

PRO DEX INC
Form PRRN14A
December 07, 2012

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No. 2)

Filed by the Registrant []
Filed by a Party other than the Registrant [X]

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under Rule 14a-12

PRO-DEX, INC.
(Name of Registrant as Specified in its Charter)

AO Partners I, L.P.
AO Partners, LLC
Glenhurst Co.
Nicholas J. Swenson
Farnam Street Partners, L.P.
Farnam Street Capital, Inc.
Raymond E. Cabillot
William J. Farrell III

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

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3. Filing Party:

4. Date Filed:

4836-855

PRELIMINARY COPY, SUBJECT TO CHANGE, DATED DECEMBER 7 , 2012

PRO-DEX, INC.
ANNUAL MEETING OF SHAREHOLDERS
_____, 2013
PROXY STATEMENT OF THE AO PARTNERS GROUP
IN OPPOSITION TO
THE BOARD OF DIRECTORS OF PRO-DEX, INC.

WHY YOU WERE SENT THIS PROXY STATEMENT

The AO Partners Group (sometimes referred to herein as “we,” “us,” “our” and variants of those words) is seeking your support to elect Messrs. Nicholas J. Swenson, Raymond E. Cabillot and William James Farrell III to the board of directors of Pro-Dex, Inc. (“Pro-Dex” or the “Company”), in opposition to the candidates nominated by the incumbent board of directors of Pro-Dex. The members of the AO Partners Group are identified below under the heading “Certain Information Regarding the Participants.” This proxy statement and form of proxy are first being mailed to shareholders on or about [•] [•], 2012.

OUR GOAL

We are seeking your support to replace a majority of the Pro-Dex board. The Company’s financial results and stock performance have declined significantly during the current board’s tenure. Over the past five fiscal years (2007 through 2012), book value is down from \$12.85 million to \$9.55 million or -25%, sales are down from \$21.56 million to \$17.26 million or -20%, and earnings before taxes are down from \$575,000 to -\$1.4 million or more than -343%. The stock price is down from \$4.44 on October 5, 2007 to \$2.03 on November 8, 2012 or -54%. While shareholder value continues to decline, the Company’s management and board of directors have not experienced a similar decline in their compensation. From fiscal year 2009, through fiscal year 2012, Pro-Dex had a cumulative loss before taxes of \$3.4 million yet management and the board took compensation of over \$4.7 million during this same period.

We believe the Company’s financial decline puts Pro-Dex at a critical juncture in its history. Shareholder value is rapidly eroding or being transferred to management and the board. We believe that the financial results of Pro-Dex and decisions made by the board support our view that the Pro-Dex board is failing shareholders.

As outsiders and shareholders, our nominees cannot make detailed and specific plans about where to lead Pro-Dex until they are directors with full access to the information necessary to make informed decisions. When elected, we will lead a very thorough and complete and intense review of the Company. Our driving principal will be return on invested capital as we believe that this will lead to an increase in shareholder value. Our nominees will strive to reverse the Company’s poor financial performance by being well informed, independent, and decisive, with a strong focus on building long-term shareholder value.

OUR ALIGNED INTERESTS AND PLEDGE

We can deliver with certainty on a pledge that our interest in the Company will be the same as most public shareholders because--like the vast majority of public shareholders--we have put a significant amount of our own capital at risk by buying the Company's stock in the open market. Furthermore, we are pledging that if elected to a majority on the board, our policy will be to pay each board member \$200 per meeting, or a maximum of \$10,000 per year in total board fees (this is a stark contrast to the \$180,573 in board fees the current board received in fiscal year 2012), nor will we grant directors stock or options now or in the future.

Mr. Swenson has purchased shares of Pro-Dex with his own funds as well as the funds of his partners. Mr. Cabillot has invested the funds of his own investment partnership in the Company's stock. And our medical-device industry veteran, Mr. Farrell, has purchased shares with his own funds, and pledged his time and reputation to board service. In our view, the direct alignment of our economic interests and that of shareholders is vital. We will not benefit unless the stock price rises and all shareholders therefore benefit.

Each of our nominees will sign this pledge:

We are shareholders of Pro-Dex and pledge to be good stewards of its business and its resources. We will treat all shareholders as equal partners and promise to create a plan mandating that directors and executives be required to put their own capital at risk by buying the Company's stock in the open market. As directors, we will limit our cash compensation to no more than \$200 per meeting (maximum of \$2,000 annually) and will not issue any stock or options to members of the board.

YOUR VOTE HAS THE POWER TO CHANGE THE BOARD

Notwithstanding our perspective on Pro-Dex, it has been our experience that shares of good businesses suffer when leadership is misguided or self-serving, or both. With such leadership, a company's stock price often times stays at the same price or declines. As one study indicated, a board can positively impact a company's financial performance by participating with management in formulating corporate strategy in the interest of shareholders, developing appropriate incentives for management and other employees to harness their interests to achieve the agreed upon strategic plan, and judging the performance of management against the strategic plan.

So, what is an investor to do when a board is entrenched and no longer focused on generating shareholder value? Normally, the answer can be disappointing because it can be very difficult for shareholders to change management even if performance is very poor, and voting for an alternative slate of directors often isn't even an option. This year, however, you have the power to effect change at Pro-Dex. We have offered you a choice--an alternative slate of director nominees.

Please take advantage of this opportunity to make a change. VOTE TO CHANGE PRO-DEX FOR THE BETTER. VOTE FOR OUR DIRECTOR NOMINEES.

MESSAGE TO EMPLOYEE STAKEHOLDERS

Before we turn to the case against the current Pro-Dex board, we want to say that we believe Pro-Dex is filled with honest, skilled and hard working people who share our vision of a bright and proud future for the Company. We imagine that such employees must be upset when they see shareholder value deteriorate because strong shareholder value is the stuff of a strong and vital company. We intend to make changes that will preserve the resources of Pro-Dex so that employees can get on with the business of building a better and stronger Company.

ACCOUNTABILITY

All of the current board members were in place when Pro-Dex was notified of the loss of its largest customer in December 2009. The current leadership has had over 30 months to manage toward a new future for Pro-Dex. Yet, in our reading of Company disclosures, the board only began to address critical operating issues after significant losses. In fact, many of the steps the Company has finally taken were suggested to the Company by us as early as August of 2011.

The Company's disclosures in its periodic reports frequently referenced the impending and actual loss of the Company's largest customer. Yet the first comprehensive Company disclosure that we found commenting on the Company's response to this loss was in August 2012. Given the Company's obligation to report material developments in its periodic reports, this implies that the Company was not taking material steps to address the loss of revenue until four months after the last shipments were made to the largest customer. Why didn't the Company act sooner to take material steps to address the loss of this customer?

We do not believe that the loss of the Company's largest customer gives the board of directors a pass on its leadership responsibilities. Quite the opposite, it imposes on them a responsibility to take action that moves the Company in a direction which addresses the loss of the customer. We believe that the board must be held accountable for Pro-Dex's poor financial performance.

FAILURE OF THE CURRENT BOARD TO PROTECT SHAREHOLDER VALUE

- I. THE COMPENSATION OF MANAGEMENT AND THE BOARD WERE BOOSTED WHILE FINANCIAL PERFORMANCE DETERIORATED SIGNIFICANTLY
- II. THE BOARD HAS FAILED TO URGENTLY MANAGE THE TRANSITION ACCOMPANYING THE LOSS OF THE LARGEST CUSTOMER
- III. THE BOARD DEMONSTRATED QUESTIONABLE JUDGMENT WHEN IT REPLACED THE COMPANY'S CEO WITH AN UNQUALIFIED BOARD MEMBER
- IV. THE BOARD'S OVERSIGHT OF THE ASTROMEC BUSINESS AND ITS SALE REDUCED SHAREHOLDER VALUE
- V. THE BOARD MEMBERS OWN AN INSIGNIFICANT NUMBER OF SHARES IN THE COMPANY

I. THE COMPENSATION OF MANAGEMENT AND THE BOARD WERE BOOSTED WHILE FINANCIAL PERFORMANCE DETERIORATED SIGNIFICANTLY

In a press release on December 11, 2009, Pro-Dex announced that its largest customer (the "Customer") planned to transition business (the manufacturing of "Product A" and "Product B") in-house. At the time of this announcement, aggregate sales of these two products (during the 12-month period ending November 30, 2009) to the Customer were \$7.5 million, representing 35% of the Company's revenues during the same period. The end result was to be a significant reduction in revenue for the Company. Indeed, nearly three years later the Company still is struggling with this loss of revenue, as disclosed in its September 4, 2012 earnings release: "As the Company has disclosed previously, the decrease in sales and the resulting net losses were primarily the result of the continuation of a reduction in purchases of the Company's medical device products by its largest customer."

In light of the expected loss of significant revenue, and with high uncertainty as how to replace the revenue, instead of adjusting compensation levels throughout the Company, the board greatly increased its own compensation and the compensation of the Company's CEO (a fellow director).

This chart compares the pre-tax losses of Pro-Dex to the combined compensation of the board and management the past four fiscal years (fiscal 2009 to fiscal 2012).

Pro-Dex generated earnings before taxes of -\$1.7 million in fiscal 2009, -\$3.4 million in fiscal 2010, \$3.1 million in fiscal 2011, and -\$1.4 million in fiscal 2012. Therefore, from fiscal 2009 through fiscal 2012, Pro-Dex generated a loss before taxes of approximately \$3.4 million while the Company's management and board were paid over \$4.7 million.

The annual compensation of Pro-Dex's recently-departed CEO (and director) increased from \$445,319 in fiscal 2009 to \$603,405 in fiscal 2010 (a 35.5% increase) and then to \$672,781 in fiscal 2011 (an 11.5% increase). His compensation totaled \$653,312 in fiscal 2012. Former CFO, Jeff Ritchey, was paid \$675,168 from fiscal 2009 through fiscal 2011 while current CFO, Hal Hurwitz, earned \$215,668 in fiscal 2011 and \$217,459 in fiscal 2012.

During this same four-year time period, Michael Berthelot's board fees increased from \$13,934 in fiscal 2009 to \$26,726 in fiscal 2010 (an increase of 91.8%) and then to \$44,016 in fiscal 2011 (a 64.7% increase). Mr. Berthelot earned \$39,219 as a board member in fiscal 2012 (July 1, 2011 – April 19, 2012) and \$243,319 as CEO (April 20, 2012 – June 30, 2012). William Healey's board fees increased from \$21,730 in fiscal 2009 to \$22,982 in fiscal 2010 (a 5.8% increase) to \$41,516 in fiscal 2011 (an increase of 80.6%) and then to \$48,444 in fiscal 2012 (an increase of 16.7%). David Holder's board fees increased from \$13,184 in fiscal 2009 to \$26,726 in fiscal 2010 (an increase of 102.7%) to \$43,516 in fiscal 2011 (a 62.8% increase) and then to \$46,455 in fiscal 2012 (a 6.8% increase). George Isaac's board fees increased from \$25,491 in fiscal 2009 to \$25,863 in fiscal 2010 (a 1.5% increase) and then to \$46,455 in fiscal 2011 (an increase of 79.6%). Mr. Isaac was paid \$46,455 again in fiscal 2012.

So, while shareholder value continues to decline, the Company's management and board of directors have seen their compensation increase. Is this how shareholder value is protected?

II. THE BOARD HAS FAILED TO URGENTLY MANAGE THE TRANSITION ACCOMPANYING THE LOSS OF THE LARGEST CUSTOMER

As we noted above, we have not found evidence in the Company's public disclosure that the board has taken material steps to oversee the loss of business from Pro-Dex's former largest customer. As previously mentioned (Item I), Pro-Dex's former largest customer informed the Company in December 2009 that it was in the process of transitioning the manufacturing of "Product A" and "Product B" in-house. In fiscal 2009, Pro-Dex's sales of these products and repair services totaled \$6.53 million (approximately 30.9% of total Company sales). In fiscal 2010, sales of these products and services totaled \$9.27 million (approximately 40% of total Company sales). Sales of these products and services totaled \$12.29 million in fiscal 2011 (approximately 45.3% of total Company sales). The management team and the board at Pro-Dex had plenty of time to prepare for this transition (over 30 months). Yet, sales to customers (excluding the largest customer) declined over this time period. See the table below.

With the loss of such a large customer, we would have expected the Company to adjust expense levels throughout the Company in preparation for this significant business transition. However, there seemed to be no sense of urgency to reduce the Company's cost structure. This was evidenced by a) increasing board and management compensation (see Item I), b) flat selling, general and administrative expenses (see the table below), and c) a severance policy for executives that does not take into account the poor financial circumstances of the Company (as evidenced by the exiting-CEO's recent \$346,000 severance package).

As is evident in the table below, Sales and Gross Margin fell dramatically in fiscal 2012; yet, Operating Expenses actually increased over the critical final year of production for the largest customer.

The customer transition was ultimately completed in April 2012. As a result, Pro-Dex experienced a precipitous decline in revenue for fiscal 2012 and a simultaneous deterioration of profitability. On September 4, 2012, the Company announced in a press release that it generated a loss from continuing operations before taxes of \$1.4 million for fiscal 2012.

III. THE BOARD DEMONSTRATED QUESTIONABLE JUDGMENT WHEN IT REPLACED THE COMPANY'S CEO WITH AN UNQUALIFIED BOARD MEMBER

In March of 2012, the board selected one of its own members, Mr. Berthelot (then serving as Chairman of the Nominating and Governance Committee), for the position of full-time CEO. As a result, Mr. Berthelot was provided with a \$300,000 base salary and severance package. In addition, the board granted Mr. Berthelot 200,000 stock options (over 6% of the Company's outstanding common stock). These options vest without regard to Mr. Berthelot's performance as CEO. So, these options do not tie to job performance and, in our opinion, do not properly incentivize Mr. Berthelot, at the expense of diluting existing shareholders.

The board member and candidate chosen by the board, Mike Berthelot, had no prior executive leadership experience in the medical device industry. We believe prior experience is important because the industry is highly specialized and the company has many FDA regulated products. In our view, at the very least, the Company would have been better served to have conducted an outside search for a new CEO with industry experience, industry experience that Mr. Berthelot is lacking based on his publicly disclosed business background.

We also note that the timing of the resignation, appointment and option grant raise questions for us:

Mark Murphy's resignation and Mike Berthelot's appointment to the CEO role was announced on April 20, 2012 (during the fourth quarter of fiscal 2012). However, Mark's severance payment of \$339,000 was expensed in the quarter ended March 31, 2012, which is before his actual resignation on April 20, 2012. Why was the severance payment expensed in the third quarter when the resignation occurred in the fourth quarter?

What does appear clear to us is that expensing the severance payment in the quarter ended March 31, 2012 negatively impacted earnings, which were reported after the market closed on May 4, 2012. The negative financial performance in the quarter, which was exacerbated by the severance payment, coincided with a significant drop in the Company's stock price.

Mike Berthelot's stock option grant date was set by the board to occur three weeks after his appointment and after the release of quarterly earnings, which included a charge related to his predecessor. The option grant was made on May 14, 2012, even though Mr. Berthelot became CEO on April 20, 2012. Why did the board decide to delay the grant date?

What does appear clear to us is that this delay was beneficial for Mr. Berthelot. The strike price of Mr. Berthelot's options is \$1.99 (the closing price on May 13, 2012). This strike price is 13.2% less than the average (mean) closing price of \$2.29 for the prior thirty trading days (beginning on March 23, 2012 and ending on the earnings announcement date, May 4, 2012).

On April 20, 2012, did the board already have information about the financial results for the fiscal quarter ended March 31, 2012 quarter?

IV. THE BOARD'S OVERSIGHT OF THE ASTROMECC BUSINESS AND ITS SALE REDUCED SHAREHOLDER VALUE

We believe the Board failed to manage the performance and sale of Pro-Dex Astromec ("Astromec") in a way that maximized value for shareholders.

In February 2012, the Company sold the assets of Astromec for a cash payment of \$756,000. In connection with the sale, the Company incurred \$302,000 of transaction costs (40% of sale proceeds). The transaction costs included a \$100,000 brokerage fee (13.2% of sale proceeds), employee incentive retention bonuses of \$125,000 (16.5% of sale proceeds), professional fees of \$66,000 (8.7% of sale proceeds) and other costs (not defined by the Company) of \$11,000 (1.5% of sale proceeds). Indeed, upon his departure from the CEO role, the board authorized the payment of a \$12,082 bonus to Mr. Murphy for "the achievement of the resolution of the ultimate disposition of the Astromec business." We note that Mr. Murphy was a board member at the time of the purchase of the Astromec business and that this bonus amounts to 1.6% of the sale proceeds.

Astromec was acquired by Pro-Dex in January 2006 for \$2.7 million. Subsequently, in February 2006, Pro-Dex acquired the land and building where Astromec conducted its operations. The purchase price was \$2.2 million.

On a combined basis, Pro-Dex spent \$4.9 million on the Astromec acquisition. The land and building are valued on the company's fiscal year 2012 balance sheet at approximately \$733,000. Therefore, roughly \$3.4 million of shareholder value has been destroyed from January 2006 through February 2012. The loss on the Astromec investment is equivalent to more than 40% of the Company's current market capitalization (as of November 5, 2012). As indicated below, sales generated from Astromec declined significantly from fiscal 2009 through fiscal 2012.

We have never heard of a business sale that generated transaction costs and fees amounting to 40% of the sales proceeds. We also reviewed publicly reported transactions and found that a 13.2% business brokerage fee is higher than the average brokerage fee. We believe it is important that shareholders understand why such a heavy transaction fee was paid, but the Company has not provided us with any explanation. When questioned, the Company stated flatly that it was unwilling even to disclose the name of the brokerage firm that it used to sell Astromec .

Subsequently, it was brought to our attention that the exhibits to the Company's SEC filing include the name of a brokerage firm that received a fee associated with the Astromec

sale. Based on publicly available information about the brokerage firm and its principals, the firm specializes in the IT sector, and one of the principals served on the "Board of Directors of the Chairmen's Round Table" with Mr. Berthelot. The firm's website lists thirty-six completed M&A advisory roles—not one of the transactions on the list involves an aerospace business and only one transaction listed involved a manufacturer (electronics).

We believe that the sale of Astromec was a material transaction for Pro-Dex. So, we want to be certain that the board undertook a fair process when it selected the brokerage firm for the sale, and a process that was designed to maximize shareholder value. We also want to understand why the transaction fee was so high .

V. THE BOARD MEMBERS OWN AN INSIGNIFICANT NUMBER OF SHARES IN THE COMPANY

Prior to November 28, 2012, George Isaac (Chairman of the Audit Committee) was the only Pro-Dex director who owned shares of the Company. He owns 39,834 shares or 1.2% of the Company's outstanding common stock and has been a director since 1995 .

Mr. Berthelot (CEO since April 20, 2012 and most recently Chairman of the Nominating and Governance Committee) has been a director since January 2009. On November 29, 2012, he exercised 11,667 stock options at a strike price between \$1.41 and \$1.47 per share for a total cash consideration of \$16,751 (before transaction costs). Prior to November 29, 2012, Mr. Berthelot did not own shares of Pro-Dex . The Board also awarded him 200,000 stock options (over 6% of the Company) in April 2012 at a strike price near a multi-year low. While we are glad that Mr. Berthelot is now a shareholder of Pro-Dex , we are concerned that his one purchase of stock after nearly three years on the board is simply a response to our proxy filing, and does not reflect a long-term willingness to put money at risk alongside Pro-Dex shareholders.

Mr. David Holder (Chairman of the Compensation Committee) has been a director since January 2009. On November 28, 2012, Mr. Holder exercised 11,667 stock options at a strike price between \$1.41 and \$1.47 per share. He also purchased 966 shares at \$1.926 per share. His total out-of-pocket cash expenditure (before transaction costs) was \$18,611. Prior to November 28, 2012, Mr. Holder did not own shares of the Company . While we are glad that Mr. Holder is now a shareholder of Pro-Dex, we are concerned that this one purchase of stock after nearly three years on the board is simply a response to our proxy filing, and does not reflect a long-term willingness to put money at risk alongside Pro-Dex shareholders.

William Healey (Chairman of the Board) has been a director since December 2007. On November 28, 2012, Mr. Healey exercised 5,000 stock options at a strike price of \$1.47 per share and 5,000 stock options at a strike price of \$1.86 per share. His total out-of-pocket cash expenditure (before transaction costs) was \$16,650. Prior to November 28, 2012, Mr. Healey did not own shares of the Company . While we are glad that Mr. Healey is now a shareholder of Pro-Dex, we are concerned that this one purchase of stock after five years on the board is simply a response to our proxy filing, and does not reflect a long-term willingness to put money at risk alongside Pro-Dex shareholders.

We believe it is a well-established fact that incentives motivate behavior. In our opinion, when board members do not own shares (or own an insignificant number of shares) in the company they direct, they are less incentivized to act in shareholders' best interests, as compared to board members who do own a meaningful number of shares for the long-run . It seems to us that this simple alignment of economic interests reduces the agency problem inherent in public companies. Our nominees have put a significant amount of their capital at risk by buying Pro-Dex stock in the open market, which we believe helps incentivize them to act in shareholders' best interests.

The vast majority of Mr. Swenson's beneficial ownership of shares of Pro-Dex are shares that are held on his behalf and not those of clients, approximately 503,582 shares or 15.4% of the outstanding shares. The proportion of shares of Pro-Dex that Mr. Swenson holds indirectly for clients is approximately only 31,630 shares (less than 1% of the shares). In addition, Mr. Swenson is a passive limited partner in Farnam Street Partners, which owns and controls approximately 168,830 shares or 5.2% of the outstanding shares.

Of the 168,830 shares held by Farnam Street Partners, approximately _____ shares are held for the benefit of Mr. Cabillot.

Mr. Farrell holds all of his shares directly.

ABOUT AO PARTNERS

AO Partners I, L.P. and its predecessors have owned a position in the common stock, no par value per share ("Common Stock"), of Pro-Dex since 2011. Currently, the AO Partners Group collectively owns approximately 15.9% of the Common Stock. Our investment strategy is to acquire significant stakes in undervalued and/or underperforming companies, and when necessary, we seek board representation and advocate for improvements in financial performance, capital allocation, and corporate governance. Our goal is to be aligned with ALL shareholders. We believe that our incentives are aligned with shareholders because we have put a significant amount of our capital at risk by buying Pro-Dex stock in the open market. We believe that our nominees to Pro-Dex's board of directors are highly qualified (as discussed below) and will add a new perspective and decision-making process to the current board. We urge you to read their biographies contained herein and make your own decision.

This proxy statement and the accompanying WHITE proxy card are being furnished to the Company's shareholders in connection with our solicitation of proxies to elect Messrs. Nicholas J. Swenson, Raymond E. Cabillot and William James Farrell III. Additional voting instructions are contained herein.

MEETING DETAILS AND PROXY MATERIALS

We are soliciting proxies to be used at the 2012 annual meeting of shareholders of Pro-Dex, including any adjournments or postponements thereof and any meeting which may be called in lieu thereof (the "Annual Meeting"). The Annual Meeting will be held at [•] on the ___ of _____, 2013 at [•] a.m., Pacific Time. The principal executive offices of the Company are located at 2361 McGaw Avenue, Irvine, California 92614. At the Annual Meeting, the shareholders of Pro-Dex are being asked to consider and vote upon (1) the election of [five] directors to the board to serve until the 2013 annual meeting of shareholders, (2) the ratification of the appointment of Moss Adams, LLP, as Pro-Dex's independent registered public accounting firm for the fiscal year ending June 30, 2013, and (3) any other matters that may properly come before the Annual Meeting or any adjournments or postponements thereof.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on the ___ of _____, 2013. This proxy statement and the accompanying form of WHITE proxy card are available at [www.\[•\]](http://www.[•]).

IT IS IMPORTANT THAT YOU RETURN YOUR PROXY PROMPTLY. IF YOU ARE A RECORD HOLDER, PLEASE SIGN AND DATE YOUR WHITE PROXY CARD PROMPTLY AND RETURN IT IN THE ENCLOSED ENVELOPE TO AVOID UNNECESSARY EXPENSE AND DELAY. NO POSTAGE IS NECESSARY. IF YOUR SHARES ARE HELD IN "STREET NAME" BY A BROKER, NOMINEE, FIDUCIARY OR OTHER CUSTODIAN, PLEASE CONTACT THE PERSON RESPONSIBLE FOR YOUR ACCOUNT AND INSTRUCT THEM TO VOTE THE WHITE PROXY CARD ON YOUR BEHALF (YOUR BROKER, NOMINEE, FIDUCIARY OR OTHER CUSTODIAN MAY PERMIT YOU TO VOTE BY THE INTERNET OR BY TELEPHONE).

This proxy statement and the accompanying form of WHITE proxy card are available at [www.\[•\]](http://www.[•]). If you have any questions, require any assistance, or would like to request copies of these documents, please contact Alliance Advisors LLC, proxy solicitors for the AO Partners Group, at the following address and telephone number:

Alliance Advisors LLC
200 Broadacres Drive, 3rd Floor
Bloomfield, NJ 07003
Shareholders Call Toll Free: 1-877-777-5216
Banks and Brokers Call Collect: 973-873-7700

Please also feel free to call or email the AO Partners Group at the following:

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A Word of Caution: We are not responsible for the accuracy of the Company's disclosures in its proxy materials.

If you share our concerns and views about Pro-Dex, please vote for Messrs. Nicholas J. Swenson, Raymond E. Cabillot and William James Farrell III on AO Partners Group's WHITE proxy card.

IF YOU ARE A SHAREHOLDER OF RECORD YOU MAY VOTE BY MARKING YOUR VOTE ON THE WHITE PROXY CARD WE HAVE ENCLOSED, SIGNING AND DATING IT, AND MAILING IT IN THE POSTAGE-PAID ENVELOPE WE HAVE PROVIDED.

IF YOUR SHARES ARE HELD IN "STREET NAME" BY A BROKER, NOMINEE, FIDUCIARY OR OTHER CUSTODIAN, FOLLOW THE DIRECTIONS GIVEN BY THE BROKER, NOMINEE, FIDUCIARY OR OTHER CUSTODIAN REGARDING HOW TO INSTRUCT THEM TO VOTE YOUR SHARES. YOUR BROKER, NOMINEE, FIDUCIARY OR OTHER CUSTODIAN MAY PERMIT YOU TO VOTE BY THE INTERNET OR BY TELEPHONE.

BACKGROUND OF THE SOLICITATION

The following is a summary of events that occurred prior to this proxy solicitation:

Mr. Swenson and the predecessor of AO Partners began acquiring shares of Pro-Dex in the open market on July 5, 2011.

On August 23, 2011, Mr. Swenson met with then CEO, Mark Murphy, and CFO, Hal Hurwitz. The discussion was broad-ranging and included ways in which the company's resources might be best activated. Mr. Swenson appealed to Mark and Hal to manage cash-flows to break-even levels, or better, by flexing costs while simultaneously initiating a modest share buy-back program.

On August 27, 2011, Mr. Swenson copied Mark Murphy and Chairman of the Board, Bill Healey, on an analysis of share buybacks published in "Distant Force" by George A. Roberts and Robert J. McVicker.

On December 5, 2011, Mr. Swenson and Mr. Barkett introduced themselves to the Pro-Dex board of directors via an in-person presentation immediately following the 2011 annual shareholder meeting. During this presentation, Mr. Swenson strongly recommended that Pro-Dex flex its operations/cost structure to manage to positive cash flows and initiate a modest stock buy-back program. The emphasis of the meeting was on Mr. Swenson's background.

February 9, 2012, Mr. Barkett introduces Pro-Dex senior management to executives of a significant manufacturer of dental instruments.

On or about March 1, 2012, Mr. Swenson spoke with Mr. Murphy and requested that he and Mr. Barkett be added to the Company's board of directors as soon as possible via an appointment and no later than via proxy at the 2012 annual meeting. Mr. Murphy referred the request to Board Chairman Healey.

On March 8, 2012, Mr. Swenson and Mr. Barkett spoke with Mr. Murphy and Mr. Hurwitz about work they completed that would allow Pro-Dex to benchmark its costs of being public against those of other public companies.

On March 13, 2012, Mr. Swenson called Mr. Murphy to follow-up, indicating that Chairman Healey had made no contact regarding the board seat. Mr. Murphy indicated that Mr. Healey would be contacting Mr. Swenson the following week.

On March 19, 2012, Mr. Swenson spoke with Mr. Healey about his request for a board seat. Mr. Healey indicated that it was very inconvenient for a shareholder who owns stock to be on the board due to stock trading restrictions. Mr. Swenson indicated that he believes many well-known investors believe that boards ought to select their members from among the largest shareholders. Mr. Swenson asked Mr. Healey to provide him a “yes” or “no” answer within a week as to whether the board would be able to provide Mr. Swenson with an interim board appointment by its June meeting. Mr. Swenson asked for an opportunity to address the full board via conference call in the case that they would not be able to make an appointment before or during their June meeting.

On March 28, 2012, Mr. Swenson received a letter and phone call from Mr. Berthelot, who identified himself as the Chairman of the Nominating Committee of the Pro-Dex board. Mr. Berthelot wrote that Mr. Swenson's request for a board seat would be seriously considered by the Nominating and Governance Committee, of which he was Chairman. Mr. Berthelot requested that Mr. Swenson provide a full resume, submit to a background check, and complete a 31-page Directors and Officers Questionnaire. Mr. Berthelot indicated that the Nominating and Governance Committee would consider adding an interim board seat and appointing him to the resulting open seat.

On April 9, 2012, Mr. Swenson returned the materials requested by the Nominating and Governance Committee.

On April 11, 2012, Mr. Swenson met personally with Mr. Berthelot, who identified himself as the Chairman of the Nominating Committee of the Pro-Dex board. Mr. Swenson again made his case to manage the business for positive cash flows through flexing costs and a modest share buyback program. Mr. Berthelot interviewed Mr. Swenson regarding his views on Pro-Dex and possible steps to enhance shareholder value.

On April 20, 2012, the Company announces the resignation of Mr. Murphy. Mr. Berthelot becomes CEO of the Company. Mr. Berthelot, the Chairman of the Nominating and Governance Committee at the time of his selection, was given an employment contract, severance package and, significantly, was granted options to buy 6% of the company at a strike price to be set after the release of third quarter financials.

On April 20, 2012, Mr. Murphy also resigns from his position on the board of directors, leaving the Pro-Dex board with four of five seats filled.

On April 20, 2012, Mr. Berthelot was granted options to buy 6% of Pro-Dex's outstanding shares at a strike price equal to the closing price of Pro-Dex six days after the fiscal third quarter 2012 results were to be released.

On April 27, 2012, Mr. Swenson discussed his board request with Chairman Healey.

On May 4, 2012, Pro-Dex announced results for the quarter ended March 31, 2012. A charge associated with Mr. Murphy's April 20th resignation hits the results for the quarter. The stock price falls after the release of the quarterly results. Mr. Berthelot's options are struck at \$1.99.

On May 12, 2012, Mr. Swenson and Mr. Barkett expressed concern to Mr. Berthelot and Mr. Hurwitz that Pro-Dex, while expecting a sales reduction of nearly \$12.29 million (45% of total sales) as a consequence of losing its largest customer, had only reduced expenses by \$200,000 as of the first nine months of fiscal 2012.

On May 21, 2012, having not heard back from the Company, Mr. Swenson arranged a call with Mr. Healey and Mr. Berthelot for May 23, 2012. During that call Mr. Healey and Mr. Berthelot indicated that Pro-Dex would not be offering Mr. Swenson a board seat. Their reasons were (a) Mr. Swenson could not qualify as an independent director due to his significant share ownership, but the Company's independence standards do not contain a disqualification related to share ownership, (b) they prefer to replace Mr. Murphy with someone who has "C-suite experience in the medical device industry" and (c) they indicated that they are looking to reduce corporate costs and that keeping a board seat vacant board would allow them to accomplish that goal. When Mr. Swenson indicated he would serve on the board without pay, Mr. Healey and Mr. Berthelot indicated that was not workable due to regulatory concerns, which were never explained.

On June 1, 2012, Mr. Swenson wrote to Mr. Healey asking for clarification as to why the Pro-Dex board denied its largest shareholder a seat on its board.

On June 15, 2012, Mr. Healey wrote a letter on behalf of the Board that reiterated his statements of May 23, and added, "During the course of its review of your candidacy, our Board also noted that your track record of prior experience as a public company director and your lack of experience in an operating or management role would be considered a weakness in your candidacy."

On June 27, 2012, Mr. Swenson filed his Notice of Intent to nominate three directors to the Company's board of directors.

OUR NOMINEES

Pro-Dex's board of directors currently consists of four members, with one seat vacant. At the Annual Meeting, the AO Partners Group will seek to elect Mr. Swenson, Mr. Cabillot and Mr. Farrell to fill three of the [five] open seats, in opposition to the candidates nominated by the Company's incumbent board of directors. The election of Mr. Swenson, Mr. Cabillot and Mr. Farrell requires the affirmative vote of a plurality of the votes cast. If elected, Mr. Swenson, Mr. Cabillot and Mr. Farrell would each be entitled to serve a one-year term ending in 2013.

In our opinion, our Nominees will bring new perspectives, new ideas, new viewpoints and new energy to the board as the Company seeks to confront the current challenges and the challenges that lie ahead. Our nominees will act to have the Company conduct a meaningful review of its operational and strategic plans to ensure that the enhancement of shareholder value is one of the Company's ultimate objectives. Our plans will be elaborated as we gain access to the information necessary to evaluate the full range of challenges and opportunities. If elected, our nominees will work with management to establish shared goals. We intend to design these goals in such a way that they will support shareholder value creation

INDEPENDENCE AND QUALIFICATIONS OF OUR NOMINEES

We believe that our nominees would be deemed “independent” under the NASDAQ Marketplace Rules.

Nick Swenson: Mr. Swenson formed AO Partners I, L.P. in 2011 with the intention of investing his and his partners’ funds in small-cap companies such as Pro-Dex. Since March, 2009, Mr. Swenson has been the Chief Executive Officer and a Portfolio Manager of Groveland Capital, LLC. Prior to forming Groveland Capital, Mr. Swenson was a Portfolio Manager and Partner at Whitebox Advisors, LLC, a multi-strategy hedge fund, from 2001 to 2009. From 1999 to 2001 he was a Research Analyst at Varde Partners, LLC, a partnership that specializes in distressed debt investing. He was an Associate in Corporate Finance at Piper Jaffray, Inc., where he and Ray Cabillot were colleagues, from 1996 to 1999. Mr. Swenson serves as a director of several private companies as well as Air T, Inc. (AIRT), a NASDAQ listed company. Mr. Swenson has a B.A. degree in History from Middlebury College (1991) and an M.B.A. from the University of Chicago (1996).

Ray Cabillot: Mr. Cabillot has, from January 1998 until the present, served as Chief Executive Officer and a director of Farnam Street Capital, Inc. the General Partner of Farnam Street Partners L.P., a private investment partnership located in Minneapolis, MN. He was a Senior Research Analyst at Piper Jaffray, Inc., where he and Nick Swenson were colleagues, from 1990 to 1998. Prior to that, he worked for Prudential Capital Corporation from 1987 to 1990 as an Associate Investment Manager and as an Investment Manager. Mr. Cabillot serves as a director of several private companies. He was a director of O.I. Corporation, a NASDAQ listed company (OICO), from 2006 to 2010. He served as Chairman of the Board of O.I. Corporation from 2007 through 2010 and during 2010 served as Co-Chairman of the Board of O.I. Corporation. Mr. Cabillot has a B.A. degree with a double major in Economics and Chemistry from Saint Olaf College and an M.B.A. from the University of Minnesota.

Bill Farrell: Mr. Farrell has, from January 2011 until the present, served as CEO of Viszy Inc., a start-up developing software and services targeting the consumer market. Mr. Farrell is also CEO of Bōbiam, LLC, a company that turns youth art into apparel and other products, which it merchandises through its retail store and wholesale channels. From April 1998 to January 2011, Mr. Farrell held various senior management roles at Medtronic, Inc. His engineering career began with 8 years in production support, process development and operations. He then worked 10 years in product development for Medtronic during which time he lead 100+ portfolio, program, product and process development managers and engineers. At the end of his tenure, he was Senior Director of Product Development and led corporate-wide initiatives to improve design, reliability and

manufacturability practices. Mr. Farrell has a B.S. degree in Mechanical Engineering from the University of Minnesota (1996).

The combination of experience and qualifications discussed above led to the conclusion that each of the nominees should serve as a director. Our nominees have consented to being named in the proxy statement and have agreed to serve as directors of Pro-Dex if elected. Each of these individuals possesses the appropriate skills and experience to manage the Company. Specifically, each has gained familiarity with financial statements and developed a deep understanding of the demands of operating a business and addressing the issues that confront businesses, which will make them a valuable resource to the Board of Directors. Each also possesses the skills to provide in-depth financial analysis of the Company's business operations.

We expect that each of our nominees will be able to stand for election but in the event that one or more of our nominees is unable to serve or for good cause will not serve, the shares represented by the enclosed WHITE proxy card will be voted for a substitute nominee(s), to the extent this is not prohibited under the Company's charter documents and applicable law. In addition, to the extent permitted by the Company's charter documents, we reserve the right to solicit proxies for the election of such substitute nominee(s) if the Company makes or announces any changes to its charter documents or takes or announces any other action that has, or if consummated would have, the effect of disqualifying one or more of our nominees. In any such case, shares represented by the enclosed WHITE proxy card will be voted for such substitute nominee(s). To the extent permitted by the Company's charter documents, we reserve the right to nominate additional persons, if the Company increases the size of its board above its existing size.

WHO CAN VOTE AT THE ANNUAL MEETING

The record date for determining shareholders entitled to notice of and to vote at the Annual Meeting is [•][•], 2012 (the "Record Date"). Shareholders of the Company as of the Record Date are entitled to one vote at the Annual Meeting for each share of Common Stock held on the Record Date. It is anticipated that the proxy statement that will be filed by the Company will state the number of shares issued and outstanding on the Record Date.

HOW TO VOTE BY PROXY

To elect the AO Partners Group's nominees to the board, if you are a record holder (namely, you own your Pro-Dex stock in certificate form), you can vote by marking your vote on the WHITE proxy card we have enclosed, signing and dating it, and mailing it in the postage-paid envelope we have provided. If your shares are held in "street name" by a broker, nominee, fiduciary or other custodian, follow the directions given by the broker, nominee, fiduciary or other custodian regarding how to instruct them to vote your shares. Your broker, nominee, fiduciary or other custodian may permit you to vote by the Internet or by telephone. Whether you plan to attend the Annual Meeting or not, we urge you to vote your shares now. Please contact our proxy solicitor Alliance Advisors LLC at (877) 777-5216 if you require assistance in voting your shares. This proxy statement and the accompanying form of WHITE proxy card are available at www.foxit.com.

Properly executed proxies will be voted in accordance with the directions indicated thereon. If you sign the WHITE proxy card but do not make any specific choices, your proxy will vote your shares as follows:

"FOR" the election of our nominees to the board of directors, Messrs. Nicholas J. Swenson, Raymond E. Cabillot and William James Farrell III.

"FOR" the ratification of the appointment of Moss Adams, LLP as the independent registered public accounting firm for the Company for the fiscal year ending June 30, 2013.

For purposes of any adjournment, proxies will be voted at the discretion of the persons named as proxies in the attached proxy card.

You will not be able to vote for any Company nominee on our proxy card. We are only seeking proxies for the election of our three nominees. Therefore any shareholder who votes for our three nominees will not be permitted to exercise their vote for the other two board seats that are up for election at the Annual Meeting. If our three director nominees get elected, the remaining two spots will be filled by those Company nominees who get the most votes.

Rule 14a-4(c)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), governs our use of our discretionary proxy voting authority with respect to a matter that is not known by us a reasonable time before our solicitation of proxies. It provides that if we do not know, a reasonable time before making our solicitation, that a matter is to be presented at the meeting, then we are allowed to use our discretionary voting authority when the proposal is raised at the meeting, without any discussion of the matter in this proxy statement. If any other matters are presented at the Annual Meeting for which we may exercise discretionary voting, your proxy will be voted in accordance with the best judgment of the persons named as proxies on the attached proxy card. At the time this Proxy Statement was mailed, we knew of no matters which needed to be acted on at the Annual Meeting, other than those discussed in this Proxy Statement.

If any of your shares are held in the name of a brokerage firm, bank, bank nominee or other institution on the record date, only that entity can vote your shares and only upon its receipt of your specific instructions. Accordingly, please contact the person responsible for your account at such entity and instruct that person to execute and return the WHITE proxy card on your behalf. You should also sign, date and mail the voting instruction from your broker or banker sends you when you receive it (or, if applicable, vote by following the instructions supplied to you by your bank or brokerage firm, including voting by telephone or via the internet). Please do this for each account you maintain to ensure that all of your shares are voted.

A large number of banks and brokerage firms are participating in a program that allows eligible shareholders to vote by telephone or via the Internet. If your bank or brokerage firm is participating in the telephone voting program or Internet voting program, then such bank or brokerage firm will provide you with instructions for voting by telephone or the Internet on the voting form. Telephone and Internet voting procedures, if available through your bank or brokerage firm, are designed to authenticate your identity to allow you to give your voting instructions and to confirm that your instructions have been properly recorded. Shareholders voting via the Internet should understand that there might be costs that they must bear associated with electronic access, such as usage charges from Internet access providers and telephone companies. If your bank or brokerage firm does not provide you with a voting form, but instead you receive our WHITE proxy card, then you should mark our proxy card, date it and sign it, and return it in the enclosed postage-paid envelope.

VOTING AND PROXY PROCEDURES

Shareholders of Pro-Dex are not permitted to cumulate their votes for the election of directors.

The presence, in person or by proxy, of a majority of the shares of Common Stock outstanding entitled to vote at the Annual Meeting will constitute a quorum. Proxies relating to “street name” shares that are voted by brokers on some but not all of the matters before shareholders at the Annual Meeting will be treated as shares present for purposes of determining the presence of a quorum on all matters, but will not be entitled to vote at the Annual Meeting on those matters as to which authority to vote is not given to the broker (“broker non-votes”). Accordingly, assuming a quorum is present, broker non-votes will not affect the outcome of the election of directors, and are not counted in determining whether a matter requiring approval of a majority of the shares present and entitled to vote has been approved.

At this meeting, proxies relating to “street name” shares will not be voted for the election of directors unless the shareholder gives instructions on how to vote the shareholder’s shares.

Since the AO Partners Group is only proposing three nominees for the board of directors, if the AO Partners Group nominees are elected, [two] of the Company’s nominees with the highest number of shares voted in such nominees’ favor will also be elected.

The election of Messrs. Nicholas J. Swenson, Raymond E. Cabillot and William James Farrell III requires the affirmative vote of a plurality of the votes present in person or represented by proxy at the Annual Meeting. Assuming the presence of a quorum at the Annual Meeting, all other proposals to be voted on at the Annual Meeting will require the affirmative vote of a majority of the Common Stock present in person or represented by proxy at the Annual Meeting.

THE AO PARTNERS GROUP URGES YOU TO VOTE FOR THE ELECTION OF MESSRS. NICHOLAS J. SWENSON, RAYMOND E. CABILLOT AND WILLIAM JAMES FARRELL III AS DIRECTORS OF PRO-DEX AS SOON AS POSSIBLE. PROXIES SOLICITED BY THIS PROXY STATEMENT MAY BE EXERCISED ONLY AT THE ANNUAL MEETING (AND ANY ADJOURNMENT OR POSTPONEMENT THEREOF) IN ACCORDANCE WITH YOUR INSTRUCTIONS AND WILL NOT BE USED FOR ANY OTHER MEETING.

A proxy given pursuant to this solicitation may be revoked at any time before it is voted. If you are a record holder, you may revoke your proxy and change your vote by: (1) the timely delivery of a duly executed proxy bearing a later date, (2) providing timely written notice of revocation to the Company's Corporate Secretary at the Company's principal executive offices at 2361 McGaw Avenue, Irvine, California 92614, or (3) attending the Annual Meeting and giving oral notice of your intention to vote in person. If you are the beneficial owner of shares held in street name, you may revoke your proxy and change your vote: (1) by submitting new voting instructions to your broker, bank or other nominee in accordance with their voting instructions, or (2) if you have obtained a legal proxy from your bank, broker or other nominee giving you the right to vote your shares in person, by attending the Annual Meeting, presenting the completed legal proxy to the Company and voting in person. You should be aware that simply attending the Annual Meeting will not in and of itself constitute a revocation of your proxy.

Only holders of record as of the close of business on the Record Date will be entitled to vote at the Annual Meeting. If you were a shareholder of record on the Record Date, you will retain your voting rights for the Annual Meeting even if you sell your shares after the Record Date. Accordingly, it is important that you vote the shares held by you on the Record Date, or grant a proxy to vote such shares, even if you sell such shares after the Record Date.

IMPORTANT: If you wish to support Messrs. Nicholas J. Swenson, Raymond E. Cabillot and William James Farrell III, please sign, date and return only the AO Partners Group's WHITE proxy card. If you later vote on management's [•] proxy (even if it is to withhold authority to vote for management's nominees), you will revoke your previous vote for Messrs. Nicholas J. Swenson, Raymond E. Cabillot and William James Farrell III. Please discard the Company's [•] proxy card.

ALTHOUGH YOU MAY VOTE MORE THAN ONCE, ONLY ONE PROXY WILL BE COUNTED AT THE ANNUAL MEETING, AND THAT WILL BE YOUR LATEST-DATED, VALIDLY EXECUTED PROXY.

If you have already sent a [•] proxy to management of the Company, you can revoke that proxy by signing, dating and mailing the WHITE proxy card or by voting in person at the Annual Meeting.

IF YOU SIGN THE WHITE PROXY CARD AND NO MARKING IS MADE, YOU WILL BE DEEMED TO HAVE GIVEN A DIRECTION TO VOTE THE PRO-DEX COMMON STOCK REPRESENTED BY THE WHITE PROXY CARD FOR THE ELECTION OF MESSRS. NICHOLAS J. SWENSON, RAYMOND E. CABILLOT AND WILLIAM JAMES FARRELL III, AND FOR THE RATIFICATION OF MOSS ADAMS, LLP AS THE COMPANY'S INDEPENDENT AUDITORS.

SOLICITATION OF PROXIES; EXPENSES

The entire expense of preparing and mailing this Proxy Statement and any other soliciting material and the total expenditures relating to the solicitation of proxies (including, without limitation, costs, if any, related to advertising, printing, fees of attorneys, financial advisors, solicitors, accountants, public relations, transportation and litigation) will be borne by the AO Partners Group. In addition to the use of the mails, proxies may be solicited by the AO Partners Group, other Participants (as defined below) and/or their employees by telephone, telegram, and personal solicitation, for which no additional compensation will be paid to those persons engaged in such solicitation. Banks, brokerage houses, and other custodians, nominees, and fiduciaries will be requested to forward solicitation material to the beneficial owners of the Common Stock that such institutions hold, and AO Partners Group will reimburse such institutions for their reasonable out-of-pocket expenses.

The AO Partners Group has retained Alliance Advisors LLC, a proxy solicitation firm, to assist in the solicitation of proxies at a fee estimated not to exceed \$11,000, plus reimbursement of reasonable out-of-pocket expenses. Approximately 15 persons will be utilized by that firm in its solicitation efforts.

The AO Partners Group estimates that its total expenditures relating to the solicitation of proxies will be approximately \$[•] (including, without limitation, costs, if any, related to advertising, printing, fees of attorneys, financial advisors, solicitors, accountants, public relations, transportation, and litigation). Total cash expenditures to date relating to this solicitation have been approximately \$[•].

The AO Partners Group currently intends to seek reimbursement from the Company for its actual expenses in connection with this solicitation. Since our nominees are not currently board members, we cannot direct the company at the present time, to put reimbursement to a vote of shareholders. Further, while we currently intend to submit it to a vote of the board if our nominees are elected, each nominee would act at his own discretion on whether to approve it, and would exercise his fiduciary duty in determining whether it what is in the best interests of shareholders at that time. In any event, reimbursement would require a vote of the shareholders before it would be implemented. If the matter is submitted to a vote of the Company's shareholders, the AO Partners Group will vote its shares in favor of such reimbursement and will accept the results of such shareholder vote.

By our reading of the Pro-Dex agreements and contracts available to us, the election of our full slate of directors will result in a change in control as defined under the Company's standard employment agreements. However, as far as we can determine, there will be no effects unless the CEO or CFO are terminated within 12 months of the change in control, and we currently have no plans to terminate any members of the executive management team.

CERTAIN INFORMATION REGARDING THE PARTICIPANTS

Mr. Nicholas J. Swenson is a member of the "AO Partners Group," which currently consists of the following persons and entities:

AO Partners I, L.P., a Delaware limited partnership ("AO Partners Fund").

AO Partners, LLC, a Delaware limited liability company ("AO Partners").

Glenhurst Co., a Minnesota corporation wholly owned by Nick Swenson ("Glenhurst").

Nick Swenson as the Managing Member of AO Partners, as the sole owner of Glenhurst and as an individual.

The principal business address of each of AO Partners Fund, AO Partners, Glenhurst and Mr. Swenson is 3033 Excelsior Blvd., Suite 560, Minneapolis, MN 55416. Each of AO Partners Fund, AO Partners and Glenhurst are engaged in various interests, including investments. The home address of Mr. Swenson is 3735 Glenhurst Ave, St. Louis Park, MN 55416.

The principal employment of Mr. Swenson is (1) private investor and (2) serving as the sole Managing Member of AO Partners and Groveland Capital, LLC, a Delaware limited liability company.

No other stockholder other than members of the AO Partners Group is known to Mr. Swenson to be supporting Messrs. Swenson, Cabillot and Farrell as nominees.

Each of the members of the AO Partners Group identified in this proxy statement is a participant in the solicitation conducted with this Proxy Statement, along with Mr. Raymond E. Cabillot and Mr. William James Farrell III. Each of these persons is referred to in this Proxy Statement as a "Participant" and collectively they are the "Participants."

Appendix A lists certain information regarding ownership of the Common Stock by the Participants and transactions in the Common Stock made by the Participants during the past two years. Collectively, the AO Partners Group beneficially owns 535,212 shares of Common Stock, or approximately 16.4 % of the outstanding shares of Common Stock, and the Participants as a group own 705,042 shares of Common Stock, or approximately 21.6 %. The AO Partners Group may change or alter its investment strategy at any time to increase or decrease its holdings in Pro-Dex.

No Participant has during the last ten years been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

Except as set forth herein, no Participant is now, or within the past year has been, a party to any contract, arrangement or understanding with any person with respect to any securities of the Company (including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies).

With respect to AO Partners Fund, AO Partners is entitled to (1) an allocation of a portion of profits, if any, and (2) a management fee based upon a percentage of total capital. Mr. Swenson has agreements with AO Partners Fund whereby he is indemnified by AO Partners Fund for any liabilities he may incur in connection with his duties, including AO Partner Group's intended solicitation of proxies for use at the Annual Meeting. AO Partners Fund will also reimburse Mr. Swenson, Mr. Cabillot and Mr. Farrell for any expenses that they reasonably incur in connection with the AO Partner Group's intended solicitation of proxies for use at the Annual Meeting.

There are no material proceedings to which any Participant or any associate of any Participant is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries. Except as described herein, no Participant and no associate of any Participant has any interest in the matters to be voted upon at the Annual Meeting, other than an interest, if any, as a shareholder of the Company.

Except as described herein or in Appendix A, neither any Participant nor any associate of any Participant (1) has engaged in or has a direct or indirect interest in any transaction or series of transactions since the beginning of the Company's last fiscal year, or in any currently proposed transaction, to which the Company or any of its subsidiaries is a party where the amount involved was in excess of \$120,000; (2) has been indebted to the Company or any of its subsidiaries; (3) has borrowed any funds for the purpose of acquiring or holding any securities of the Company, or is presently, or has been within the past year, a party to any contract, arrangement or understanding with any person with respect to either any securities of the Company, any future employment by the Company or its affiliates, or any future transaction to which the Company or any of its affiliates will or may be a party; or (4) is the beneficial or record

owner of any securities of the Company or any parent or subsidiary thereof.

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The AO Partners Group has not paid any compensation to Messrs. Nicholas J. Swenson, Raymond E. Cabillot or William James Farrell III in connection with this proxy solicitation.

OTHER MATTERS

The AO Partners Group anticipates that the Company's proxy statement will contain information regarding the following, which is being omitted from this proxy statement pursuant to Rule 14a-5(c) under the Exchange Act: (1) the security ownership of management and beneficial owners of more than 5% of the Common Stock; (2) the committees of the Company's board of directors, including the nominating, compensation and audit committees (and information about audit committee financial experts); (3) the meetings of the Company's board of directors and all committees thereof; (4) the background and qualifications of the nominees of the Company's board of directors; (5) the Company's leadership structure and the board's oversight of risk management; (6) the compensation and remuneration paid and payable to the Company's directors and management, and other compensation related information; (7) the attendance of members of the Company's board of directors at the annual meeting; (8) the Company's policies and procedures for the review, approval or ratification of transactions with related persons; (9) the Company's director nomination process; (10) the independence of the Company's directors; (11) shareholder communication with the Company's board of directors; (12) the deadline for submitting shareholder proposals for inclusion in the Company's proxy statement for the 2012 annual meeting of shareholders under Rule 14a-8 of the Exchange Act; (13) the date after which a notice of shareholder proposal submitted outside the process of Rule 14a-8 is considered untimely; and (14) the Company's independent registered public accounting firm and the fees paid to such firm. The AO Partners Group has no knowledge of, or responsibility for, the accuracy of the Company's disclosures in its proxy materials.

ADDITIONAL INFORMATION

The information concerning Pro-Dex contained in this proxy statement has been taken from, or is based upon, publicly available information prepared by Pro-Dex. With regard to the information identified above under the heading "Other Information", we are relying on Pro-Dex's disclosure in its proxy statement, in accordance with and pursuant to Rule 14a-5(c) under the Exchange Act.

Pro-Dex files annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information that the Company files with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These SEC filings are also available to the public from commercial document retrieval services and at the Internet website maintained by the SEC at www.sec.gov.

The Participants have filed a Schedule 13D, as amended, with the SEC, the exhibits of which include some of the AO Partners Group's correspondence with Pro-Dex concerning the matters described herein. These materials may be accessed from the SEC's website free of charge.

YOUR VOTE IS IMPORTANT

NO MATTER HOW MANY OR HOW FEW SHARES YOU OWN WE ARE SEEKING YOUR SUPPORT. PLEASE VOTE FOR MESSRS. NICHOLAS J. SWENSON, RAYMOND E. CABILLOT AND WILLIAM JAMES FARRELL III. ONLY YOUR LATEST DATED PROXY COUNTS. EVEN IF YOU HAVE ALREADY RETURNED A [•] PROXY TO THE COMPANY'S BOARD OF DIRECTORS, YOU HAVE EVERY LEGAL RIGHT TO REVOKE IT BY RETURNING A WHITE PROXY TO US AS PROVIDED BELOW.

IF YOU ARE A RECORD HOLDER, PLEASE VOTE BY SIGNING, DATING, AND MAILING IN THE ENCLOSED POSTAGE-PAID ENVELOPE THE ENCLOSED WHITE PROXY CARD AS SOON AS POSSIBLE. IF YOUR SHARES ARE HELD IN "STREET NAME" BY A BROKER, NOMINEE, FIDUCIARY OR OTHER CUSTODIAN, FOLLOW THE DIRECTIONS GIVEN BY THE BROKER, NOMINEE, FIDUCIARY OR OTHER CUSTODIAN REGARDING HOW TO INSTRUCT THEM TO VOTE YOUR SHARES. YOUR BROKER, NOMINEE, FIDUCIARY OR OTHER CUSTODIAN MAY PERMIT YOU TO VOTE BY THE INTERNET OR BY TELEPHONE.

This proxy statement and the accompanying form of WHITE proxy card are available at [www. \[•\]](#). If you have any questions, require any assistance, or would like to request copies of these documents, please contact Alliance Advisors LLC, proxy solicitors for the AO Partners Group, at the following address and telephone number:

Alliance Advisors LLC
200 Broadacres Drive, 3rd Floor
Bloomfield, NJ 07003
Shareholders Call Toll Free: 1-877-777-5216
Banks and Brokers Call Collect: 973-873-7700

Please also feel free to call or email the AO Partners Group at the following:

Nick Swenson
AO Partners I, LP
3033 Excelsior Blvd.
Suite 560
Minneapolis, MN 55416
Office phone: 612-843-4301
Cell phone: 612-703-2292
nickswenson@grovelandcapital.com

Sincerely,

Nicholas J. Swenson

December ____, 2012

Appendix A

| Name of Nominee | Class | Amount |
|------------------------|--------|-------------|
| Nicholas J. Swenson | Common | 535,212 (1) |
| Raymond E. Cabillot | Common | 168,830 (2) |
| William J. Farrell III | Common | 1,000 |

(1) Except for 257,506 shares held by Mr. Swenson of record, all of the above shares are owned beneficially, by virtue of Mr. Swenson's membership in the AO Partners Group.

(2) All of the above shares are owned beneficially by virtue of Mr. Cabillot's serving as the Chief Executive Officer and a director of Farnam Street Capital, Inc., the General Partner of Farnam Street Partners, L.P. (collectively, the "Farnam Street Group").

Except as otherwise described herein, neither Mr. Swenson, Mr. Cabillot nor Mr. Farrell has, including without limitation any such interests held by members of his immediate family sharing the same household: (1) an interest in a derivative instrument related to the Common Stock; (2) any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of Common Stock; (3) any proxy, contract, arrangement, understanding, or relationship pursuant to which he has a right to vote any shares of any security of the Company; (4) any short interest in any security of the Company directly or indirectly; (5) any rights to dividends on the shares of the Company beneficially owned by him that are separated or separable from the underlying shares of the Company; or (6) any performance-related fees (other than an asset-based fee) that he is entitled to based on any increase or decrease in the value of shares of Common Stock.

| Member of AO Partners Group | Shares Held Beneficially | Percent of Class | Shares Held By Non-Participant Associates |
|--|--------------------------|------------------|---|
| AO Partners I, L.P. 3033 Excelsior Blvd. Suite 560 Minneapolis, Minnesota 55416 | 105,435 | 3.2% | 0 |
| AO Partners, LLC 3033 Excelsior Blvd. Suite 560 Minneapolis, Minnesota 55416 | 105,435 | 3.2% | 0 |
| Glenhurst Co. 3033 Excelsior Blvd. Suite 560 Minneapolis, Minnesota 55416 | 172,271 | 5.3% | 0 |
| Nicholas J. Swenson 3033 Excelsior Blvd. Suite 560 Minneapolis, Minnesota 55416 | 535,212(1) | 16.4% | 0 |

(1) Includes 257,506 shares held by Mr. Swenson of record, the 105,435 shares held by AO Partners I, L.P. and the 172,271 shares held by Glenhurst Co.

| Member of Farnam Street Group | Shares Held Beneficially | Percent of Class | Shares Held By Non-Participant Associates |
|---|--------------------------|------------------|---|
| Farnam Street Partners, L.P. 3033 Excelsior Blvd. Suite 320 Minneapolis, Minnesota 55416 | 168,830 | 5.2% | 0 |
| Raymond E. Cabillot 3033 Excelsior Blvd. Suite 320 Minneapolis, Minnesota 55416 | 168,830 | 5.2% | 0 |

In aggregate, the Participants own 705,042 shares of Common Stock of the Company acquired at a cost of \$1, 448,488 .

The Common Stock of the AO Partners Group was acquired in open market purchases with working capital of AO Partners Fund and Glenhurst and the personal investment capital of Mr. Swenson. The amount of funds expended to acquire these shares is \$1, 075,289 .

The Common Stock of the Farnam Street Group was acquired in open market purchases with working capital of Farnam Fund. The amount of funds expended to acquire these shares is \$ 371,409 .

Mr. Farrell acquired his Common Stock in an open market purchase with his personal investment capital. The amount of funds he expended to acquire his shares is \$1,790.

Mr. Swenson is required to file reports under Section 16 of the Securities Exchange Act of 1934, as amended, with respect to the Common Stock of the Company, and all such reports have been timely filed.

Mr. Cabillot is not required to file reports under Section 16 of the Securities Exchange Act of 1934, as amended, with respect to the Common Stock of the Company.

Mr. Farrell is not required to file reports under Section 16 of the Securities Exchange Act of 1934, as amended, with respect to the Common Stock of the Company.

Transactions in Stock of the Company

The following transactions are the only transactions during the past two years with regard to the Common Stock made by Mr. Swenson and members of the AO Partner Group or by Mr. Cabillot and Mr. Farrell.

Nicholas J. Swenson

| Transaction Date | Number of Shares Purchased (Sold) |
|------------------|-----------------------------------|
| 7/5/11 | 18,481 |
| 7/6/11 | 7,277 |
| 7/7/11 | 900 |
| 7/8/11 | 26,800 |
| 7/11/11 | 33,221 |
| 7/12/11 | 37,333 |
| 7/13/11 | 10,848 |
| 7/14/11 | 22,900 |
| 7/15/11 | 500 |
| 7/19/11 | 14,526 |
| 7/20/11 | 30,309 |
| 7/21/11 | 9,660 |
| 7/22/11 | 300 |
| 7/27/11 | 3,601 |
| 7/28/11 | 200 |
| 8/1/11 | 300 |
| 8/5/11 | 500 |
| 8/8/11 | 12,134 |
| 8/9/11 | 2,542 |
| 8/11/11 | 11,424 |
| 8/12/11 | 200 |
| 8/24/11 | 2,450 |
| 8/25/11 | 550 |
| 8/26/11 | 550 |
| 11/29/11 | 10,000 |
| Total | 257,506 |

Glenhurst Co.

| Transaction Date | Number of Shares Purchased (Sold) |
|------------------|-----------------------------------|
| 9/7/11 | 5,843 |
| 9/8/11 | 201 |
| 9/9/11 | 8,944 |
| 9/12/11 | 1,600 |
| 9/13/11 | 2,433 |
| 9/14/11 | 1,433 |
| 9/15/11 | 100 |
| 9/16/11 | 7,780 |
| 9/19/11 | 15,198 |
| 9/20/11 | 1,456 |
| 9/27/11 | 100 |
| 9/28/11 | 2,000 |
| 10/3/11 | 5,684 |
| 10/6/11 | 6,139 |
| 10/10/11 | 3,400 |
| 10/11/11 | 772 |
| 10/12/11 | 1,425 |
| 10/13/11 | (900) |
| 10/14/11 | (8,400) |
| 10/24/11 | 12,000 |
| 10/27/11 | 230 |
| 10/28/11 | 3,594 |
| 11/17/11 | 100 |
| 11/28/11 | 25,000 |
| 11/29/11 | 11,287 |
| 12/1/11 | 8,023 |
| 12/2/11 | 1,039 |
| 12/9/11 | 2,134 |
| 12/12/11 | 1,589 |
| 12/16/11 | 12,131 |
| 12/19/11 | 3,436 |
| 12/21/11 | 6,100 |
| 12/22/11 | 30,400 |
| Total | 172,271 |

AO Partners Fund

| Transaction Date | Number of Shares Purchased (Sold) |
|------------------|-----------------------------------|
| 1/13/12 | 1,145 |
| 1/26/12 | 335 |
| 1/30/12 | 10,032 |
| 2/21/12 | 500 |
| 2/22/12 | 1,600 |
| 2/28/12 | 17,700 |
| 3/1/12 | 4,100 |
| 3/2/12 | 3,100 |
| 9/14/12 | 3,362 |
| 9/18/12 | 300 |
| 9/20/12 | 386 |
| 10/3/12 | 486 |
| 10/1/12 | 2,384 |
| 10/5/12 | 6,743 |
| 10/10/12 | 770 |
| 10/12/12 | 783 |
| 10/16/12 | 4,050 |
| 10/17/12 | 13,442 |
| 10/18/12 | 11,950 |
| 10/19/12 | 1,196 |
| 10/23/12 | 2,375 |
| 10/24/12 | 500 |
| 10/25/12 | 1,485 |
| 11/06/12 | 53 |
| 11/8/12 | 1,800 |
| 11/13/12 | 50 |
| 11/16/12 | 1,753 |
| 11/19/12 | 9,884 |
| 11/21/12 | 167 |
| 11/26/12 | 3,004 |
| Total | 105,435 |

Raymond E. Cabillot

| Transaction Date | Number of Shares Purchased (Sold) |
|------------------|-----------------------------------|
| 1/10/12 | 2,567 |
| 1/11/12 | 3,500 |
| 1/13/12 | 200 |
| 1/19/12 | 2,300 |
| 1/20/12 | 11,500 |
| 1/23/12 | 2,919 |
| 1/24/12 | 4,500 |
| 1/25/12 | 2,134 |
| 1/26/12 | 2,650 |
| 1/31/12 | 4,480 |
| 2/01/12 | 99 |
| 2/02/12 | 2,618 |
| 2/06/12 | 6,150 |
| 2/07/12 | 8,635 |
| 2/08/12 | 21,700 |
| 2/09/12 | 1,328 |
| 2/10/12 | 1,714 |
| 2/13/12 | 11,000 |
| 2/15/12 | 7,000 |
| 2/16/12 | 1,000 |
| 2/17/12 | 2,800 |
| 3/21/12 | 3,500 |
| 9/11/12 | 528 |
| 9/14/12 | 3,362 |
| 9/18/12 | 300 |
| 9/20/12 | 386 |
| 10/01/12 | 2,385 |
| 10/03/12 | 486 |
| 10/5/12 | 6,743 |
| 10/10/12 | 770 |
| 10/12/12 | 783 |
| 10/16/12 | 4,050 |
| 10/17/12 | 13,443 |
| 10/18/12 | 11,950 |
| 10/19/12 | 1,197 |
| 10/22/12 | 251 |
| 10/23/12 | 2,375 |
| 10/24/12 | 500 |
| 10/25/12 | 1,485 |
| 11/6/12 | 54 |
| 11/8/12 | 1,800 |
| 11/13/12 | 50 |
| 11/16/12 | 1,754 |
| 11/19/12 | 9,884 |
| Total | 168,830 |

Bill Farrell

| | Transaction Date | Number of Shares Purchased (Sold) |
|--|------------------|-----------------------------------|
| | 10/01/12 | 1,000 |
| | Total | 1,000 |

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PRELIMINARY COPY, SUBJECT TO CHANGE, DATED DECEMBER 7, 2012

PROXY

THIS PROXY IS SOLICITED BY THE AO PARTNERS GROUP IN OPPOSITION TO THE BOARD OF DIRECTORS OF PRO-DEX CORP.

THIS SOLICITATION IS NOT BEING MADE BY THE BOARD OF DIRECTORS OF PRO-DEX CORP.

2012 ANNUAL MEETING OF SHAREHOLDERS

The undersigned hereby appoints [•] and [•], and each of them, attorneys and agents with full power of substitution, as Proxy for the undersigned, to vote all shares of common stock, no par value per share, of Pro-Dex Corp. ("Pro-Dex" or the "Company") which the undersigned is entitled to vote at the Annual Meeting of Shareholders to be held at the [•] on _____, 2013 at [•] a.m., Pacific Time, or any adjournments or postponements thereof and at any meeting called in lieu thereof (the "Annual Meeting").

This proxy, when properly executed will be voted in the manner directed herein by the undersigned shareholder. Unless otherwise specified, this proxy will be voted "FOR" the election of the AO Partners Group's Nominees as Directors, and "FOR" the ratification of the appointment of Moss Adams, LLP as the Company's independent auditor. This proxy revokes all prior proxies given by the undersigned. The AO Partners Group recommends that you vote "FOR" the election of the AO Partners Group's Nominees Nicholas J. Swenson, Raymond E. Cabillot and William James Farrell III as Directors, and "FOR" the ratification of the appointment of Moss Adams, LLP as the Company's independent auditor.

1. ELECTION OF DIRECTORS- To elect Mr. Nicholas J. Swenson, Mr. Raymond E. Cabillot and Mr. William James Farrell III

.. FOR ALL

.. WITHHOLD ALL

Instruction: To withhold authority to vote for the election of any nominee(s), write the name(s) of such nominee(s) in the following space (you can withhold authority for any nominee by writing one or more names in the following space below or withholding authority for all by marking an X next to the WITHHOLD ALL box above):

There is no assurance that any of the candidates who have been nominated by the Company will serve as a Director if the AO Partners Group's nominees are elected.

2. RATIFICATION OF THE APPOINTMENT OF MOSS ADAMS, LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR PRO-DEX CORP. FOR THE YEAR ENDING JUNE 30, 2013.

.. FOR

.. AGAINST

.. ABSTAIN

IMPORTANT: PLEASE SIGN AND DATE ON THE REVERSE SIDE.

You are not able to vote for any Company nominee on this proxy card. We are only seeking proxies for the election of our three nominees. Therefore any shareholder who votes for our three nominees will not be permitted to exercise their vote for the other two board seats that are up for election at the Annual Meeting. If our three director nominees get elected, the remaining two spots will be filled by those Company nominees who get the most votes.

In his discretion, each Proxy is authorized to vote upon such other business that may properly come before the Annual Meeting and any and all adjournments or postponements thereof, as provided in the proxy statement provided herewith.

Dated: _____

Signature: _____

Signature (if held jointly): _____

Title: _____

Please sign exactly as your name(s) appear on the proxy card(s) previously sent to you. When shares are held by joint tenants, both should sign. When signing as an attorney, executor, administrator, trustee, or guardian, please give full title as such. If a corporation, please sign in full corporation name by the President or other duly authorized officer. If a partnership, please sign in partnership name by authorized person. This proxy card votes all shares held in all capacities.

PLEASE SIGN, DATE, AND MAIL THIS PROXY CARD TODAY

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on the ____ of _____, 2013.