

GALLAGHER ARTHUR J & CO
Form PRE 14A
March 23, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

[X] Preliminary Proxy Statement

[] CONFIDENTIAL, FOR USE OF THE
COMMISSION ONLY (AS PERMITTED BY
RULE 14A-6(E) (2))

[] Definitive Proxy Statement

[] Definitive Additional Materials

[] Soliciting Material Pursuant to (S) 240.14a-11(c) or (S) 240.14a-12

ARTHUR J. GALLAGHER & CO.

(Name of Registrant as Specified In Its Charter)

(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) (4) 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

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

Notes:

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SEC 1913 (3-99)

[ARTHUR J. GALLAGHER & CO. LOGO]

ARTHUR J. GALLAGHER & CO.

The Gallagher Centre
Two Pierce Place
Itasca, Illinois 60143-3141

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April 5, 2001

Dear Stockholder:

Our Annual Meeting will be held on Tuesday, May 22, 2001, at 10:00 a.m., Central Time, at The Gallagher Centre, Two Pierce Place, Second Floor, Itasca, Illinois.

The formal Notice of Annual Meeting of Stockholders and Proxy Statement accompanying this letter describe the business requiring action at the meeting. A presentation by J. Patrick Gallagher, Jr., President and Chief Executive Officer of the Company, and me will provide information on the business and progress of your Company during 2000 and our directors and officers will be available to answer your questions.

We appreciate the interest of our stockholders in Arthur J. Gallagher & Co. and are pleased that in the past so many of you have exercised your right to vote your shares. We hope that you continue to do so.

Whether or not you plan to attend, please mark, sign, date and mail the accompanying proxy card as soon as possible. The enclosed envelope requires no postage if mailed in the United States. If you attend the meeting, you may revoke your proxy and vote personally.

Cordially,

ROBERT E. GALLAGHER
Chairman of the Board

ARTHUR J. GALLAGHER & CO.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held May 22, 2001

To the Stockholders of
ARTHUR J. GALLAGHER & CO.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Arthur J. Gallagher & Co. (the "Company") will be held Tuesday, May 22, 2001, at 10:00 a.m., Central Time, at The Gallagher Centre, Two Pierce Place, Second Floor, Itasca, Illinois for the following purposes:

1. To elect one Class I director, to elect four Class II directors, to elect one Class III director, and to ratify the appointment of one Class III director;
2. To consider and act upon a proposal to approve an amendment to the Company's Restated Certificate of Incorporation increasing the authorized Common Stock from 200,000,000 to 400,000,000 shares;
3. To ratify the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2001; and
4. To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board of Directors has fixed the close of business on March 23, 2001 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting.

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Whether or not you plan to attend the Annual Meeting, you are urged to mark, date and sign the enclosed proxy and return it promptly so your vote can be recorded. If you are present at the meeting, you may revoke your proxy and vote in person.

Date: April 5, 2001

By Order of the Board of Directors

MICHAEL J. CLOHERTY
Secretary

YOUR VOTE IS IMPORTANT. PLEASE COMPLETE, DATE, SIGN AND PROMPTLY RETURN YOUR PROXY IN THE ENCLOSED ENVELOPE, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON.

ARTHUR J. GALLAGHER & CO.
The Gallagher Centre
Two Pierce Place
Itasca, Illinois 60143-3141

PROXY STATEMENT

GENERAL INFORMATION

Use of Proxies

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Arthur J. Gallagher & Co. (the "Company") of proxies to be voted at the Annual Meeting of Stockholders to be held on Tuesday, May 22, 2001, in accordance with the foregoing notice. This Proxy Statement and accompanying proxy are being mailed to stockholders on or about April 5, 2001.

Any proxy may be revoked by the person giving it at any time before it is voted by delivering to the Secretary of the Company a written notice of revocation or a duly executed proxy bearing a later date. Shares represented by a proxy, properly executed and returned to the Company and not revoked, will be voted at the Annual Meeting.

Shares will be voted in accordance with the directions of the stockholder as specified on the proxy. In the absence of directions, the proxy will be voted FOR the election of the directors named as the nominees in this Proxy Statement and the ratification of the appointment of one Class III director; FOR the approval of an amendment to the Company's Restated Certificate of Incorporation increasing the authorized Common Stock, \$1.00 par value, from 200,000,000 to 400,000,000 shares; and FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2001. Any other matters that may properly come before the meeting will be acted upon by the persons named in the accompanying proxy in accordance with their discretion.

Record Date and Voting Securities

The close of business on March 23, 2001 has been fixed as the record date (the "Record Date") for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and any adjournment thereof. As of the Record Date, the Company had _____ shares of Common Stock outstanding and entitled to vote. Each share of Common Stock is entitled to one vote, exercisable in person or by proxy. There are no other outstanding securities of the Company entitled to vote, and there are no cumulative voting rights

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with respect to the election of directors.

The presence, in person or by proxy, of a majority of the outstanding shares of the Common Stock of the Company is necessary to constitute a quorum at the Annual Meeting. An automated system administered by the Company's transfer agent tabulates the votes. Abstentions and broker non-votes are included in the number of shares present and voting for the purpose of determining if a quorum is present. Abstentions are also included in the tabulation of votes cast on proposals presented to the stockholders but broker non-votes are not.

Expenses of Solicitation

All expenses of the solicitation of proxies will be paid by the Company. Officers, directors and employees of the Company may also solicit proxies by telephone, facsimile or in person.

PRINCIPAL HOLDERS OF SECURITIES

The following table shows with respect to any person who is known to be the beneficial owner as of December 31, 2000 of more than 5% of the Company's Common Stock, par value \$1.00 per share, which is its only class of issued and outstanding capital stock, (i) the total number of shares of Common Stock beneficially owned as of such date; and (ii) the percent of Common Stock so owned as of the same date. All numbers of Common Stock have been adjusted for the January, 2001 2-for-1 stock split.

Name and Address of Beneficial Owner	Amount & Nature of Beneficial Ownership	Percent of Common Stock
Capital Research and Management Company..... 333 South Hope Street Los Angeles, CA 90071	5,090,800 (1)	6.3%

The following table shows with respect to each of the directors and nominees for director of the Company, the executive officers named in the Summary Compensation Table, and all directors and executive officers as a group, twelve in number, (i) the total number of shares of Common Stock beneficially owned as of March 1, 2001; and (ii) the percent of Common Stock so owned as of the same date.

Name of Beneficial Owner	Amount & Nature of Beneficial Ownership(2)	Percent of Common Stock
Robert E. Gallagher.....	2,609,908 (3)	3.2%
James J. Braniff III.....	335,056	*
T. Kimball Brooker.....	132,240	*
Michael J. Cloherty.....	262,408	*
Gary P. Coughlan.....	2,000	*
James W. Durkin, Jr.	297,228	*

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J. Patrick Gallagher, Jr.	628,656 (4)	*
Ilene S. Gordon.....	18,160	*
David E. McGurn, Jr.	226,784	*
Richard J. McKenna.....	124,548	*
Robert Ripp.....	6,000	*
James R. Wimmer.....	134,240	*
All directors and executive officers as a group (12 persons).....	4,777,228	5.8%

* Less than 1%

- (1) Information obtained from a Schedule 13G dated February 9, 2001 filed with the Securities and Exchange Commission by Capital Research and Management Company. The Company has been informed that Capital Research and Management Company is deemed to be the beneficial owner in the aggregate of 5,090,800 shares (adjusted for 2-for-1 stock split), or 6.5% (sic) of shares outstanding of the Company's voting Common Stock as a result of acting as investment adviser to various investment companies, including Smallcap World Fund, Inc., which owned 4,740,800 of such 5,090,800 shares.

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- (2) Calculated pursuant to Rule 13d-3(d) under the Securities Exchange Act of 1934. Unless otherwise stated in these notes, each person has sole voting and investment power with respect to all such shares. Under Rule 13d-3(d), shares not outstanding which are subject to options exercisable within sixty days are deemed outstanding for the purpose of computing the number and percentage owned by such person, but are not deemed outstanding for the purpose of computing the percentage owned by each other person listed. Includes shares which the listed beneficial owner has a right to acquire within sixty days as follows: James J. Braniff III, 168,000 shares; T. Kimball Brooker, 80,240 shares; Michael J. Cloherty, 207,000 shares; James W. Durkin, Jr., 197,000 shares; J. Patrick Gallagher, Jr., 49,000 shares; Ilene S. Gordon, 14,160 shares; David E. McGurn, Jr., 142,400 shares; Richard J. McKenna, 59,160 shares; Robert Ripp, 2,000 shares; and James R. Wimmer, 134,240 shares; all directors and executive officers as a group (12 persons), 1,053,200 shares.
- (3) Includes 300,000 shares held in trust for the benefit of Robert E. Gallagher's grandchildren, 400,000 shares held in trust for the benefit of Isabel Gallagher, 400,000 shares held by a charitable trust under which Robert E. Gallagher is the trustee, and 276,048 shares held in the Lauren E. Gallagher Trust under which Robert E. Gallagher is a trustee.
- (4) Includes 158,480 shares held in trust for the benefit of his minor children by his wife, Anne M. Gallagher, and another, as trustees and 99,512 shares held by his wife.

ELECTION OF DIRECTORS

The Board of Directors of the Company is divided into three classes. The regular terms of office for the Class II, Class III and Class I directors expire at the 2001, 2002 and 2003 Annual Meetings of Stockholders, respectively. Four persons are to be elected at the meeting to hold office as Class II directors for a term of three years and until their respective successors are elected and qualified. One person is to be elected at the meeting to hold office as a Class I director for a term expiring in 2003 and until his successor is elected and qualified. One person is to be elected at

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the meeting to hold office as a Class III director for a term expiring in 2002 and until his successor is elected and qualified.

James W. Durkin, Jr. is a new nominee for election as a member of the Board of Directors as a Class I director. T. Kimball Brooker, currently a member of the Board of Directors as a Class I director, is nominated for election as a Class II director, replacing a Class II director who did not stand for re-election. David E. McGurn, Jr. and Richard J. McKenna are new nominees for election as members of the Board of Directors as Class II directors, replacing two Class II directors who did not stand for re-election. Robert E. Gallagher is currently a member of the Board of Directors as a Class II director and is a nominee for re-election as a Class II director. James J. Braniff III is a new nominee for election as a member of the Board of Directors as a Class III director.

Gary P. Coughlan is currently a member of the Board of Directors as a Class III director, having been appointed to fill a vacancy in such Class on September 28, 2000. The Company's Restated Certificate of Incorporation and By-laws provide that any director appointed to fill a vacancy shall hold office until the expiration of the term of the class of directors to which he was elected, which in this case occurs at the 2002 Annual Meeting. The Board of Directors has determined, however, that it would be desirable to obtain ratification of the appointment of Mr. Coughlan. If the ratification of the appointment should fail to be approved by the holders of a majority of the voting stock represented at the Annual Meeting or any adjournment thereof, such appointment shall nevertheless remain in effect until the 2002 Annual Meeting (or

the earlier death, resignation or removal of such appointee), but an adverse vote will be considered as a direction to the Board to select another nominee for election to a Class III directorship at the 2002 Annual Meeting.

Set forth below is information concerning the nominees for election as Class I, Class II and Class III directors as well as information concerning the current directors in each class. The Board of Directors recommends a vote FOR the election of such nominees and the ratification of the appointment of one Class III director. The persons named on the enclosed proxy card intend to vote the proxies solicited hereby FOR all the nominees named below and the ratification of one Class III director unless such authority is withheld. The affirmative vote of the holders of a plurality of the shares of Common Stock represented in person or by proxy is required to elect directors. The enclosed proxy cannot be voted for more than six nominees. Should any nominee be unavailable to serve or for good cause refuse to serve, an event which the Board of Directors does not anticipate, the persons named in the enclosed proxy intend to vote the proxies solicited hereby for the election of such other nominee, if any, as they may select.

Nominee for Election to the Board of Directors
as a Class I Director with a Term Expiring in 2003

Name	Age	Year First Elected Director, Business Experience and Other Directorships

James W. Durkin, Jr. ...	51	Vice President since 1985; President of Gallagher Benefit Services, Inc. since 1985.

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Nominees for Election to the Board of Directors as Class II Directors with Terms Expiring in 2004

T. Kimball Brooker.....	61	Director since 1994; President, Barbara Oil Company since 1989; Managing Director, Morgan Stanley & Co., Inc. from 1978 to 1988.
Robert E. Gallagher(1) .	78	Director since 1950; Chairman since 1990; Chief Executive Officer from 1963 to 1994.
David E. McGurn, Jr. ...	47	Vice President--Specialty Marketing & International since 1996; Vice President from 1993 to 1996.
Richard J. McKenna.....	54	Vice President since 1994; President of Gallagher Bassett Services, Inc. since April 2000.

Nominee for Election to the Board of Directors as a Class III Director with a Term Expiring in 2002

James J. Braniff III....	61	Vice President since 1995; President and Chief Operating Officer of Brokerage Services Division since 1999.
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Members of the Board of Directors Continuing in Office as Class III Directors with Terms Expiring in 2002

Name	Age	Year First Elected Director, Business Experience and Other Directorships
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Michael J. Cloherty.....	53	Director since 1982; Executive Vice President since 1996 and Chief Financial Officer since 1981; Vice President--Finance 1981 to 1996.
Gary P. Coughlan.....	56	Director since 2000; Senior Vice President and Chief Financial Officer of Abbott Laboratories since 1990; Senior Vice President of Kraft General Foods from 1989 to 1990; prior thereto Senior Vice President and Chief Financial Officer of Kraft, Inc. which he joined in 1972.
Robert Ripp.....	59	Director since 2000; Chairman of Lightpath Technologies, Inc. since November 1999; Chairman and Chief Executive Officer of AMP Incorporated during 1998, Executive Vice President from 1997 to 1998 and Vice President and Chief Financial Officer from 1994 to 1997; Vice President and Treasurer of IBM from 1989 to 1993. Director of Lightpath Technologies, Inc. and ACE, Ltd.

Members of the Board of Directors Continuing in Office as Class I Directors with Terms Expiring in 2003

J. Patrick Gallagher, Jr.(1).....	49	Director since 1986; Chief Executive Officer since 1995; President since 1990; Chief Operating Officer from 1990 to 1994; Vice President--Operations from 1985 to 1990.
Ilene S. Gordon.....	47	Director since 1999; President of Pechiney Plastic Packaging, Inc. and Senior Vice President of Pechiney

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Group since June 1999; Vice President and General Manager of Tenneco Packaging Folding Carton Business from 1997 to 1999; Vice President-Operations of Tenneco, Inc. from 1994 to 1997. Director of United Stationers, Inc.

James R. Wimmer..... 72 Director since 1985; Partner, Lord, Bissell & Brook, attorneys, from 1959 to 1992 and Of Counsel from 1992 to 1999; Vice-Chairman and General Counsel of Commonwealth Industries Corporation from 1991 to 1993.

(1) Robert E. Gallagher is an uncle of J. Patrick Gallagher, Jr.

Board of Directors

The Company's Board of Directors has the responsibility to review the overall operations of the Company. The Board members are kept informed of the Company's results of operations and proposed plans and business objectives by the Company's management. During 2000, the Board of Directors met six times. All of the directors attended at least 75% of those meetings and meetings of the committees on which they served. Included among the committees of the Board are standing Nominating, Audit and Compensation Committees.

Nominating Committee

The Nominating Committee considers new nominees proposed for the Board of Directors and will consider individuals whose names and qualifications are furnished in writing to the Committee (in care of the

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Chairman at the Company's principal office) by stockholders. Current members of the Nominating Committee are Robert E. Gallagher (Chairman), T. Kimball Brooker and J. Patrick Gallagher, Jr. The Committee met three times in 2000. The Company's By-Laws establish advance notice procedures with regard to the nomination by a stockholder of a candidate for election as a director. In general, notice must be received by the Company not less than 45 days prior to an annual meeting of stockholders of the Company. Such notice must set forth all information with respect to each such nominee as required by the federal proxy rules. Such notice must be accompanied by a consent of such nominee to serve as a director, if elected.

Audit Committee

The Audit Committee of the Board of Directors is composed of 5 directors, none of whom is an employee of the Company. The Committee is governed by a charter as approved by the Board of Directors on May 16, 2000. A copy of the Charter is attached as Exhibit A. In accordance with its Charter, the Committee assists the Board in carrying out its responsibilities for monitoring management's accounting for the Company's financial results and for the timeliness and adequacy of the reporting of those results; discusses and makes inquiry into the audits of the Company's books made internally and by outside independent auditors, the Company's financial and accounting policies, its internal controls and its financial reporting; and investigates and makes a recommendation to the Board each year with respect to the appointment of independent auditors for the following year. Current members of the Committee are James R. Wimmer (Chairman), T. Kimball Brooker, Gary P. Coughlan, Ilene S. Gordon and Robert Ripp, each of whom meets the independence and experience requirements of the New York Stock Exchange. The Audit Committee met eight

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times in 2000.

Notwithstanding anything to the contrary set forth in any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate filings, including this Proxy Statement, in whole or in part, the following report shall not be incorporated by reference into any such filings.

Report of the Audit Committee

In discharging its oversight responsibility as to the audit process, the Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1 "Independence Discussions with Audit Committees" and discussed with the auditors any relationships that may impact their objectivity and independence. The Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees". The Committee reviewed and discussed the audited consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2000, with management and the independent auditors. Management has the responsibility for the preparation of the Company's financial statements and the independent auditors have the responsibility for the examination of those statements.

Based on the above-mentioned review and discussions with management and the independent auditors, the Committee recommended to the Board that the Company's audited consolidated financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2000, for filing with the Securities and Exchange Commission.

Audit Committee
James R. Wimmer (Chairman)
T. Kimball Brooker
Gary P. Coughlan
Ilene S. Gordon
Robert Ripp

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Compensation Committee

The Compensation Committee determines the salaries, bonuses and other compensation and terms and conditions of employment of the executive officers and certain key employees of the Company and makes recommendations to the Board of Directors with respect to the Company's compensation plans and policies; provided, however, that the Option Committee of the Board of Directors administers the Company's stock option plans. Current members of the Compensation Committee are J. Patrick Gallagher, Jr. (Chairman), T. Kimball Brooker, Gary P. Coughlan, Robert E. Gallagher, Ilene S. Gordon, Robert Ripp and James R. Wimmer. The Committee met four times in 2000.

Compensation Committee Interlocks and Insider Participation

J. Patrick Gallagher, Jr., President and Chief Executive Officer, and Robert E. Gallagher, Chairman, of the Company, respectively, serve on the Compensation Committee and abstain from discussion and voting on matters concerning their respective compensation. During 2000, as part of its ongoing share repurchase program, the Company purchased from Mr. James R. Wimmer 10,000 shares of Company Common Stock for an aggregate price of \$380,000,

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based on the closing price on the New York Stock Exchange the date preceding the purchase.

Section 16(a) Beneficial Ownership Reporting Compliance

Directors and executive officers of the Company and beneficial owners of more than ten percent of the Common Stock file periodic reports regarding ownership of shares of Common Stock with the Securities and Exchange Commission pursuant to Section 16(a) of the Securities Exchange Act of 1934. Mr. Ripp inadvertently filed a statement of changes in beneficial ownership untimely.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Notwithstanding anything to the contrary set forth in any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate filings, including this Proxy Statement, in whole or in part, the following report and the Comparative Performance Graph on Page 11 shall not be incorporated by reference into any such filings.

Report of the Compensation Committee

Executive Compensation

The Compensation Committee is responsible for determining the total compensation, other than stock options, and employment conditions of the Company's executive officers. In determining the total 2000 compensation, the Compensation Committee generally evaluated the executive's contribution to the overall success of the Company in achieving the corporate goals set out below. The business growth and human resources goals were given less weight in determining the executive's compensation than the earnings growth goal.

Earnings Growth--Year-over-year earnings growth is one of the most important goals of the Company. The effort of an individual executive in meeting or exceeding year-over-year growth for his or her department or division has historically been an important criterion in the evaluation. However, in 2000, the Compensation Committee focused on the contribution of the executive to the overall success of the Company in meeting its plan for growth. Longer term growth goals, as measured against the Company's Three Year Strategic Plan, are also considered in the evaluation. In 2000, the Company's net earnings increased 25% which surpassed the average annual growth rate for the period 1990 to 1999.

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Business Growth--The Company considers its long term business growth to be a critical factor in the continued success of the Company. Executives are expected to support the Company's acquisition program, which seeks to achieve growth by successfully integrating independent businesses into the corporate structure. Similarly, establishment of operations in new geographic areas, as well as the successful development and marketing of new product lines, are considered necessary to the continued growth of the Company and are included in the evaluation. In 2000, sixteen businesses were acquired. The development and marketing of new product lines continued on a basis consistent with prior years. The Company believes that these efforts had a direct impact on the 13% increase in total revenues achieved in 2000 over 1999.

Human Resources--As a service business, the Company believes that its employees are its greatest asset. Over 60% of the Company's expenses in 2000 were related to the compensation of its employees and related costs.

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The Company is committed to the successful hiring, training and retaining of people who promote the growth, financial success and management succession of the Company. An executive's ability to manage these resources, as well as the attendant expenses, is a significant criterion. In 2000, the Company's overall success in effectively managing its employees evidenced the commitment of the Company's executive officers, as a group, to the corporate goal of continuously improving the quality and efficiency of its human resources. This was demonstrated by the Company's ability to generate \$142,000 in revenue per employee for 2000, one of the highest figures in the industry and an increase from the \$134,000 in revenue per employee generated during 1999. This was accomplished even as the 2000 employee headcount increased by 6% over 1999.

Enhancement of shareholder value is the ultimate goal of the Company. The Compensation Committee believes that its focus on specific corporate goals should result in a strong stock price, improved earnings per share and greater return on stockholders' equity. Net earnings per share in 2000 increased by 21% over 1999. This substantial increase was directly related to the efforts of the Company's executive officers during the intense competitive pressures of 2000 and prior years. Recognizing these efforts, the Compensation Committee applied a bonus formula, determined early in 2000, which was based on growth in net earnings per share. Most of the executive officers received bonuses, which were paid in March, 2001, from the application of this formula.

The Company also has a discretionary bonus pool for executive officers and key employees, contingent upon satisfactory corporate growth and the attainment of predetermined managerial goals. These predetermined goals are extremely varied and, in the case of the executive officers, are established by the individual officer in conjunction with the Compensation Committee. The goals are too diverse to generalize but typically include meeting or exceeding budgetary guidelines and contribution to the Company's profitability. Attainment of these goals in many cases may be determined by a subjective judgment of the individual supervisor or, in the case of the executive officers, by the Compensation Committee. The eligibility for participation in the bonus pool is determined by the Board. Approximately 50 officers and key employees are current participants. Certain officers who received the formula bonus discussed above also received a discretionary bonus for 2000.

The Company has adopted the Deferred Equity Participation Plan to encourage key executive officers to remain with the Company until their normal retirement. Under the Plan, the Company contributes an amount of cash, approved by the Compensation Committee, which is used to purchase Common Stock. The Chief Executive Officer of the Company, in conjunction with the Compensation Committee, determines the key executives that will receive an award under the Plan and the amount of such award. Distributions under the Plan may not be made until the participant retires after reaching age 62 and are subject to forfeiture in

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the event of a voluntary termination of employment prior to age 62. All distributions are made in the form of Common Stock of the Company.

Option grants to executive officers under the Company's Stock Option Plans are determined by the Option Committee of the Board of Directors and are generally based upon more subjective factors than those used by the Compensation Committee. The Option Committee considers the recommendations of the executive officers of the Company, the responsibilities of each grantee, his or her past performance and his or her anticipated future contribution to the Company. Options directly reflect the Company's performance through its stock price.

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The Internal Revenue Code limits the deductibility for federal income tax purposes of certain compensation payable to top executive officers of publicly held corporations. Certain types of compensation are excluded from the limitations. The Company generally attempts to preserve the federal income tax deductibility of compensation paid when it is appropriate and is in the best interests of the Company and its stockholders. However, the Company reserves the right to authorize the payment of nondeductible compensation which it deems appropriate.

Executive officers participate in the Savings and Thrift Plan, Supplemental Savings and Thrift Plan, Pension Plan and Stock Option Plans, as well as customary employee health benefits and expense reimbursement in accordance with the Company's policy.

During 2000, the Committee compared the compensation of the six most highly compensated executive officers of the Company to the publicly held competitors of the Company included in the Comparative Performance Graph on Page 11. The Committee targets the middle of its competitors' salary range for its executive officers' compensation. The Committee believes that the 2000 compensation of the Company's six most highly compensated executive officers will be in the middle range when compared to its publicly-held competitors after making certain adjustments for the size of the Company.

Chief Executive Officer Compensation

The 2000 salary of J. Patrick Gallagher, Jr., the Company's Chief Executive Officer, was \$650,000. Mr. Gallagher received a bonus of \$500,000 and an award of \$400,000 under the Company's Deferred Equity Participation Plan for 2000 and a bonus of \$350,000 for 1999. In determining Mr. Gallagher's salary and bonus, the Compensation Committee considered the Company's excellent performance in 2000 and 1999, as well as Mr. Gallagher's voluntary election to reduce his total compensation in prior years.

Compensation Committee
 J. Patrick Gallagher, Jr. (Chairman)
 Robert E. Gallagher
 T. Kimball Brooker
 Gary P. Coughlan
 Ilene S. Gordon
 Robert Ripp
 James R. Wimmer

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Summary Compensation Table

The following table presents information concerning compensation paid or set aside by the Company and its subsidiaries on an accrual basis to or for the benefit of the Chief Executive Officer and each of the other five most highly compensated executive officers of the Company in each of the Company's last three fiscal years.

Name and Principal	Annual Compensation			Long Term Compensation Awards	
	Salary	Bonus	Other	Securities Underlying	All Other Compensation

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Position	Year	(\$)	(\$)	(1)	(\$)	(3)	Options (#)	(\$)	(2)
J. Patrick Gallagher, Jr.....	2000	650,000	500,000	400,000			30,000		21,700
President and Chief Executive Officer	1999	500,000	350,000		--	--	--		16,800
	1998	500,000	250,000		--	--	40,000		5,000
Michael J. Cloherty....	2000	600,000		--	--	--	30,000		194,600 (4)
Executive Vice President and Chief Financial Officer	1999	475,000	738,000		--	--	--		17,200
	1998	475,000	250,000		--	--	40,000		6,100
James J. Braniff III...	2000	600,000	285,000	300,000			30,000		254,600 (5)
Vice President	1999	600,000	125,000		--	--	200,000		22,500
	1998	320,000	165,000		--	--	40,000		7,400
James W. Durkin, Jr....	2000	320,000	175,000	300,000			30,000		10,500
Vice President	1999	290,000	150,000		--	--	--		7,400
	1998	290,000		--	--	--	40,000		4,500
David E. McGurn, Jr....	2000	300,000	142,500	300,000			30,000		9,300
Vice President	1999	300,000	125,000		--	--	--		9,400
	1998	275,000	125,000		--	--	40,000		3,900
Richard J. McKenna.....	2000	300,000	200,000	300,000			30,000		7,300
Vice President	1999	270,000		--	--	--	--		7,400
	1998	220,000	90,000		--	--	40,000		4,700

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- (1) Represents bonuses related to services rendered in the fiscal year indicated above that were determined and paid in the subsequent fiscal year.
 - (2) Includes amounts contributed by the Company under the 401(k) match feature of the Company's Savings and Thrift Plan of \$3,400 in 2000, amounts contributed by the Company under the match feature of the Company's Supplemental Savings and Thrift Plan in 2000 (Mr. Gallagher--\$16,600, Mr. Cloherty--\$23,400, Mr. Braniff--\$11,100, Mr. Durkin--\$6,000, Mr. McGurn--\$5,100 and Mr. McKenna--\$2,600) and the equivalent annual value of insurance premiums paid by the Company for group term life insurance for the benefit of the named executive officer (Mr. Gallagher--\$1,700, Mr. Cloherty--\$2,600, Mr. Braniff--\$6,200, Mr. Durkin--\$1,100, Mr. McGurn--\$800 and Mr. McKenna--\$1,300).
 - (3) Represents amounts awarded under the Company's Deferred Equity Participation Plan. Amounts shown do not represent actual payments to the executive officer. Participation in the Plan by any person, and the amount of such participation, is at the sole discretion of the Company's Chief Executive Officer, in conjunction with the Compensation Committee. The Plan provides that the Company will contribute to the Plan an amount of cash or options to purchase Common Stock approved by the Compensation Committee. All funds allocated by the Company to the Plan will be used to purchase Common Stock. Prior to payout, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to, the participant's voluntary termination of employment with the Company prior to age 62. A participant

will be eligible to receive a distribution from the Plan upon reaching age 62. All distributions will be made in the form of Common Stock of the

Company.

- (4) Mr. Cloherty agreed to waive his right to receive any bonus from the Company for 2000. In consideration for such waiver, on March 15, 2001, the Company paid Mr. Cloherty a waiver fee of \$165,200 and loaned Mr. Cloherty the principal amount of \$2,382,900. Under Mr. Cloherty's promissory note, repayment of the outstanding principal amount plus interest at the annual rate of 5.2% is payable upon demand of the Company. The Company has agreed to forgive repayment of the principal amount of the loan plus interest on an annual basis at the rate of 33-1/3 percent per year beginning in 2002 so long as Mr. Cloherty remains employed by the Company. In the event Mr. Cloherty voluntarily terminates his employment with the Company or Mr. Cloherty's employment is terminated for cause by the Company, the outstanding principal amount of the loan becomes immediately due and payable. In addition, Mr. Cloherty has a loan in the principal amount of \$40,000 in connection with his relocation to Illinois in 1983 which is payable on demand and is without interest.
- (5) The Company has an Employment Agreement with James J. Braniff III ending on December 31, 2003. Under the Agreement, Mr. Braniff is to receive an annual salary of not less than \$600,000 and is entitled to participate in the Brokerage Services Division Management Bonus Plan. On January 1, 2000, Mr. Braniff was indebted to the Company in the principal amount of \$1,155,000, which accrued interest at the annual rate of 3%. During 2000 the Company forgave \$233,900 of principal and interest in connection with such indebtedness which amount is included in his compensation for 2000. Under the Agreement, an additional \$115,500 of Mr. Braniff's indebtedness is to be forgiven annually while Mr. Braniff is an employee of the Company. In addition, Mr. Braniff has a loan in the principal amount of \$100,000 in connection with his relocation to Illinois which is payable on demand and is without interest.

Comparative Performance Graph

The following graph demonstrates a five year comparison of cumulative total returns for the Company, the S&P 500 and a Peer Group comprised of the Company, Aon Corporation, Hilb, Rogal and Hamilton Co., Marsh & McLennan Companies, Inc. and Brown & Brown, Inc. The comparison charts the performance of \$100 invested in the Company, the S&P 500 and the Peer Group on December 31, 1995, with dividend reinvestment.

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Directors' Compensation

Directors who are officers of the Company receive compensation in their capacities as officers and receive no additional compensation for serving as directors.

Non-employee directors, currently Messrs. Brooker, Coughlan, Ripp and Wimmer and Ms. Gordon, are eligible to receive compensation consisting of nonqualified stock options. In addition, non-employee directors receive an annual retainer of \$25,000 per year or, in lieu of the cash retainer, an option to purchase shares of the Company's Common Stock below market value, plus fees of \$500 for attendance at each Board meeting or committee meeting on a date other than a Board meeting date. Non-employee directors are reimbursed for travel and accommodation expenses incurred in attending Board or committee meetings. Non-employee directors are not eligible for participation in any other compensation plans of the Company.

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In 1989, the Company's stockholders approved the adoption of the Company's 1989 Non-Employee Directors' Stock Option Plan (the "1989 Plan"), which was subsequently amended in 1990, 1993, 1994, 1996, 1997, 1998, 1999, 2000 and 2001. The 1989 Plan currently provides that non-employee directors are eligible to be granted nonqualified options to purchase a maximum of 1,025,000 shares of the Company's Common Stock. The 1989 Plan encompasses options granted to non-employee directors at the discretion of the Option Committee of the Company's Board of Directors ("Discretionary Options") and options granted to non-employee directors pursuant to an election made by a non-employee director to receive options in lieu of his or her annual retainer ("Retainer Options"). Shares issued upon exercise of options granted under the 1989 Plan may be repurchased shares held by the Company or authorized but previously unissued shares.

Under the 1989 Plan, a Discretionary Option shall be exercisable at such rate and price fixed by the Option Committee. Discretionary Options terminate if not exercised by the date set forth in the 1989 Plan or by such date established by the Option Committee at the time it makes the grant.

Pursuant to the terms of the 1989 Plan, Messrs. Coughlan, Ripp and Wimmer and Ms. Gordon have elected to receive their annual retainers for 2001 in the form of an option to purchase the Company's Common Stock. Each year on or before two weeks preceding the Company's Annual Meeting of Stockholders, the Option Committee shall determine the number of shares of Common Stock with respect to which a non-employee director may be granted a Retainer Option. The non-employee director's option exercise price per share shall be equal to the Fair Market Value of the Common Stock subject to the Retainer Option less the Annual Retainer, divided by the number of shares subject to the Retainer Option. The option exercise price per share shall be not less than the par value of the Common Stock. "Fair Market Value" is defined as the closing price of the Company's Common Stock as reported on the New York Stock Exchange composite listing for the day on which the option is granted.

On May 16, 2000, the Company granted a Retainer Option for 2,000 shares of the Company's Common Stock to Messrs. Ripp and Wimmer and Ms. Gordon at an exercise price of \$6.38 per share. Such options are exercisable at the rate of one-fourth of such grant each successive quarter commencing August 16, 2000. In addition, on June 21, 2000, the Company granted a Discretionary Option for 24,000 shares of the Company's Common Stock to each of Messrs. Brooker, Ripp, and Wimmer and Ms. Gordon at an exercise price of \$18.50 per share, which was the closing price for a share of Common Stock as reported on the New York Stock Exchange composite listing on that date. Such options are exercisable at the rate of one-third of such grant each successive June 21, commencing June 21, 2001.

The Company approved a supplemental deferred compensation arrangement, effective July 1, 1996, with Robert E. Gallagher after his retirement, and to his surviving spouse after his death, and the surviving spouse

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of John P. Gallagher, providing for a payment of \$100,000 annually, inclusive of any Company pension plan payments, to be paid until the death of each such beneficiary.

Pension Plan

The Company also maintains a non-contributory defined benefit pension plan covering substantially all domestic employees which is qualified under the Internal Revenue Code. The plan provides an annual pension benefit on normal

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retirement at age 65 which, when paid in the form of a single life annuity, will equal 1% of final average earnings multiplied by the number of years of credited service, not to exceed 25 years (without any deduction for social security or other offset amounts). A person's earnings for purposes of the plan include all compensation other than allowances such as moving expenses plus any pre-tax contributions under the 401(k) feature of the Savings and Thrift Plan, less pre-tax contributions under the Supplemental Savings and Thrift Plan. Effective for plan years beginning after 1988, the maximum includible compensation for a participant for any year may not exceed an overall salary maximum as determined by the Internal Revenue Service of \$170,000 (in 2000 and 2001). The remuneration for executive officers shown under "Salary" and "Bonus" in the Summary Compensation Table constitutes their earnings during 2000 for purposes of the plan without regard to the Internal Revenue Service's limitation. "Final average earnings" are the highest average earnings received in any five consecutive full calendar years before retirement. Employees' pension rights are fully vested after the earlier of (i) 5 years of service with the Company or (ii) the attainment of age 65.

The following table shows the estimated annual benefits (which are not subject to deduction for social security or other offset amounts) payable on retirement under the Company's defined benefit plan to persons in specific remuneration and credited years of service classifications assuming (i) the person elects the single life annuity basis providing monthly payments without benefits to his survivors and (ii) the person continues in the employ of the Company at his present rate of remuneration until age 65:

PENSION PLAN TABLE

Average remuneration during highest five consecutive years before retirement -----	Years of Credited Service		
	15	20	25 or more
\$110,000.....	\$16,500	\$22,000	\$27,500
130,000.....	19,500	26,000	32,500
150,000.....	22,500	30,000	37,500
170,000.....	25,500	34,000	42,500

For purposes of estimating potential pension benefits using the foregoing table, the number of years of credited service as of December 31, 2000 for the executive officers named in the Summary Compensation Table are as follows: J. Patrick Gallagher, Jr. (25 years), Michael J. Cloherty (18 years), James J. Braniff III (12 years), James W. Durkin, Jr. (24 years), David E. McGurn, Jr. (21 years) and Richard J. McKenna (23 years). Such pension benefits are in addition to amounts payable to such persons under the Company's Savings and Thrift Plan and Supplemental Savings and Thrift Plan on their retirement and are subject to certain limitations as required under the Internal Revenue Code.

Stock Option Plans

The Company maintains a 1988 Incentive Stock Option Plan and a 1988 Nonqualified Stock Option Plan.

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The following table sets forth certain information regarding options to purchase shares of Common Stock granted to the executive officers of the Company named in the Summary Compensation Table during the Company's 2000 fiscal year. The exercise price of the options equals the closing price for a share of the Company's Common Stock on the date of the option grant.

Option Grants in the Last Fiscal Year(1)

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Appreciation for Option Term (2)	
	Number of Securities Underlying Options Granted (#)	% of Total Options to Employees in Fiscal Year	Exercise Price (\$)	Expiration Date	5% (\$)	10% (\$)
J. Patrick Gallagher, Jr.	30,000	1.18	18.50	6-21-10	349,000	885,000
Michael J. Cloherty.....	30,000	1.18	18.50	6-21-10	349,000	885,000
James J. Braniff III....	30,000	1.18	18.50	6-21-10	349,000	885,000
James W. Durkin, Jr. ...	30,000	1.18	18.50	6-21-10	349,000	885,000
David E. McGurn, Jr. ...	30,000	1.18	18.50	6-21-10	349,000	885,000
Richard J. McKenna.....	30,000	1.18	18.50	6-21-10	349,000	885,000

(1) Nonqualified options granted June 21, 2000, exercisable at the rate of 10% of total option for each calendar year after 2000.

(2) Based on actual option term and annual compounding.

The following table sets forth certain information regarding options to purchase shares of Common Stock exercised during the Company's 2000 fiscal year and the number and value of unexercised options to purchase shares of Common Stock held at the end of the Company's 2000 fiscal year by the executive officers of the Company named in the Summary Compensation Table.

Aggregated Option Exercises in the Last Fiscal Year and Fiscal Year End Option Values

Name	Number of Shares Acquired on Exercise (#)	Value Realized (\$)(1)	Number of Securities Underlying Unexercised Options at FY-End	Number of Securities Underlying Unexercised Options at FY-End	Value of Unexercised In-the-Money Options at FY-End	Value of Unexercised In-the-Money Options at FY-End
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)(2)	Unexercisable (\$)(2)
J. Patrick Gallagher, Jr.	304,000	\$6,622,194	--	198,000	--	\$4,416,940
Michael J. Cloherty.....	30,000	374,500	164,000	184,000	\$3,871,400	4,064,720
James J. Braniff III....	2,000	27,820	107,200	280,400	2,359,584	5,624,292
James W. Durkin, Jr. ...	4,000	55,400	260,000	188,000	6,420,360	4,170,720
David E. McGurn, Jr. ...	20,000	272,240	126,600	131,400	3,109,642	2,794,918

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Richard J. McKenna.....	23,440	231,769	44,000	96,160	1,034,908	1,937,845
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- (1) Market value of underlying securities at exercise, minus the exercise price.
- (2) Market value of underlying securities at year end, minus the exercise price.

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Severance Arrangements

The Company has a plan for severance compensation to employees after a hostile takeover. The plan defines a hostile takeover to include, among other events, the following events, if not approved by two-thirds of the members of the Board of Directors in office immediately prior to any such events: the election of directors not nominated by the Board of Directors, a business combination, such as a merger, not approved by the holders of 80% or more of the Common Stock and the Board of Directors or not meeting various "fair price" criteria, or the acquisition of 20% or more of the combined voting power of the Company's stock by any person or entity. All full-time and part-time employees who are regularly scheduled to work 20 or more hours per week and who have completed at least two years of continuous employment with the Company are participants in the plan. A severance benefit is payable under the plan if a participant's employment with the Company terminates voluntarily or involuntarily within two years after a hostile takeover for reasons such as reduction in compensation, discontinuance of employee benefit plans without replacement with substantially similar plans, change in duties or status, certain changes in job location and involuntary termination of employment for reasons other than just cause. For participants who have completed two but less than five years of employment, the benefit is equal to the employee's annual compensation during the year immediately preceding the termination of employment. For employees who have completed five or more years of employment, the benefit is equal to two and one-half times the employee's annual compensation during the 12 months ending on the date of termination of employment, but may not exceed 2.99 times average annual compensation during the preceding five years. Annual compensation is defined for purposes of the plan as the amount of the employee's wages, salary, bonuses and other incentive compensation. Benefits are payable in a lump sum not later than 10 days after termination of employment.

Each of the executive officers of the Company named in the Summary Compensation Table has entered into a change in control agreement with the Company. A severance benefit is payable under the agreement if the executive officer's employment with the Company is terminated by (i) the Company for any reason other than death, physical or mental incapacity, or cause within 24 months following a change in control of the Company; or (ii) the resignation of the executive officer within 24 months following a change in control of the Company upon the occurrence of a material change in the nature or scope of the executive's authorities, powers, functions or duties or a reduction in the executive's total compensation. In the event of any such termination of the executive officer's employment, under the agreement the Company is required to pay the executive a severance allowance equal to his then salary and bonus payments for a 24 calendar month period. Additionally, the executive will also continue to participate for a period of two years in the Company's welfare benefit plans. Cash benefits are payable in a lump sum not later than seven days after termination of employment.

PROPOSAL 2--APPROVAL OF AN INCREASE IN THE
AUTHORIZED COMMON STOCK OF THE COMPANY

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The Board of Directors deems advisable and in the best interests of the Company and its stockholders, and recommends to the stockholders, an amendment to Clause (A) of Article FOURTH of the Company's Restated Certificate of Incorporation (the "Amendment") increasing the Company's authorized Common Stock, par value \$1.00 per share, from 200,000,000 to 400,000,000 shares, so that said Clause (A), as amended, shall read as follows:

(A) The aggregate number of shares which the corporation is authorized to issue is 401,000,000, of which 1,000,000 shares shall be Preferred Stock with no par value per share and 400,000,000 shares shall be Common Stock with par value of \$1.00 per share.

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The remainder of Article FOURTH of the Company's Restated Certificate of Incorporation, which is Clause (B) and which specifies the designations, relative rights, voting rights, preferences and privileges of each class of stock of the Company, is unaffected by the Amendment.

The Company is currently authorized to issue 200,000,000 shares of Common Stock, \$1.00 par value per share, and 1,000,000 shares of Preferred Stock, without par value. As of March 1, 2001, there were 80,758,335 shares of Common Stock outstanding held by 663 stockholders of record, approximately 21,834,000 shares of Common Stock reserved for issuance in connection with the exercises of stock options, 10,950,000 shares of Common Stock reserved for issuance in connection with acquisitions, and 50,000,000 shares of Common Stock reserved for issuance in connection with the exercises of outstanding Rights under the Company's Rights Agreement (described herein). Accordingly, only approximately 36,457,665 shares of Common Stock are unissued, unreserved, and available for issuance. The proposed Amendment would increase the number of authorized shares of Common Stock from 200,000,000 to 400,000,000 and has no effect on the present authorization with respect to the Preferred Stock.

The proposed increase in the authorized Common Stock will provide the Company with greater flexibility to issue Common Stock for appropriate corporate purposes. Among the purposes for which such additional authorized Common Stock could be issued are the acquisition of desirable businesses, properties or securities, stock splits, stock dividends, the sale of shares for cash, the issuance of shares to the Company's Savings and Thrift Plan and other employee benefit plans that may be adopted by the Company and its subsidiaries and issuances in connection with stock options.

The additional shares of Common Stock resulting from the Amendment would be identical in all respects to the existing Common Stock. Holders of the outstanding Common Stock are entitled to one vote for each share held of record on all matters presented to stockholders. The shares of Common Stock have no cumulative voting rights in the election of directors, and accordingly holders of a majority of the outstanding voting stock are entitled to elect the entire Board. The holders of Common Stock have no conversion, preemptive or subscription rights. Subject to the rights of holders of Preferred Stock, upon liquidation of the Company, the net assets will be distributed ratably among the holders of Common Stock. Subject to the prior payment of all preferred dividends on shares of outstanding Preferred Stock, the holders of Common Stock are entitled to receive ratably out of funds legally available therefor dividends at such time and in such amounts as the Board of Directors may from time to time determine. All shares of Common Stock currently outstanding are fully paid and nonassessable.

The Company also is authorized to issue 1,000,000 shares of Preferred Stock without par value, issuable in series. The Board of Directors is authorized to designate each series and the number of shares within the series and to

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determine and fix the relative rights and preferences of the shares of each series. No shares of Preferred Stock are currently issued or outstanding. Preferred Stock, when and if issued, will be senior to Common Stock with respect to dividend and liquidation rights. The relative rights and preferences which may hereafter be fixed by resolution of the Board for any series of Preferred Stock may provide that the shares of such series shall be senior to the other series of Preferred Stock with respect to dividends, liquidation or other rights and that such shares may be redeemable or may be convertible into Common Stock or other securities.

The Board may cause authorized shares of Common Stock and Preferred Stock in excess of those outstanding to be issued without further action by the stockholders, unless such action is required by applicable law or regulatory agencies or by the rules, if the Company shall choose to comply with such rules, of any stock exchange on which the Company's securities may then be listed. Stockholders have no preemptive rights to subscribe to or to purchase any securities of the Company of any kind or class.

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On March 10, 1987, the Board of Directors adopted a Common Share Purchase Rights Plan (the "Rights Plan"), which was approved by the Company's stockholders at their Annual Meeting on May 12, 1987. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement") between the Company and Harris Trust & Savings Bank.

Under the Rights Plan, Common Share Purchase Rights (the "Rights") were distributed as a dividend at the rate of one Right for each share of Common Stock held by stockholders of record as of May 12, 1987 (the "Record Date"). The Company also will issue one Right with respect to each share of Common Stock that becomes outstanding after May 12, 1987, but prior to the earliest of the Distribution Date (as hereinafter defined), the redemption of the Rights or the expiration of the Rights. Each Right entitles the registered holder to purchase from the Company one share of Common Stock at the price of \$25 per share, subject to certain adjustments (the "Purchase Price").

With respect to the shares of Common Stock outstanding as of May 12, 1987, the Rights are evidenced by the Common Stock certificates. With respect to the shares of Common Stock that become outstanding after May 12, 1987 but prior to the earliest of the Distribution Date (as hereinafter defined), the redemption of the Rights or the expiration of the Rights, the Rights will be evidenced by Common Stock certificates that contain a legend incorporating the Rights Agreement by reference.

The Rights are not exercisable or transferable apart from the Common Stock until the earlier to occur of (i) ten days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") acquired or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding Common Stock or (ii) ten days following the commencement or announcement of an intention to make a tender offer or exchange offer for 30% or more of the outstanding Common Stock (the earlier of such dates being called the "Distribution Date"). Until the Distribution Date (or earlier redemption or expiration of the Rights), the surrender for transfer of any certificates representing Common Stock outstanding as of May 12, 1987 (or issued after May 12, 1987 but prior to the earliest of the Distribution Date, the redemption of the Rights or the expiration of the Rights) would also constitute the transfer of the Rights associated with the Common Stock represented by such certificate. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights (the "Right Certificates") would be mailed to holders of record of the Common Stock as of the close of business on the Distribution Date and such separate Right

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Certificates alone would evidence the Rights.

The Rights are not exercisable until the Distribution Date and would expire on May 12, 2007 unless earlier redeemed as described below or extended by the Company. Until a Right is exercised, the holder thereof, as such, would have no rights as a stockholder, including, without limitation, the right to vote or to receive dividends. The Rights would be redeemable by the Company in whole, but not in part, at a price of \$0.0125 per Right (the "Redemption Price") prior to the public announcement that 20% or more of the Company's Common Stock had been accumulated by a single acquirer or group.

In the event that the Company were acquired in a merger or other business combination transaction or 50% or more of its assets or earning power were sold, proper provision would be made so that each holder of a Right thereafter would have the right to receive, upon the exercise thereof at the then current exercise price of the Right, that number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times the exercise price of the Right. In the event that the Company were the surviving corporation in a merger and its Common Stock was not changed or exchanged, or in the event that an Acquiring Person engages in one of a number of self-dealing transactions specified in the Rights Agreement, such as certain sales of assets to the Company or obtaining certain financial benefits

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from the Company, proper provision would be made so that each holder of a Right, other than Rights that were beneficially owned by the Acquiring Person on the Distribution Date (which would thereafter be void) will thereafter have the right to receive upon exercise that number of shares of Common Stock having a market value of two times the exercise price of the Right.

The Purchase Price payable and the number of shares of Common Stock or other securities or property purchasable, upon exercise of the Rights is subject to adjustment from time to time to prevent dilution (i) in the event of a stock dividend on, or a subdivision, combination or reclassification of the Common Stock, (ii) upon the grant to holders of shares of the Common Stock of certain rights or warrants to subscribe for shares of Common Stock or convertible securities at less than the current market price of the Common Stock, or (iii) upon the distribution to holders of shares of the Common Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends out of earnings or retained earnings at a rate not in excess of 125% of the rate of the last cash dividend theretofore paid or dividends payable in shares of Common Stock) or of subscription rights or warrants (other than those referred to above). With certain exceptions, no adjustment in the Purchase Price would be required until cumulative adjustments required an adjustment of at least 1% in such Purchase Price. No fractional shares would be issued and in lieu thereof, an adjustment in cash will be made based on the market price of the Common Stock on the last trading date prior to the date of exercise.

The Rights have certain anti-takeover effects. The Rights would cause substantial dilution to a person who attempts to acquire the Company without conditioning his offer on a substantial number of Rights being acquired. The Rights would have no effect, however, on a person who is willing to acquire control of the Company and wait until the Rights expire before acquiring 100% ownership. Moreover, the Rights would not affect a transaction approved by the Company prior to the public announcement that 20% or more of the Company's Common Stock had been accumulated by a single acquirer or group, because the Rights could be redeemed until that time.

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Authorized shares of Common Stock and Preferred Stock in excess of those outstanding might be issued at such times and under such circumstances as to have a dilutive effect on earnings per share and on the equity ownership of the present holders of Common Stock. Such shares could also be used to make more difficult a change in control of the Company. Under certain circumstances, the Board could create impediments or frustrate persons seeking to effect a takeover or otherwise gain control of the Company by causing such shares to be issued to a holder or holders who might side with the Board in opposing a takeover bid that the Board determines is not in the best interests of the Company and its stockholders. In addition, the existence of such shares might have the effect of discouraging an attempt by another person or entity, through the acquisition of a substantial amount of Common Stock, to acquire control of the Company, since the issuance of such shares could dilute the stock ownership of such person or entity. The Board of Directors may cause such shares to be issued to a holder or holders that would thereby have sufficient voting power to assure that certain types of proposals (including any proposal to remove directors, to replace directors, to accomplish certain business combinations opposed by the Board, or to alter, amend or repeal provisions in the Company's Restated Certificate of Incorporation and/or By-laws relating to any such action) would not receive the 80% stockholder vote (as described below) required by such provisions. It should be noted, however, that all of the actions described in this paragraph are currently possible and that the power of the Board to take such actions would not be increased by the Amendment.

The Company has no present agreement, commitment, plan or intent with respect to the sale or issuance of Common Stock, other than the possible issuances of Common Stock in acquisitions currently under negotiation in which the Company would be the acquiring or surviving entity, the shares of Common Stock

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reserved for issuance in connection with the exercises of stock options and the reserve of sufficient shares of Common Stock to permit the exercise in full of outstanding Rights as required by the Rights Agreement.

Certain Charter and By-law Provisions

The Company's Restated Certificate of Incorporation contains provisions which could deter, delay or prevent a change in control of the Company which is opposed by the Board of Directors. Such provisions include the following: (a) a provision for classification of the Board of Directors into three classes and a minimum of three and a maximum of fifteen directors at any time; (b) a requirement that a director or the entire Board of Directors may only be removed, with or without cause, by the affirmative vote of the holders of 80% of the outstanding shares of voting stock of the Company and of not less than 67% of the voting stock held by stockholders other than a "Related Person" as defined below; (c) a requirement that any merger, purchase of assets or other business combination ("Business Combination") between the Company and certain owners of 20% or more of the outstanding voting stock of the Company ("Related Person") in order to become effective must be approved by the affirmative vote of not less than 80% of the shares of outstanding voting stock of the Company and by 67% of the stock owned by stockholders other than the Related Person; and (d) a requirement that the provisions summarized in (a), (b) and (c) may only be repealed or amended by the affirmative vote of 80% of the outstanding voting stock of the Company and the affirmative vote of 67% of the outstanding voting stock owned by stockholders other than a Related Person. The 80% and 67% approval requirements do not apply if (1) two-thirds of the directors who held office immediately prior to the date the Related Person became a Related Person approve the Business Combination or (2) the Business Combination is

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between the Company and a subsidiary at least 50% owned by the Company and in which the Related Person has no interest, or (3) any consideration to be paid to stockholders of the Company as part of the Business Combination meets certain fair price tests and stockholders of the Company have received a timely mailing containing (A) the recommendation of outside directors and directors who held office immediately prior to the Related Person's becoming such and (B) the opinion of a reputable investment banking or financial services firm as to the fairness of the Business Combination. The By-laws also provide that special meetings of stockholders may be called by the President or by the Secretary at the request in writing of the majority of the Board of Directors. On May 14, 1991 the stockholders approved a proposal to amend the Company's Restated Certificate of Incorporation to require all stockholder action take place at a meeting of the stockholders.

The foregoing provisions of the Restated Certificate of Incorporation and By-laws could have the effect of perpetuating current management or preventing approval by the holders of a majority of the Company's voting stock. In addition, it would be possible for the Board of Directors to authorize issuance of the Preferred Stock, without further approval by the stockholders, with rights and preferences which could impede a takeover of the Company.

Vote Required

The affirmative vote of a majority of the outstanding shares entitled to notice of and to vote at the meeting is required to approve the proposal. Unless otherwise instructed, proxies will be voted in favor of the proposal to adopt the Amendment. If approved, the Amendment will become effective upon filing and recording as required by the General Corporation Law of Delaware.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE
IN FAVOR OF THE ADOPTION OF THE AMENDMENT
TO THE RESTATED CERTIFICATE OF INCORPORATION.

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PROPOSAL 3--RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2001

The Audit Committee has considered the qualifications of Ernst & Young LLP and recommended that the Board of Directors appoint them as independent auditors of the Company for the fiscal year ending December 31, 2001. The Board of Directors desires to obtain stockholders' ratification of the Board's action in such appointment. A resolution ratifying the appointment will be offered at the meeting. If the resolution is not adopted, the adverse vote will be considered as a direction to the Board to select other auditors for the following year. Because of the difficulty and expense of making any substitution of auditors so long after the beginning of the current year, it is contemplated that the appointment for the year 2001 will stand unless the Board finds other good reason for making a change.

Fees paid to Ernst & Young LLP for professional services rendered to the Company during 2000 were as follows: Audit Fees \$524,000 and All Other Fees \$866,000, including audit related services of \$470,000 and other non-audit related services of \$396,000. Audit related services primarily include fees for employee benefit plan audits, accounting consultations, other attest services for certain subsidiaries and due diligence procedures. No services were performed or fees incurred in connection with financial information systems design and implementation projects during 2000. The Audit Committee considered the effects that the provision of non-audit services may have on

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the Company's independent auditors' independence.

A representative of Ernst & Young LLP will be present at the Annual Meeting to respond to appropriate questions and to make a statement if the representative so desires.

Ratification requires the affirmative vote by holders of at least a majority of the outstanding shares voting at the Annual Meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE
IN FAVOR OF RATIFICATION OF THE APPOINTMENT OF
ERNST & YOUNG LLP AS THE COMPANY'S
INDEPENDENT AUDITORS FOR 2001.

SUBMISSION OF STOCKHOLDER PROPOSALS FOR 2002 ANNUAL MEETING

Stockholder proposals to be presented at the 2002 Annual Meeting of Stockholders must be received by the Company at its principal office on or before December 6, 2001 to be considered for inclusion in the Company's proxy materials for that meeting. With respect to any stockholder proposal to be presented at the 2002 Annual Meeting of Stockholders that is received by the Company after February 19, 2002, the proxies solicited on behalf of the Board of Directors may exercise discretionary voting power.

OTHER MATTERS

The Company knows of no other matters to be presented for action at the meeting. If any other matters should properly come before the meeting or any adjournment thereof, such matters will be acted upon by the persons named as proxies in the accompanying proxy according to their best judgment in the best interests of the Company.

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The Annual Report to Stockholders containing financial statements for the year ended December 31, 2000, and other information concerning the Company is being furnished to the stockholders but is not to be regarded as proxy soliciting material.

Each stockholder is urged to mark, date, sign and return the enclosed proxy card in the envelope provided for that purpose. Your prompt response is helpful and your cooperation will be appreciated.

Dated: April 5, 2001

By Order of the Board of Directors

MICHAEL J. CLOHERTY
Secretary

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EXHIBIT A

ARTHUR J. GALLAGHER & CO.
("AJGCO")

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

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CHARTER

The Audit Committee is appointed by the Board to assist the Board of Directors in monitoring the integrity of AJGCO's financial statements; the compliance of AJGCO with legal and regulatory requirements; and the independence and performance of AJGCO's external auditors and the performance of AJGCO's internal auditors.

The Audit Committee shall be comprised of three or more directors as determined and appointed by the Board. The members of the Audit Committee shall meet the independence and experience requirements of the New York Stock Exchange. The Audit Committee shall have the authority to retain special legal, accounting or other consultants to advise the Audit Committee. The Audit Committee may request any officer or employee of AJGCO or AJGCO's outside counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

The members of the Audit Committee shall be elected by the Board at the annual meeting of the Board or until their successors shall be duly elected and qualified. Unless a Chair is elected by the Board, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership.

The Audit Committee shall:

- . Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.
- . Review the annual audited financial statements with management, including major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Company's financial statements.
- . Review the significant reports to management prepared by the internal audit department and management's responses.
- . Recommend to the Board of Directors the selection of the independent auditor (which firm is ultimately accountable to the Audit Committee and the Board), considering independence and effectiveness and approve the fees and other compensation to be paid to the independent auditor. On at least an annual basis, the Audit Committee should review and discuss with the independent auditor all significant relationships the independent auditor has with AJGCO to determine its independence and obtain a written statement on such matters.
- . Review the performance of the independent auditor and approve any proposed discharge of the independent auditor when circumstances warrant.
- . Periodically consult with the independent auditor out of the presence of management about internal controls and the fullness and accuracy of AJGCO's financial statements.
- . Consider the independent auditor's judgments about the quality and appropriateness of AJGCO's accounting principles as applied in its financial reporting.
- . Consider and approve, if appropriate, major changes to AJGCO's auditing and accounting principles and practices as suggested by the independent auditor or management.

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- . Establish regular and separate systems of reporting to the Audit Committee by each of the independent auditor and the internal auditors regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.
- . Following completion of the annual audit, review separately with each of management, AJGCO's internal audit department and the independent auditor any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
- . Prior to filing, review with management and the independent auditor AJGCO's quarterly report to the SEC. The Chairman of the Audit Committee, or the Chairman's designee, who shall be a member of the Audit Committee, may represent the Audit Committee for this purpose.
- . Review any significant disagreement among management, AJGCO's internal audit department and the independent auditor in connection with the preparation of the financial statements.
- . Review with the independent auditor and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented.
- . Review with AJGCO's General Counsel legal matters that may have a material impact on AJGCO's financial statements and legal compliance matters.
- . Prepare the report required by the rules of the SEC to be included in AJGCO's annual proxy statement.
- . Obtain from the independent auditor assurance that Section 10A of the Private Securities Litigation Reform Act have not been implicated.
- . 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.

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 AJGCO's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations and AJGCO's Code of Ethics.

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PROXY
[ARTHUR J. GALLAGHER LOGO]

PROXY

Arthur J. Gallagher & Co.
Two Pierce Place

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Itasca, Illinois 60143

This Proxy is Solicited on Behalf of the Board of Directors

The undersigned hereby appoints Robert E. Gallagher and J. Patrick Gallagher, Jr., or either of them, as attorneys and proxies, each with the power to appoint a substitute, and hereby authorizes them to represent and to vote, as designated below, all the shares of voting stock of Arthur J. Gallagher & Co. held of record by the undersigned on March 23, 2001, at the Annual Meeting of Stockholders to be held on May 22, 2001 or any adjournment thereof.

In Their Discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

This proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. If no direction is made, this proxy will be voted for Proposals 1, 2 and 3. This proxy is revocable at any time.

PLEASE COMPLETE, DATE, SIGN AND MAIL THIS PROXY PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

(Continued and to be signed on reverse side.)

ARTHUR J. GALLAGHER & CO.
PLEASE MARK VOTE IN OVAL
IN THE FOLLOWING MANNER
USING DARK INK ONLY.

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1. Election of Directors--Class I Nominee for term expiring in 2003 is 01-James W. Durkin, Jr.; Class II Nominees for term expiring in 2004 are 02-T. Kimball Brooker, 03-Robert E. Gallagher, 04-David E. McGurn, Jr., 05-Richard J. McKenna; Class III Nominee for term expiring in 2002 is 06-James J. Braniff III; and for ratification of the appointment of 07-Gary P. Coughlan to fill a vacant directorship in Class III with a term expiring in 2002.

Nominee Exception

2. Amend Company's Restated Certificate of Incorporation to increase authorized common stock from 200,000,000 to 400,000,000 shares.

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For
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3. Ratification of the appointment of Ernst & Young LLP as the independent auditors of the Company for 2001.

The Board of Directors Recommends a Vote "FOR"
Each of the Listed Proposals.

Dated: _____, 2001
Signature(s) _____

IMPORTANT: Please sign your name exactly as it appears opposite. In the case of joint holders, all should sign. When signing as an attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

As of February 25, 2014, 3,340,896 shares of our Common Stock were issued and outstanding. Assuming no other transactions by us involving our Common Stock, and no options for our Common Stock are exercised prior to the expiration of the Rights Offering, if the Rights Offering is fully subscribed through the exercise of the Subscription Rights and/or the Standby Purchasers acquire all of the Common Stock not purchased by the holders of Subscription Rights, then an additional [] shares of our Common Stock will be issued and outstanding after the closing of the Rights Offering, for a total of [] shares of Common Stock issued and outstanding. As a result of the Rights Offering, the ownership interests and voting interests of the existing shareholders that do not fully exercise their Subscription Privileges will be diluted.

How much money will we receive from the Rights Offering?

In light of the Standby Purchasers' commitment, the total proceeds to us from the Rights Offering (before expenses and subject to reduction as a result of Tax Attribute Considerations) will be approximately \$2,800,000.

To whom should I send my forms and payment?

If your shares are held in the name of a broker, dealer or other nominee, then you should send your Beneficial Owner Election Form and Subscription Payment to that record holder.

If you are the record holder, then you should send your Subscription Rights Certificates and payments of the Subscription Price to the Subscription Agent (Broadridge Corporate Issuer Solutions, Inc.) at the appropriate address indicated below. Brokers and nominees should also submit their Nominee Holder Certifications to the Subscription Agent at the appropriate address indicated below.

By hand or overnight courier:

Broadridge Corporate Issuer Solutions, Inc.

Attention: Reorganization Department

1981 Marcus Avenue, Suite 100

Lake Success, NY 11042

By first class mail:

Broadridge Corporate Issuer Solutions, Inc.

Attention: Reorganization Department

P.O. Box 1317

Brentwood, NY 11717-0693

You are solely responsible for properly and timely delivering your Subscription Rights Certificates and payments of the Subscription Price (and, if you are a broker or nominee, your Nominee Holder Certifications) to the Subscription Agent. We urge you to allow sufficient time for delivery of your subscription materials to the Subscription Agent.

What if I have more questions?

If you have more questions about the Rights Offering or need additional copies of this Prospectus or other Rights Offering documents, please contact the Subscription Agent (Broadridge Corporate Issuer Solutions, Inc.) at (855) 793-5068.

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this Prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in our securities. You should read the entire Prospectus carefully, including the “Risk Factors” section and the other documents we refer to and incorporate by reference, in order to understand this offering fully. In particular, we incorporate important business and financial information into this Prospectus by reference.

Company Information

Pro-Dex is a corporation organized under the laws of the State of Colorado. With operations in Irvine, California and Beaverton, Oregon, the Company designs and produces powered surgical and dental instruments and motion control products used in the medical, factory automation and scientific research industries. The Company currently conducts no other significant business activities. Our website address is www.pro-dex.com. None of the information contained on, or that may be accessed through, our website is a prospectus or constitutes part of, or is otherwise incorporated into, this Prospectus.

Our Common Stock is listed on the NASDAQ Capital Market under the symbol “PDEX”. Our principal executive offices are located at 2361 McGaw Avenue, Irvine, California 92614, and our telephone number is (949) 769-3200.

Rights Offering Summary

The following summary describes the principal terms of the Rights Offering, but is not intended to be complete. See the information under the heading “The Rights Offering” in this Prospectus for a more detailed description of the terms and conditions of the Rights Offering.

Securities Offered We are distributing, at no charge to holders of our Common Stock, non-transferable Subscription Rights to purchase up to [] shares of our Common Stock. For each share of Common Stock held of record as of 5:00 p.m., New York City time, on the Record Date (as specified below), you will receive [] of a Subscription Right. Each whole Subscription Right will entitle you to purchase one share of our Common Stock at the Subscription Price specified below. Subscription Rights may only be exercised in whole numbers; we will not issue fractional shares of Common Stock upon exercise of Subscription Rights and, to the extent that the number of Subscription Rights that you are entitled to receive is not a whole number, the shares of Common Stock issuable upon exercise of the Subscription Rights will be rounded down to the nearest whole share for purposes

of determining the number of shares of Common Stock for which you may subscribe.

Subscription Privilege	For each whole Subscription Right that you hold, you will have a Subscription Privilege to buy from us one share of our Common Stock at the Subscription Price. You may exercise your Subscription Privilege for some or all of your Subscription Rights, or you may choose not to exercise your Subscription Rights in your sole discretion. If you do not exercise your Subscription Rights and the Rights Offering is completed, the number of shares of our Common Stock you own will not change but your percentage ownership of our total outstanding Common Stock will decrease because shares will be purchased by other shareholders in the Rights Offering or by the Standby Purchasers.
Subscription Price	[\$] per share of Common Stock. To be effective, any payment related to the exercise of a Subscription Right must clear prior to the Expiration Date.

Limitation on Exercise of Subscription Privilege and Purchases by Standby Purchasers	In the event that the exercise by a shareholder of the Subscription Privilege or the purchase of Common Stock under the Standby Purchase Agreement could, as determined by the Company in its sole discretion, potentially result in a limitation on the Company’s ability to use Tax Attributes under the Code and rules promulgated by the Internal Revenue Service, the Company may, but is under no obligation to, reduce the exercise by such shareholder of the Subscription Privilege or the amount purchased under the Standby Purchase Agreement to such number of shares of Common Stock as the Company in its sole discretion shall determine to be advisable in order to preserve the Company’s ability to use the Tax Attributes.
Record Date	[], 201[].
Expiration Date	The Subscription Rights will expire at 5:00 p.m., New York City time, on [], 201[].
Procedure for Exercising Rights	<p>You must properly complete the enclosed Subscription Rights Certificate and deliver it, along with the full Subscription Price, to the Subscription Agent before the Expiration Date.</p> <p>If you use the mail, we recommend that you use insured, registered mail, return receipt requested. If you cannot deliver your Subscription Rights Certificate to the Subscription Agent on time, you may follow the guaranteed delivery procedures described under “The Rights Offering—Guaranteed Delivery Procedures.”</p>
Standby Purchasers and Standby Purchase Agreement	<p>In connection with the Rights Offering, we have entered into a Standby Purchase Agreement with AO Partners and Farnam Street Capital. Pursuant to the Standby Purchase Agreement, the Standby Purchasers have agreed to purchase, at the Subscription Price, in a private transaction separate from the Rights Offering, any and all Unsubscribed Shares (subject to reduction as a result of Tax Attribute Considerations, see “Limitation on Exercise of Subscription Privilege and Purchases by Standby Purchasers” above). Pursuant to the terms of the Standby Purchase Agreement, the Unsubscribed Shares will be allocated 50% to AO Partners and 50% to Farnam Street Capital. Nicholas J. Swenson, a director of the Company, is the Managing Member of AO Partners and, in such capacity, has the power to direct the affairs of AO Partners. Raymond E. Cabillot, a director of the Company, is Chief Executive Officer and a director of Farnam Street Capital and, in such capacity, has the power to direct the affairs of Farnam Street Capital. Any shares of Common Stock issued to the Standby Purchasers in connection with the standby purchase commitment described above will be “restricted securities” as that term is defined in Rule 144 under the Securities Act. The Standby Purchasers and certain of their affiliates may also exercise the Subscription Privileges they hold in their capacity as shareholders of the Company.</p>
Use of Proceeds	<p>We expect the net proceeds from the Rights Offering and the transactions contemplated by the Standby Purchase Agreement to be approximately \$2,800,000 (before expenses and subject to reduction as a result of Tax Attribute Considerations). We intend to use the net proceeds from the Rights Offering to pursue strategic opportunities that may present themselves from time to time or, if not used to pursue strategic opportunities, for working capital and general corporate purposes, including to fund our ongoing research and development and product initiatives. Also, to the extent net proceeds of the Rights Offering are not deployed, some of the funds may be invested in accordance with the terms of our Surplus Capital Investment Policy</p>

Non-Transferability of Rights The Subscription Rights may not be sold, transferred or assigned and will not be listed for trading on the NASDAQ Capital Market or any other stock exchange or trading market. The shares of Common Stock issuable upon exercise of the Subscription Rights will be listed on the NASDAQ Capital Market under the symbol "PDEX".

No Revocation All exercises of Subscription Rights are irrevocable, even if you later learn information about us that you consider unfavorable or if the market price of our Common Stock drops below the Subscription Price. You should not exercise your Subscription Rights unless you are certain that you wish to purchase the shares of Common Stock offered pursuant to the Rights Offering.

Conditions to the Rights Offering	The completion of the Rights Offering is subject to the conditions described under “The Rights Offering—Conditions and Cancellation.”
Cancellation	We reserve the right to withdraw the Rights Offering at any time prior to the Expiration Date and for any reason. If the Rights Offering is cancelled, all subscription payments received by the Subscription Agent will be returned, without interest or penalty, as soon as practicable to those persons who subscribed for shares in the Rights Offering.
No Board Recommendation	Our Board of Directors is making no recommendations regarding your exercise of the Subscription Rights. You are urged to make your own decision whether or not to exercise your Subscription Rights based on your own assessment of our business and the Rights Offering. See the section below entitled “Risk Factors.”
Issuance of Common Stock	If you purchase shares of Common Stock through the Rights Offering, we will issue those shares to you in book-entry, or uncertificated, form as soon as practicable after the completion of the Rights Offering. Stock certificates will not be issued for shares of our Common Stock purchased in the Rights Offering.
Listing of Common Stock	Our Common Stock is listed on the NASDAQ Capital Market under the symbol “PDEX” and the shares to be issued in connection with the Rights Offering will also be listed on the NASDAQ Capital Market under the same symbol.
Federal Income Tax Consequences	We believe that the receipt and exercise of your Subscription Rights should generally not be taxable for U.S. federal income tax purposes. However, U.S. federal tax laws and regulations applicable to the receipt and exercise of the Subscription Rights are very complex and subject to uncertainty. You should seek specific tax advice from your tax advisor in light of your particular circumstances and as to the applicability and effect of any other tax laws. See “Certain Material U.S. Federal Income Tax Consequences.”
Subscription and Information Agent	Broadridge Corporate Issuer Solutions, Inc.
Questions	If you have any questions about the Rights Offering, including questions about subscription procedures and requests for additional copies of this Prospectus or other Rights Offering documents, please contact Broadridge Corporate Issuer Solutions, Inc. at (855) 793-5068.
Fees and Expenses	We will pay the fees and expenses related to the Rights Offering.
Risk Factors	Before you invest in the Rights Offering, you should be aware that there are risks associated with your investment, including the risks described in the section entitled “Risk Factors” beginning on page 15 of this Prospectus. You should carefully read and consider these risk factors together with all of the other information included in or incorporated by reference into this Prospectus before you decide to exercise your Subscription Rights to purchase shares of our Common Stock.

RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risks, uncertainties and other information described below, together with the risks, uncertainties and other information contained or incorporated by reference into this Prospectus, including but not limited to the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operation” in our Annual Report on Form 10-K for the year ended June 30, 2013 and our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2013 and December 31, 2013, as well as the risks, uncertainties and other information described in our other filings with the Securities and Exchange Commission (including but not limited to any subsequently filed Quarterly Reports on Form 10-Q), pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act, before making a decision to invest in our Common Stock.

The risks described below and in the documents referred to in the preceding paragraph are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business operations. If any of the following risks actually occurs, our business, results of operations and financial condition could suffer. In that case, the trading price of our Common Stock could decline, and you may lose all or part of your investment.

Risks Related to the Rights Offering

The Subscription Price determined for this Rights Offering is not necessarily an indication of the value of our Common Stock.

The Subscription Price is equal to []% of the closing price of our Common Stock, as reported by the NASDAQ Capital Market, on [], 201[] (which was the latest practicable date on which the Subscription Price could be established prior to the launch of the Rights Offering). The Subscription Price is not necessarily related to our book value, results of operations, cash flows, financial condition or the future market value of our Common Stock. We cannot assure you that you will be able to sell shares purchased in this Rights Offering at a price equal to or greater than the Subscription Price. We do not intend to change the Subscription Price in response to changes in the trading price of our Common Stock prior to the closing of the Rights Offering.

The Rights Offering may cause the price of our Common Stock to decline.

Depending upon the trading price of our Common Stock at the time of our announcement of the Rights Offering, the announcement of the Rights Offering and its terms, including the Subscription Price, together with the number of shares of Common Stock we will issue if the Rights Offering and transactions contemplated by the Standby Purchase

Agreement are completed, may result in a decrease in the trading price of our Common Stock. This decrease may continue after the completion of the Rights Offering. If that occurs, your purchase of shares of our Common Stock in the Rights Offering may be at a price greater than the prevailing trading price.

Because you may not revoke or change your exercise of the Subscription Rights, you could be committed to buying shares above the prevailing trading price at the time the Rights Offering is completed.

Once you exercise your Subscription Rights, you may not revoke or change the exercise. The trading price of our Common Stock may decline before the Subscription Rights expire. If you exercise your Subscription Rights, and, afterwards, the trading price of our Common Stock decreases below the Subscription Price, you will have committed to buying shares of our Common Stock at a price above the prevailing trading price and could have an immediate unrealized loss.

Our Common Stock is traded on the NASDAQ Capital Market under the symbol, "PDEX" and the closing sale price of our Common Stock on the NASDAQ Capital Market on February 25, 2014 was \$2.35 per share. There can be no assurances that the trading price of our Common Stock will equal or exceed the Subscription Price at the time of exercise or at the expiration of the Subscription Rights offering period.

Two of our directors hold voting power with respect to a substantial portion of our outstanding Common Stock, which enables them to have significant influence over the outcome of all matters submitted to our shareholders for approval and which influence may be alleged to conflict with our interests and the interests of our other shareholders. These two directors also control the Standby Purchasers and, as a result, their voting power is anticipated to increase as a result of the Rights Offering and the transactions contemplated by the Standby Purchase Agreement.

As of February 25, 2014, two of our directors, Nicholas J. Swenson and Raymond E. Cabillot, controlled voting power over approximately 32.2% (21.6% and 10.6%, respectively) of the outstanding shares of our Common Stock. In addition, as a result of these directors' control of the Standby Purchasers (as described elsewhere in this Prospectus), unless all of our shareholders fully exercise all of the Subscription Rights, the voting control of these directors will increase as a result of the Rights Offering and the transactions

contemplated by the Standby Purchase Agreement. (See “How many shares of Common Stock will the Standby Purchasers own after the Rights Offering?” on page 6 of this Prospectus). As a result of such voting control, these directors will have significant influence over all matters submitted to our shareholders for approval, including the election of our directors and other corporate actions, which may be alleged to conflict with our interests and the interests of our other shareholders.

You may not be able to resell any shares of our Common Stock that you purchase pursuant to the exercise of Subscription Rights immediately upon expiration of the Subscription Rights offering period or be able to sell your shares at a price equal to or greater than the Subscription Price.

If you exercise Subscription Rights, you may not be able to resell our Common Stock purchased by exercising your Subscription Rights until you, or your broker, custodian bank or other nominee, if applicable, have received those shares. Moreover, you will have no rights as a shareholder of the shares you purchased in the Rights Offering until we issue the shares to you. Although we will endeavor to issue the shares as soon as practicable after completion of the Rights Offering, including the guaranteed delivery period and after all necessary calculations have been completed, there may be a delay between the Expiration Date of the Rights Offering and the time that the shares are issued. In addition, we cannot assure you that, following the exercise of your Subscription Rights, you will be able to sell your Common Stock at a price equal to or greater than the Subscription Price.

If you do not exercise your Subscription Rights, you will suffer dilution.

If you do not exercise your Subscription Rights, you will suffer dilution of your percentage ownership of our equity securities relative to shareholders who exercise their Subscription Rights and/or the Standby Purchasers.

As of February 25, 2014, there were 3,340,896 shares of our Common Stock outstanding. We anticipate issuing a total of [] shares of Common Stock in connection with the Rights Offering and the transactions contemplated by the Standby Purchase Agreement.

Based on the number of shares of Common Stock outstanding as of February 25, 2014 and assuming that no options are exercised and there are no other changes in the number of outstanding shares prior to the expiration of the Rights Offering, if we issue all [] shares of Common Stock available in this Rights Offering (to shareholders participating in the Rights Offering and/or the Standby Purchasers), we would have [] shares of Common Stock outstanding following the completion of the Rights Offering and the transactions contemplated by the Standby Purchase Agreement.

We may cancel the Rights Offering at any time prior to the expiration of the Rights Offering period, and neither we nor the Subscription Agent will have any obligation to you except to return your subscription payment.

We may at our sole discretion cancel the Rights Offering at any time prior to the expiration of the Rights Offering period. If we elect to cancel the Rights Offering, neither we nor the Subscription Agent will have any obligation with respect to the Subscription Rights except to return to you, without interest or penalty, as soon as practicable any subscription payments.

If you do not act promptly and follow the subscription instructions, your exercise of Subscription Rights will be rejected.

Shareholders that desire to purchase shares in the Rights Offering must act promptly to ensure that all required forms and payments are actually received by the Subscription Agent prior to 5:00 p.m., New York City time, on the Expiration Date of the Rights Offering. If you are a beneficial owner of shares, you must act promptly to ensure that your broker, dealer, custodian bank or other nominee acts for you and that all required forms and payments are actually received by the Subscription Agent prior to the expiration of the Rights Offering period. We are not responsible if your broker, dealer, custodian bank or nominee fails to ensure that all required forms and payments are actually received by the Subscription Agent prior to the expiration of the Rights Offering period. If you fail to complete and sign the required subscription forms, send an incorrect payment amount or otherwise fail to follow the subscription procedures that apply to your exercise in the Rights Offering prior to the expiration of the Rights Offering period, the Subscription Agent may, depending on the circumstances, reject your subscription or accept it only to the extent of the payment received. Neither we nor the Subscription Agent undertakes to contact you concerning, or attempt to correct, an incomplete or incorrect subscription form. We have the sole discretion to determine whether the exercise of your Subscription Rights properly and timely follows the subscription procedures.

If you make payment of the Subscription Price by uncertified personal check, your check may not clear in sufficient time to enable you to purchase shares in the Rights Offering.

Any uncertified personal check used to pay the Subscription Price in the Rights Offering must clear prior to 5:00 p.m., New York City time, on the Expiration Date of the Rights Offering, and the clearing process may require five or more business days. As a result, if you choose to use an uncertified personal check to pay the Subscription Price, it may not clear prior to 5:00 p.m., New York

City time, on the Expiration Date, in which event you would not be eligible to exercise your Subscription Rights. You may eliminate this risk by paying the Subscription Price by certified or cashier's check or bank draft drawn on a U.S. bank.

The Subscription Rights are non-transferable and thus there will be no market for them.

You may not sell, transfer or assign your Subscription Rights to anyone else. We do not intend to list the Subscription Rights on any securities exchange or any other trading market. Because the Subscription Rights are non-transferable, there is no market or other means for you to directly realize any value associated with the Subscription Rights.

Risks Relating to Ownership of Our Common Stock

Our stock price has been volatile and may continue to be volatile; Dividend Policy.

The trading price of our Common Stock has been, and is likely to continue to be, highly volatile, in large part attributable to developments and circumstances related to factors identified in "Forward-looking Statements" and "Risk Factors" set forth herein and in our Annual Report on Form 10-K for the year ended June 30, 2013 and our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2013 and December 31, 2013, and any risks described in our other filings with the Securities and Exchange Commission (including but not limited to subsequently filed Quarterly Reports on Form 10-Q), pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act, as well as the market's response to our operations and financial condition. The market value of your investment in our Common Stock may rise or fall sharply at any time because of this volatility, and also because of significant short positions that may be taken by investors from time to time in our stock. During the fiscal year ended June 30, 2013, the closing sale price for our Common Stock on the NASDAQ Capital Market ranged from \$1.52 to \$2.37 per share. The market prices for securities of medical device and motion control companies, such as Pro-Dex, historically have been highly volatile, and the market has experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Further, we do not intend to pay any cash dividends on our Common Stock in the foreseeable future.

We may require additional capital in the future and you may incur dilution to your stock holdings.

We have historically relied upon our existing cash balance and cash flows from operating activities to fund our operations. We have incurred operating losses in the fiscal years ended June 30, 2012 and 2013, and there is no assurance that we will be able to achieve profitable operations and positive cash flows in the foreseeable future or at all. If capital requirements vary materially from those currently planned, we may require additional capital sooner than expected. There can be no assurance that such capital will be available in sufficient amounts or on terms acceptable to

us, if at all. Further, any sale of a substantial number of additional shares will cause dilution to an investment in our Common Stock and could also cause the market price of our Common Stock to decline. We have the authority to issue up to 50,000,000 shares of Common Stock (of which, as of February 25, 2014, 3,340,896 shares were outstanding), to issue options and warrants to purchase shares of our Common Stock (of which, as of February 25, 2014, options to acquire 179,169 shares of our Common Stock were outstanding and no warrants were outstanding) and to designate and issue up to 10,000,000 shares of preferred stock, of which 78,129 have been designated as Series A Convertible Preferred Stock (of which, as of February 25, 2014, no shares were outstanding). Issuances of additional shares of our stock in the future could dilute existing shareholders and may adversely affect the market price of our Common Stock.

The failure to maintain the market price of our Common Stock may affect our ability to remain listed on the NASDAQ exchange.

The minimum bid price for our publicly traded Common Stock was below \$1.00 for a significant period of time throughout 2008, 2009 and 2010, ultimately resulting in us effecting a one-for-three reverse split of our Common Stock on June 17, 2010 to increase our stock price to satisfy the \$1.00 minimum bid price listing requirement of the Nasdaq Capital Market. Notwithstanding the increased price of our Common Stock that resulted from the reverse split, our future performance, general market conditions and other factors could result in us failing to satisfy the listing standards of the Nasdaq Capital Market in the future. If our Common Stock were to be delisted from the Nasdaq Capital Market, our shareholders may find it difficult to either dispose, or obtain quotations for the price, of our Common Stock.

Risks Relating to Our Business

A substantial portion of our revenue is derived from a single customer such that if we were to lose that customer, it would have a material adverse effect on our business, financial condition and results of operations.

In fiscal year 2013, our top 20 customers accounted for 81% of our sales, with our largest customer accounting for 47% of our sales. The loss of our largest customer, or the loss of any other significant customer, would severely impact us, including having a material adverse effect on our business, financial condition, cash flows, revenue and results of operations.

Our failure to manage contracting sales levels could harm us by having a material adverse effect on our business and results of operations.

Over the past two fiscal years our total sales have contracted from \$27.1 million in 2011 to \$12.2 million in 2013. We continue to implement the steps of a strategic plan, the objectives of which are to identify and capture additional revenue opportunities and concurrently reduce operating costs not critical to revenue growth. There can be no assurance, however, as to either the timing or success of achieving these objectives, which, during any period not achieved, may cause us to experience a prolonged material and adverse impact on our business.

Even if we are successful in identifying and capturing additional revenue opportunities, we may be required to expand our overall production, development, marketing, sales, management and training capacity. In the event we are unable to identify, hire, train and retain qualified individuals in such capacities within a reasonable timeframe, such failure could have a material adverse effect on us.

We terminated our bank credit facility agreements in September 2012. An inability to achieve anticipated cash flows from operations over the next twelve months could have a material adverse effect on our liquidity and could require additional financing, which may not be available on acceptable terms or at all.

At June 30, 2012, we were in violation of profitability-based covenants related to our then-existing bank credit facility, for which the bank had the right to declare us in default of the bank credit facility agreements and the entire amount owing under the facility, consisting of a term loan, to become immediately due and payable. We historically had not made any borrowings against our bank lines of credit, and believed that existing cash balances and cash flows from operations would be sufficient to fund operations for the next twelve months and to fully repay the term loan. Accordingly, on August 30, 2012, we notified the bank of our intent to terminate the credit facility agreements and repay the term loan in full, which amounted to \$685,000 at the time of its repayment in September 2012.

An inability to achieve anticipated cash flows from operations could have a material adverse effect on our ability to fund operations for the next twelve months and require us to obtain new financing. However, there is no assurance that such financing will be available on acceptable terms, if at all.

A substantial portion of our business is derived from our two core business areas that, if not serviced properly, may result in a material adverse impact upon our business, results of operations and financial condition.

In fiscal year 2013, we derived more than 78% of our revenue from sales of our medical device and motion control products and related services. We believe that a primary factor in the market acceptance of our products and services is the value that is created for our customers by those products and related services. Our future financial performance

will depend in large part on our ability to continue to meet the increasingly sophisticated needs of our customers through the timely development, successful introduction and implementation of new and enhanced products and services, while at the same time continuing to provide the value our customers have come to expect from us. We have historically expended a significant percentage of our revenue on product development and believe that significant continued product development efforts will be required to sustain our growth. Continued investment in our sales and marketing efforts will also be required to support future growth.

There can be no assurance that we will be successful in our product development efforts, that the market will continue to accept our existing products, or that new products or product enhancements will be developed and implemented in a timely manner, meet the requirements of our customers, or achieve market acceptance. If new products or product enhancements do not achieve market acceptance, our business, results of operations and financial condition could be materially adversely affected.

We face significant competition from a number of different sources, which could negatively impact our results of operations and business conditions.

The markets for products in the industries served by our customers are intensely competitive, and we face significant competition from a number of different sources. Several of our competitors have significantly greater name recognition, as well as substantially greater financial, technical, product development and marketing resources, than us.

We compete in all of our markets with other major surgical device and motion control related companies. As a provider of outsourced products and services, we also compete with our customers' own internal development groups. Competitive pressures and other factors, such as new product or new technology introductions by us, our customers' internal development and manufacturing departments, or our competitors may result in price or market share erosion that could have a material adverse effect on our business,

results of operations and financial condition. Also, there can be no assurance that our products and services will achieve broad market acceptance or will successfully compete with other products.

The industry in which we operate is subject to significant technological change and any failure or delay in addressing such change could adversely affect our competitive position or could make our current products obsolete.

The medical device and motion control markets are generally characterized by rapid technological change, changing customer needs, frequent new product introductions, and evolving industry standards. The introduction of products incorporating new technologies and the emergence of new industry standards could render our existing products obsolete and unmarketable. There can be no assurance that we will be successful in developing and marketing new products that respond to technological changes or evolving industry standards.

New product development requires significant research and development expenditures that we have historically funded through operations; however we may be unable to do so in the future and we have no credit facility with which to fund such expenditures. Any significant decrease in revenues or research funding could impair our ability to respond to technological advances in the marketplace and to remain competitive. If we are unable, for technological or other reasons, to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, our business, results of operations and financial condition may be materially adversely affected. Although we target new markets for access, develop new products and update existing products, there can be no assurance that we will do so successfully or that even if we are successful, such efforts will be completed concurrently with or prior to the introduction of competing products. Any such failure or delay could adversely affect our competitive position or could make our current products obsolete.

A conflict of interest exists with respect to certain investments approved by our Investment Committee.

In April 2013, our Board approved a Surplus Capital Investment Policy (the “Policy”) that provides, among other items, for the following:

- (a) Determination by our Board of Directors of (i) our surplus capital balance and (ii) the portion of such surplus capital balance to be invested according to the Policy;
- (b) Selection of an Investment Committee responsible for implementing the Policy; and
- (c) Objectives and criteria under which investments may be made.

The current composition of the Investment Committee is: Messrs. Swenson (Chair) and Cabillot, both of whom are members of our Board of Directors and professional investment fund managers, and Mr. Hurwitz, our Chief Executive

Officer and Chief Financial Officer. The Investment Committee has approved making investments in the common stocks of certain companies in which funds managed by Mr. Swenson and/or Mr. Cabillot currently hold common stock investments, and may approve making additional such investments in the future. In such situations, a potential conflict of interest exists, or will exist, in that Messrs. Swenson's or Cabillot's interests may not be independent of Investment Committee decisions.

Our investments are concentrated in stocks whose fair values are subject to a loss in value and which may not easily be sold.

Our current investments under the Policy are concentrated in common stocks of OTC companies. A significant decline in the value of our investments may produce a large decrease in our consolidated shareholders' equity and can have a material adverse effect on our consolidated book value per share. Under certain circumstances, significant declines in the fair value of these investments may require the recognition of losses in the statement of operations and other comprehensive income. In addition, such stocks do not consistently trade on a daily basis, which could adversely affect our ability to sell them on a timely basis or at an acceptable value.

Our quarterly results can fluctuate significantly from quarter to quarter, which may negatively impact the price of our shares and/or cause significant variances in the prices at which our shares trade.

Our sales have fluctuated in the past, and may fluctuate in the future from quarter to quarter and period to period, as a result of a number of factors including, without limitation: the size and timing of orders from customers; the length of new product development cycles; market acceptance of new technologies; changes in pricing policies or price reductions by us or our competitors; the timing of new product announcements and product introductions by us or our competitors; the financial stability of major customers; our success in expanding our sales and marketing programs; acceleration, deferral, or cancellation of customer orders and deliveries; changes in our strategy; revenue recognition policies in conformity with accounting principles generally accepted in the United States ("GAAP"); personnel changes; and general market and economic factors.

Because a significant percentage of our expenses are relatively fixed, a variation in the timing of sales can cause significant fluctuations in operating results from quarter to quarter. As a result, we believe that interim period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Further, our historical operating results are not necessarily indicative of future performance for any particular period.

In addition, it is possible that our operating results in future quarters may be below the expectations of public market analysts and investors. In such an event, the price of our Common Stock could be materially adversely affected.

Our operations are subject to a number of complex government regulations, the violation of which could have a material adverse effect on our business.

The manufacture and distribution of medical and dental devices are subject to state and federal requirements set forth by various agencies including the FDA and EPA. The statutes, regulations, administrative orders, and advisories that affect our businesses are complex and subject to diverse, often conflicting, interpretations. While we make every effort to maintain full compliance with all applicable laws and regulations, we are unable to eliminate an ongoing risk that one or more of our activities may at some point be determined to have been non-compliant. The penalties for non-compliance could range from an administrative warning to termination of a portion of our business. Furthermore, even if we are subsequently determined to have fully complied with applicable laws or regulations, the costs to achieve such a determination and the intervening loss of business could adversely affect or result in the cessation of a portion of our business. A change in such laws or regulations at any time may have an adverse effect on our operations. Notwithstanding the risks inherent in our business, management believes that our operations are in compliance with applicable laws and regulations.

The FDA regulates all medical devices into one of three classes (Class I, II or III) based on the level of control necessary to assure the safety and effectiveness of the device. The surgical instrumentation we manufacture is generally classified into Class I, and our dental instrumentation is generally classified into Class II. The FDA has broad enforcement powers to recall and prohibit the sale of products that do not comply with federal regulations, and to order the cessation of non-compliant processes. No claim has been made to date by the FDA regarding any of our products or processes. Nevertheless, as is common in the industry, certain of our products and processes are from time to time subject to routine governmental reviews and investigations. While management believes that our products and processes fully comply with applicable laws and regulations, we are unable to predict the outcome of any such future review or investigation.

We believe that our business is conducted in a manner consistent with EPA and other agency regulations governing disposition of industrial waste materials. In February 2011, we became aware of a report entitled “Site Discovery Report, Southeast Santa Ana Project DTSC – Cypress Region,” dated February 2010 (the “Report”), that was prepared by the Cypress, California regional office of the Cal/EPA Department of Toxic Substances Control (“DTSC”) for Region 9 of the EPA under an agreement between the two agencies. The purpose of the Report was to identify sites within an area of southeast Santa Ana, California that may be sources of groundwater contamination previously detected in that

area. The Report identified 25 sites, including our former Santa Ana site, for further screening by DTSC staff over the next two years. DTSC has informed us that no further evaluation of our former site took place during fiscal years 2011 through 2013. It is uncertain whether future developments, if any, from DTSC's screening process would have any application to our former site and, if so, what exposure we might face concerning any findings that might be made concerning the site. In addition, we are unable to predict the outcome of any investigation or review that might be undertaken in the future with respect to our disposition of industrial waste materials.

If any of our products, processes or other operations were to be found in violation of government regulations, it could expose us to claims, liabilities and remedial obligations that could have a material adverse effect on our business.

We face significant uncertainty in the industry due to government healthcare reform.

Political, economic and regulatory influences are subjecting the healthcare industry to fundamental changes. The Patient Protection and Affordable Care Act (the "Healthcare Act") enacted sweeping reforms to the U.S. healthcare industry, including mandatory health insurance, reforms to Medicare and Medicaid, the creation of large insurance purchasing groups, new taxes on medical equipment manufacturers that will apply to certain of our products and other significant modifications to the healthcare delivery system. Due to uncertainties regarding the ultimate features of the new federal legislation and its implementation, we cannot predict what impact the Healthcare Act may have on us, our customers or our industry.

We rely heavily on our proprietary technology, which, if not properly protected or if deemed invalid, could have a material adverse effect on our business, results of operations and financial condition.

We are dependent on the maintenance and protection of our proprietary technology and rely on patent filings, exclusive development and supply agreements, confidentiality procedures, and employee nondisclosure agreements to protect it. There can be no assurance that the legal protections and precautions taken by us will be adequate to prevent misappropriation of our technology or that competitors will not independently develop technologies equivalent or superior to ours. Further, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States and are often not enforced as vigorously as those in the United States.

We do not believe that our operations or products infringe on the intellectual property rights of others. However, there can be no assurance that others will not assert infringement or trade secret claims against us with respect to our current or future products. Assertions or claims by others, whether or not valid, could cause us to incur significant legal costs defending our intellectual property rights and potentially require us to enter into a license agreement or royalty arrangement with the party asserting the claim or to cease our use of the infringing technology, any of which could have a material adverse effect on our business, results of operations and financial condition.

The global economic environment may impact our business, operating results or financial condition.

Changes in the global economic environment have caused, and may cause in the future, a general tightening in the credit markets, lower levels of liquidity, increases in rates of default and bankruptcy, and extreme volatility in credit, equity and fixed income markets. These macroeconomic developments could negatively affect our business, operating results or financial condition should they cause, for example, current or potential customers to become unable to fund purchases of our products, in turn resulting in delays, decreases or cancellations of purchases of our products and services, or causing the customer to not pay us or to delay paying us for previously purchased products and services. In addition, financial institution failures may cause us to incur increased expenses or make it more difficult either to obtain financing for our operations, investing activities (including the financing of any future acquisitions), or financing activities. Additional economic risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition or operating results.

We face risks and uncertainties associated with potential litigation by or against us, which could have a material adverse effect on our business, results of operations and financial condition.

We continually face the possibility of litigation as either a plaintiff or a defendant. It is not reasonably possible to estimate the awards or damages, or the range of awards or damages, if any, that we might incur in connection with such litigation.

Many of our products are complex and technologically advanced. Such products may, from time to time, be the subject of claims concerning product performance and construction, including warranty claims. While we are committed to correcting such problems as soon as possible, there is no assurance that solutions will be found on a timely basis, if at all, to satisfy customer demands or to avoid potential claims or litigation. Also, due to the location of

our facilities, as well as the nature of our business activities, there is a risk that we could be subject to litigation related to environmental remediation claims. We maintain insurance to protect against claims associated with the use of our products, but there can be no assurance that our insurance coverage will adequately cover any claim asserted against us.

The uncertainty associated with potential litigation may have an adverse impact on our business. In particular, litigation could impair our relationships with existing customers and our ability to obtain new customers. Defending or prosecuting litigation could result in significant legal costs and a diversion of management's time and attention away from business operations, either of which could have a material adverse effect on our business, results of operations and financial condition. There can be no assurance that litigation would not result in liability in excess of our insurance coverage, that our insurance will cover such claims or that appropriate insurance will continue to be available to us in the future at commercially reasonable rates.

Our operations are dependent upon our key personnel. If such personnel were to leave unexpectedly, we may not be able to execute our business plan.

Our future performance depends in significant part upon the continued service of our key technical and senior management personnel. Because we have a relatively small number of employees when compared to other leading companies in the same industry, our dependence on maintaining our relationship with key employees is particularly significant. We are also dependent on our ability to attract and retain high quality personnel, particularly in the areas of product development, operations management, marketing and finance.

A high level of employee mobility and the aggressive recruiting of skilled personnel characterize the medical device and motion control industries. There can be no assurance that our current employees will continue to work for us. Loss of services of key employees could have a material adverse effect on our business, results of operations and financial condition.

We are subject to changes in and interpretations of financial accounting matters that govern the measurement of our performance, compliance with which could be costly and time consuming.

We are subject to changes in and interpretations of financial accounting matters that govern the measurement of our performance. Based on our reading and interpretations of relevant guidance, principles or concepts issued by, among other authorities, the Financial Accounting Standards Board, the SEC and the American Institute of Certified Public Accountants, management believes our performance, including current sales contract terms and business arrangements, has been properly reported. However, there continue to be issued interpretations and guidance for applying the relevant standards to a wide range of contract terms and business arrangements that are prevalent in the industries in which we operate. Future interpretations or changes by the regulators of existing accounting standards or changes in our business practices may result in future changes in our accounting policies and practices that could have a material adverse effect on our business, financial condition, cash flows, revenue and results of operations.

Our evaluation of internal controls and remediation of potential problems is costly and time consuming and could expose weaknesses in financial reporting.

Section 404 of the Sarbanes-Oxley Act of 2002, as amended, requires management's assessment of the effectiveness of the Company's internal control over financial reporting. This process is expensive and time consuming, and requires significant attention of management. Management can give no assurance that material weaknesses in internal controls will not be discovered. If a material weakness is discovered, corrective action may be time consuming and costly, and could further divert the attention of management. The disclosure of a material weakness, even if quickly remedied, could reduce the market's confidence in our financial statements and harm our stock price, especially if a restatement of financial statements for past periods is required.

INFORMATION ABOUT THE COMPANY

Pro-Dex, Inc.

Pro-Dex is a corporation organized under the laws of the State of Colorado. With operations in Irvine, California and Beaverton, Oregon, the Company designs and produces powered surgical and dental instruments and motion control products used in the medical, factory automation and scientific research industries. The Company currently conducts no other significant business activities. Our website address is www.pro-dex.com. None of the information contained on, or that may be accessed through, our website is a prospectus or constitutes part of, or is otherwise incorporated into, this Prospectus.

Our principal executive offices are located at 2361 McGaw Avenue, Irvine, California 92614, and our telephone number is (949) 769-3200.

As of December 31 , 2013, the Company had:

- total assets of \$10,389,000 ;
- total liabilities of \$2,342,000 ; and
- total shareholders' equity of \$8,047,000 .

THE RIGHTS OFFERING

The following describes the Rights Offering in general and assumes, unless specifically provided otherwise, that you are a record holder of our Common Stock as of 5:00 p.m., New York City time, on the Record Date. If you hold your shares in a brokerage account or through a dealer or other nominee, please also refer to “—Notice to Brokers and Nominees” below.

The Subscription Rights

We are distributing to holders of our Common Stock as of 5:00 p.m., New York City time, on [], 201[], which is the Record Date for this Rights Offering, at no charge, non-transferable Subscription Rights to purchase shares of our Common Stock. For each share of Common Stock held of record as of 5:00 p.m., New York City time, on the Record Date, you will receive [] of a Subscription Right. Each whole Subscription Right will entitle you to purchase one share of our Common Stock at a Subscription Price equal to \$[] per share of Common Stock. Subscription Rights may only be exercised in whole numbers; we will not issue fractional shares of Common Stock upon exercise of Subscription Rights and, to the extent that the number of Subscription Rights that you are entitled to receive is not a whole number, the shares of Common Stock issuable upon exercise of the Subscription Rights will be rounded down to the nearest whole share for purposes of determining the number of shares of Common Stock for which you may subscribe. Any excess subscription funds will be returned, without interest or penalty, as soon as practicable after the expiration of the Rights Offering period.

Subscription Privilege

Each whole Subscription Right that you own will entitle you to purchase one share of our Common Stock at the Subscription Price. You may exercise your Subscription Privilege for some or all of your Subscription Rights, or you may choose not to exercise any Subscription Rights.

For example, if you owned 1,000 shares of our Common Stock as of 5:00 p.m., New York City time, on the Record Date, you would receive [] Subscription Rights and would have the right to purchase [] shares of Common Stock for \$[] per share (or \$[] in the aggregate) by exercising your Subscription Privilege in full.

Limitation on Exercise of Subscription Privilege

In the event that the exercise by a shareholder of the Subscription Privilege or the purchase of Common Stock under the Standby Purchase Agreement could, as determined by the Company in its sole discretion, potentially result in a limitation on the Company's ability to use Tax Attributes under the Code and rules promulgated by the Internal Revenue Service, the Company may, but is under no obligation to, reduce the exercise by such shareholder of the Subscription Privilege or the amount purchased under the Standby Purchase Agreement to such number of shares of Common Stock as the Company in its sole discretion shall determine to be advisable in order to preserve the Company's ability to use the Tax Attributes.

No Fractional Shares Issuable Upon Exercise of Subscription Rights

Subscription Rights may only be exercised in whole numbers; we will not issue fractional shares of Common Stock upon exercise of Subscription Rights and, to the extent that the number of Subscription Rights that you are entitled to receive is not a whole number, the shares of Common Stock issuable upon exercise of the Subscription Rights will be rounded down to the nearest whole share for purposes of determining the number of shares of Common Stock for which you may subscribe. Any excess subscription funds will be returned, without interest or penalty, as soon as practicable after the expiration of the Rights Offering period.

Subscription Price

The Subscription Price per share of Common Stock will be \$[]. The Subscription Price is equal to []% of the closing price of our Common Stock, as reported by the NASDAQ Capital Market, on [], 201[] (which was the latest practicable date on which the Subscription Price could be established prior to the launch of the Rights Offering). The Subscription Price is not necessarily related to our book value, results of operations, cash flows, financial condition or the future market value of our Common Stock. We cannot assure you that you will be able to sell shares purchased in this Rights Offering at a price equal to or greater than the Subscription Price. We do not intend to change the Subscription Price in response to changes in the trading price of our Common Stock prior to the closing of the Rights Offering.

Standby Commitment

On December 17, 2013, we entered into a Standby Purchase Agreement with AO Partners and Farnam Street Capital as the Standby Purchasers, which was subsequently amended by Amendment No. 1 to Standby Purchase Agreement (as amended, the “Standby Purchase Agreement”). Pursuant to the Standby Purchase Agreement, the Standby Purchasers have agreed to purchase, at the Subscription Price, in a private transaction separate from the Rights Offering, any and all Unsubscribed Shares (subject to reduction as a result of Tax Attribute Considerations). Pursuant to the terms of the Standby Purchase Agreement, the Unsubscribed Shares will be allocated 50% to AO Partners and 50% to Farnam Street Capital. Nicholas J. Swenson, a director of the Company, is the Managing Member of AO Partners and, in such capacity, has the power to direct the affairs of AO Partners. Raymond E. Cabillot, a director of the Company, is Chief Executive Officer and a director of Farnam Street Capital and, in such capacity, has the power to direct the affairs of Farnam Street Capital.

Any purchases by the Standby Purchasers pursuant to the Standby Purchase Agreement will be made for investment purposes and not with a view toward resale. The number of shares of Common Stock that will be purchased by the Standby Purchasers can only be determined upon the completion of the Rights Offering. The Standby Purchasers will purchase all shares of Common Stock that could have been but were not subscribed for in the Rights Offering (subject to reduction as a result of Tax Attribute Considerations). If the Rights Offering is fully subscribed by shareholders through the exercise in full of their Subscription Privileges, the Standby Purchasers or their affiliates will purchase shares of Common Stock pursuant to the exercise of their respective Subscription Privileges, but will not purchase any additional shares of Common Stock pursuant to the Standby Purchase Agreement.

If, on the other hand, no shareholders were to purchase any shares of Common Stock through the exercise of their Subscription Privileges (and assuming that the Tax Attribute Considerations do not result in a lesser number of shares of Common Stock being issued to the Standby Purchasers), all of the shares offered pursuant to the Rights Offering would be issued and sold to the Standby Purchasers. In that event, [] shares of Common Stock would be issued to the Standby Purchasers – with [] shares to be purchased by AO Partners and [] shares to be purchased by Farnam Street Capital. As a result, assuming that all shares offered pursuant to the Rights Offering are issued and sold to the Standby Purchasers, Nicholas J. Swenson, a director of the Company, would control (either directly or indirectly through AO Partners or other entities controlled by Mr. Swenson) approximately [] shares, or []%, of the Company’s outstanding Common Stock, and Raymond E. Cabillot, a director of the Company, would control (either directly or indirectly through Farnam Street Capital or other entities controlled by Mr. Cabillot) approximately [] shares, or []%, of the Company’s outstanding Common Stock.

No fees or other consideration will be paid by the Company to the Standby Purchasers in exchange for their commitment to purchase any and all Unsubscribed Shares.

Expiration Time and Date; Closing

The Subscription Rights will expire at 5:00 p.m., New York City time, on [], 201[]. You must properly complete the enclosed Subscription Rights Certificate and deliver it, along with the full Subscription Price, to the Subscription Agent before 5:00 p.m., New York City time, on [], 201[]. After the expiration of the Rights Offering period, all unexercised Subscription Rights will be null and void. We will not be obligated to honor any purported exercise of Subscription Rights that the Subscription Agent receives after the expiration of the Rights Offering, regardless of when you sent the documents regarding that exercise, unless you have used the guaranteed delivery procedures described under “The Rights Offering—Notice of Guaranteed Delivery.” All shares purchased in the Rights Offering will be issued in book-entry, or uncertificated, form. Any subscription payments for shares not allocated or validly purchased will be returned to you, without interest or penalty, as soon as practicable following the Expiration Date of the Rights Offering.

Reasons for the Rights Offering; Use of Proceeds

We are conducting the Rights Offering to raise equity capital and to provide our existing shareholders with the opportunity to purchase additional shares of our Common Stock. We expect the proceeds from the Rights Offering and the transactions contemplated by the Standby Purchase Agreement to be approximately \$2,800,000 (before expenses and subject to reduction as a result of Tax Attribute Considerations). We intend to use the net proceeds of the Rights Offering to pursue strategic opportunities that may present themselves from time to time or, if not used to pursue strategic opportunities, for working capital and general corporate purposes, including to fund our ongoing research and development and product initiatives. Also, to the extent net proceeds of the Rights Offering are not deployed, some of the funds may be invested in accordance with the terms of our Surplus Capital Investment Policy.

Method of Exercising Subscription Rights

The exercise of Subscription Rights is irrevocable and may not be cancelled or modified. You may exercise your Subscription Rights as follows:

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Subscription by Registered Holders

To exercise your Subscription Privilege, you must properly complete and execute the Subscription Rights Certificate, together with any required signature guarantees, and forward it, together with payment in full of the Subscription Price for each share of our Common Stock you are subscribing for, to the Subscription Agent at the address set forth under “The Rights Offering—Subscription Agent” below, on or prior to 5:00 p.m., New York City time, on the Expiration Date.

Subscription by Beneficial Owners

If you are a beneficial owner of shares of our Common Stock, meaning that you hold your shares in “street name” through a broker, custodian bank or other nominee, we will ask your broker, custodian bank or other nominee to notify you of the Rights Offering. If you wish to exercise your Subscription Rights, you will need to have your broker, custodian bank or other nominee act for you and exercise your Subscription Rights and deliver all documents and payment on your behalf, including a “Nominee Holder Certification,” prior to 5:00 p.m., New York City time, on the Expiration Date. If you hold certificates of our Common Stock directly and would prefer to have your broker, custodian bank or other nominee act for you, you should contact your nominee and request it to effect the transactions for you.

To indicate your decision with respect to your Subscription Rights, you should complete and return to your broker, custodian bank or other nominee, the form entitled “Beneficial Owner Election Form.” You should receive this form from your broker, custodian bank or other nominee with the other Subscription Rights offering materials. If you wish to obtain a separate Subscription Rights Certificate, you should contact the nominee as soon as possible and request that a separate Subscription Rights Certificate be issued to you. You should contact your broker, custodian bank or other nominee if you do not receive this form, but you believe you are entitled to participate in the Rights Offering. We are not responsible if you do not receive the form from your broker, custodian bank or nominee or if you receive it without sufficient time to respond.

Your Subscription Rights will not be considered exercised unless the Subscription Agent actually receives from you, your broker, custodian, bank or other nominee, as the case may be, all of the required documents and your full Subscription Price payment prior to 5:00 p.m., New York City time, on [], 201[], the scheduled Expiration Date of this Rights Offering.

Payment Method

Your payment of the Subscription Price must be made in U.S. dollars for the full number of shares of Common Stock you wish to acquire under the Subscription Privilege. Your payment must be delivered in one of the following ways:

· uncertified check payable to “Broadridge Corporate Issuer Solutions, Inc. (acting as Subscription Agent for Pro-Dex, Inc.)”; or

· certified or cashier’s check drawn upon a U.S. bank and payable to “Broadridge Corporate Issuer Solutions, Inc. (acting as Subscription Agent for Pro-Dex, Inc.)”

Your payment will be considered received by the Subscription Agent only upon:

- clearance of any uncertified personal check deposited by the Subscription Agent; or
- receipt by the Subscription Agent of any certified or cashier’s check drawn upon a U.S. bank.

Clearance of Uncertified Personal Checks

If you are paying by uncertified personal check, please note that payment will not be deemed to have been received by the Subscription Agent until the check has cleared, which could take at least five or more business days. If you wish to pay the Subscription Price by uncertified personal check, we urge you to make payment sufficiently in advance of the time the Rights Offering expires to ensure that your payment is received by the Subscription Agent and clears by the Expiration Date. We urge you to consider using a certified or cashier’s check drawn upon a U.S. bank.

Instructions for Completing Your Subscription Rights Certificate

You should read the instruction letter accompanying the Subscription Rights Certificate carefully and strictly follow it. **Do not send Subscription Rights Certificates or payments to us.** Except as described below under “The Rights Offering—Notice of

Guaranteed Delivery,” we will not consider your subscription received until the Subscription Agent has received delivery of a properly completed and duly executed Subscription Rights Certificate and payment of the full Subscription Price (and any payment by uncertified personal check has cleared). The risk of delivery of all documents and payments is on you or your nominee, not us or the Subscription Agent.

The method of delivery of Subscription Rights Certificates and payment of the subscription amount to the Subscription Agent will be at the risk of the holders of Subscription Rights. If sent by mail, we recommend that you send those certificates and payments by overnight courier or by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent and clearance of payment before the expiration of the subscription period for the Rights Offering. Because uncertified personal checks may take at least five or more business days to clear, we urge you to pay or arrange for payment by means of certified or cashier’s check or bank draft to avoid missing the opportunity to exercise your Subscription Rights should you decide to exercise your Subscription Rights.

Missing or Incomplete Subscription Information

If you do not indicate the number of Subscription Rights being exercised, or do not forward full payment of the total Subscription Price payment for the number of Subscription Rights that you indicate are being exercised, then you will be deemed to have exercised your Subscription Rights with respect to the maximum number of whole Subscription Rights that may be exercised with the aggregate Subscription Price payment you delivered to the Subscription Agent. If we do not apply your full Subscription Price payment to your purchase of shares of our Common Stock, the Subscription Agent will return the excess amount to you by mail, without interest or penalty, as soon as practicable after the Expiration Date of the Rights Offering.

Conditions and Cancellation

We reserve the right to cancel the Rights Offering on or prior to the Expiration Date for any reason. Among other reasons, we may cancel the Rights Offering if at any time before completion of the Rights Offering there is any judgment, order, decree, injunction, statute, law or regulation entered, enacted, amended or held to be applicable to the Rights Offering that in the sole judgment of our Board of Directors would or might make the Rights Offering or its completion, whether in whole or in part, illegal or otherwise restrict or prohibit completion of the Rights Offering. We may waive any of these conditions and choose to proceed with the Rights Offering even if one or more of these events occur. If we cancel the Rights Offering, in whole or in part, all affected Subscription Rights will expire without value, and all subscription payments received by the Subscription Agent will be returned, without interest or penalty, as soon as practicable.

Cancellation Rights

Our Board of Directors may cancel the Rights Offering in its sole discretion at any time prior to the time the Rights Offering expires for any reason. If we cancel the Rights Offering, we will issue a press release notifying shareholders of the cancellation, and any funds you paid to the Subscription Agent will be returned, without interest or penalty, as soon as practicable.

Subscription and Information Agent

Broadridge Corporate Issuer Solutions, Inc. is acting as the Subscription Agent for the Rights Offering under an agreement with us. All Subscription Rights Certificates and payments of the Subscription Price must be delivered to the Subscription Agent at the appropriate address indicated below. Brokers and nominees should also submit their Nominee Holder Certifications to the Subscription Agent at the appropriate address indicated below.

By hand or overnight courier:

Broadridge Corporate Issuer Solutions, Inc.

Attention: Reorganization Department

1981 Marcus Avenue, Suite 100

Lake Success, NY 11042

By first class mail:

Broadridge Corporate Issuer Solutions, Inc.

Attention: Reorganization Department

P.O. Box 1317

Brentwood, NY 11717-0693

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You should direct any questions or requests for assistance concerning the method of subscribing for the shares of Common Stock or for additional copies of this Prospectus or other Rights Offering documents to the Subscription Agent at (855) 793-5068.

If you deliver Subscription Rights Certificates, Notices of Guaranteed Delivery, payments of the Subscription Price or other subscription documents in a manner different than that described in this Prospectus, we may not honor the exercise of your Subscription Privileges.

Fees and Expenses

We will pay the fees and expenses of the Subscription Agent. We have also agreed to indemnify the Subscription Agent from and against certain liabilities in connection with the Rights Offering. You are responsible for paying any other commissions, fees, taxes or other expenses incurred in connection with the exercise of the Subscription Rights. Neither the Subscription Agent nor the Company will pay such expenses.

Notice to Brokers and Nominees

If you are a broker, a custodian bank, a trustee, a depository for securities or other nominee holder who holds shares of our Common Stock for the account of others as of 5:00 p.m., New York City time, on the Record Date, you should notify the respective beneficial owners of such shares of the Rights Offering as soon as possible to learn their intentions with respect to exercising their Subscription Rights. You should obtain instructions from the beneficial owner with respect to their Subscription Rights, as set forth in the instructions we have provided to you for your distribution to beneficial owners. If the beneficial owner so instructs, you should complete the appropriate Subscription Rights Certificates and submit them to the Subscription Agent with the proper payment. If you hold shares of our Common Stock for the account(s) of more than one beneficial owner, you may exercise the number of Subscription Rights to which all such beneficial owners in the aggregate otherwise would have been entitled had they been direct record holders of our Common Stock as of 5:00 p.m., New York City time, on the Record Date, provided that you, as a nominee record holder, make a proper showing to the Subscription Agent by submitting the form entitled "Nominee Holder Certification" that we will provide to you with your Rights Offering materials. If you did not receive this form, you should contact the Subscription Agent to request a copy.

In the case of Subscription Rights that you hold of record on behalf of others through the Depository Trust Company ("DTC"), those Subscription Rights may be exercised by instructing DTC to transfer the Subscription Rights from your DTC account to the Subscription Agent's DTC account, and by delivering to the Subscription Agent the required certification as to the number of shares subscribed for pursuant to the exercise of the Subscription Rights of the beneficial owners on whose behalf you are acting, together with payment of the full Subscription Price.

Notice of Guaranteed Delivery

If you wish to exercise your Subscription Rights, but you do not have sufficient time to deliver the Subscription Rights Certificate evidencing your Subscription Rights to the Subscription Agent on or before 5:00 p.m., New York City time, on [], 201[] (the Expiration Date of the Rights Offering), you may exercise your Subscription Rights by the following guaranteed delivery procedures:

· deliver to the Subscription Agent on or prior to the Rights Offering Expiration Date your Subscription Price payment in full for each share you subscribed for under your subscription privilege in the manner set forth above under “The Rights Offering—Payment Method”;

· deliver to the Subscription Agent on or prior to the Expiration Date the form entitled “Notice of Guaranteed Delivery,” substantially in the form provided with the “Instructions For Use of Pro-Dex, Inc. Rights Certificates” distributed with your Subscription Rights Certificates; and

· deliver the properly completed Subscription Rights Certificate evidencing your Subscription Rights being exercised and the related nominee holder certification, if applicable, with any required signature guarantee, to the Subscription Agent no later than three business days after the Expiration Date of the Rights Offering. For purposes of these Notice of Guaranteed Delivery procedures, “business day” means any day on which trading is conducted on the NASDAQ Capital Market.

Your Notice of Guaranteed Delivery must be delivered in substantially the same form provided with the Instructions For Use of Pro-Dex, Inc. Subscription Rights Certificates, which will be distributed to you with your Subscription Rights Certificate. Your Notice of Guaranteed Delivery must include a signature guarantee from a member firm of a registered national securities exchange or

a member of the Financial Industry Regulatory Authority, Inc., or a commercial bank or trust company having an office or correspondent in the United States, or a bank, stockbroker, savings and loan association or credit union with membership in an approved signature guarantee medallion program, pursuant to Rule 17Ad-15 of the Exchange Act (each, an “Eligible Institution”). A form of that guarantee is included with the Notice of Guaranteed Delivery.

In your Notice of Guaranteed Delivery, you must state:

- your name;
- the number of Subscription Rights represented by your Subscription Rights Certificates;
- the number of shares of our Common Stock for which you are subscribing under your Subscription Privilege; and
- your guarantee that you will deliver to the Subscription Agent the Subscription Rights Certificate evidencing the Subscription Rights you are exercising within three business days following the expiration of the Rights Offering.

You may deliver your Notice of Guaranteed Delivery to the Subscription Agent in the same manner as your Subscription Rights Certificate at the address set forth above under “The Rights Offering—Subscription Agent” or may be transmitted, if transmitted by an Eligible Institution, to the Subscription Agent by facsimile transmission to (215) 553-5402. You should confirm receipt of all facsimile transmissions by calling the Subscription Agent at (855) 793-5068.

The Subscription Agent will send you additional copies of the form of Notice of Guaranteed Delivery if you request them by calling (855) 793-5068.

Questions About Exercising Subscription Rights

If you have any questions or require assistance regarding the method of exercising your Subscription Rights or requests for additional copies of this Prospectus, the Instructions For Use of Pro-Dex, Inc. Subscription Rights Certificates, the Notice of Guaranteed Delivery or any other Rights Offering documents, you should contact the Subscription Agent at (855) 793-5068.

Transferability of Rights

The Subscription Rights granted to you may be exercised only by you, and, therefore, you may not sell, transfer or assign your Subscription Rights to anyone else.

Validity of Subscriptions

We will resolve all questions regarding the validity and form of the exercise of your Subscription Privileges, including time of receipt and eligibility to participate in the Rights Offering. Our determination will be final and binding. Once made, subscriptions and directions are irrevocable, and we will not accept any alternative, conditional or contingent subscriptions or directions. We reserve the absolute right to reject any subscriptions or directions not properly submitted or the acceptance of which would be unlawful. You must resolve any irregularities in connection with your subscriptions before the subscription period expires, unless waived by us in our sole discretion. Neither the Subscription Agent nor we shall be under any duty to notify you or your representative of defects in your subscriptions. A subscription will be considered accepted, subject to our right to cancel the Rights Offering, only when a properly completed and duly executed Subscription Rights Certificate and any other required documents and payment of the full subscription amount have been received by the Subscription Agent (and any payment by uncertified personal check has cleared). Our interpretations of the terms and conditions of the Rights Offering will be final and binding.

Segregated Account; Return of Funds

The Subscription Agent will hold funds received in payment for shares of our Common Stock to be purchased in the Rights Offering in a segregated account pending completion of the Rights Offering. The Subscription Agent will hold this money until the Rights Offering is completed or is cancelled. If the Rights Offering is cancelled for any reason, the Subscription Agent will return this money to subscribers, without interest or penalty, as soon as practicable.

Certificates for Shares of Common Stock

All shares that you purchase in the Rights Offering will be issued in book-entry, or uncertificated, form. When issued, the shares will be registered in the name of the Subscription Rights holder of record. As soon as practicable after the expiration of the

Rights Offering period, the Subscription Agent will arrange for issuance to each Subscription Rights holder of record that has validly exercised its Subscription Privilege, the shares of Common Stock purchased pursuant to the Subscription Privilege.

Rights of Subscribers

You will have no rights as a shareholder with respect to the shares of our Common Stock purchased in the Rights Offering until your account, or your account at your broker, custodian bank or other nominee, is credited with such shares. You will have no right to revoke your subscriptions after you deliver your completed Subscription Rights Certificate, payment and any other required documents to the Subscription Agent.

Foreign Shareholders

We will not mail Subscription Rights Certificates to shareholders whose addresses are outside the United States or who have a U.S. military post office or foreign post office address. The Subscription Agent will hold these Subscription Rights Certificates for their account. To exercise Subscription Rights, our foreign shareholders must notify the Subscription Agent prior to 11:00 a.m., New York City time, at least three business days prior to the Expiration Date of the Rights Offering and demonstrate to the satisfaction of the Company that the exercise of such Subscription Rights does not violate the laws of the jurisdiction of such shareholder.

No Revocation or Change

Once you submit the Subscription Rights Certificate to exercise any Subscription Rights, you are not allowed to revoke or change the exercise or request a refund of monies paid. All exercises of Subscription Rights are irrevocable, even if you learn information about us that you consider to be unfavorable or if the market price of our Common Stock drops below the Subscription Price. You should not exercise your Subscription Rights unless you are certain that you wish to purchase the shares of our Common Stock offered pursuant to the Rights Offering.

Regulatory Limitation

We will not be required to issue to you shares of our Common Stock pursuant to the Rights Offering if, in our opinion, you are required to obtain prior clearance or approval from, or submit a prior notice to, any state or federal regulatory authorities to own or control the shares and if, at the time the Rights Offering expires, we determine that you have not properly obtained such clearance or approval or submitted such notice. See also "Limitation on Exercise of

Subscription Privilege.”

No Recommendation to Subscription Rights Holders

Our Board of Directors is making no recommendation regarding your exercise of the Subscription Rights. Shareholders who exercise Subscription Rights risk investment loss on new money invested. We cannot assure you that the market price of our Common Stock will be above the Subscription Price at the time of exercise or at the expiration of the Rights Offering or that anyone purchasing shares at the Subscription Price will be able to sell those shares in the future at the same price or a higher price. You are urged to decide whether or not to exercise your Subscription Rights based on your own assessment of our business and the Rights Offering. Among other things, you should carefully consider the risks, uncertainties and other information described under the heading “Risk Factors” in this Prospectus and the risks, uncertainties and other information described in documents incorporated by reference in this Prospectus, including but not limited to the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operation” in our Annual Report on Form 10-K for the year ended June 30, 2013 and our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2013 and December 31, 2013, as well as the risks, uncertainties and other information described in our other filings with the Securities and Exchange Commission (including but not limited to any subsequently filed Quarterly Reports on Form 10-Q), pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act before making a decision to invest in our Common Stock.

Participation in Rights Offering by Members of our Board of Directors

In connection with the Rights Offering, we have entered into a Standby Purchase Agreement with AO Partners and Farnam Street Capital. Pursuant to the Standby Purchase Agreement, the Standby Purchasers have agreed to purchase, at the Subscription Price, in a private transaction separate from the Rights Offering, any and all Unsubscribed Shares (subject to reduction as a result of Tax Attribute Considerations). Pursuant to the terms of the Standby Purchase Agreement, the Unsubscribed Shares will be allocated 50% to AO Partners and 50% to Farnam Street Capital. Nicholas J. Swenson, a director of the Company, is the Managing Member of AO Partners and, in such capacity, has the power to direct the affairs of AO Partners. Raymond E. Cabillot, a director of the Company, is Chief Executive Officer and a director of Farnam Street Capital and, in such capacity, has the power to direct the affairs of Farnam Street Capital. Other members of the Board of Directors may decide to participate in the Rights Offering in their capacity

as shareholders of the Company, but are not required to do so. Any shares of Common Stock issued to the Standby Purchasers in connection with the standby purchase commitment described above will be “restricted securities” as that term is defined in Rule 144 under the Securities Act. The Standby Purchasers and certain of their affiliates may also exercise the Subscription Privileges they hold in their capacity as shareholders of the Company.

Listing

The Subscription Rights may not be sold, transferred or assigned to anyone else and will not be listed on the NASDAQ Capital Market or any other stock exchange or trading market. Our Common Stock trades on the NASDAQ Capital Market under the symbol “PDEX” and the shares to be issued in connection with the Rights Offering will be eligible for trading on the NASDAQ Capital Market under the same symbol.

Participation in Rights Offering Not Required; Potential Dilution

You are not required to exercise your Subscription Rights or otherwise take any action in response to this Rights Offering. If you do not exercise your Subscription Rights and the Rights Offering is completed, the number of shares of our Common Stock you own will not change but your percentage ownership of our total outstanding Common Stock will decrease because shares will be purchased by other shareholders in the Rights Offering or by the Standby Purchasers. Your percentage ownership of our Common Stock may also decrease if you do not exercise your Subscription Privilege in full.

Shares of Common Stock Outstanding After the Rights Offering

As of February 25, 2014, 3,340,896 shares of our Common Stock were issued and outstanding. Assuming no other transactions by us involving our Common Stock, and no options for our Common Stock are exercised prior to the expiration of the Rights Offering, if the Rights Offering is fully subscribed through the exercise of the Subscription Rights and/or the Standby Purchasers acquire all of the Common Stock not purchased by the holders of Subscription Rights, then an additional [] shares of our Common Stock will be issued and outstanding after the closing of the Rights Offering, for a total of [] shares of Common Stock issued and outstanding. As a result of the Rights Offering, the ownership interests and voting interests of the existing shareholders that do not fully exercise their Subscription Privileges will be diluted.

Other Matters

We are not making the Rights Offering in any state or other jurisdiction in which it is unlawful to do so, nor are we distributing or accepting any offers to purchase any shares of our Common Stock from Subscription Rights holders who are residents of those states or other jurisdictions or who are otherwise prohibited by federal or state laws or regulations to accept or exercise the Subscription Rights. We may delay the commencement of the Rights Offering in those states or other jurisdictions, or change the terms of the Rights Offering, in whole or in part, in order to comply with the securities laws or other legal requirements of those states or other jurisdictions. Subject to state securities laws and regulations, we also have the discretion to delay allocation and distribution of any shares you may elect to purchase by exercise of your Subscription Privileges in order to comply with state securities laws. We may decline to make modifications to the terms of the Rights Offering requested by those states or other jurisdictions, in which case, if you are a resident in those states or jurisdictions or if you are otherwise prohibited by federal or state laws or regulations from accepting or exercising the Subscription Rights, you will not be eligible to participate in the Rights Offering. However, we are not currently aware of any states or jurisdictions that would preclude participation in the Rights Offering.

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DESCRIPTION OF CAPITAL STOCK

The following summary of the terms of the Company's capital stock does not purport to be complete and is subject to and qualified in its entirety by reference to the Company's Articles of Incorporation and the Company's Bylaws, each of which may be further amended from time to time and both of which are incorporated herein by reference.

General

As of February 25, 2014, the Company's authorized capital stock consists of (i) 50,000,000 shares of Common Stock, no par value per share, and (ii) 10,000,000 shares of preferred stock, no par value per share ("Preferred Stock"), of which 78,129 shares have been designated as Series A Convertible Preferred Stock ("Series A Preferred Stock"). As of February 25, 2014, 3,340,896 shares of Common Stock were issued and outstanding and no shares of Preferred Stock were issued and outstanding.

Common Stock

The holders of the Company's Common Stock are entitled to one vote for each share of Common Stock held of record on all matters submitted to a vote of the Company's shareholders, including the election of directors, and do not have cumulative voting rights. Subject to preferences that may be applicable to any outstanding Preferred Stock, holders of Common Stock are entitled to receive ratably those dividends, if any, as may be declared by the Board of Directors out of legally available funds. Subject to the rights of any outstanding Preferred Stock, upon the Company's liquidation, dissolution or winding-up, the holders of Common Stock will be entitled to share ratably in the net assets legally available for distribution to the Company's shareholders after the payment of all of the Company's debts and other liabilities. Holders of Common Stock have no preemptive or conversion rights or other subscription rights and there are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and nonassessable.

Broadridge Corporate Issuer Solutions, Inc. is the transfer agent for the Company's Common Stock.

The Company's Common Stock is listed on the NASDAQ Capital Market under the symbol "PDEX".

Preferred Stock

The Company's Board of Directors has the authority, without further action by the Company's shareholders (other than such approval rights as may be granted to any outstanding series of Preferred Stock), to designate and issue one or more series of Preferred Stock and to fix the rights, powers, preferences, qualifications, limitations and restrictions of each series of Preferred Stock to the maximum extent permitted by Colorado law. Among other things, the Board of Directors may establish the following with respect to each series of Preferred Stock:

- (i) the number of shares that constitute each series of Preferred Stock;
- (ii) the rate and preference of dividends, if any, the time of payment of dividends, whether dividends are cumulative and the date from which any dividend shall accrue;

- (iii) whether the series of Preferred Stock may be redeemed and, if so, the redemption price and the other terms and conditions of redemption;
- (iv) sinking fund or other provisions, if any, for redemption or purchase of the series of Preferred Stock;
- (v) whether the series of Preferred Stock may be converted into, or exchangeable for, other classes of capital stock of the Company (including Common Stock or another series of Preferred Stock) and, if so, the conversion price or exchange rate and the other terms of conversion or exchange; and
- (vi) the liquidation preferences payable on, and other rights afforded to, the series of Preferred Stock in the event of voluntary or involuntary dissolution, winding-up or other liquidation of the Company.

The rights, powers, preferences, qualifications, limitations and restrictions of different series of Preferred Stock may differ with respect to dividend rates, redemption provisions, sinking fund provisions, conversion and exchange rights, liquidation preferences and other matters.

The issuance of Preferred Stock could decrease the amount of earnings and assets available for distribution to holders of Common Stock or adversely affect the rights and powers, including voting rights, of the holders of Common Stock. The existence of authorized but unissued Preferred Stock may also discourage or render more difficult attempts to take control of the Company, as described in more detail below under “Anti-Takeover Provisions of Governing Documents.”

Series A Preferred Stock

78,129 shares of the Company’s Preferred Stock have been designated as Series A Preferred Stock, which have the following rights and preferences:

- (i) holders of Series A Preferred Stock will have a liquidation preference of \$3.60 per share of Series A Preferred Stock payable in preference to holders of Common Stock and holders of shares of the Company’s other capital stock, if any, ranking junior to the Series A Preferred Stock (a consolidation or merger of the Company with or into another corporation or entity or sale of all or substantially all of the assets of the Company shall be deemed a “liquidation” with respect to the Series A Preferred Stock unless such consolidation or merger is a Pro Forma Merger; a “Pro Forma Merger” is defined in the Company’s Articles of Incorporation as a consolidation or merger, as the result of which 15% or fewer of the equity securities of the Company outstanding after the merger or consolidation are owned by persons who were not holders of equity securities of the Company immediately preceding the merger or consolidation);
- (ii) holders of Series A Preferred Stock have the right, at any time and from time to time, to convert three shares of Series A Preferred Stock into one share of Common Stock (which conversion rate is subject to adjustment in the event shares of Common Stock are issued as a dividend or distribution on any class of capital stock of the Company or if the Common Stock is subdivided, split or combined or subject to a recapitalization, reclassification or similar transaction);
- (iii) no fractional shares of Common Stock will be issued upon conversion of Series A Preferred Stock, and in lieu of any fractional share the Company shall pay the holder of converted Series A Preferred Stock an amount calculated in accordance with the Company’s Articles of Incorporation;
- (iv) the Company must at all times reserve and keep available out of its authorized but unissued Common Stock, solely for the purpose of issuance upon conversion of the Series A Preferred Stock, the number of shares of Common Stock issuable upon the conversion of all outstanding shares of Series A Preferred Stock;
- (v) the Company will not, by amendment of its Articles of Incorporation or through any other voluntary action, avoid or seek to avoid the observance or performance of any of the rights or preferences of the Series A Preferred Stock;
- (vi) the Company does not have the right to redeem Series A Preferred Stock;
- (vii) holders of Series A Preferred Stock have no voting rights except as otherwise granted to them under Colorado law;
- (viii) Series A Preferred Stock will not be entitled to dividends; and
- (ix) all shares of Series A Preferred Stock surrendered for conversion into Common Stock shall be restored to the status of authorized but unissued shares of Preferred Stock and may not be reissued as Series A Preferred Stock.

Anti-Takeover Provisions of Governing Documents

The Company’s Bylaws require that the Company’s shareholders satisfy certain advance notice and other requirements in order to properly submit proposals or director nominees for consideration at the Company’s annual meetings of shareholders.

As discussed above, the Company's Board of Directors has the authority, without further action by the Company's shareholders (other than such approval rights as may be granted to any outstanding series of Preferred Stock), to designate and issue one or more series of Preferred Stock and to fix the rights, powers, preferences, qualifications, limitations and restrictions of each series of Preferred Stock to the maximum extent permitted by Colorado law. The existence of authorized but unissued Preferred Stock may enable the Board of Directors to render more difficult or to discourage an attempt to obtain control of the Company by means of a merger, tender offer, proxy contest or otherwise. Among other things, if in the due exercise of its fiduciary obligations, the Board of Directors were to determine that a takeover proposal is not in the best interests of the Company and its shareholders, the Board of Directors could cause shares of Preferred Stock to be designated and issued without further shareholder approval in one or more private offerings or other transactions that might dilute the voting or other rights of the proposed acquirer or insurgent shareholder or shareholder group.

PLAN OF DISTRIBUTION

On or about [], 201[], we will distribute the Subscription Rights, Subscription Rights Certificates and copies of this Prospectus to individuals who owned shares of Common Stock of record as of 5:00 p.m., New York City time, on [], 201[], the Record Date for the Rights Offering. If you wish to exercise your Subscription Rights and purchase shares of Common Stock, you should complete the Subscription Rights Certificate and return it with payment of the full Subscription Price to the Subscription Agent. See “The Rights Offering—Method of Exercising Subscription Rights.” If you have any questions, you should contact the Subscription Agent (Broadridge Corporate Issuer Solutions, Inc.) at (855) 793-5068. The Subscription Rights will not be listed on the NASDAQ Capital Market or any other stock exchange or trading market. The shares of Common Stock issuable upon exercise of the Subscription Rights will be listed on the NASDAQ Capital Market under the symbol “PDEX”.

We have agreed to pay the Subscription Agent customary fees plus certain expenses in connection with the Rights Offering. We have not employed any brokers, dealers or underwriters in connection with the solicitation of exercise of Subscription Rights. Except as described in this section, we are not paying any other commissions, underwriting fees or discounts in connection with the Rights Offering. Some of our employees may solicit responses from you as a holder of Subscription Rights, but we will not pay our employees any commissions or compensation for these services other than their normal employment compensation. We estimate that our total expenses in connection with the Rights Offering will be approximately \$78,350.

USE OF PROCEEDS

We expect the proceeds from the Rights Offering and the transactions contemplated by the Standby Purchase Agreement to be approximately \$2,800,000 (before expenses and subject to reduction as a result of Tax Attribute Considerations). We intend to use the net proceeds of the Rights Offering to pursue strategic opportunities that may present themselves from time to time or, if not used to pursue strategic opportunities, for working capital and general corporate purposes, including to fund our ongoing research and development and product initiatives. Also, to the extent net proceeds of the Rights Offering are not deployed, some of the funds may be invested in accordance with the terms of our Surplus Capital Investment Policy.

PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY

Our Common Stock is traded on the NASDAQ Capital Market under the symbol “PDEX.” The following table sets forth, for the periods indicated, the quarterly high and low sales prices per share of our Common Stock as reported on the NASDAQ Capital Market.

Quarter Ended	High	Low
September 30, 2011	\$2.59	\$1.64
December 31, 2011	\$2.57	\$1.81
March 31, 2012	\$3.90	\$1.92
June 30, 2012	\$2.43	\$1.80
September 30, 2012	\$2.10	\$1.52
December 31, 2012	\$2.19	\$1.72
March 31, 2013	\$2.37	\$1.92
June 30, 2013	\$2.10	\$1.84
September 30, 2013	\$2.19	\$1.82
December 31, 2013	\$2.55	\$1.90

As of February 25, 2014 , there were approximately 81 record holders of the Company’s Common Stock.

The Company has never paid a cash dividend on its Common Stock. The current policy of the Board of Directors is to retain earnings to provide funds for the operation and expansion of the Company’s business.

CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a general summary of certain material U.S. federal income tax consequences to U.S. holders (as defined below) of the receipt and ownership of the Subscription Rights pursuant to the Rights Offering and certain tax considerations for U.S. holders of the ownership of our Common Stock resulting from the exercise of Subscription Rights. This summary is based upon provisions of the Code, applicable Treasury Regulations, administrative rulings, judicial authorities and other applicable existing U.S. federal income tax authorities, all of which are subject to change or differing interpretations, possibly with retroactive effect which could result in U.S. federal income tax consequences different from those discussed below. No assurance can be given that the Internal Revenue Service, or IRS, will not challenge one or more of the tax results described in this discussion, and no opinion of the Company's counsel or ruling from the IRS has been, or is expected to be, sought with respect to the U.S. federal tax consequences of the Rights Offering.

This summary does not provide a complete analysis of all potential tax considerations. This summary is only applicable to U.S. holders of Common Stock who are individuals and who acquire the Subscription Rights pursuant to the terms of the Rights Offering, have held the Common Stock, and will hold the Subscription Rights, and the Common Stock issued upon exercise of the rights as capital assets (generally, property held for investment) within the meaning of Section 1221 of the Code. This summary does not deal with all tax consequences that may be relevant to holders in light of their personal circumstances or particular situations, such as holders who may be subject to special tax treatment under the Code, including (without limitation) dealers in securities or currencies, financial institutions, insurance companies, regulated investment companies, real estate investment trusts, tax-exempt entities or traders in securities that elect to use a mark-to-market method of accounting for their securities, persons holding Subscription Rights or Common Stock as part of a hedging, integrated or conversion transaction or a straddle, persons deemed to sell Common Stock, under the constructive sale provisions of the Code, persons whose "functional currency" is not the U.S. dollar, and foreign taxpayers. This summary does not deal with any U.S. federal non-income, state, local or foreign tax consequences, estate or gift tax consequences, or alternative minimum tax consequences, nor does it address any tax considerations to persons other than U.S. holders.

For purposes of this discussion, a "U.S. holder" is a beneficial owner of our right or Common Stock that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;

- a corporation, or other business entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state of the United States or the District of Columbia;

· an estate, if its income is subject to U.S. federal income taxation regardless of its source; or

a trust, if (i) a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons (within the meaning of the Code) have the authority to control all of its substantial decisions or (ii) the trust has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) receives the Subscription Rights or exercises the Subscription Rights, the tax treatment of a partner in a partnership generally will depend upon the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to the U.S. federal income tax consequences of the receipt, exercise or lapse of the Subscription Rights.

Holders of Common Stock are urged to consult their own tax advisors as to the specific tax consequences of the Rights Offering to them, including the applicable federal, state, local and foreign tax consequences of the Rights Offering to them and the effect of possible changes in tax laws.

Taxation of Subscription Rights

Receipt of Subscription Rights

The receipt of Subscription Rights pursuant to the Rights Offering should generally be treated as a nontaxable distribution with respect to your existing shares of Common Stock for U.S. federal income tax purposes. Under Section 305 of the Code, a shareholder who receives a right to acquire shares will, in certain circumstances,

be treated as having received a taxable dividend in an amount equal to the fair market value of such right. The application of this rule is very complex and subject to uncertainty. However, we believe that pursuant to Section 305 of the Code and the Treasury Regulations promulgated thereunder, the receipt of Subscription Rights should generally not be taxable to a shareholder for U.S. federal income tax purposes. Consequently, the discussion below assumes that the receipt of Subscription Rights will be treated as a nontaxable distribution .

Tax Basis in Subscription Rights

If the fair market value of the Subscription Rights you receive is less than 15% of the fair market value of your existing Common Stock on the date you receive the Subscription Rights, the Subscription Rights will be allocated a zero basis for U.S. federal income tax purposes, unless you elect to allocate basis between your existing Common Stock and the Subscription Rights in proportion to the relative fair market values of the existing Common Stock and the Subscription Rights determined on the date of receipt of the Subscription Rights. If you choose to allocate basis between your existing Common Stock and the Subscription Rights, you must make this election on a statement included with your tax return for the taxable year in which you receive the Subscription Rights. Such an election is irrevocable.

On the other hand, if the fair market value of the Subscription Rights you receive is 15% or more of the fair market value of your existing Common Stock on the date you receive the Subscription Rights, then you must allocate your basis in your existing Common Stock between the existing Common Stock and the Subscription Rights you receive in proportion to their fair market values determined on the date you receive the Subscription Rights.

The fair market value of the Subscription Rights on the date the Subscription Rights are distributed is uncertain, and we have not obtained, and do not intend to obtain, an appraisal of the fair market value of the Subscription Rights on that date. In determining the fair market value of the Subscription Rights, you should consider all relevant facts and circumstances, including any difference between the Subscription Price of the Subscription Rights and the trading price of our Common Stock on the date that the Subscription Rights are distributed, the length of the period during which the Subscription Rights may be exercised and the fact that the Subscription Rights are non-transferable.

Holding Period in Subscription Rights

Your holding period in a Subscription Right will include your holding period in the Common Stock with respect to which the Subscription Right was distributed.

Exercise of Subscription Privilege

Generally, you will not recognize gain or loss on the exercise of a Subscription Right pursuant to the Subscription Privilege. Your tax basis in new shares of Common Stock acquired when you exercise a Subscription Right pursuant to the Subscription Privilege will be equal to your adjusted tax basis in the Subscription Right plus the Subscription Price. The holding period of a share of Common Stock acquired when you exercise a Subscription Right, if any, pursuant to the Subscription Privilege will begin on the date of exercise.

If you exercise a Subscription Right received in the Rights Offering after disposing of the share of our Common Stock with respect to which such Subscription Right is received, then certain aspects of the tax treatment of the exercise of the Subscription Right are unclear, including (1) the allocation of tax basis between the Common Stock previously sold and the Subscription Right, (2) the impact of such allocation on the amount and timing of gain or loss recognized with respect to the Common Stock previously sold, and (3) the impact of such allocation on the tax basis of Common Stock acquired through exercise of the Subscription Right. If you exercise a Subscription Right received in the Rights Offering after disposing of the Common Stock with respect to which the Subscription Right is received, you should consult your tax advisor.

Expiration of Subscription Rights

If you do not exercise your Subscription Rights, you should not recognize a capital loss for U.S. federal income tax purposes and any portion of the tax basis in your existing shares of Common Stock previously allocated to the Subscription Right not exercised should be re-allocated to the existing Common Stock.

If you allow Subscription Rights to expire after disposing of the Common Stock with respect to which such Subscription Rights are received, then certain aspects of the tax treatment of the expiration of the Subscription Rights are unclear, including (1) the allocation of tax basis between the Common Stock previously sold and the Subscription Rights, (2) the impact of such allocation on the amount and timing of gain or loss recognized with respect to the Common Stock previously sold, and (3) the impact of such allocation on the amount and timing of gain or loss recognized upon the expiration of the Subscription Rights. If you allow Subscription Rights to expire after disposing of the Common Stock with respect to which the Subscription Rights are received, you should consult with your tax advisor.

Ownership of Common Stock Upon Exercise of Subscription Privilege

Distributions

In general, distributions of money, securities and any other property (other than our stock or rights to acquire such stock) with respect to our Common Stock will constitute dividends to the extent made out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If a distribution exceeds our

current and accumulated earnings and profits, the excess will be treated as a non-taxable return of capital to the extent of your adjusted tax basis in the Common Stock and thereafter as capital gain from the sale or exchange of such Common Stock.

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Gain or Loss on Disposition of Common Stock

Upon the sale or other disposition of our Common Stock, you will generally recognize capital gain or loss for U.S. federal income tax purposes equal to the difference between your amount realized on the sale and your adjusted tax basis in such Common Stock. Such capital gain or loss will be long-term capital gain or loss if your holding period for the common shares is more than one year. Long-term capital gain of an individual is generally taxed at favorable rates. The deductibility of capital losses is subject to limitations.

Additional Medicare Tax on Net Investment Income

For tax years beginning after December 31, 2012, an additional 3.8% tax will be imposed on the net investment income of certain U.S. citizens and resident aliens, and on the undistributed net investment income of certain estates and trusts. Among other items, net investment income generally includes gross income from dividends and net gain from the disposition of property, such as our Common Stock, less certain deductions. You should consult your tax advisor with respect to this additional tax.

Information Reporting and Backup Withholding

Payments made to you of proceeds from the sale or other disposition of the Common Stock may be subject to information reporting to the IRS and possible U.S. federal backup withholding. Backup withholding will not apply if you furnish a correct taxpayer identification number (certified on the IRS Form W-9) or otherwise establish that you are exempt from backup withholding. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability. You may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

LEGAL MATTERS

Rutan & Tucker, LLP, Costa Mesa, California has issued an opinion regarding the securities being offered by this Prospectus. We have filed the opinion as an exhibit to the registration statement of which this Prospectus is part.

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EXPERTS

The consolidated financial statements incorporated by reference in this Prospectus and elsewhere in the registration statement from our Annual Report on Form 10-K have been so incorporated by reference in reliance upon the report of Moss Adams LLP, an independent registered public accounting firm, upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form S-3 with the SEC covering the securities that may be sold under this Prospectus. This Prospectus summarizes material provisions of contracts and other documents that we refer you to. For further information on the Company, the Rights Offering, the Subscription Rights and our Common Stock, you should refer to our registration statement and its exhibits. As permitted by the rules and regulations of the SEC, the registration statement that contains this Prospectus includes additional information not contained in this Prospectus. Because the Prospectus may not contain all the information that you may find important, you should review the full text of these documents. We have included copies of these documents as exhibits to our registration statement of which this Prospectus is a part.

We also file reports, proxy statements and other information with the SEC. Our SEC filings are available over the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file by visiting the SEC's public reference room in Washington, D.C. The SEC's address in Washington, D.C. is 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. You may also inspect our SEC reports and other information at the offices of The NASDAQ Stock Market at One Liberty Plaza, 165 Broadway, New York, New York 10006. Copies are also available on our website at www.pro-dex.com.

The SEC allows us to "incorporate by reference" the information we file with them, which means:

- incorporated documents are considered part of the Prospectus;
- we can disclose important information to you by referring you to those documents; and
- information that we file with the SEC will automatically update and supersede this incorporated information.

We incorporate by reference the following documents that we have filed with the SEC:

- Annual Report on Form 10-K for the fiscal year ended June 30, 2013;
- Quarterly Reports filed on Form 10-Q for the quarters ended September 30, 2013 and December 31, 2013 ;
- Current Reports on Form 8-K filed on July 17, 2013, December 11, 2013 and December 17, 2013; and

Description of the Common Stock which is contained in the Company's Current Report on Form 8-K filed on December 17, 2013, including any amendment or report filed for the purpose of updating such description.

We also incorporate by reference each of the following documents that we will file with the SEC after the date of this Prospectus until this offering is completed:

- reports filed under Sections 13(a) and (c) of the Exchange Act;
- any document filed under Section 14 of the Exchange Act; and
- any reports filed under Section 15(d) of the Exchange Act.

You should rely only on information contained or incorporated by reference in this Prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should assume that the information appearing in this Prospectus is accurate as of the date of this Prospectus only. Our business, financial condition and results of operation may have changed since that date.

We will provide to each person, including any beneficial owner, to whom this Prospectus is delivered a copy of any or all of the information that has been incorporated by reference in this Prospectus but not delivered with this Prospectus. To receive a free copy of any of the documents incorporated by reference in this Prospectus (other than exhibits, unless they are specifically incorporated by reference in the documents), you may request them in writing or by telephone from us at the following address and phone number:

Pro-Dex, Inc.

2361 McGaw Avenue

Irvine, California 92614

Attention: Harold A. Hurwitz, Chief Executive Officer

Telephone: (944) 769-3200

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**Subscription Rights to purchase up to [] shares of Common Stock at \$[] per share
and the shares of Common Stock issuable upon the exercise of such Subscription Rights**

PROSPECTUS

[], 201[]

PART II.

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution

The following table sets forth the approximate expenses payable by the Company in connection with the sale of the securities being registered:

SEC Registration Fees	\$ 350
Printing and Mailing Expenses	\$ 15,000
Legal Fees	\$ 35,000
Accounting Fees	\$ 35,000
Subscription and Information Agent Fees	\$ 8,000
Miscellaneous Fees and Expenses	\$ 5,000
Total	\$ 98,350

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Item 15. Indemnification of Directors and Officers

Pro-Dex is incorporated under the laws of the State of Colorado. Section 7-109-102 of the Colorado Business Corporations Act (the “Colorado Act”) authorizes a Colorado corporation to indemnify any director of the corporation against liability incurred in any proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in (or in the case of conduct not in taken the director’s official capacity, not opposed to) the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful; provided that the corporation generally may not indemnify a director for conduct which the director is adjudged liable.

Unless limited by a corporation’s articles of incorporation, Sections 7-109-103 and 7-109-107 of the Colorado Act require that a Colorado corporation indemnify a director or officer of the corporation who was wholly successful, on the merits or otherwise, in defending any proceeding to which he or she was a party because he or she was a director or officer of the corporation against reasonable expenses incurred in connection therewith.

Pursuant to Section 7-109-104 of the Colorado Act, a Colorado corporation may advance a director’s expenses incurred in defending any action or proceeding upon receipt of an undertaking and a written affirmation of his or her good faith belief that he or she has met the standard of conduct specified in Section 7-109-102 described above. Unless limited by the corporation’s articles of incorporation, Section 7-109-107 of the Colorado Act extends this same protection to officers of a corporation.

Regardless of whether a director or officer has the right to indemnity pursuant to the provisions of the Colorado Act described above, Section 7-109-108 of the Colorado Act allows a Colorado corporation to purchase and maintain insurance on behalf of a director or officer against liability resulting from his or her role as director or officer.

Article 8 of the Company’s Articles of Incorporation expressly states that (unless limited by its Bylaws, by Board of Director or shareholder resolution or by contract) the Company shall indemnify its directors and officers to the extent and in a manner permitted by the Colorado Act. No provision of the Company’s Bylaws, no resolutions by the Company’s Board of Directors or shareholders, and no contracts between the Company and its directors or officers have limited such rights.

It is the Company’s policy to maintain an insurance policy indemnifying its directors and officers against certain liabilities, including certain liabilities arising under the Securities Act, which might be incurred by them in such capacities and against which they may not be entitled to indemnification by us. As of February 25, 2014 , the Company has such an insurance policy in place.

It is also the Company’s policy to enter into indemnification agreements with each of its directors and officers. As of February 25, 2014 , the Company has entered into its standard form of indemnification agreement with each of its current directors and officers, pursuant to which the Company agrees, among other things, to indemnify and advance expenses to each director and officer to the maximum extent permitted by law.

Item 16. Exhibits

The following exhibits are filed herewith or incorporated by reference. The reference numbers correspond to the numbered paragraphs of Item 601 of Regulation S-K.

Exhibit No.	Description
3.1	Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed April 23, 2007).
3.2	Articles of Amendment to Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed December 5, 2007)
3.3	Articles of Amendment to Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed June 18, 2010)
3.4	Amended and Restated Bylaws, dated January 31, 2011 (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed February 4, 2011)
4.1	** Form of Non-Transferable Subscription Rights Certificate
4.2	Subscription and Information Agent Agreement, dated December 17, 2013, between the Company and Broadridge Corporate Issuer Solutions, Inc. (incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 (File No. 333-192906) filed December 17, 2013)
5.1	** Opinion of Rutan & Tucker, LLP
10.1	Standby Purchase Agreement, dated December 17, 2013, among the Company, AO Partners, LLC and Farnam Street Capital, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-3 (File No. 333-192906) filed December 17, 2013)
10.2	* Amendment No. 1 to Standby Purchase Agreement, dated March 3, 2014, among the Company, AO Partners, LLC and Farnam Street Capital, Inc.

- 23.1 * Consent of Moss Adams LLP, independent registered public accounting firm
- 23.2 ** Consent of Rutan & Tucker, LLP (incorporated in Exhibit 5.1)
- 99.1 ** Form of Instructions for Use of Non-Transferable Subscription Rights Certificates
- 99.2 ** Form of Letter to Registered Holders of Common Stock
- 99.3 ** Form of Letter to Brokers and Other Nominee Holders
- 99.4 ** Form of Letter to Clients of Brokers and Other Nominee Holders
- 99.5 ** Form of Beneficial Owner Election Form
- 99.6 ** Form of Nominee Holder Certification
- 99.7 ** Form of Notice of Guaranteed Delivery

* Filed herewith.

** To be filed either by amendment or as an exhibit to a report filed under the Securities Exchange Act of 1934, as amended, and incorporated by reference to this Registration Statement.

Item 17. Undertakings

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) do not apply if the registration statement is on Form S-3 or Form F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof;

(3) To remove from registration by means of a post-effective amendment any of the securities being registered that remain unsold at the termination of the offering; and

(4) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of an undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(d) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Irvine, State of California, on March 5, 2014 .

PRO-DEX, INC.

By: /s/ Harold A. Hurwitz
Name: Harold A. Hurwitz
Title: President and Chief Executive Officer
(*Principal Executive Officer*)

Pursuant to the requirements of the Securities this Registration Statement on Form S-3 has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Harold A. Hurwitz	President, Chief Executive Officer, Chief Financial Officer and Director	March 5, 2014
Harold A. Hurwitz	<i>(Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer)</i>	
* Nicholas J. Swenson	Chairman of the Board	March 5, 2014
* Raymond E. Cabillot	Director	March 5, 2014
* William J. Farrell, III	Director	March 5, 2014
* David C. Hovda	Director	March 5, 2014
*By: /s/ Harold A. Hurwitz Harold A. Hurwitz, Attorney in Fact		March 5, 2014

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