PRO DEX INC
Form 10-Q
February 13, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2012

OR

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

FOR THE TRANSITION PERIOD FROM TO .

Commission File Number 0-14942

PRO-DEX, INC.

(Exact name of registrant as specified in its charter)

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

2361 McGaw Avenue, Irvine, California 92614

(Address of Principal Executive Offices)

Registrant s telephone number: 949-769-3200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company under Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the Registrant s classes of Common Stock outstanding as of the latest practicable date: 3,340,684 shares of Common Stock, no par value, as of February 1, 2013.

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Pro-Dex, Inc.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

PRO-DEX, INC. and SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	December 31, 2012	June 30, 2012
ASSETS		
Current assets:		
Cash	$ 2,549,000	$ 4,112,000
Accounts receivable, net of allowance for doubtful accounts of $13,000 at December 31, 2012 and $16,000 at June 30, 2012	1,175,000	1,581,000
Other current receivables	90,000	123,000
Inventories	3,515,000	2,791,000
Prepaid expenses	237,000	172,000
Income taxes receivable	570,000	609,000
Deferred income taxes	109,000	109,000
Total current assets	8,245,000	9,497,000
Property, plant, equipment and leasehold improvements, net	2,290,000	2,539,000
Real estate held for sale	733,000	733,000
Other assets	53,000	53,000
Total assets	$ 11,321,000	$ 12,822,000
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 576,000	$ 633,000
Accrued expenses	1,008,000	1,425,000
Income taxes payable	47,000	47,000
Bank term loan		774,000
Total current liabilities	1,631,000	2,879,000
Non-current liabilities:		
Deferred income taxes	109,000	109,000
Deferred rent	280,000	284,000
Total non-current liabilities	389,000	393,000
Total liabilities	2,020,000	3,272,000
Commitments and contingencies		
Shareholders equity:		
Common shares; no par value; 50,000,000 shares authorized; 3,340,684 and 3,272,350 shares issued and outstanding at December 31, 2012 and June 30, 2012, respectively	16,962,000	16,846,000
Accumulated deficit	(7,661,000)	(7,296,000)
Total shareholders equity	9,301,000	9,550,000

Total liabilities and shareholders equity	$	11,321,000	$ 12,822,000

See notes to condensed consolidated financial statements.

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PRO-DEX, INC. and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	For The Three Months Ended December 31, 2012	2011
Net sales	$ 3,007,000	$ 4,017,000
Cost of sales	1,974,000	2,770,000
Gross profit	1,033,000	1,247,000
Operating expenses:		
Selling expenses	322,000	369,000
General and administrative expenses	627,000	688,000
Research and development costs	464,000	508,000
Total operating expenses	1,413,000	1,565,000
Loss from continuing operations before items below	(380,000)	(318,000)
Other expense:		
Interest expense		(10,000)
Total other expense		(10,000)
Loss from continuing operations before provision for (benefit from) income taxes	(380,000)	(328,000)
Provision for (benefit from) income taxes	(16,000)	1,000
Loss from continuing operations	(364,000)	(329,000)
Income from discontinued operations, net of provision for income taxes of $21,000 in 2012 and $0 in 2011	16,000	37,000
Net loss	$ (348,000)	$ (292,000)
Per share data:		
Loss from continuing operations		
Basic	$ (0.11)	$ (0.10)
Diluted	$ (0.11)	$ (0.10)
Income from discontinued operations		
Basic	$	$ 0.01
Diluted	$	$ 0.01
Net loss		
Basic	$ (0.11)	$ (0.09)
Diluted	$ (0.11)	$ (0.09)
Weighted average shares outstanding basic	3,319,180	3,272,350
Weighted average shares outstanding diluted	3,319,180	3,272,350

See notes to condensed consolidated financial statements.

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PRO-DEX, INC. and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	For The Six Months Ended December 31, 2012	2011
Net sales	$ 6,468,000	$ 9,062,000
Cost of sales	4,199,000	5,707,000
Gross profit	2,269,000	3,355,000
Operating expenses:		
Selling expenses	596,000	743,000
General and administrative expenses	1,234,000	1,504,000
Research and development costs	870,000	1,069,000
Total operating expenses	2,700,000	3,316,000
Income (loss) from continuing operations before items below	(431,000)	39,000
Other expense:		
Interest expense	(6,000)	(20,000)
Total other expense	(6,000)	(20,000)
Income (loss) from continuing operations before provision for (benefit from) income taxes	(437,000)	19,000
Provision for (benefit from) income taxes	(19,000)	2,000
Income (loss) from continuing operations	(418,000)	17,000
Income from discontinued operations, net of provision for income taxes of $25,000 in 2012 and $0 in 2011	53,000	137,000
Net income (loss)	$ (365,000)	$ 154,000
Per share data:		
Income (loss) from continuing operations		
Basic	$ (0.13)	$ 0.01
Diluted	$ (0.13)	$ 0.01
Income from discontinued operations		
Basic	$ 0.02	$ 0.04
Diluted	$ 0.02	$ 0.04
Net income (loss)		
Basic	$ (0.11)	$ 0.05
Diluted	$ (0.11)	$ 0.05
Weighted average shares outstanding basic	3,299,379	3,272,350
Weighted average shares outstanding diluted	3,299,379	3,292,508

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PRO-DEX, INC. and SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For The Six Months Ended December 31, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$ (365,000)	$ 154,000
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	298,000	339,000
Allowance for doubtful accounts	(3,000)	6,000
Share-based compensation	65,000	33,000
Changes in:		
Accounts receivable and other current receivables	440,000	834,000
Inventories	(724,000)	(1,030,000)
Prepaid expenses	(65,000)	(88,000)
Other assets		8,000
Accounts payable and accrued expenses	(476,000)	(213,000)
Income taxes receivable and payable	39,000	(49,000)
Net cash used in operating activities	(791,000)	(6,000)
Cash flows from investing activities:		
Purchases of equipment	(48,000)	(237,000)
Net cash used in investing activities	(48,000)	(237,000)
Cash flows from financing activities:		
Proceeds from exercise of stock options	50,000	
Principal payments on term loan	(774,000)	(179,000)
Net cash used in financing activities	(724,000)	(179,000)
Net decrease in cash	(1,563,000)	(422,000)
Cash, beginning of period	4,112,000	4,689,000
Cash, end of period	$ 2,549,000	$ 4,267,000
Supplemental Information		
Cash payments for interest	$ 9,000	$ 10,000
Cash payments for income taxes	$ 5,000	$ 53,000

See notes to condensed consolidated financial statements.

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PRO-DEX, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Pro-Dex, Inc. (we , us , our , Pro-Dex or the Company) have bee prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Regulation S-K. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements presented in our Annual Report on Form 10-K, as amended, for the fiscal year ended June 30, 2012. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results of operations for such interim periods are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K, as amended, for the year ended June 30, 2012.

NOTE 2. INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following:

	December 31, 2012	June 30, 2012
Raw materials	$ 1,501,000	$ 1,087,000
Work in process	657,000	579,000
Finished goods	1,357,000	1,125,000
Total inventories	$ 3,515,000	$ 2,791,000

NOTE 3. WARRANTY

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 consolidated balance sheets. As of December 31, 2012 and June 30, 2012, the warranty reserve related to continuing operations amounted to $361,000 and $526,000, respectively. Warranty expenses are included in cost of sales in the accompanying consolidated 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. Total warranty expense from continuing operations for the three months ended December 31, 2012 and 2011 was $79,000 and $271,000, respectively, and for the six months ended December 31, 2012 and 2011 was $236,000 and $499,000, respectively.

Information regarding the accrual for warranty costs relating to continuing operations for the three and six months ended December 31, 2012 and 2011 are as follows:

	Three months Ended December 31,	
	2012	2011
Balances, beginning of period	$ 585,000	$ 678,000
Accruals during the period	38,000	134,000
Changes in estimates of prior period accruals	41,000	137,000
Warranty expenditures	(303,000)	(254,000)
Balances, end of period	$ 361,000	$ 695,000

	Six months Ended December 31, 2012	2011
Balances, beginning of period	$ 526,000	$ 688,000
Accruals during the period	186,000	271,000
Changes in estimates of prior period accruals	50,000	228,000
Warranty expenditures	(401,000)	(492,000)
Balances, end of period	$ 361,000	$ 695,000

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The changes in estimates recorded during the three and six months ended December 31, 2012 and 2011 were due primarily to fluctuations in per-unit warranty repair costs and return rates and the effects of those fluctuations on our estimates of future warranty repair costs.

NOTE 4. NET INCOME (LOSS) PER SHARE

The difference in the weighted average shares outstanding used in the calculation of basic and diluted net income (loss) per share for the three and six months ended December 31, 2012 and 2011 is as follows:

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
Numerators for basic and diluted per share data:		
Loss from continuing operations	$ (364,000)	$ (329,000)
Income from discontinued operations	16,000	37,000
Net loss	$ (348,000)	$ (292,000)
Denominators for basic and diluted per share data:		
Basic:		
Weighted average common shares outstanding	3,319,180	3,272,350
Shares used in the computation of basic per share data	3,319,180	3,272,350
Diluted:		
Shares used in the computation of basic per share data	3,319,180	3,272,350
Net shares assumed issued using the treasury stock method for outstanding common stock options		
Shares used in the computation of diluted per share data	3,319,180	3,272,350
Basic per share data:		
Loss from continuing operations	$ (0.11)	$ (0.10)
Income from discontinued operations		0.01
Net loss	$ (0.11)	$ (0.09)
Diluted per share data:		
Loss from continuing operations	$ (0.11)	$ (0.10)
Income from discontinued operations		.01
Net loss	$ (0.11)	$ (0.09)

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	Six Months Ended December 31, 2012	2011
Numerators for basic and diluted per share data:		
Income (loss) from continuing operations	$ (418,000)	$ 17,000
Income from discontinued operations	53,000	137,000
Net income (loss)	$ (365,000)	$ 154,000
Denominators for basic and diluted per share data:		
Basic:		
Weighted average common shares outstanding	3,299,379	3,272,350
Shares used in the computation of basic per share data	3,299,379	3,272,350
Diluted:		
Shares used in the computation of basic per share data	3,299,379	3,272,350
Net shares assumed issued using the treasury stock method for outstanding common stock options		20,158
Shares used in the computation of diluted per share data	3,299,379	3,292,508
Basic per share data:		
Income (loss) from continuing operations	$ (0.13)	$ 0.01
Income from discontinued operations	0.02	0.04
Net income (loss)	$ (0.11)	$ 0.05
Diluted per share data:		
Income (loss) from continuing operations	$ (0.13)	$ 0.01
Income from discontinued operations	0.02	0.04
Net income (loss)	$ (0.11)	$ 0.05

Potentially dilutive securities, consisting of options to purchase shares of our common stock as described in Note 8, are not included in the calculation of diluted loss per share due to their anti-dilutive effect on the diluted loss per share calculations. Shares represented by such securities amount to 14,128 and 42,340 for the three months ended December 31, 2012 and 2011, respectively, and 8,511 for the six months ended December 31, 2012.

For the six months ended December 31, 2011, options having exercise prices that are greater than the average per share market price for our common stock, representing 243,340 shares, have been excluded from the diluted per share calculation due to their anti-dilutive effect.

NOTE 5. BANK DEBT

On February 4, 2011, we entered into a credit facility agreement with Union Bank, N.A. that provided for the following:

A revolving credit line of up to $1.5 million in borrowing availability, under which no amounts were borrowed;

A non-revolving credit line of up to $350,000 in borrowing availability for the purchase of equipment, which expired unused on February 4, 2012; and

A term loan of $1.25 million, the outstanding balance of which, amounting to $685,000, was repaid in full on September 24, 2012, as discussed further below.

The maximum amount of borrowing under the revolving credit line was the lesser of:

(a) $1,500,000; or

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(b) the sum of 80% of eligible domestic accounts receivable, plus the lesser of:

(i) $400,000; or

(ii) 15% of the eligible raw materials and finished goods inventories.

The revolving credit line s terms required monthly interest payments based on borrowed amounts at a floating interest rate, calculated as Union Bank s Reference Rate plus 0.5% (an aggregate interest rate of 3.75% during the term over which the line was in effect). The line s initial term was to expire on December 15, 2012.

The terms of the $1.25 million term loan required monthly principal payments of $29,762, plus interest over its 42-month term. The term loan bore interest at a floating rate, calculated as Union Bank s Reference Rate plus 0.5% (an aggregate interest rate of 3.75% during the term over which the loan was outstanding).

All personal property assets of the Company collateralized the outstanding borrowings under the Union Bank credit facility.

The credit facility agreements contained various covenants, including certain covenants measured annually based on fiscal year results, concerning our financial performance. At June 30, 2012, we were in violation of profitability-based covenants, for which the bank had the right to declare us in default of the bank credit facility agreements and the entire amount owing under the facility, consisting of the term loan, to become immediately due and payable.

On August 30, 2012, we notified the bank of our intent to terminate the credit facility agreements and repay the term loan in full, on or before September 30, 2012. By letter to us dated September 4, 2012, the bank waived, through October 1, 2012, the rights it otherwise would have had pursuant to the covenant violations described above. In conformity with the correspondence described in this paragraph, on September 24, 2012, we repaid the entire principal balance of the term loan, amounting to $685,000, and the credit facility agreements were terminated.

As a result of the foregoing, we no longer have a credit facility with a financial institution.

NOTE 6. DISCONTINUED OPERATIONS

On February 27, 2012 (the Closing Date), we completed the sale of our fractional horsepower motor product line, operating under the name Pro-Dex Astromec (Astromec) and located in Carson City, Nevada, to SL Montevideo Technology, Inc. (MTI), a wholly owned subsidiary of SL Industries, Inc., pursuant to an Asset Purchase Agreement (the APA).

Under the terms of the APA, we sold substantially all the assets of Astromec, consisting primarily of inventory, equipment and intangibles, and excluding cash, accounts receivable and the Carson City facility. We retained substantially all of Astromec s liabilities except for those liabilities associated with certain contracts and unfilled purchase orders assumed by MTI.

Upon closing of the sale and finalization of other items required by the APA, such as a physical inventory count, we recorded proceeds from the sale of $756,000, equal to the net book value of the assets sold as of the Closing Date, summarized as follows:

Inventories	$ 664,000
Equipment	82,000
Other	10,000
Total	$ 756,000

Under the terms of the APA, we may also receive earnout payments based on revenues generated from the sale of (i) Astromec products and (ii) MTI products to Astromec prospects (defined in the APA) (collectively, the Earnout Sales Base). Such earnout payments, if and when earned, will be paid by MTI to us within 30 days following the end of each of our fiscal quarters during the three years subsequent to the Closing Date, and will amount to 6%, 4% and 2% of the Earnout Sales Base in the first, second and third such years, respectively. The earnout payments will be recognized in the quarter in which we become entitled to receive them. For the three and six months ended December 31, 2012, we recognized income from earnout payments of $45,000 and $92,000, respectively, of which $45,000 was included in other receivables in the accompanying December 31, 2012 consolidated balance sheet and was received in January 2013. An aggregate of $157,000 in income from earnout payments has been recognized during the period from the Closing Date through December 31, 2012.

Also on the Closing Date, we entered into a Transition Production Agreement (the TPA) with MTI, under which we provided MTI with manufacturing and certain administrative support services. MTI paid us for all our costs in providing the manufacturing services, and a fixed monthly amount for the administrative support services. In conformity with its terms, the TPA was terminated effective May 10, 2012.

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Based on the foregoing, and in conformity with applicable accounting guidance, the Astromec product line qualifies as a discontinued operation. Accordingly, financial results of Astromec have been reported as discontinued operations in the accompanying consolidated statements of operations for all periods presented. Information regarding revenue and operating results of Astromec included in discontinued operations is as follows:

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011
Revenues	$ 45,000	$ 890,000
Income before provision for income taxes	$ 37,000	$ 37,000

	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
Revenues	$ 92,000	$ 1,875,000
Income before provision for income taxes	$ 78,000	$ 137,000

Information regarding Astromec assets and liabilities included in the accompanying consolidated balance sheets is as follows:

	December 31, 2012	June 30, 2012
Other receivables	$ 47,000	$ 45,000
Other assets	$ 17,000	$
Accounts payable	$ 4,000	$ 3,000
Accrued expenses	$ 8,000	$ 25,000

Warranty reserves related to discontinued operations as of December 31, 2012 and June 30, 2012 amounted to $5,000 and $21,000, respectively. Warranty activities from discontinued operations for the three months ended December 31, 2012 and 2011 resulted in a credit of $8,000 and expense of $5,000, respectively, and for the six months ended December 31, 2012 and 2011 resulted in a credit of $16,000 and expense of $11,000, respectively.

In addition, as a result of the sale of the Astromec product line, we listed for sale the land and building constituting the facility we own in Carson City, Nevada, which are presented as assets held for sale in the accompanying December 31, 2012 and June 30, 2012 consolidated balance sheets with an aggregate carrying amount of $733,000. We have evaluated the aggregate carrying amount of the land and building in relation to their aggregate estimated fair value less cost to sell, and have determined that an adjustment to such carrying amount was not required.

NOTE 7. INCOME TAXES

Deferred income taxes are provided on a liability method whereby deferred tax assets and liabilities are recognized for temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. 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 primarily on our historical taxable income, with some consideration given to our estimates of future taxable income by jurisdictions in which we operate and the period over which our deferred tax assets will be recoverable. Due to cumulative taxable losses during the past three years, we maintained a valuation allowance of $2.7 million and $2.6 million against our deferred tax assets as of December 31, 2012 and June 30, 2012, respectively. The change in valuation allowance is due primarily to the increase in deferred tax assets resulting from the pre-tax loss incurred for the six months ended December 31, 2012.

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As of December 31, 2012, we have accrued $323,000 of unrecognized tax benefits related to federal and state income tax matters. The amount that would reduce the Company s income tax expense if recognized and result in a corresponding decrease in the Company s effective tax rate is $47,000. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at July 1, 2012	$ 313,000
Additions based on tax positions related to the current year	10,000
Additions for tax positions of prior years	
Balance at December 31, 2012	$ 323,000

Amounts accrued for unrecognized tax benefits are included as components of income taxes receivable or income taxes payable, as applicable, in the accompanying condensed consolidated balance sheets.

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense when applicable. As of December 31, 2012 and June 30, 2012, no interest or penalties applicable to our unrecognized tax benefits have been accrued since we have sufficient tax attributes available to fully offset any potential assessment of additional tax.

Pro-Dex and its subsidiaries are subject to U.S. federal income tax, as well as income tax of multiple state tax jurisdictions. We are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended June 30, 2009 and later. Our state income tax returns are open to audit under the statute of limitations for the years ended June 30, 2008 and later. We do not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

NOTE 8. SHARE-BASED COMPENSATION

We have two equity compensation plans, the Second Amended and Restated 2004 Stock Option Plan (the Employees Stock Option Plan) and the Amended and Restated 2004 Directors Stock Option Plan (the Directors Stock Option Plan) (collectively, the Stock Option Plans), pursuant to which (i) options to purchase shares of common stock, or (ii) restricted shares of common stock, may be granted up to an aggregate amount of 1,333,333 common shares, with 1,066,667 and 266,666 shares distributed between the Employees Stock Option Plan and the Directors Stock Option Plan, respectively. The Stock Option Plans are substantially similar, providing for a strike price equal to the closing price for a share of our common stock as of the last business day immediately prior to the grant date, vesting periods (as determined by the Board for the Employees Stock Option Plan and six months for the Directors Stock Option Plan), and terms of up to ten years, subject to forfeit 30 days after the holder ceases to be an employee or 90 days after the holder ceases to be director, as the case may be. At December 31, 2012, 219,966 and 81,667 shares under the Employees Stock Option Plan and the Directors Stock Option Plan, respectively, are available to grant in future years. Share-based compensation expense under the Stock Option Plans for the three months ended December 31, 2012 and 2011 were $36,000 and $21,000, respectively, and for the six months ended December 31, 2012 and 2011 was $65,000 and $33,000, respectively.

Stock Options

The following assumptions were used in the calculation of share-based compensation expense for options granted during the three months ended December 31, 2011 (no options were granted during the three months ended December 31, 2012), and the six months ended December 31, 2012 and 2011:

	Three Months Ended December 31, 2011
Dividend rate	None
Price volatility	88%
Risk-free interest rate	1.0%-1.2%
Expected life	5.5 years

	Six Month Ended December 31, 2012	2011
Dividend rate	None	None
Price volatility	87%	62%
Risk-free interest rate	0.9%	1.0%-1.3%
Expected life	6.0 years	6.0 years

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As of December 31, 2012, there was an aggregate of $259,000 of unrecognized compensation cost under the Stock Option Plans related to 329,000 non-vested outstanding stock options with a per share weighted average value of $1.36. The unrecognized expense is anticipated to be recognized on a straight-line basis over a weighted average period of 2.2 years. Following is a summary of stock option activity for the six months ended December 31, 2012 and 2011:

	2012		2011	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	591,672	$ 2.48	320,842	$ 2.71
Granted	35,000	1.73	205,000	2.04
Exercised				