

Audit Committee Charter

(As Approved by the Board on December 6, 2004)

PURPOSE

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to the accounting and financial reporting processes of Pro-Dex, Inc. (the "Company") and audits of the financial statements of the Company.

MEMBERSHIP

The Audit Committee shall be comprised of at least three members of the Board of Directors. Members of the Audit Committee must meet the following criteria (as well as any criteria required by Section 10A(m)(3) of the Securities Exchange Act of 1934, the rules and regulations of the Securities and Exchange Commission and the Nasdaq Stock Market, copies of which will be provided to the Board of Directors upon request):

- A. Each member must be an independent director, as defined in (i) NASD Rule 4200 and (ii) Rule 10A-3(b)(1) under the Securities Exchange Act of 1934.
- B. Each member must not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years.
- C. Each member must be financially literate and have the ability to read and understand fundamental financial statements.
- D. At least one member must be an "audit committee financial expert" as defined by the Item 401(h) of Regulation S-K of the Securities Act of 1933.

The Board of Directors shall also designate a chairperson of the Audit Committee. Members of the Audit Committee are elected to serve for a term of one year.

FUNCTIONS

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of (a) compensation to the independent auditor for the purpose of rendering or issuing an audit report, (b) compensation to any advisors employed by the Audit Committee, and (c) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties. Without limiting the Audit Committee's authority, the Audit Committee shall carry out the following specific activities:

Financial Statement and Disclosure Matters

1. Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board of Directors for approval.
2. Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board of Directors whether the audited financial statements should be included in the Company's Form 10-KSB.
3. Review and discuss with management and the independent auditor the Company's quarterly financial statements prior to the filing of its Form 10-QSB, including the results of the independent auditor's review of the quarterly financial statements.
4. Review and discuss reports from the independent auditors on:
 - (A) All critical accounting policies and practices to be used.
 - (B) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
 - (C) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
5. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
6. Review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the Form 10-KSB and Form 10-QSB about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
7. Provide the audit committee report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

Independent Auditors

8. The Audit Committee shall have the sole authority to appoint or replace the independent auditor (subject, if applicable, to shareholder ratification).
9. The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between

management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.

10. The Audit Committee shall preapprove all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934 which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant preapprovals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant preapprovals shall be presented to the full Audit Committee at its next scheduled meeting.

11. Obtain from the independent auditor a formal written statement delineating all relationships between the independent auditor and the Company, consistent with Independence Standards Board Standard 1, and the Audit Committee's responsibility for actively engaging in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor and for taking, or recommending that the full Board of Directors take, appropriate action to oversee the independence of the independent auditor.

12. Ensure the rotation of the audit partners as required by Section 10A(j) of the Securities Exchange Act of 1934, and consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.

13. Recommend to the Board of Directors policies for the Company's hiring of employees or former employees of the independent auditor consistent with Section 10A(l) of the Securities Exchange Act of 1934.

Compliance Oversight

14. Obtain from the independent auditor assurance that Section 10A(b) of the Securities Exchange Act of 1934 has not been implicated.

15. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

16. Discuss with the Company's General Counsel legal matters that may have a material impact on the financial statements or the Company's compliance policies.

17. Review and approve in advance any proposed related party transactions.

LIMITATION OF AUDIT COMMITTEE'S ROLE

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditor.

MEETINGS

The Audit Committee shall meet as often as it determines appropriate, but not less frequently than quarterly. Minutes shall be kept of each meeting of the Audit Committee and will be provided to each member of the Board of Directors.