No fractional shares of stock will be issued in connection with any exercise hereunder. In lieu of any fractional shares which would otherwise be issuable, the Company shall pay cash equal to the product of such fraction multiplied by the fair market value of one Warrant Share on the date of exercise, as determined in accordance with Section 3(b).

14. Amendment or Waiver. No term of this Warrant may be amended or waived except pursuant to an instrument in writing signed by the Company and the Holder.

15. Headings. The headings in this Warrant are used for convenience only and are not to be considered in construing or interpreting any provision of this Warrant.

16. Governing Law. This Warrant shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of laws.

17. Survival of Representations. The warranties, representations and covenants of the parties contained in this Warrant shall survive the execution and delivery of this Warrant.

18. Successors and Assigns. The terms and conditions of this Warrant shall inure to the benefit of and be binding upon the permitted successors and assigns of the parties. The terms and conditions of this Warrant shall be binding upon any purported successor, assignee or transferee of the Holder, this Warrant or any Warrant Shares, notwithstanding that such purported succession, assignment or Transfer was not valid and is not recognized by the Company. Nothing in this Warrant, express or implied, is intended to confer upon any party other than the parties hereto any rights, remedies, obligations, or liabilities under or by reason of this Warrant, except as expressly provided in this Warrant.

19. Counterparts. This Warrant may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

20. Severability. If one or more provisions of this Warrant are held to be unenforceable under applicable law, such provision shall be excluded from this Warrant, the balance of this Warrant shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

21. Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to any party under this Warrant, upon any breach or default of any other party under this Warrant, shall impair any such right, power or remedy of such non-breaching or non-defaulting party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Warrant, or any waiver on the part of any party of any provisions or conditions of this Warrant, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Warrant or by law or otherwise afforded to any party, shall be cumulative and not alternative.

22. Notices. Any notice required or permitted by this Warrant shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by facsimile, or 48 hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, addressed to the party to be notified at such party's address as set forth on the signature page, or as subsequently modified by written notice.

23. Entire Agreement. This Warrant, and the documents referred to herein constitute the entire agreement between the parties hereto pertaining to the subject matter hereof, and any and all other written or oral agreements relating to the subject matter hereof existing between the parties hereto are expressly canceled.

[SIGNATURE PAGE FOLLOWS]

The Company and the Holder have executed this Warrant to as of the date first written above.

MONOGRAM ORTHOPAEDICS INC.

By: /s/ Benjamin Sexson
Name: Benjamin Sexson
Title: CEO

Agreed to and Accepted:

PRO-DEX, INC.

By: /s/ Rick Van Kirk
Name: Rick Van Kirk
Title: President and CEO

Holder's Address for Notice:

Pro-Dex, Inc.
2361 McGaw Avenue
Irvine, CA 92614

Attention: Rick Van Kirk, CEO

EXHIBIT A

EXERCISE NOTICE

(To be executed by the Holder of Warrant if such Holder desires to exercise Warrant)

To Monogram Orthopaedics Inc.: The undersigned hereby irrevocably elects to exercise this Warrant and to purchase thereunder, ________ [Common Shares][preferred Shares] (the "**Warrant Shares**") issuable upon exercise of the Warrant. Payment for the Warrant Shares is hereby made:

__ by delivery of $ (in cash as provided for in the foregoing Warrant) and any applicable taxes payable by the undersigned pursuant to such Warrant.

__ cashless exercise pursuant to Section 3(b) of the Warrant. The undersigned requests that certificates for such shares be issued in the name of:

(Please print name, address, and social security or federal employer identification number (if applicable)

If the shares issuable upon this exercise ofthe Warrant are not all of the Warrant Shares that the Holder is entitled to acquire upon the exercise of the Warrant, the undersigned requests that a new Warrant evidencing the rights not so exercised be issued in the name of and delivered to:

(Please print name, address, and social security or federal employer identification number (if applicable)

Name of Holder (print): ____________________

(Signature): _____________________________

(By:) ____________________________________

(Title:) ___________________________________

Dated: _______, ___

Pro-Dex, Inc.
2361 McGaw Avenue
Irvine, CA 92614

October 2nd, 2023

Monogram Orthopaedics Inc.
3913 Todd Lane, Suite 307
Austin, TX 78744

Ladies and Gentlemen:

Reference is hereby made to that certain Warrant to Purchase Stock, dated December 20, 2018 (the "Warrant"), made by Monogram Orthopaedics Inc., a Delaware corporation ("Monogram"), in favor of Pro-Dex, Inc., a Colorado corporation ("Pro-Dex"). Capitalized terms that are used but not defined in this letter agreement shall have the meaning ascribed to them in the Warrant. The execution date ("Effective Date") of this letter agreement is October 2nd, 2023.

Certain Defined Terms

For purposes of this letter agreement:

"Approved Incentive Plan" means an equity incentive plan of Monogram that has been approved by both a majority of Monogram's board of directors and a majority of Monogram's voting capital stock.

"Warrant Coverage Issuance" means any and all issuances of securities by Monogram during a Warrant Coverage Measurement Period, whether as part of a single offering or issuance or multiple offerings and issuances, and whether of a single or multiple types, series or classes of securities, or any combination of any of the foregoing, but excluding in each instance any Excluded Securities.

"Warrant Coverage Measurement Period" means (a) for the initial Warrant Coverage Measurement Period, the period commencing on the Effective Date and ending on March 31, 2024, and (b) for each subsequent Warrant Coverage Measurement Period, the six month period following the last day of the immediately preceding Warrant Coverage Measurement Period (with each such subsequent Warrant Coverage Measurement Period ending on sequential March 31sts and September 30iths).

Agreement by Pro-Dex

Pro-Dex hereby agrees to exercise the Warrant in full in cash for common stock of Monogram pursuant to Section 3(a) thereof within five (5) business days after the Effective Date.

Agreement by Monogram

In consideration for Pro-Dex's agreement to exercise the Warrant on the terms set forth above:

(a) If Monogram engages in or otherwise consummates a Warrant Coverage Issuance during a Warrant Coverage Measurement Period that results in Monogram receiving, or having the right to receive, gross proceeds of $5,000,000 or more during such Warrant Coverage Measurement Period, then Monogram shall issue Pro-Dex a warrant to be exercised in cash to purchase 5% (calculated after giving effect to such issuance to Pro-Dex) of the types, series and classes of securities issued during such Warrant Coverage Measurement Period at a price equal to the total gross proceeds received over the Warrant Coverage Measurement Period divided by the number of securities issues during that same period, net of any Excluded Securities, and on terms at least as favorable to Pro-Dex as the most favorable terms pursuant to which any such securities of such respective types, series and classes are acquired, or that may be acquired, by any investor or acquiror during such Warrant Coverage Measurement Period (each, a "Coverage Warrant"). Each Coverage Warrant shall be issued to Pro-Dex within ten (10) business day after the last day of the applicable Warrant Coverage Measurement Period, shall have a term of six (6) months from the date of issuance and, unless otherwise agreed to in writing by Pro-Dex in its sole and absolute discretion, shall have other provisions consistent with the provisions of the Warrant. Pro-Dex's rights under this paragraph shall expire on December 31, 2025 and shall apply to all Warrant Coverage Issuances conducted from time to time, and at any time, by Monogram prior to that date. Monogram shall not structure any securities offering or take any other action with the purpose or intent of depriving, or otherwise engage in any plan or scheme to deprive, Pro-Dex of its rights under this paragraph.

(b) Monogram shall grant Pro-Dex piggyback registration rights for all Monogram securities from time to time owned by Pro-Dex on terms at least as favorable to Pro-Dex as Monogram may at any time grant piggyback (or equivalent) registration rights to any other holder of Monogram securities.

<u>Filings</u>

The parties understand and consent to this letter agreement being included as an exhibit, as required, to each party's respective filings with the Securities and Exchange Commission.

<u>Miscellaneous</u>

This letter agreement contains the entire understanding between the parties relating to the subject matter hereof, and all prior or contemporaneous agreements, understandings, representations, and statements, whether oral or written, concerning the subject matter hereof are merged herein, and shall be of no force or effect. This letter agreement may only be amended, modified or supplemented by an agreement in writing signed by both parties. No waiver by either party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. Except as otherwise set forth in this letter agreement, no failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this letter agreement shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

The parties have participated jointly in the negotiation and drafting of this letter agreement. In the event an ambiguity or question of intent or interpretation arises, this letter agreement will be construed as if drafted jointly by the parties, and no presumption or burden of proof will arise favoring or disfavoring either party by virtue of the authorship of any of the provisions of this letter agreement.

This letter agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of each of the parties. Monogram shall not assign any benefit or delegate any obligation under this letter agreement without the prior written consent of Pro-Dex.

This letter will be governed by and construed and enforced in accordance with the laws of the State of California without regard to principles of conflicts of law. The exclusive jurisdiction and venue for all actions, suits or proceedings arising out of or based upon this letter or the subject matter hereof shall be the state courts (or if the state courts do not have appropriate jurisdiction, then the federal courts) within the County of Orange, California. In the event that any claim, suit, action, or proceeding is instituted or commenced by either party against the other party arising out of or related to this letter agreement, the prevailing party will be entitled to recover its reasonable attorneys' fees and arbitration or court costs from the non-prevailing party.

This letter agreement may be executed in counterparts, each of which when so executed and delivered shall be deemed to be an original. This letter agreement may be delivered by facsimile transmission or in .pdf or similar electronic format, and facsimile, .pdf, or other electronic copies of executed signature pages shall be binding as originals.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this letter agreement effective as of the day and year first written above.

Pro-Dex, Inc.

By: /s/ Rick Van Kirk
Name: Rick Van Kirk
Title: CEO

Monogram Orthopaedics Inc.

By: /s/ Benjamin Sexon
Name: Benjamin Sexson
Title: CEO

EXHIBIT 21

PRO-DEX, INC.

Subsidiaries

Name	Jurisdiction of Organization
PDEX Franklin LLC	California

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-215032) and Form S-8 (No. 333-214944, No. 333-201825, No. 333-179536, No. 333-141178 and No. 333-112133) of Pro-Dex, Inc. (the “Company”), of our report dated October 13, 2023, relating to the consolidated financial statements of the Company (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the correction of errors), appearing in this Annual Report on Form 10-K of the Company for the year ended June 30, 2023.

/s/ Moss Adams LLP

Irvine, California
October 13, 2023

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Richard L. Van Kirk, certify that:

1. I have reviewed this Form 10-K of Pro-Dex, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 13, 2023

/s/ Richard L. Van Kirk
Richard L. Van Kirk
Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

Certifications of Chief Financial Officer
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, Alisha K. Charlton, certify that:

1. I have reviewed this Form 10-K of Pro-Dex, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 13, 2023

/s/ Alisha K. Charlton
Alisha K. Charlton
Chief Financial Officer
(principal financial officer and
principal accounting officer)

EXHIBIT 32

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Certifications of Chief Executive Officer and Chief Financial Officer

In connection with the annual report on Form 10-K of Pro-Dex Inc. (the “Company”) for the annual period ended June 30, 2022 (the “Report”), the undersigned hereby certifies in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 13, 2023

By: /s/ Richard L. Van Kirk
Richard L. Van Kirk
Chief Executive Officer and President
(principal executive officer)

Date: October 13, 2023

By: /s/ Alisha K. Charlton
Alisha K. Charlton
Chief Financial Officer
(principal financial officer and
principal accounting officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.