

PRO-DEX INCORPORATED

CORPORATE GOVERNANCE GUIDELINES

The Board of Directors (the “Board”) of Pro-Dex Incorporated (the “Company”) has adopted these guidelines to better enable it to monitor the effectiveness of policy and decision making at both the Board and management level with its overarching goal of enhancing long-term shareholder value. These Corporate Governance Guidelines are not intended to change or interpret any federal or state law or regulation, or the Company’s Articles of Incorporation or By-Laws, as have been and may, from time to time, be amended and/or restated. These Corporate Governance Guidelines are subject to modification from time to time by the Board.

A. DIRECTOR QUALIFICATIONS AND BOARD COMPOSITION

1. Qualifications of Directors

The Nominating and Governance Committee is responsible for recommending candidates for Director to the Board and reviewing the composition of the Board as a whole as well as the qualifications and autonomy of the individual members of the Board and its various committees. This assessment will include each member’s personal qualification as well as consideration of diversity, age, skills and experience in the context of the needs of the Board and the Company overall. At a minimum, the Nominating and Governance Committee shall consider whether each nominee for Director has demonstrated significant accomplishment in his or her field, an ability to make a meaningful contribution to the Board’s oversight of the business and affairs of the Company and the nominee’s reputation for honesty and ethical conduct in his or her personal and professional activities.

2. Responsibilities of Directors

Directors are expected to exercise their business judgment in good faith and with loyalty and due care and to act in what they reasonably believe to be in the best interest of the Company and to fulfill their obligations under the Company’s charter documents and the applicable federal and state laws and regulations. In meeting that responsibility, Directors should be entitled to rely on the honesty and integrity of their fellow Directors and of the Company’s senior executives, outside advisors and outside auditors.

3. Selection of Chairman and Chief Executive Officer

The Chairman of the Board may, but is not required to, also hold the office of the Chief Executive Officer. The offices of Chief Executive Officer and Chairman of the Board shall be separately evaluated by the Board each year. In the event that a single individual holds both the office of Chief Executive Officer and Chairman, the Board shall appoint an independent director to the position of Lead Director.

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4. Election of Directors and Term

As a general matter, all directors shall be elected annually at each annual meeting of the Company's shareholders.

Candidates for Directors shall be recommended to the Board by the Nominating and Governance Committee and shall be nominated by the Board of Directors. Once nominated, the number of Directors corresponding to the number of Directors to be elected who receive the highest number of votes of the issued and outstanding shares present and entitled to vote thereon at any general meeting of the shareholders called for that purpose shall be elected to the Board of Directors. Each Director may serve until his or her successor has been elected and qualified.

5. Resignation Policy

The office of a Director shall be vacated if the Director becomes

- a) bankrupt or makes any arrangement of composition with his or her creditors,
- b) is found to be of unsound mind, or
- c) resigns his or her office by notice in writing to the Company.

6. Limitations on Other Board Service: Change in Position

Before accepting an invitation to serve on the Board of Directors, the Audit Committee or the Compensation Committee of another public company or to serve in any significant governmental or not-for-profit/charitable position, Directors must advise the Chairman of the Board and the Chairman of the Nominating and Governance Committee of their intent to do so.

The Company limits Directors participation on outside boards to four public companies in addition to the Company. When evaluating candidates for nomination or renomination to the Board, the Nominating and Governance Committee shall also consider the number of other boards (or comparable governing bodies) on which a prospective nominee is a member.

The Company recognizes the substantial time commitments attendant to Board membership and expects the members of its Board to devote such time as is necessary to fulfill their Board responsibilities, both in terms of preparation for, and attendance and participation at meetings.

Upon a substantial change in professional responsibilities, occupation or business association, a Director should notify the Chairman of the Board and the Chairman of the Nominating and Governance Committee and offer his or her resignation from the Board. The Nominating and Governance Committee will evaluate the facts and circumstances and

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make a recommendation to the Board whether to accept the resignation or request that the Director continue to serve on the Board.

7. Retirement Age /Term Limits for Directors

The Company has no mandatory retirement age for Directors nor has it established any limits for the length of service of any Director. The Board believes that its annual evaluation process will provide it with an adequate perspective of the contribution that each individual Director is making to the Board and the Company and that the Nominating and Governance Committee will take that evaluation into consideration in making recommendations for continued service by each individual Director.

8. Independence of the Board

A majority of the Board shall consist of independent directors (“Independent Directors”) who meet the independence standards of the NASDAQ (“NASDAQ”). No member of the Company management may serve on the board of directors or a similar body of an entity of which any independent director of the Company is an executive officer or (other than in the case of a not for profit entity) where a conflict of interest exists or could reasonably be perceived to exist.

The Board shall annually review the relationships that each Director has with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Following such annual review, only those Directors who the Board affirmatively determines have no material direct or indirect relationship with the Company will be considered Independent Directors, subject to any additional qualifications prescribed under the listing standards of NASDAQ or under applicable law.

The Board may adopt and disclose definite standards to assist it in determining the independence of any Director. In the event that a Director becomes aware of any change in circumstances that may result in such Director no longer being considered Independent under the listing standards of the NASDAQ or under applicable law, the Director shall promptly inform the Chairperson of the Nominating and Governance Committee in writing of such change.

9. Director Orientation and Continuing Education

All new Directors must participate in the Company’s orientation program, which will be conducted promptly following the annual meeting at which new Directors are elected or following the time a new Director otherwise first joins the Board. This program includes but is not limited to, on-site office and/or plant visits, discussions with senior management and background materials on the Company’s plans, organization, and financial statements, and reviews of documents previously filed with the SEC or other government agencies.

Board members are expected to obtain eight hours per year of appropriate continuing

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education with respect to their duties as Directors of the Company and the Company will provide reimbursement for reasonable expenses in connection with such continuing education.

10. Director Communications with Third Parties

The Board believes that the Chief Executive Officer and Chief Financial Officer speak for the Company. Therefore, they shall serve as the chief spokespeople for the Company and see that the Company is properly represented to its various publics. In a situation where the Board may need to present a separate voice, the non-executive Chairman or Lead Director or his or her designee will be the spokesperson for the Board.

B. BOARD MEETINGS

1. Meeting Frequency

The Board shall have no less than four meetings per year. Meetings, generally and special meetings of the Directors may be called by the Chairman of the Board or a majority of the Directors then in office, otherwise in accordance with the provisions of the Company's By-Laws and applicable state law.

2. Selection of Agenda Items for Board Meetings

The Chairperson of the Board, Chief Executive Officer, or either of their respective designees may prepare an agenda for Board meetings. In addition to routine scheduled agenda items, each Board member may suggest insertion of items on the agenda and may raise at any Board meeting subjects that are not specifically on the agenda for that meeting. A report of the activities by each Committee will be a routine scheduled item on the agenda.

3. Board Materials Distributed in Advance

The Board shall be informed in advance of all major proposals to be presented for its consideration and shall have the opportunity to make well informed, significant and conscious contributions to the decision-making process. To further this policy, to the extent feasible the agenda, information and data that is deemed important to the Board's understanding of the business or relevant to the matters to be discussed at the meeting shall be distributed in writing to the Board for review generally one week prior to the Board meeting at which such matters will be considered.

4. Minutes

The Secretary of the Company will record minutes of all meetings of the Board and shareholders. In the absence or incapacity of the Secretary, or at the invitation of the Board, the Chairman may designate an Assistant Secretary, Director, General Counsel or an outside counsel for the Company to act as secretary/scribe to record the minutes of meetings of the Board or shareholders.

5. Attendance at Meetings

Such executive officers of the Company and guests as the Board may request may attend Board meetings, excluding its executive sessions. All Directors are expected to attend all Board meetings and meetings of committees on which they serve and to spend the time necessary and meet as frequently as needed to properly fulfill their responsibilities. The minimum attendance standard for an individual Director's attendance is 75% of all of the meetings of the Board and any Committees the Director may sit on held during the fiscal year.

6. Executive Sessions

The Independent Directors will meet periodically in executive session chaired by the Lead Director, generally in connection with each regular meeting of the Board. Any Independent Director may request that the Lead Director call such an executive session. The name of the individual holding the position of Lead Director shall be disclosed in the annual proxy statement of the Company and on the Company's website. The Board shall disclose on the Company's website a method for interested parties to communicate directly and confidentially with the Chairman, the Lead Director, Chairman of the Audit Committee, or with the Independent Directors as a group.

7. Board Access to Senior Management and Outside Advisors

Board members shall have complete access to the Company's senior management as well as its outside counsel and auditors, and, as the Board or a Committee shall determine necessary or appropriate, its own independent advisors. Any meetings or contact that a Director wishes to initiate may be arranged through the Chief Executive Officer or Chief Financial Officer of the Company or directly by the Director. Directors are expected to use their judgment to ensure that any such contact is not disruptive to the business operations of the Company and does not inappropriately disclose any confidential or sensitive information in the possession of the Director. The Director should, to the extent not inappropriate, copy the Chief Executive Officer on any written communications between a Director and an officer or employee of the Company.

Each non-management director is expected to become familiar with the operations of the Company through Board and Committee meetings, by inquiry and by personal observation. In addition, it is the responsibility of the Chief Executive Officer and Chief Financial Officer to facilitate constructive interaction between the Board and senior management team of the Company.

8. Confidentiality

The proceedings and deliberations of the Board and its Committees are confidential. Each Director shall maintain the confidentiality of information received in connection with his or her service as a Director.

C. COMMITTEES OF THE BOARD

1. Committees and Responsibilities

The Board will have three committees: an Audit Committee, Compensation Committee, and a Nominating and Governance Committee. All of the members of the Audit Committee, Compensation Committee, and Nominating and Governance Committees will be Independent Directors under the criteria established by NASDAQ listed company standards and, in the case of the Audit Committee, also under Section 10A(m) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. A full description of the responsibilities of each of the Committees is set forth in the charter for each Committee, each of which is available on the Company's website and which will be updated regularly to reflect any modifications to such charters.

The Board may, from time to time, designate one or more additional committees of the Board with such lawfully delegable powers and duties as it confers or disband a current committee depending on circumstances. In addition, the Board may form ad hoc committees from time to time, and determine the composition and areas of competence of such committees.

2. Committee Charters

Each Committee shall have a charter which will define their respective functions and responsibilities. These charters will set forth the purposes, goals, responsibilities and authority of the Committees, as well as any specific qualifications for Committee membership and procedures relative to Committee member appointments and the Committee's responsibility to report its activities to the Board. In addition, the charters will require each Committee to prepare an annual work plan and to annually evaluate its own performance and report the results of this evaluation to the Board. Each committee shall review its own charter annually to determine that it is adequate to meet the needs of the Company and the Board.

3. Assignment of Committee Members

Directors are appointed to committees annually based upon their election by the full Board. The Nominating and Governance Committee shall be responsible for reviewing and recommending to the Board the composition, organization, and responsibilities of the Board's Committees and the individual qualifications of Directors recommended to serve on such committees. As part of that process, the Nominating and Governance Committee shall evaluate the qualifications and eligibility of Board members for membership on the respective Board Committees.

4. Committee Meetings

In addition to routine, scheduled agenda items, the Chair of each respective Committee shall set the agenda and determine the frequency and length of each Committee meeting. At the beginning of the year, each Committee will identify agenda subjects to be discussed during the year (to the degree possible) and will prepare a work plan adequate for it to meet all of the responsibilities assigned it under its charter. The meeting schedule and work plan for each Committee will be furnished to all Directors. The Committee chairmen will report to the Board on each Committee's activities at each Board meeting.

D. PERFORMANCE EVALUATION AND SUCCESSION

PLANNING

1. Board and Committee Evaluation

The Nominating and Governance Committee will lead an annual self-assessment of the Board's performance as well as reviewing those evaluations performed by each Committee of the Board, the results of which will be discussed with the full Board and each Committee. These results will be utilized in identifying those areas where Board operations may be improved or areas where the Board feels more attention would be beneficial to the Company's operations or governance practices as well as to assist in assessing and determining the characteristics and critical skills required of prospective candidates for election to the Board and making recommendations to the Board with respect to assignments of Board members to various Committees.

2. Board Operations

The Nominating and Governance Committee shall review and recommend the composition, organization, and responsibilities of the Board in accordance with the Company's Articles of Incorporation and its By-Laws, and applicable law although the ultimate responsibility for selection of new director candidates shall reside in the Board.

3. Annual Evaluation of Chief Executive Officer

The Board acting through the Compensation Committee, will at least annually conduct an evaluation of the performance of the Company's Chief Executive Officer. The Compensation Committee shall establish policies, principles and procedures, as it deems appropriate, for the evaluation of the Chief Executive Officer. Such evaluation shall be in writing and based on objective criteria, including performance of the Company, accomplishment of long-term strategic objectives and development of the overall management team as well as subjective

criteria which the Board considers important to the proper performance of the position. The evaluation process shall include solicitation of input from those Directors who do not serve on the Compensation Committee. The Chairpersons of the Compensation and Nominating and Governance Committees shall jointly communicate the evaluation to the Chief Executive Officer.

4. Succession Planning

The Board is responsible for assuring that the status of the Company's organizational strength and succession planning is equal to the requirements of the long-range goals of the Company and that the Company has sufficient management resources to achieve its short and long-term goals.

The Nominating and Governance Committee shall meet with the Chief Executive Officer to review the CEO's evaluation of the performance and capabilities of the senior management team of the Company with the purpose of ensuring that the Company has an effective corporate top management team, with adequate provisions for succession. The Nominating and Governance Committee and the Chief Executive officer will review the Company's succession planning and management development process with the full Board on an annual basis.

E. BOARD COMPENSATION AND REVIEW

1. Board Compensation Policy

The Compensation Committee is responsible for approving and recommending to the Board all compensation plans for members of the Board. The Compensation Committee is authorized to retain independent consultants to advise it with regards to the Company's compensation practices for both Directors and management. The Compensation Committee has established a target compensation objective for both Directors and senior management at the 50th percentile when compared to a peer group of similar companies and believes that compensation programs should include long-term, short-term, cash and equity components.

2. Director Ownership Guidelines

In order to more closely align the personal financial interests of Directors with those of shareholders at large, the Board has adopted this guideline requiring each Director to accumulate shares of Company stock with an aggregate cost basis of \$20,000 by the fifth anniversary of the later of the date of adoption of this guideline or their initial election to the Board. Unexercised stock options shall not be included in determining the shareholdings held by a Director, however, vested shares of restricted stock and shares purchased on the open market or through the exercise of options shall be considered in meeting this requirement. Directors are expected to retain this level of shareholdings until six months after they leave the Board.

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3. Review

The Nominating and Governance Committee will review these guidelines from time to time and may make recommendations to the Board for appropriate modifications.