ORTHOLOGIC CORP
Form DEF 14A
April 12, 2010

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

Filed by the Registrant x
Filed by a party other than the Registrant o

Check the appropriate box:

o Preliminary proxy statement.
o Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2)).
x Definitive proxy statement.
o Definitive additional materials.
o Soliciting material pursuant to §240.14a-12.

ORTHOLOGIC CORP.
(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):
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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

OrthoLogic Corp.
(doing business as Capstone Therapeutics)

1275 West Washington Street, Suite 101
Tempe, Arizona 85281

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held Friday, May 21, 2010

TO THE STOCKHOLDERS:

The Annual Meeting of Stockholders of OrthoLogic Corp., a Delaware corporation, doing business as Capstone Therapeutics, (the "Company"), will be held on Friday, May 21, 2010 at 8:00 a.m., at 1275 West Washington Street, Tempe, AZ 85281, for the following purposes:

(1) To elect one director as a Class I director to serve until the Annual Meeting of Stockholders to be held in the year 2013 or until a successor is elected;

(2) To consider and act upon a proposal to amend the Company's Restated Certificate of Incorporation, to provide each holder of our Common Stock as of June 30, 2011 the right, under certain circumstances, to require the Company to purchase all or a portion of such holders' Common Stock for cash at a formula-based price on or about July 31, 2011 (the "Put Right");

(3) To consider and act upon a proposal to amend the Company's Restated Certificate of Incorporation, to change our name from OrthoLogic Corp. to Capstone Therapeutics Corp.;

(4) To ratify the appointment of Ernst & Young LLP, as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010; and

(5) To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Stockholders of record at the close of business on Tuesday, April 6, 2010 are entitled to vote at the meeting and at any adjournment or postponement thereof. Shares can be voted at the meeting only if the holder is present or represented by proxy. A list of stockholders entitled to vote at the meeting will be open for inspection at the Company's corporate headquarters for any purpose germane to the meeting during ordinary business hours for 10 days prior to the meeting.

A copy of the Company's 2009 Annual Report to Stockholders, which includes certified financial statements, is enclosed. All stockholders are cordially invited to attend the Annual Meeting in person.

By order of the Board of Directors,
/s/ John M. Holliman, III
John M. Holliman, III
Executive Chairman

Tempe, Arizona
April 12, 2010

IMPORTANT: It is important that your stockholdings be represented at this meeting. Whether or not you expect to attend the meeting, please complete, date and sign the enclosed Proxy and mail it promptly in the enclosed envelope to assure representation of your shares. No postage need be affixed if mailed in the United States.

OrthoLogic Corp.
(dba Capstone Therapeutics)

PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD FRIDAY, MAY 21, 2010

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(Trade Name of OrthoLogic Corp.)
1275 West Washington Street, Suite 101
Tempe, Arizona 85281

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
To Be Held Friday, May 21, 2010

## SOLICITATION, EXECUTION AND REVOCATION OF PROXIES

Proxies in the accompanying form are solicited on behalf, and at the direction, of the Board of Directors of OrthoLogic Corp. dba Capstone Therapeutics (the "Company") for use at the Annual Meeting of Stockholders to be held on Friday, May 21, 2010, at 8:00 a.m., local time, or any adjournment thereof (the "Annual Meeting") at the offices of the company located at 1275 West Washington Street, Tempe, AZ 85281. All shares represented by properly executed proxies, unless such proxies have previously been revoked, will be voted in accordance with the direction on the proxies. If no direction is indicated, the shares will be voted in favor of the proposals to be acted upon at the Annual Meeting described in this Proxy Statement. The Board of Directors of the Company (the "Board") is not aware of any other matter which may come before the meeting. If any other matters are properly presented at the meeting for action, including a question of adjourning the meeting from time to time, the persons named in the proxies and acting thereunder will have discretion to vote on such matters in accordance with their best judgment.

When stock is in the name of more than one person, the proxy is valid if signed by any of such persons unless the Company receives written notice to the contrary. If the stockholder is a corporation, the proxy should be signed in the name of such corporation by an executive or other authorized officer. If signed as attorney, executor, administrator, trustee, guardian or in any other representative capacity, the signer's full title should be given and, if not previously furnished, a certificate or other evidence of appointment should be furnished.

This Proxy Statement and the Form of Proxy which is enclosed are being mailed to the Company's stockholders commencing on or about April 19, 2010. The Proxy Statement and Form of Proxy, as well as the Company's Annual Report on Form 10-K are available on the Company's website, www.capstonethx.com.

A stockholder executing and returning a proxy has the power to revoke it at any time before it is voted. A stockholder who wishes to revoke a proxy can do so by executing a later-dated proxy relating to the same shares and delivering it to the Secretary of the Company prior to the vote at the Annual Meeting, by written notice of revocation received by the Secretary prior to the vote at the Annual Meeting or by appearing in person at the Annual Meeting, filing a written notice of revocation and voting in person the shares to which the proxy relates.

In addition to the use of the mails, proxies may be solicited by personal conversations or by telephone, telex, facsimile or telegram by the directors, officers and regular employees of the Company. Such persons will receive no additional compensation for such services. Arrangements will also be made with certain brokerage firms and certain other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of Common Stock held of record by such persons, and such brokers, custodians, nominees and fiduciaries will be reimbursed for their reasonable out-of-pocket expenses incurred in connection therewith. We have also retained the firm of Georgeson Inc. to assist us in the solicitation of proxies. Georgeson Inc. is located at 199 Water Street, 26th Floor, New York, NY 10038. We will pay approximately $20,000 in fees plus expenses for their services. All expenses incurred in connection with this solicitation will be borne by the Company.

The mailing address of the principal executive offices of the Company is 1275 West Washington Street, Suite 101, Tempe, Arizona 85281.

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## VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Only stockholders of record at the close of business on April 6, 2010 (the "Record Date") will be entitled to vote at the Annual Meeting. On the Record Date, there were issued and outstanding 40,775,411 shares of the Company's Common Stock. Each holder of Common Stock is entitled to one vote, exercisable in person or by proxy, for each share of the Company's Common Stock held of record on the Record Date.

## VOTING PROCEDURES

The presence of a majority of the shares of Common Stock entitled to vote, in person or by proxy, is required to constitute a quorum for the conduct of business at the Annual Meeting. Abstentions and broker non-votes are each included in the determination of the number of shares present for quorum purposes. The Inspector of Election appointed by the Chairman of the Board of Directors shall determine the shares represented at the meeting and the validity of proxies and ballots and shall count all proxies and ballots. The nominee for director receiving the highest number of affirmative votes (whether or not a majority) cast by the shares represented at the Annual Meeting and entitled to vote thereon, a quorum being present, shall be elected as a director. Abstentions and broker non-votes will not be taken into account in determining the outcome of the election. The affirmative vote of a majority of the shares present in person or by proxy and entitled to vote is required with respect to the approval of the other proposals set forth herein. Abstentions and broker non-votes have the effect of negative votes. Stockholders are not entitled to any dissenter's or appraisal rights under Delaware law or the Company's Restated Certificate of Incorporation for the proposals set forth in this Proxy Statement.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of the Company's Common Stock at March 31, 2010 with respect to (i) each person known to the Company to own beneficially more than five percent of the outstanding shares of the Company's Common Stock, (ii) each director of the Company, (iii) each of the named executive officers and (iv) all directors and executive officers of the Company as a group. At March 31, 2010 there were 40,775,411 shares of the Company's Common Stock outstanding.

| | Common Stock Beneficially Owned (1) | |
|---|---|---|
| Beneficial Owner | Number | Percent of Class |
| Fredric J. Feldman (2) | 387,460 | * |
| John M. Holliman, III (3) | 797,793 | 1.9 |
| Elwood D. Howse, Jr. (4) | 367,599 | * |
| William M. Wardell (5) | 187,098 | * |
| Augustus A. White, III (6) | 351,243 | * |
| Randolph C. Steer (7) | 398,423 | * |
| Les M. Taeger (8) | 388,472 | * |
| Dana B. Shinbaum (9) | 321,330 | * |
| BVF Group (10) | 5,470,388 | 13.4 |
| Renaissance Technologies (11) | 2,200,200 | 5.4 |
| All directors and executive officers as a group (12) | 3,199,418 | 7.4 |

* Less than one percent

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(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission ("SEC") and generally includes voting or investment power with respect to securities. In accordance with SEC rules, shares, which may be acquired upon exercise of stock options which are currently exercisable or which become exercisable within 60 days of the date of the table, are deemed beneficially owned by the optionee. Except as indicated by footnote, and subject to community property laws where applicable, the persons or entities named in the table above have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them.

(2) Includes 209,896 shares Dr. Feldman has a right to acquire upon exercise of stock options. Voting and investment power shared with spouse.

(3) Includes 570,521 shares Mr. Holliman has a right to acquire upon exercise of stock options, 3,000 shares indirectly owned as trustee, 1,658 shares indirectly owned as trustee of Valley Ventures III, LP.

(4) Includes 204,896 shares Mr. Howse has a right to acquire upon exercise of stock options.

(5) Includes 84,896 shares Dr. Wardell has a right to acquire upon exercise of stock options.

(6) Includes 204,896 shares Dr. White has a right to acquire upon exercise of stock options and 8,846 shares held in the White Trust and beneficially owned by Dr. White.

(7) Includes 353,125 shares Dr. Steer has a right to acquire upon exercise of stock options.

(8) Includes 343,898 shares Mr. Taeger has a right to acquire upon exercise of stock options.

(9) Includes 277,519 shares Mr. Shinbaum has a right to acquire upon exercise of stock options.

(10) BVF Group (Biotechnology Value Fund, L.P., Biotechnology Value Fund II, L.P. BVF Investments, L.L.C., Investment 10, L.L.C., BVF Partners, L.P., BVF Inc.) is not a related party or otherwise affiliated with OrthoLogic Corp., its directors or officers, and the principal business office of the Reporting Persons comprising the Group is located at 900 North Michigan Avenue, Suite 1100, Chicago, IL 60611.

(11) Renaissance Technologies LLC is not a related party or otherwise affiliated with OrthoLogic Corp., its directors or officers, and the principal business office of the Reporting Persons is located at 800 Third Avenue, New York, NY 10022.

(12) Includes 2,249,647 shares directors and executive officers have a right to acquire upon exercise of stock options.

The address of each of the listed stockholders, unless noted otherwise, is in care of OrthoLogic Corp. (dba Capstone Therapeutics), 1275 West Washington Street, Suite 101, Tempe, AZ 85281.

## PROPOSAL 1: ELECTION OF DIRECTOR

One director is to be elected at the Annual Meeting to serve as Class I director until the Annual Meeting of Stockholders to be held in the year 2013 or until his successor is elected. Unless otherwise instructed, the proxy holders will vote the Proxies received by them FOR the Company's nominee, Fredric J. Feldman, Ph.D. Dr. Feldman is currently a director of the Company. The nominee for director receiving the highest number of affirmative votes (whether or not a majority) cast by the shares represented at the Annual Meeting and entitled to vote thereon, a quorum being present, shall be elected as a director.  Only affirmative votes are relevant in the election of directors.

Pursuant to the Company's Restated Certificate of Incorporation, the Board of Directors is classified into three classes, with each class holding office for a three-year period.  The Restated Certificate of Incorporation restricts the removal of directors under certain circumstances.  The number of directors may be increased to a maximum of nine.  Directors are elected by a plurality of the votes present in person or represented by proxy and entitled to vote at the Annual Meeting.  Stockholders do not have the right to cumulate their votes in the election of directors.  If any nominee of the Company is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy.  It is not expected that any nominee will be unable or will decline to serve as a director.

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The name of the nominee for director and of the directors, whose terms continue beyond the Annual Meeting, and certain information about them, are set forth below.

THE BOARD RECOMMENDS A VOTE IN FAVOR OF THE NAMED NOMINEE.

## INFORMATION CONCERNING DIRECTORS

### Nominee for Class I Director Whose Term Will Expire at the 2013 Annual Meeting

Fredric J. Feldman, Ph.D. (1) (2) (3) Director since 1991

Fredric J. Feldman, Ph.D., 69, has been the President of FJF Associates, a consultant to health care venture capital and emerging companies, since February 1992. From September 1995 to June 1996, he was the Chief Executive Officer of Biex, Inc., a women's healthcare company. He served as Chief Executive Officer of Oncogenetics, Inc., a cancer genetics reference laboratory, from 1992 to 1995. Between 1988 and 1992, Dr. Feldman was the President and Chief Executive Officer of Microgenics Corporation, a medical diagnostics company.

Dr. Feldman received his Ph.D. in analytical chemistry from the University of Maryland. He has been a director of a number of public and private companies involved in the healthcare industry. The Board believes that Dr. Feldman's over forty years of operating, scientific and business experience in the medical/biotech industry qualifies him for service on our board.

### Class II Directors Whose Terms Will Expire at the 2011 Annual Meeting

John M. Holliman, III (1) Director since 1987

John M. Holliman III, 56, has served as Executive Chairman and Principal Executive Officer of the Company since April 2006 and has served as a director of the Company since September 1987 and as Chairman of the Board of Directors since August 1997. Since February 1993 he has been a general partner of entities which are the general partners of Valley Ventures, LP (formerly known as Arizona Growth Partners, LP), Valley Ventures II, LP, Valley Ventures III, LP, Valley Ventures III Annex, LP, all of which are venture capital funds that invest principally in life science companies.

John M. Holliman, III has over thirty years of business experience, including service on the boards of over forty companies, commercial lending experience with a major financial institution, and has been active in venture capital financing for over twenty years, concentrating in the medical/biotech industries. Mr. Holliman earned a BBA in Finance and a MBA from Southern Methodist University and a Master of International Management from the Thunderbird School of Global Management. During his career Mr. Holliman has gained substantial executive and board level experience in business, finance and operations. The Board believes the experience and knowledge of Mr. Holliman qualifies him to serve on our board.

Augustus A. White, III, MD, Ph.D. (2) (4) Director since 1993

Dr. White, 73, became a director of the Company in July 1993. He is currently the Ellen and Melvin Gordon Distinguished Professor of Medical Education, Professor of Orthopaedic Surgery, and former Master of the Oliver Wendell Holmes Society at the Harvard Medical School and former Professor at the Harvard-MIT Division of Health Sciences and Technology; and Orthopaedic Surgeon-in-Chief, Emeritus, at the Beth Israel Deaconess Medical Center in Boston. Dr. White previously served as the Chief of Spine Surgery at Beth Israel and Director of the Daniel E. Hogan Spine Fellowship Program. He is a graduate of the Stanford University Medical School, holds a Ph.D. from the

Karolinska Institute in Stockholm and an A.B. from Brown University, and graduated from the Advanced Management Program at the Harvard Business School. Dr. White is a recipient of the Bronze Star, which he earned while stationed as a Captain in the U.S. Army Medical Corps in Vietnam. He is an internationally known and widely published authority on biomechanics of the spine, fracture healing and surgical and non-surgical care of the spine. He is nationally recognized for his work in medical education, diversity, and issues of health care disparities. Dr. White is a director of Zimmer Holdings, Inc., a publicly held designer, marketer and manufacturer of orthopedic products.

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The Board believes Dr. White's education and experience, with particular note of his clinical experience, qualifies him for service on our board and that he brings an important combination of education, real world experience and valuable scientific input to the board.

Class III Directors Whose Terms Will Expire at the 2012 Annual Meeting

Elwood D. Howse, Jr. (1) (2) (3) Director since 1987

Elwood D. Howse, Jr., 70, has served as a director of the Company since September 1987. In 1982, Mr. Howse founded Cable, Howse and Ragen, investment banking and stock brokerage firm, now owned by Wells Fargo and known as Ragen MacKenzie. In 1977, Mr. Howse co-founded Cable & Howse Ventures, an early stage venture capital firm focused on technology. In 1976, he served as Vice President, Corporate Finance, for Foster & Marshall, a northwest stock brokerage firm. In 1974 he was the Chief Financial Officer of Seattle Stevedore Company and the Miller Produce Company. Mr. Howse has served as a corporate director and advisor to various public, private and non-profit enterprises. He served on the board of the National Venture Capital Association and is past President of the Stanford Business School Alumni Association. He currently serves on the boards of directors of BSQUARE Corporation (BSQR), Formotus, Inc., and not-for-profits, Junior Achievement Worldwide and Junior Achievement of Washington.
The Board believes Mr. Howse's education and experience, particularly Mr. Howse's financial experience, which qualifies him to be designated as our financial expert on our Audit Committee, brings important financial and business experience to the board and qualifies him to serve on our board.

William M. Wardell, MD, Ph.D. (4) Director since February 2006

Dr. Wardell, 71, was appointed by the OrthoLogic Board of Directors on February 11, 2006, to fill a vacancy (Class III) on the Board. He owns and operates the consulting firm Wardell Associates International LLC in Ponte Vedra, FL, where he specializes in drug development, regulatory approval, and safety for a range of pharmaceutical and biotechnology companies. Dr. Wardell has published over one hundred scientific papers and four books, and has testified as an expert in drug development during several Congressional hearings. Dr. Wardell has 22 years of experience in the healthcare industry, holding leadership positions as President, Protein Engineering Corporation (now DYAX); Senior Vice President of Drug Development, Parke-Davis; Vice President and Medical Director, Boehringer Ingelheim Pharmaceuticals; Senior Scientific Officer, Covance; and Executive Director of the Covance Institute for Drug Development Sciences. During his tenure at these companies, Dr. Wardell was responsible for 11 approved New Drug Applications and overall he has had a role in the development and approval of over thirty now-marketed drugs. He previously served as an associate professor of Pharmacology, Toxicology and Medicine, attending on the Clinical Pharmacology consultation service of Strong Memorial Hospital at the University of Rochester Medical Center, where he co-founded and directed the University's Center for the Study of Drug Development (now at Tufts). Dr. Wardell earned his MA, Ph.D. in Pharmacology, and MD at the University of Oxford (UK), and was a Merck International Fellow in Clinical Pharmacology and Medicine under Dr. Louis Lasagna at the University of Rochester / Strong Memorial Hospital. He currently serves on the Scientific Advisory Board of Eleos, Inc.

The Board believes Dr. Wardell's education and experience, with particular note of Dr. Wardell's pharmaceutical development experience and success, brings important operating and scientific input to the Board and qualifies him for service on our Board.

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(1) Member of the Executive Committee.
(2) Member of the Audit Committee.
(3) Member of the Compensation Committee.

(4) Member of the Corporate Governance/Nominating Committee

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## Board Meetings and Committees

The Board of Directors is composed of four outside directors. On April 5, 2006, Mr. Holliman became Executive Chairman and Principal Executive Officer of the Company and is no longer an independent director under Nasdaq Listing Rule 5605(a)(2). The Board has determined that each director other than Mr. Holliman is independent for purposes of Nasdaq Listing Rule 5605(a)(2). The Board of Directors held a total of seven meetings during the fiscal year ended December 31, 2009. No director attended fewer than 75% of the aggregate of all meetings of the Board of Directors and any committee on which such director served during the period of such service. Currently, the Board of Directors does not have a policy regarding director attendance at the Company's annual meeting of stockholders. All of the directors attended last year's annual meeting of stockholders in person.

Independent directors regularly meet in executive sessions without the Executive Chairman or other members of management to review the criteria, upon which the performance of the Executive Chairman is based, the performance of the Executive Chairman against that criteria, to ratify the compensation of the Executive Chairman as approved by the Compensation Committee, and to discuss other relevant matters.

The Board presently has an Executive Committee, an Audit Committee, a Compensation Committee and a Corporate Governance/Nominating Committee. The Executive Committee, which acts on Board matters that arise between meetings of the full Board of Directors, consists of Dr. Feldman, Mr. Holliman and Mr. Howse. During 2009 the Executive Committee did not meet separately as all matters were discussed and acted on by the full Board.

### Audit Committee

The Audit Committee, which is a separately-designated standing committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), consists of Mr. Howse (Chairman), Dr. White and Dr. Feldman and met four times in 2009. The Audit Committee assists the Board of Directors in its oversight of financial reporting practices, including the independent auditor's qualifications and independence, and the performance of the Company's internal audit function. The Audit Committee appoints the Company's independent auditor. The Audit Committee meets independently with representatives of the Company's independent auditor and with representatives of senior management. The Committee reviews the general scope of the Company's annual audit, the fee charged by the independent auditor and other matters relating to internal control systems. In addition, the Audit Committee is responsible for approving, reviewing and monitoring the performance of non-audit services by the Company's auditor. The Audit Committee operates under a written charter that has been adopted by the Board of Directors, a copy of which is available on the Company's website at www.capstonethx.com.

The Board of Directors has determined that the composition of the Audit Committee, the attributes of its members and the responsibilities of the Audit Committee, as reflected in its charter, are in accordance with applicable Nasdaq Marketplace Rules for audit committees. In particular, all Audit Committee members possess the required level of financial literacy, at least one member of the Audit Committee meets the current standard of requisite financial management expertise and the Board of Directors has determined that Elwood D. Howse, Jr., the Chairman of the Audit Committee, is an "audit committee financial expert" as defined in Item 407(d) of Regulation S-K of the Securities and Exchange Commission (the "SEC"). Additionally, Mr. Howse and each of the other members of the Audit Committee is an "independent director" as defined in Nasdaq Listing Rule 5605(a)(2).

### Compensation Committee

The Compensation Committee consists of Dr. Feldman (Chairman) and Mr. Howse. The Committee met one time during 2009. Each member of the Compensation Committee is an "independent" director as defined in Nasdaq Listing Rule 5605(a)(2) and is an "outside director" as defined in Section 162(m) of the Internal Revenue Code. The

Compensation Committee reviews salaries and benefit programs designed for senior management, officers and directors and administers certain grants under the Company's stock option plans with a view to ensure that the Company is attracting and retaining highly qualified managers through competitive salary and benefit programs and encouraging extraordinary effort through incentive rewards. The Compensation Committee does not have a written charter.

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Corporate Governance/Nominating Committee

The Corporate Governance/Nominating Committee examines and recommends nominations for the Board of Directors and officers of the Company. The Corporate Governance/Nominating Committee operates under a written charter, a copy of which is posted on our website at www.capstonethx.com. The Corporate Governance/Nominating Committee has not established a formal policy on Board diversity (differences of viewpoint, professional experience, education, skills, race, gender, national origin, and other qualities and attributes that contribute to board heterogeneity), or minimum standards for Board nominees. However, the Corporate Governance/Nominating Committee has developed the following outline of core Board skills as a framework for the nominee evaluation process and considers diversity to strengthen the Board where overlapping skills are present.

§ Operations Experience / Knowledge
o Pharmaceutical Development
- Basic Research
- IND Process
- Clinical Trial Process
- NDA Process
§ Scientific Experience / Knowledge
o Understanding of basic scientific principles in indications under development by the Company
§ Financial Experience / Knowledge
o GAAP / Disclosure Controls / SEC Reporting
o Business Transactions and Strategies
o Risk Management
§ Business Experience / Knowledge
o Organization Management / Corporate Governance
o Product Market Analysis / Strategy
o Investor Relations

Accordingly, the Corporate Governance/Nominating Committee generally seeks candidates with chief operating, executive or financial officer experience in complex Biotech/Pharmaceutical organizations; a commitment to give the time and attention to the duties required of them; and evidence of an independent and inquiring mind willing to question management's assumptions.

The Corporate Governance/Nominating Committee consists of Dr. White and Dr. Wardell. Dr. White (chairman) and Dr. Wardell are independent directors under Nasdaq Listing Rule 5605 (a)(2). The Corporate Governance/Nominating Committee met two times during 2009. The Corporate Governance/Nominating Committee nominated Dr. Feldman for election as Class I director for this year's annual meeting of stockholders.

Stockholder Nomination of Director Candidates

The Corporate Governance/Nominating Committee will consider for nomination as a director of the Company any director candidate recommended or nominated by stockholders in accordance with the process outlined below. Director candidates recommended or nominated by stockholders are not evaluated differently from recommendations or nominations from other sources.

Stockholders wishing to recommend candidates for consideration by the Corporate Governance/ Nominating Committee may do so by providing the candidate's name, contact details, biographical data, and qualifications in writing to the Corporate Governance/Nominating Committee, c/o Secretary, OrthoLogic Corp. (dba Capstone Therapeutics), 1275 West Washington Street, Suite 101, Tempe, Arizona 85281. The Board may change the process for the means by which stockholders may recommend director candidates to the Corporate Governance/Nominating Committee. Please refer to the Company's website at www.capstonethx.com and the Company's SEC filings for any changes to this process.

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Any stockholder entitled to vote for the election of directors at a meeting may nominate persons for election as directors only if written notice of such stockholder's intent to make such nomination is given, either by personal delivery at 1275 West Washington Street, Suite 101, Tempe, Arizona or by United States mail, postage prepaid to Secretary, OrthoLogic Corp. (dba Capstone Therapeutics), 1275 West Washington Street, Suite 101, Tempe, Arizona 85281, not later than: (i) with respect to the election to be held at an annual meeting of stockholders, 20 days in advance of such meeting; and (ii) with respect to any election to be held at a special meeting of stockholders for the election of directors, the close of business on the fifteenth (15th) day following the date on which notice of such meeting is first given to stockholders. Each such notice must set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that such stockholder is a holder of record of stock of the corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between such stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such stockholder; (d) such other information regarding each nominee proposed by such stockholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the SEC if such nominee had been nominated, or intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a director of the Company if elected. The chairman of the stockholders' meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

Board Leadership Structure and Role in Risk Oversight

The Company believes that the value to an organization of a separation of the duties of the Chairman of the Board and Principal Executive Officer depends largely on the operating characteristics and organization structure of the Company.

Currently, the Company's operations are focused on pre-clinical studies and small early stage clinical trials. We have no products close to market and, accordingly, no product marketing, sales or manufacturing activities. We are a small organization of currently 22 full time employees. Additionally, we have an experienced Chief Operating Officer / President.

The Board believes the Company is at a stage where the Board can effectively perform its oversight responsibilities, including its responsibilities to oversee risk, without a separation of the Chairman and Principal Executive Officer position and that its leadership structure is currently the most efficient way to conduct its business. The Board administers these oversight responsibilities through review and approval of short and long term strategic plans, annual budgets, annual Company goals and objectives, executive management's compensation structure, and all transactions, contracts or agreements that could have, in the Board's opinion, a material effect on the Company. Additionally, the Board's Audit Committee assists the Board in its oversight of the Company's financial reporting process as outlined in this Proxy Statement and the Audit Committee's Charter.

The Company has a lead independent director (Augustus A. White, III, MD, Ph.D.), who sets the agenda and leads the periodic meetings of non-executive independent directors. Under leadership of the lead independent director, the non-executive independent directors privately review and approve the Executive Chairman's annual goals and objectives and related compensation structure, as well as address any other business matters on which a director believes private discussion is required.

Stockholder Communications with Board

Stockholders wishing to communicate with the Board of Directors or with a Board member should address communications to the Board or to the particular Board member, c/o Secretary, OrthoLogic Corp. (dba Capstone

Therapeutics), 1275 West Washington Street, Suite 101, Tempe, Arizona 85281. All communications sent in this manner to the Board members will be forwarded directly to the Board. From time to time, the Board may change the process for the means by which stockholders may communicate with the Board or its members. Please refer to the Company’s website at www.capstonethx.com for any changes to this process.

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## COMPENSATION OF DIRECTORS

The following table sets forth compensation awarded to, earned by or paid to the Company's directors during the last fiscal year. Mr. John Holliman, III is not included in this table and his compensation as a director is included in the Summary Compensation Table in the Executive Compensation section in this Proxy Statement.

| Name (a) | Fees Earned or Paid in Cash ($) (b) | Stock Awards ($) (c) | Option Awards ($) (1) (d) | Non-Equity Incentive Plan Compensation ($) (e) | Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (f) | All Other Compensation ($) (g) | Total ($) (h) |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Fredric J. Feldman, Ph.D. Director | 62,000 | - | 12,000 | - | - | - | 74,000 |
| Elwood D. Howse, Jr. Director | 62,000 | - | 12,000 | - | - | - | 74,000 |
| William M. Wardell, MD, Ph.D. Director | 62,000 | - | 12,000 | - | - | - | 74,000 |
| Augustus A. White, III, MD, Ph.D. Director | 61,000 | - | 12,000 | - | - | - | 73,000 |

(1) Fair value of the grants at the date of the grants was determined using the Black-Scholes model as described in Note 6 to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2010.

During the year ended December 31, 2009, the Company paid directors an annual retainer of $24,000, payable quarterly in advance, $2,500 for each board meeting attended in person and $1,000 for each board meeting attended by telephone. All directors are eligible for a grant of nonqualified stock options pursuant to the Company's 2005 Equity Incentive Plan. On June 10, 2005, the Board of Directors approved an annual award to each director of a non-qualified stock option to purchase 10,000 shares of the Company's Common Stock. The Company conditionally granted to each director non-qualified options to acquire 10,000 shares at a price of $0.42 per share on January 1, 2009 (fair value of $2,000). These options vested immediately and were granted at the market price on the date of grant. On October 30, 2008, the Board of Directors conditionally granted non-qualified stock options to each director to acquire 25,000 shares at a price of $0.70 per share (fair value of $10,000). These options vest monthly over a four-year period and were granted at the market price on date of grant. The options were conditionally granted subject to stockholder approval of Proposal 2 in the Proxy Statement for our Annual Meeting held on May 8, 2009, to amend our 2005 Equity Incentive Plan (the "Plan") to increase the number of shares available for issuance under the Plan by 1,250,000 shares. Upon stockholder approval on May 8, 2009 of Proposal 2, the conditional grants became effective. All options have been granted with ten-year terms.

On June 10, 2005 the Board of Directors also approved an annual award to each director of $25,000 of restricted stock. The shares granted vest one year from the date of issuance. On January 1, 2009 the Board paid each director $25,000 in lieu of the annual stock award.

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Director Outstanding Equity Awards at Fiscal Year-End

| Name | | | | Option Awards | | |
|---|---|---|---|---|---|---|
| | | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) | Options Exercise Price ($) | Option Expiration Date |
| (a) | | (b) | (c) | (d) | (e) | (f) |
| John M. Holliman, III | | 20,000 | | | 3.58 | 8/24/2011 |
| | | 200,000 | | | 1.75 | 5/12/2016 |
| | * | 45,833 | 4,167 | | 1.02 | 2/21/2018 |
| | * | 52,083 | 72,917 | | 0.45 | 2/3/2019 |
| | | | | | | |
| William M. Wardell, MD, Ph.D. | | 10,000 | | | 5.33 | 2/11/2016 |
| | | | | | | |
| Various directors: | | | | | | |
| (1) (2) | | 5,000 | | | 2.44 | 12/15/2010 |
| (1) (2) (3) (5) | | 30,000 | | | 3.19 | 1/19/2011 |
| (1) (2) (3) (5) | | 25,000 | | | 3.93 | 10/26/2011 |
| (1) (2) (3) (5) | | 5,000 | | | 4.89 | 12/31/2011 |
| (1) (2) (3) (5) | | 10,000 | | | 3.61 | 12/31/2012 |
| (1) (2) (3) (5) | | 10,000 | | | 6.13 | 12/31/2013 |
| (1) (2) (3) (5) | | 30,000 | | | 7.40 | 1/23/2014 |
| (1) (2) (3) (5) | | 10,000 | | | 6.25 | 12/31/2014 |
| (1) (2) (3) (5) | | 10,000 | | | 4.90 | 1/2/2016 |
| (1) (2) (3) (4) (5) | | 25,000 | | | 1.75 | 5/12/2016 |
| (1) (2) (3) (4) (5) | | 10,000 | | | 1.43 | 1/1/2017 |
| (1) (2) (3) (4) (5) | | 10,000 | | | 1.35 | 1/1/2018 |
| (1) (2) (3) (4) (5) | ** | 7,292 | 17,708 | | 0.70 | 10/30/2018 |
| (1) (2) (3) (4) (5) | | 10,000 | | | 0.42 | 1/1/2019 |

Feldman, Fred (1)
Holliman, John (2)
Howse, Elwood (3)
Wardell, William (4)
White, Augustus (5)

* Vest monthly over a two-year period ending 2/21/2010 and 2/3/2011
** Vest monthly over a four-year period ending 10/30/2012
All other directors options were fully vested on 12/31/2009

EXECUTIVE OFFICERS

The following table sets forth information regarding our executive officers:

| Name | Age | Title |
|---|---|---|

| | | |
|---|---|---|
| John M. Holliman, III | 56 | Executive Chairman and Principal Executive Officer |
| Randolph C. Steer, MD, Ph.D. | 60 | President |
| Les M. Taeger | 59 | Senior Vice President, Chief Financial Officer and Principal Financial and Accounting Officer |
| Dana B. Shinbaum | 47 | Vice President, Business Development |

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John M. Holliman, III, became Executive Chairman and Principal Executive Officer of the Company on April 5, 2006 and has served as a director of the Company since September 1987 and as Chairman of the Board of Directors since August 1997. Since February 1993 he has been a general partner of entities, which are the general partners of Valley Ventures, LP (formerly known as Arizona Growth Partners, LP), Valley Ventures II, LP, Valley Ventures III Annex, LP, all of which are venture capital funds that invest principally in life science companies.

Randolph C. Steer, MD, Ph.D. became President of the Company on April 5, 2006. Dr. Steer has been an independent pharmaceutical, biotechnology and medical devices consultant since 1989, and has provided consulting services to OrthoLogic since 2002. He has a broad scientific, medical and business background, including extensive experience in pre-clinical, clinical and regulatory affairs, having held key management positions in leading corporations and having served as an advisor to many companies in the United States and abroad. Dr. Steer has also advised numerous venture capital firms, investment banks and independent investors on the commercial development of drugs, biologics, diagnostics and medical devices. He has served as Associate Director of Medical Affairs at Marion Laboratories; Medical Director at Ciba Consumer Pharmaceuticals (Ciba-Geigy Corporation); Vice President, Senior Vice President and Member of the Executive Committee at Physicians World Communications Group; Chairman, President and Chief Executive Officer of Advanced Therapeutics Communications International, a global drug regulatory group, and Chairman and Chief Executive Officer of Vicus.com, Inc. He is a member of the Board of Directors of Techne Corporation, and was a member of the Board of Directors of BioCryst Pharmaceuticals from 1994 to 2009. Dr. Steer received his MD degree from the Mayo Medical School and his Ph.D. from the University of Minnesota, where he also completed a residency and subspecialty fellowship in clinical and chemical pathology. He is a Fellow of the American College of Clinical Pharmacology.

Les M. Taeger joined the Company as Senior Vice President and Chief Financial Officer on January 16, 2006. Mr. Taeger most recently served as Chief Financial Officer of CardioTech International, Inc. (“CardioTech”). CardioTech is a publicly-traded, medical device company that developed, manufactured and sold advanced products for the treatment of cardiovascular disease. From September 2000 to February 2004, when Mr. Taeger became Chief Financial Officer of CardioTech, Mr. Taeger served as Chief Financial Officer of Gish Biomedical, Inc. (“Gish”). Gish, which became a subsidiary of CardioTech pursuant to a merger transaction involving the companies in April 2003, specializes in the manufacture and sale of products used in open-heart surgery, vascular access and orthopedic surgery. Prior to his employment with CardioTech and Gish, Mr. Taeger was employed for over five years as Chief Financial Officer of Cartwright Electronics, Inc., a division of Meggitt, PLC. Mr. Taeger is a Certified Public Accountant, with a Bachelor’s degree in accounting.

Dana B. Shinbaum joined the Company as Vice President of Business Development in October 2005. Previously he served as Vice President, Product Planning and Market Analytics at Savient Pharmaceuticals, Inc., and has over twenty years of experience in the pharmaceutical/biotechnology industry. While at Savient his responsibilities included creating and developing new business opportunities, leading global project teams and managing product launches. He played key strategic planning roles in Savient’s acquisition of Rosemont Pharmaceuticals Ltd. and the divestiture of Bio-Technology General Ltd., Savient’s global biologics business. Prior to joining Savient, Mr. Shinbaum was at Wyeth-Ayerst Laboratories, where he held market planning and marketing roles of increasing responsibility, including Product Manager for the PREMARIN® franchise. Mr. Shinbaum received a Master of Business Administration, summa cum laude, from Drexel University in Philadelphia and a Bachelor of Arts degree from Lafayette College in Easton, Pennsylvania.

## EXECUTIVE COMPENSATION

## COMPENSATION DISCUSSION AND ANALYSIS

### Compensation Philosophy

The objectives of the Company’s executive compensation policies are to attract, retain and reward executive officers who contribute to the Company’s success, to align the financial interests of executive officers with the performance of the Company, to strengthen the relationship between executive pay and shareholder value, to motivate executive officers to achieve the Company’s business objectives and to reward individual performance. The Company used base salary, cash bonuses, stock awards and stock options to achieve these objectives.

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Review of Current Compensation Components of Executive Chairman and other Executive Officers

The Compensation Committee reviews all components of the Executive Chairman's and other executive officers' compensation, including salary, bonus, stock awards, accumulated vested and unvested stock options, the dollar value to the executive and cost to the company of all perquisites and other personal benefits, as well as the actual projected payout obligations under several potential severance and change-in-control scenarios and any limitations on the deductibility for federal income tax purposes of all compensation. The Compensation Committee considers the following:

1) Each executive has individual performance goals for the fiscal year. The Compensation Committee reviews the performance goals and expectations for individual executive positions. Based on recommendations from the Executive Chairman and the Compensation Committee's evaluation of the performance achievement of these goals, the Compensation Committee determines the resulting bonus and/or changes to salary components for the executive officers. The Executive Chairman also recommends individual performance objectives for himself for each fiscal year. The Compensation Committee approves the performance objectives of the Executive Chairman and evaluates the Executive Chairman's performance measured against these objectives and evaluates and formulates any potential changes in compensation accordingly.

2) The Company's performance is compared against the goals for the fiscal year. Strategic, high level performance expectations are identified each fiscal year for the Company. The Executive Chairman provides documentation to the Compensation Committee regarding the expectations and corresponding results of operations.

3) The level of compensation for executives in similar positions for companies of similar size and development structure is considered in determining executive compensation. To enable the Company to continue to attract and retain executives in the competitive marketplace, executive compensation for similar companies is reviewed. The Company typically obtains this data through a review of publicly available executive compensation information for comparable public companies.

The Compensation Committee's Conclusion

Based on the review detailed above, the Compensation Committee, at its meeting held at the beginning of the fiscal year, formulates its recommendations regarding what areas of the compensation components will be adjusted for the upcoming year and what the performance bonus for the prior year will be.

Board Approval

At the first Compensation Committee meeting of the year, the Compensation Committee reviews the Executive Chairman and other executive officers' compensation and bonuses and presents its recommendations to the Board of Directors. The final total compensation package decision regarding the Executive Chairman is made by the Independent Directors in an Executive Session without the Executive Chairman or other members of management present, and the final decisions on other executives' total compensation packages are made by the full Board of Directors.

The following discussion is provided to facilitate stockholder understanding of the named executive officer compensation information included with this proxy statement. Overall our compensation decisions are framed by the nature of our business as a development stage pharmaceutical company with the need for highly specialized and talented individuals. Our compensation policies are designed to take into account the fact that the competition for executives is with all sizes of pharmaceutical firms and must factor in not just comparable compensation, including health care, retirement or other traditional executive benefits, but issues such as location and position stability. We operate in Tempe, Arizona, a relatively small market for biotechnology, and in a field with substantial product development risks, with no current revenue and limited funds.

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Annual Base Compensation and Cash Bonus

As previously mentioned, each executive officer receives a base salary and a cash bonus which is based on performance against both Company and individual performance goals. We have established base salaries which we feel are comparable to other biotechnology firms and with the potential cash bonus, provide for a reasonable level of cash-based compensation to the executives. Base compensation in 2009 ranged from $325,000 for Dr. Steer, to $200,000 for Mr. Holliman. Executive officers did not receive an increase in base pay in 2009. No executive salary increases are planned for 2010. In 2009 the bonus potential was 40% of base salary for Mr. Holliman, Dr. Steer, Mr. Taeger and Mr. Shinbaum. Mr. Holliman elected to not accept a bonus for 2009. The bonus plan placed 25-30% of the executive's cash compensation at risk, which we believe is a reasonable level of risk for cash-based compensation. In 2009, performance for the bonus plan was weighted 50% towards Company goals and 50% towards individual goals. Company and individual goals included a combination of operating, such as timely completion of clinical or pre-clinical tasks and performance against our strategic plan, financial, such as performance to budget or generation of unbudgeted cost savings, and administrative, such as maintaining compliance with Securities and Exchange Commission rules, regulations and reporting requirements. We believe that the cash compensation at risk and the performance goals of the 2009 bonus plan serve to align our executives' interests with our interests and focus their efforts where we believe they have the potential to achieve performance we have identified as important to accomplishing objectives necessary to advance our development efforts.

Equity Based Compensation

As previously discussed, we provide a certain level of cash compensation to each executive as both a short-term reward and to focus executive performance on short-term goals that are part of our long-term strategies. Additionally, we use a combination of stock option grants and stock awards, both during the employment offer process and annually, to generate a commitment to and a long-term investment in our company. Grants and awards connected with employment offers were determined based on the position and competitive factors at the time of the offers. Grants and awards are targeted such that an annual $1 increase in market price, currently an annual $41,000,000 increase in shareholder value, would provide approximately 10% to 20% of the executive's compensation. We believe grants at these levels serve to gradually increase our executives' commitment to our company and align their interests with other stockholders of the company.

Stock Option Grants

As part of our long-term incentives we grant options to purchase shares of our Common Stock to our executives. During 2009, the Company granted options to employees to purchase 375,000 shares of the Company's Common Stock with the exercise price determined by the closing market price on the date of grant ($0.45). This grant included grants to the named executives (Holliman 125,000 shares, Steer 75,000 shares, Taeger 50,000 shares and Shinbaum 50,000 shares).

On February 4, 2010, the Company granted options to employees to purchase 324,000 shares of the Company's Common Stock with the exercise determined by the closing market price on the date of grant ($0.82). This grant included grants to the named executives (Holliman 100,000 shares, Steer 50,000 shares, Taeger 35,000 shares and Shinbaum 35,000 shares).

Stock Awards

We believe stock awards are an important element in our compensation plan, however, in 2009 there were no stock awards.

Fringe Benefits, Perquisites and Retirement Benefits.

Our executives participate in group health, dental, life, and disability programs and participate in our 401K plan on the same basis as other employees. No perquisites are provided to executives that in aggregate exceed $10,000 per year.

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## REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The Compensation Committee of the Company's Board of Directors (the "Compensation Committee") recommends the compensation of the Executive Chairman and President to the Board and reviews and approves the design, administration and effectiveness of compensation programs for other key executive officers, including salary, cash bonus levels, other perquisites and stock awards or option grants under the Company's stock option plans. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management, and based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Compensation Committee during 2009:

Fredric J. Feldman, Ph.D. (Chairman)
Elwood D. Howse, Jr.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2009, Fredric J. Feldman, Ph.D. and Elwood D. Howse, Jr., each an independent director, served on the Compensation Committee of the Board of Directors.

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SUMMARY COMPENSATION TABLE

The following table sets forth, with respect to the years ended December 31, 2009, 2008 and 2007, compensation awarded to, earned by or paid to the Company's principal executive officer, principal financial officer and each of the two most highly compensated executive officers other than the principal executive officer and the principal financial officer, who were serving as executive officers at the end of the last completed fiscal year (the "named executive officers").

| Name (a) | Year (b) | Salary ($) (c) | Bonus ($) (d) | Stock Awards ($) (e) | Option Awards ($) (f) | Non-Equity Incentive Plan Compensation ($) (g) | Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h) | All Other Compensation ($) (i) | Total ($) (j) |
|---|---|---|---|---|---|---|---|---|---|
| John M. Holliman, III | 2009 | 200,000 | - | - | 42,000 (1) | - | - | 62,000 (1) | 304,000 |
| Executive Chairman | 2008 | 200,000 | - | 25,000 (1) | 57,000 (1) | - | - | 36,000 (1) | 318,000 |
| (Principal Executive Officer) | 2007 | 200,000 | 73,000 | 25,000 (1) | 32,000 (1) | - | - | 32,000 (1) | 362,000 |
| Randolph C. Steer, | 2009 | 325,000 | 75,000 | - | 18,000 | - | - | - | 418,000 |
| MD, Ph.D. | 2008 | 325,000 | 89,000 | - | 26,000 | - | - | - | 440,000 |
| President | 2007 | 319,000 | 116,000 | - | 38,000 | - | - | - | 473,000 |
| Les M. Taeger | 2009 | 242,000 | 56,000 | - | 12,000 | - | - | - | 310,000 |
| Chief Financial Officer | 2008 | 242,000 | 82,000 (2) | - | 8,000 | - | - | - | 332,000 |
| (Principal Financial Officer) | 2007 | 235,000 | 130,000 (2) | - | - | - | - | 5,000 | 370,000 |
| Dana B. Shinbaum | 2009 | 242,000 | 51,000 | - | 12,000 | - | - | - | 305,000 |
| VP Business | 2008 | 242,000 | 77,000 (2) | - | 7,000 | - | - | - | 326,000 |
| Development | 2007 | 235,000 | 112,000 (2) | - | - | - | - | 5,000 | 352,000 |

(1) Mr. Holliman is a member of the Board of Directors and as a director, received compensation of $62,000, $36,000 and $32,000, in cash, in 2009, 2008 and 2007, respectively, a stock award in 2008 and 2007 with a fair value of $25,000 on the date of each award, and an annual grant of an option to purchase 10,000 shares of the Company's Common Stock. Mr. Holliman received total director's compensation (Board fees, stock awards and option grants) of $74,000, $67,000 and $64,000 in 2009, 2008 and 2007, respectively, as more fully described in the Compensation of Directors section of this Proxy Statement. Fair value of the grants at the date of the grants was determined using the Black-Scholes model as described, for 2009, in Note 6 to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2010, for 2008, in Note 6 to our Annual Report on form 10-K/A filed with the Securities and Exchange Commission on September 18, 2009, and for 2007, in Note 8 to the Annual Report on form 10-K filed with the Securities and Exchange Commission on March 5, 2008.

(2) In 2008, Mr. Taeger and Mr. Shinbaum were awarded 14,706 and 12,255 shares, respectively, with a fair value of the share awards on the date of grant of $15,000 and $12,500, respectively. In 2007, Mr. Taeger and Mr. Shinbaum were awarded 19,868 and 16,556 shares, respectively, with a fair value of the share awards on the date of grant of $30,000 and $25,000, respectively. These amounts are included in the "Bonus" column.

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OPTION GRANTS / STOCK AWARDS

The following table sets forth information about stock option grants and stock awards during the last completed fiscal year to the executive officers named in the Summary Compensation Table.

Grants of Plan-based Awards

| Name (a) | Grant Date (b) | All Other Stock Awards: Number of Shares of Stock or Units (#) (i) | All Other Option Awards: Number of Securities Underlying Options (#) (j) | Exercise or Base Price of Option Awards ($/Share) (k) | Grant Date Fair Value of Stock and Option Awards (1) ($) (l) | Closing Market Price On Grant Date ($) (2) |
|---|---|---|---|---|---|---|
| John M. Holliman, III | 10/30/08 | - | 25,000 | 0.70 | 10,000 | - |
| Executive Chairman | 1/1/09 | - | 10,000 | 0.42 | 2,000 | 0.67 |
| | 2/3/09 | | 125,000 | 0.45 | 30,000 | 0.67 |
| Randolph C. Steer, MD, Ph.D. President | 2/3/09 | - | 75,000 | 0.45 | 18,000 | 0.67 |
| Les M. Taeger Chief Financial Officer | 2/3/09 | - | 50,000 | 0.45 | 12,000 | 0.67 |
| Dana B. Shinbaum VP Business Development | 2/3/09 | - | 50,000 | 0.45 | 12,000 | 0.67 |

(1) Fair value of the grants at the date of the grants was determined using the Black-Scholes model as described in Note 6 to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2010. The options were conditionally granted subject to stockholder approval, which was received at the Company's annual meeting held on May 8, 2009.

(2) Under Accounting Standard Codification, Topic 718 "Compensation - Stock Compensation", formerly Statement of Financial Accounting Standards No. 123 (revised 2004), "Share Based Payments" ("Topic 718"), the grant date for these options contingently granted subject to stockholder approval of Proposal 2 in our Proxy statement for the Company's annual meeting held on May 8, 2009, to increase shares available to grant in the 2005 Equity Incentive Plan by 1,250,000 shares, is May 8, 2009, the date of stockholder approval. The Securities and Exchange Commission Regulation S-K Item 402(1)(2)(vii), requires disclosure of the closing market price on the date of grant, determined under Topic 718, when the option exercise price is lower than the closing market price of the common stock on the date of grant (as determined under Topic 718).

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

| Name | Option Awards | | | |
|---|---|---|---|---|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price ($) | Option Expiration Date |
| (a) | (b) | (c) | (e) | (f) |
| John M. Holliman, III | | | | |
| | 5,000 | - | 2.44 | 12/15/2010 |
| | 30,000 | - | 3.19 | 1/19/2011 |
| | 20,000 | - | 3.58 | 8/24/2011 |
| | 25,000 | - | 3.93 | 10/26/2011 |
| | 5,000 | - | 4.89 | 12/31/2011 |
| | 10,000 | - | 3.61 | 12/31/2012 |
| | 10,000 | - | 6.13 | 12/31/2013 |
| | 30,000 | - | 7.40 | 1/23/2014 |
| | 10,000 | - | 6.25 | 12/31/2014 |
| | 10,000 | - | 4.90 | 1/2/2016 |
| | 25,000 | - | | |