PRO DEX INC
Form 10KSB/A
October 28, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB/A
AMENDMENT NO. 1

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended June 30, 2008

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934. FOR THE TRANSITION PERIOD FROM ______TO ______.

Commission File Number 0-14942

PRO-DEX, INC.

(Name of small business issuer in its charter)

Colorado	**84-1261240**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2361 McGaw Avenue, Irvine, California 92614

(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (949) 769-3200

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, no par value	**NASDAQ Capital Market**

Securities registered under Section 12(g) of the Exchange Act:

None

(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the issuer (1) filed all reports required by Section 13 or 15(d) of the Exchange Act during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

Indicate by check mark whether the registrant is a shell company (as defined by rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

State issuer's revenues for its most recent fiscal year: $25,126,000.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity as of September 16, 2008: $5,297,297. For the purpose of this calculation, shares owned by officers, directors and 10% stockholders known to the registrant have been deemed to be owned by affiliates. This determination of affiliate status is not a determination for other purposes.

The number of shares outstanding of each of the issuer s classes of common equity outstanding as of the latest practicable date: 9,717,488 shares of Common Stock, no par value, as of October 16, 2008.

DOCUMENTS INCORPORATED BY REFERENCE: None

Transitional Small Business Disclosure Format: Yes [ ] No [X]

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-KSB is being filed to include the information required by Part III, Items 9, 10, 11, 12, and 14 and to update the information required by Part III, Item 13.

Cautionary statement pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

When used in this Amendment No. 1 to Form 10-KSB, the words "expects, "anticipates," "estimates," "believes," "hopes," "intends," "forecasts" and similar expressions are intended to identify "forward-looking statements." These statements which are not historical or current facts are made pursuant to the safe harbor provisions of Section 27a of the Securities Act of 1933, as amended and Section 21e of the Securities Exchange Act of 1934, as amended, and the Company intends that such forward-looking statements be subject to those safe harbor provisions for such statements. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date of this report. While forward-looking statements represent management's best judgment as to what may occur in the future, they are subject to risks, uncertainties and important factors beyond the control of the Company that could cause actual results and events to differ materially from historical results of operations and events as well as those presently anticipated or projected. These factors include adverse economic conditions, entry of new and stronger competitors, capital availability, unexpected costs, failure to capitalize upon access to new customers, and marketplace delisting. Other risks and uncertainties which may affect forward-looking statements about the Company's business and prospects include, but are not limited to, the ramifications of the continued industry consolidation of dental and medical products manufacturers, dealers and distributors, managed health care, the Company's ability to effectively integrate operations of acquired companies, market acceptance and support of new products, maintaining favorable supplier relationships, the inability to engage qualified human resources as needed, regulatory compliance and general economic conditions. The Company disclaims any obligations subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events.

PART III

Item 9. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance With Section 16(a) of the Exchange Act.

Set forth below is certain information with respect to the directors and other non-director key management personnel of the Company.

Name	Age	Position with Company
Mark P. Murphy	49	Chief Executive Officer, President and Director
George J. Isaac	63	Director (1)
Michael A. Mesenbrink	61	Director (1)
William L. Healey	63	Director (1)
Valerio L. Giannini	70	Director (1)
Jeffrey J. Ritchey	45	Treasurer, Chief Financial Officer and Secretary
Patrick L. Johnson	47	Executive Vice President and Chief Business Development Officer

(1) Member of the Audit and Compensation Committees.

Messrs. Giannini, Mesenbrink, Healey and Isaac are independent directors as such term is defined in Rule 4200(a)(15) of the Nasdaq Marketplace Rules.

DIRECTORS

Mark P. Murphy (49) was appointed the Company s Chief Executive Officer and President in August 2006. From September 1995 to August 2006, Mr. Murphy served in senior executive roles including Executive Vice President, Chief Financial Officer, Chief Operating Officer and a director of Kyocera Tycom Corporation, a manufacturing company that designs and sells precision cutting instruments, where he managed the firm s 400 employees worldwide. Prior to Kyocera Tycom, Mr. Murphy was Chief Operating Officer and a director of Dynamotion Corporation and was with Arthur Young & Co s audit and consulting practice. Mr. Murphy earned a B.A. in Business Administration and an M.B.A. in Finance from California State University at Fullerton. Mr. Murphy has been a director of the Company since 2002.

George J. Isaac (63) is a Certified Public Accountant and has had his own certified public accounting firm since 2003. Mr. Isaac has served as a consultant to the Company and its predecessor from 1978 until 1984, was the Company s Chief Financial Officer from August 1995 to July 2002, and Secretary from July 2002 to October 2003. Mr. Isaac was a principal in the certified public accounting firm of Joseph B. Cohan and Associates, Worcester, Massachusetts from 1978 to 1995. Mr. Isaac is a director of Professional Sales Associates, Inc., a dental product sales organization, and Commerce Bank & Trust and is a trustee of Becker College. Mr. Isaac received a B.S. degree in Business Administration from Clark University in Worcester, Massachusetts. Mr. Isaac has been a director of the Company since 1995.

Michael A. Mesenbrink (61) has been an associate with Plethora Businesses, since 2007, conducting mergers and acquisitions, corporate finance, and business brokerage activities. Prior to that, from 2004 to 2006, he was CEO of The Center for Advanced Laparoscopic Surgery, a national bariatric surgery practice and company, and has been in the medical device and health care industry for 34 years. From 2001 to 2002, he has served as CEO of a multi-national sports medicine company, Innovation Sports, Inc. Prior to that, he served as Executive Vice President of a public medical device company, Medstone International. In 1983 he was co founder of Medical Imaging Centers of America (MICA), a $225MM market cap public company. Mr. Mesenbrink was formerly with Johnson & Johnson; Becton-Dickinson and has founded several companies and held many senior management roles in cardiovascular, surgery, and radiology product based companies. Mr. Mesenbrink received a BA degree in zoology from San Jose State University in 1970 and did postgraduate studies at the Menai Bridge Ocean Science Laboratories, University of Wales, U.K. Mr. Mesenbrink has been a director of the Company since 2002.

William L. Healey (63) has been a private investor and business consultant since 2006. From 2002 to 2005, he served as President and Chief Executive Officer of Cal Quality Electronics, an electronics manufacturing company. Mr. Healey served as a private investor and consultant from 1999 to 2002. He served as Chairman of the Board of Smartflex Systems, an electronics manufacturing company, from 1996 to 1999 and as its President and Chief Executive Officer from 1989 to 1999. Prior to 1989, Mr. Healey served in a number of senior executive positions with Silicon Systems, including Senior Vice President of Operations. Mr. Healey also serves as a director of Microsemi Corporation and Sypris Solutions Inc. Mr. Healey has been a director of the Company since 2007.

Valerio L. Giannini (70) has been a principal of Newcap Partners, a Los Angeles based private investment banking firm since 1995. He previously served as CEO of a subsidiary of the Geneva Companies, which was then a subsidiary of Chemical Bank. Mr. Giannini joined Geneva from Cumberland Investment Group; a New York based private investment banking partnership. Prior to Cumberland, he held appointments as Director of White House Operations and as a Deputy Assistant Secretary of Commerce. Mr. Giannini was also previously with the Corporate Planning Division of IIT Research Institute (Chicago) and the Corporate Finance department of Kidder, Peabody & Co., New York. Mr. Giannini holds a B.S.E. from Princeton University. Mr. Giannini has been a director of the Company since 2002.

NON-DIRECTOR KEY MANAGEMENT PERSONNEL

Jeffrey J. Ritchey (45) is the Company s Treasurer, Chief Financial Officer and Secretary. Mr. Ritchey joined the Company s Micro Motors subsidiary as Controller in August 2001 and became the Company s Chief Financial Officer in July 2002 and Secretary in October 2003. Mr. Ritchey served as the interim Chief Executive Officer of the Company from April 2006 to August 2006. Mr. Ritchey s previous experience includes serving as the Controller and Finance Director of Kyocera Tycom Corporation from 1997 to 2001 and corporate and operational positions at Hughes Electronics and DIRECTV (subsidiaries of General Motors) from 1990 to 1997. Mr. Ritchey received B. S. degrees in Economics and Finance and a M.S. degree in Finance from the University of Arizona and is a Chartered Financial Analyst (CFA) charterholder.

Patrick L. Johnson (47) is the Company s Executive Vice President and Chief Business Development Officer. He joined the Company s Micro Motors subsidiary as Vice President and General Manager in March 2000 and served as the President and CEO of the Company from September 2002 to April 2006 and as a director of the Company from December 2005 to October 2006. Prior to joining the Company, Mr. Johnson served as General Manager of Analytic Endodontics, Inc. (a division of Sybron Dental) from 1997 to 2000 and General Manager of Tycom Dental, Inc. from 1996 to 1997, both dental related product manufacturers. Prior to that, Mr. Johnson served as Vice-President and General Manager of Dabico, Inc., a manufacturing company that specialized in the design and manufacture of in-ground service equipment for commercial and military aircraft. Mr. Johnson received B.A. degrees in Legal Studies and Philosophy from the University of California at Santa Cruz and a M.B.A. degree from Pepperdine University.

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TERM OF OFFICE

The Company s Articles of Incorporation, as amended, do not currently provide for the classification of the Company s Board of Directors. Prior to the 2007 Annual Shareholder Meeting, the Articles provided for the classification of the Company s Board of Directors, with one Class standing for re-election at each annual meeting of shareholders. The Board of Directors is currently composed of five (5) members. At the 2007 Annual Shareholders Meeting the shareholders approved the elimination of the classification of the Board with the exception that the term of Mr. Murphy, who was previously a Class III director and will continue until the normal expiration of his term in 2009. As a result, the Board of Directors currently has one remaining director (Mr. Murphy) whose term expires in 2009, and all the other directors or their successor nominees stand for election each year. At the 2009 shareholders meeting all director positions will be up for election.

BOARD OF DIRECTORS MEETINGS AND RELATED MATTERS

During the fiscal year ended June 30, 2008, the Board of Directors held five meetings and there were no actions by unanimous written consent. Included in the five meetings were meetings of the Independent Members Committee that consisted of three Board members, Michael A. Mesenbrink, George Isaac and Valerio L. Giannini until William L. Healey joined the Committee in December 2007 and thereafter such Committee consisted of four members. The Independent Members Committee is comprised entirely of non-employee, independent directors (as defined in Rule 4200(a)(15) of the Nasdaq Marketplace Rules). No director attended less than 75% of the aggregate of all meetings of the Board of Directors and all meetings of committees of the Board of Directors upon which he served.

The Board of Directors has an Audit Committee that consists of four Board members, Michael A. Mesenbrink, George Isaac, Valerio L. Giannini, and William L. Healey. William L. Healey joined the Audit Committee in December 2007. The Audit Committee is comprised entirely of non-employee, independent directors (as defined in Rule 4200(a)(15) of the Nasdaq Marketplace Rules) and operates under a written charter adopted by the Board of Directors. The duties of the Audit Committee include meeting with the independent public accountants of the Company to review the scope of the annual audit and to review the quarterly and annual financial statements of the Company before the statements are released to the Company's shareholders. The Audit Committee also evaluates the independent public accountants' performance and appoint or replace the independent public accounting firm subject if applicable, to shareholder ratification for the ensuing fiscal year. A copy of the Audit Committee s current charter may be found at the Company s website at www.pro-dex.com. The charter may be found as follows: From our main web page, first click on Investor Relations, and then click on Governance, and then click on Audit Committee Charter. The Audit Committee and Board of Directors have confirmed that the Audit Committee does and will continue to include at least three members and has confirmed that Mr. Isaac meets applicable SEC regulations for designation as an Audit Committee Financial Expert and being independent based upon his experience noted herein. The Audit Committee held six meetings during the fiscal year ended June 30, 2008.

The Board of Directors has a Compensation Committee that consists of four Board members, Michael A. Mesenbrink, George Isaac, Valerio L. Giannini, and William L. Healey. William L. Healey joined the Compensation Committee in December 2007. The Compensation Committee is comprised entirely of non-employee, independent directors (as defined in Rule 4200(a)(15) of the Nasdaq Marketplace Rules) and operates under a written charter adopted by the Board of Directors, a copy of which may be found at the Company s website at www.pro-dex.com. The charter may be found as follows: From our main web page, first click on Investor Relations, then click on Governance, and then click on Compensation Committee Charter. The Compensation Committee establishes compensation policies applicable to the Company s executive officers. The Compensation Committee held two meetings and there were three actions by unanimous written consent during the fiscal year ended June 30, 2008.

The entire Board of Directors performs the functions of a nominating committee. In such capacity, the Board identifies and reviews the qualifications of candidate nominees to the Board of Directors. The procedures followed by the Board in the nomination process are set forth in Procedures as Governing the Nominating Process which serves as the Board s charter concerning nominating matters. The Procedures may be found on the Company s website at www.pro-dex.com as follows: From our main web page, first click on Investor Relations, then click on Governance, and then click on Procedures as Governing the Nominating Process.

The Board will consider candidate nominees for election as a director who are recommended by shareholders. Recommendations should be sent to the Secretary of the Company and should include the candidate's name and qualifications and a statement from the candidate that he or she consents to being named in the proxy statement and will serve as a director if elected. In order for any such candidate to be considered for nomination and, if nominated, to be included in the proxy statement, such recommendation must be received by the Secretary not less than 120 days prior to the anniversary date of the Company's mailing of its proxy statement for the most recent annual meeting of shareholders.

The Board of Directors believes that it is desirable that directors possess an understanding of the Company's business environment and have the requisite knowledge, skills, expertise and diversity of experience such that the Board's ability to manage and direct the affairs and business of the Company is enhanced. Additional considerations may include an individual s capacity to enhance the ability of committees of the Board to fulfill their duties and/or satisfy any independence requirements imposed by law, regulation or listing requirements. The Board of Directors may receive candidate nomination suggestions from current Board members, Company executive officers or other sources, which may be either unsolicited or in response to requests from the Board for such candidates. The Board may also, from time to time, engage firms that specialize in identifying director candidates. Once a person has been identified by the Board as a potential candidate, the Board may collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Board determines that the candidate warrants further consideration, a member of the Board may contact the person. Generally, if the person expresses a willingness to be considered and to serve on the Board, the Board may request information from the candidate, review the person's accomplishments and qualifications and may conduct one or more interviews with the candidate. The Board may consider all such information in light of information regarding any other candidates that the Board might be evaluating for nomination to the Board of Directors. Board members may also contact one or more references provided by the candidate or may contact other members of the business community or other persons that may have greater first-hand knowledge of the candidate's accomplishments. With the nominee s consent, the Board may also engage an outside firm to conduct background checks on candidates as part of the nominee evaluation process. The Board's evaluation process does not vary based on the source of the recommendation.

As of June 30, 2008, four of the five members of the Board were independent directors (as defined in Rule 4200(a)(15) of the Nasdaq Marketplace Rules). No paid consultants were engaged by the Company, the Board or any of its committees for the purposes of identifying qualified, interested Board candidates. A copy of the Board Procedures Concerning Nominations may be found at the Company s website at www.pro-dex.com . The Procedures may be found as follows: From our main web page, first click on Investor Relations, and then click on Governance, and then click on Procedures Governing the Nominating Function .

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No director or executive officer of the Company serves as an officer, director or member of a compensation committee of any other entity for which an executive officer or director thereof is also a member of the Company s Board of Directors.

FAMILY RELATIONSHIPS

There are no family relationships among the Company s executive officers and directors.

CODE OF BUSINESS CONDUCT AND ETHICS

Our code of business conduct and ethics, as approved by our board of directors, can be obtained from our Internet site at http://www.pro-dex.com/code_of_ethics.php.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from provisions of the code that relate to one of more of the items set forth in Item 406(b) of Regulation S-B and its successor regulation, by describing on our Internet site, within four business days following the date of a waiver or a substantive amendment, the date of the waiver or amendment, the nature of the amendment or waiver, and the name of the person to whom the waiver was granted.

Information on our Internet site is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the Securities and Exchange Commission (SEC).

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16(a) of the Securities Exchange Act of 1934, as amended, the directors and officers of the Company and any person who owns more than ten percent of the Company s Common Stock are required to report their initial ownership of the Company s Common Stock and any subsequent changes in that ownership to the SEC and the Nasdaq Capital Market. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all forms they file in accordance with Section 16(a). Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no other reports were required for those persons, the Company believes that, during the fiscal year ended June 30, 2008, its officers, directors and greater than 10% shareholders complied with all filing requirements applicable to such persons.

Item 10. Executive Compensation.

COMPENSATION OF EXECUTIVE OFFICERS AND MANAGEMENT

The following table sets forth certain compensation information for the fiscal years ended June 30, 2008 and 2007, by our principal executive officer and the other two most highly paid executive officers of the Company serving as such at the end of the fiscal year ended 2008 whose aggregate total annual salary and bonus for such year exceeded $100,000 (collectively, the Named Executive Officers).

Summary Compensation Table

					Non-Equity		
					Incentive		
Name and	**Salary**	**Bonus**	**Stock Awards**	**Option**	**Plan**	**All Other**	**Total**

Principal Position	Year	($)	($)	($)(1)	Awards ($)(2)	Compensation ($)(3)	Compensation ($)(4)	($)
Mark P. Murphy (5)(8)(9)	2008	$289,823	$ -	$ 117,300	$ -	$ -	$15,107	$422,230
Director, President and CEO	2007	$226,673	$ -	$ 156,400	$ -	$ -	$7,469	$390,542
Jeffrey J. Ritchey (6)	2008	$158,701	$ -	$ -	$ 5,496	$ 12,256	$13,778	$190,231
Treasurer, CFO and Secretary	2007	$147,194	$ 5,300	$ -	$ 8,606	$ 2,931	$9,641	$173,672
Patrick Johnson (7)	2008	$197,885	$ -	$ -	$ -	$ 13,461	$16,124	$227,470
Executive Vice President Chief Business Dev. Officer	2007	$186,923	$ -	$ -	$ -	$ 2,250	$11,639	$200,812

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(1) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the years ended June 30, 2007 and 2008 for the fair value of stock awards granted to each of our Named Executive Officers calculated in accordance with SFAS 123(R). Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information on the valuation assumptions with respect to the restricted stock awards, refer to Note 6 of our financial statements in our Annual Report on Form 10-KSB for the years ended June 30, 2007 and 2008, as filed with the SEC. These amounts reflect only our accounting expense for these stock awards and do not correspond to the actual value that will be recognized by our Named Executive Officers.

(2) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the years ended June 30, 2007 and 2008 for the fair value of stock options granted to each of our Named Executive Officers calculated in accordance with SFAS 123(R). Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information on the valuation assumptions with respect to these option grants, refer to Notes 2 and 6 of our financial statements in our Annual Report on Form 10-KSB for the years ended June 30, 2007 and 2008, as filed with the SEC. These amounts reflect only our accounting expense for these option grants and do not correspond to the actual value that will be recognized by our Named Executive Officers. See the Outstanding Equity Awards at June 30, 2007 and 2008 table below for more information on options held by the Named Executive Officers. Stock options awarded have a term of ten years; vest in equal annual installments over a period of up to five years, and an exercise price equal to the Company s closing price for its Common Stock on the Nasdaq Capital Market on the date of grant.

(3) In 2008, non-equity incentive plan compensation payments were made in cash in the second, third and fourth quarters for first, second and third quarter performance due to the achievement of the Company s quarterly internal operating targets. Operating targets were not met in the remaining fourth quarter and, accordingly, no payments were made corresponding to such quarter. In 2007, non-equity incentive plan compensation payments were made in cash in the second quarter for first quarter performance due to the achievement of the Company s quarterly internal operating targets. Operating targets were not met in the remaining three quarters and, accordingly, no payments were made corresponding to such quarters.

(4) All Other Compensation consists of:

Name	**Year**	**Health insurance and related payments**		**Matching contributions to the Company's 401(k) plan**		**Total ($)**	
Mark P. Murphy	2008	$	13,726	$	1,381	$	15,107
	2007	$	7,065	$	404	$	7,469
Jeffrey J. Ritchey	2008	$	11,642	$	2,136	$	13,778
	2007	$	7,699	$	1,942	$	9,641
Patrick Johnson	2008	$	13,483	$	2,641	$	16,124
	2007	$	9,318	$	2,321	$	11,639

(5) Mr. Murphy was elected a Director of the Company in August, 2002 and commenced employment with the Company as President and Chief Executive Officer in August 2006.

(6) Mr. Ritchey commenced employment with the Company in August 2001 and was named Treasurer and Chief Financial Officer in July 2002 and Secretary in October 2003. Mr. Ritchey was appointed interim President and Chief Executive Officer in April 2006 after the resignation of Mr. Johnson and held those officer positions until the appointment of the Company s current President and Chief Executive Officer, Mark P. Murphy, in August 2006.

(7) Mr. Johnson commenced employment with the Company in April 2000 and was named President and Chief Executive Officer in September 2002. Mr. Johnson resigned as President and Chief Executive Officer in April 2006, at which time he was appointed Executive Vice President and Chief Business Development Officer. Mr. Johnson resigned as a Director in October 2006.

(8) Under the terms of his employment agreement, on February 21, 2007, Mr. Murphy received a grant of 340,000 restricted shares of the Company's Common Stock in replacement of his stock appreciation rights previously awarded upon execution of such agreement. The restricted shares vest at the rate of 85,000 shares per year commencing on the grant date which vesting is subject to acceleration upon certain liquidity events as described under Employment Agreement with Mark Murphy.

(9) Included in the 2007 Salary and Total for Mr. Murphy is $3,750 of director fees earned prior to his becoming an employee of the Company.

EMPLOYMENT AGREEMENTS AND EXECUTIVE COMPENSATION