PRO DEX INC
Form DEFC14A
December 20, 2012

SCHEDULE 14A INFORMATION

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

(Amendment No.)

Filed by the Registrant [ ]
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Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] 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):

[X] 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:

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[ ] 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:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

PRO-DEX, INC.
ANNUAL MEETING OF SHAREHOLDERS
JANUARY 17, 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 December 21, 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.

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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

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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

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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).

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Note: Former Chief Business Development Officer, Patrick Johnson, was paid $474,310 from fiscal 2009 through fiscal 2010.

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 pubic 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 ASTROMEC 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, Goldenhill International M&A. 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 significant 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 3,376 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 16.4% 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.

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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 the Embassy Suites Irvine, 2120 Main Street, Irvine, California 92614, on January 17, 2013 at 8:00 a.m., Pacific Standard 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 17th of January, 2013. This proxy statement and the accompanying form of WHITE proxy card are available at http://www.viewproxy.com/aopartners/.

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 http://www.viewproxy.com/aopartners/. 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
inquiries@aopartners.net

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

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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.

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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.

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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

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$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