ORTHOLOGIC CORP
Form DEF 14A
April 14, 2006

Table of Contents

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

SCHEDULE 14A
(Rule 14a 101)
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant þ
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)).
þ 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):
þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) 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 pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of

transaction:

5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Table of Contents

1275 West Washington Street
Tempe, Arizona 85281

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held Friday, May 12, 2006

TO THE STOCKHOLDERS:

The Annual Meeting of Stockholders of OrthoLogic Corp., a Delaware corporation (the Company), will be held on Friday, May 12, 2006 at 8:00 a.m., local time, at the offices of the Company at 1275 West Washington Street, Tempe, Arizona 85281, for the following purposes:

(1) To elect two directors as Class III directors to serve until the Annual Meeting of Stockholders to be held in the year 2009 or until their respective successors are elected;

(2) To consider and act upon a proposal to ratify and approve the OrthoLogic Corp. 2005 Equity Incentive Plan;

(3) 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, March 28, 2006 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 2005 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 15, 2006

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.

Table of Contents

OrthoLogic Corp.
PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD FRIDAY, MAY 12, 2006
TABLE OF CONTENTS

Table of Contents

1275 West Washington Street
Tempe, Arizona 85281

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
To Be Held Friday, May 12, 2006

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. (the Company) for use at the Annual Meeting of Stockholders to be held on Friday, May 12, 2006, at 8:00 a.m., local time, or any adjournment thereof (the Annual Meeting) at the offices of the Company at 1275 West Washington Street, Tempe, Arizona 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. 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 15, 2006.

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 Shareholder Communications, Inc. to assist us in the solicitation of proxies. Georgeson Shareholder Communications, Inc. is located at 111 Commerce Road, Carlstadt, New Jersey, 07072-2586. We will pay approximately $8,500 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, Tempe, Arizona 85281.

Table of Contents

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Only stockholders of record at the close of business on March 28, 2006 (the Record Date) will be entitled to vote at the Annual Meeting. On the Record Date, there were issued and outstanding 40,673,489 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. 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 two nominees 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 directors. 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. Uninstructed shares are not entitled to vote on Proposal No. 2 relating to the Company s Equity Incentive Plan, and therefore, broker non-votes do not affect the outcome. Abstentions 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 11, 2006 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.

	Shares Beneficially Owned (1)	
Identity of Stockholder or Group	**Number**	**Percent**
James M. Pusey (2)	179,844	*
James T. Ryaby (3)	220,088	*
Dana B. Shinbaum (4)		*
Michael D. Casey (5)	60,000	*
Fredric J. Feldman (6)	285,000	*
John M. Holliman, III (7)	693,513	1.7
Elwood D. Howse (8)	249,644	*
William M. Wardell (9)	10,000	
Augustus A. White III (10)	296,231	*
Thomas R. Trotter (11)	30,146	*
Sherry A. Sturman (12)	251,188	*
Heartland Advisors, Inc. 789 North Water Street Milwaukee, Wisconsin 53202 (13)	5,481,324	13.5
All directors and executive officers as a group (11 persons) (14)	2,276,504	5.3

* Less than one percent

(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,

2

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 179,844 shares Dr. Pusey has a right to acquire upon exercise of stock options.

(3) Includes 217,188 shares Dr. Ryaby has a right to acquire upon exercise of stock options.

(4) Mr. Shinbaum has no beneficially owned shares at March 11, 2006.

(5) All 60,000 are shares Mr. Casey has a right to acquire upon exercise of stock options.

(6) Includes 199,000 shares Dr. Feldman has

a right to acquire upon exercise of stock options. Voting and investment power shared with spouse.

(7) Includes 231,000 shares Mr. Holliman has a right to acquire upon exercise of stock options, 3,000 shares indirectly owned as trustee and 397,513 shares Mr. Holliman has voting power over as a general partner in Valley Ventures III, LP.

(8) Includes 201,000 shares Mr. Howse has a right to acquire upon exercise of stock options. Voting and investment power shared with spouse.

(9) All 10,000 are shares Dr. Wardell has a right to acquire upon exercise of stock options.

(10) Includes 191,500 shares

Dr. White has a right to acquire upon exercise of stock options and 6,878 indirectly owned shares.

(11) Includes 30,146 shares Mr. Trotter has a right to acquire upon exercise of stock options.

(12) Includes 249,188 shares Ms. Sturman has a right to acquire upon exercise of stock options.

(13) Derived from a Schedule 13G, Amendment No. 12, dated February 3, 2006 filed by the stockholder pursuant to the Securities Exchange Act of 1934, as amended (the 1934 Act). The Schedule 13G, as amended, states that the securities may be deemed beneficially owned within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934 by (1) Heartland Advisors, Inc.

by virtue of its investment discretion and voting authority granted by certain clients, which may be revoked at any time; and (2) William J. Nasgovitz, as a result of his ownership interest in Heartland Advisors, Inc. The Schedule 13G, as amended, also states that the clients of Heartland Advisors, Inc. have the right to receive, or the power to direct the receipt of dividends and proceeds from, the sale of shares included on the Schedule. The Heartland Value Fund, a series of the Heartland Group, Inc., owns 3,100,000 shares of the class of securities reported on the Schedule.

(14) Includes 1,568,866 shares directors and executive officers have a right to acquire upon exercise of

stock options.

Table of Contents

PROPOSAL 1: ELECTION OF DIRECTORS

Two directors are to be elected at the Annual Meeting to serve as Class II directors until the Annual Meeting of Stockholders to be held in the year 2009 or until their respective successors are elected. Unless otherwise instructed, the proxy holders will vote the Proxies received by them FOR the Company s nominees Elwood D. Howse, Jr. and Dr. William Wardell, MD Ph.D. Mr. Howse and Dr. Wardell are currently directors of the Company. The two nominees 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 directors. 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.

The names of the nominees 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 EACH NAMED NOMINEE

INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS

Nominees for Class III Directors Whose Terms Will Expire at the Annual Meeting Held in the Year 2009:

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

Elwood D. Howse, Jr., 66, has served as a director of the Company since September 1987. In 1982, Mr. Howse founded Cable, Howse and Ragen, an investment banking and stock brokerage firm, now known as Ragen MacKenzie and owned by Wells Fargo Bank. In 1977, Mr. Howse formed 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), MicroPlanet Ltd. (TSXV MP), Formotus Inc., Perlego Systems Inc., PowerTech Group, Inc., and not-for-profits, Junior Achievement Worldwide and Junior Achievement of Washington.

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

Dr. Wardell, 67, 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 Princeton, NJ, 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. 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

Table of Contents

Drug Development. Dr. Wardell earned his MA, PhD 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 Board of Directors of PhytoCeutica, Inc., the Scientific Advisory Board of Eleos, Inc., and the Board of the American Board of Clinical Pharmacology.

Class II Directors Whose Terms Will Expire at the 2008 Annual Meeting:

John M. Holliman, III (1) (4) Director since 1987

John M. Holliman, III, 52, 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 and Valley Ventures III, LP, all of which are venture capital funds. From 1985 to 1993, he was the Managing Director and Senior Managing Director of Valley Ventures predecessor, Valley National Investors, Inc., a venture capital subsidiary of The Valley National Bank of Arizona.

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

Dr. White, 69, became a director of the Company in July 1993. He has been a Master of the Oliver Wendell Holmes Society and the Ellen and Melvin Gordon Professor of Medical Education, Harvard Medical School since July 2001; Professor of Orthopedic Surgery at the Harvard Medical School and the Harvard-MIT Division of Health Sciences and Technology since July 1978; and Orthopedic Surgeon-in-Chief, Emeritus, at the Beth Israel Deaconess Medical Center in Boston since 1990. From 1992 to 1994, he served as the Chief of Spine Surgery at Beth Israel and is Director of the Daniel E. Hogan Spine Fellowship Program. He is a graduate of Brown University, the Stanford University Medical School, holds a Ph.D. from the Karolinska Institute in Stockholm, 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. Dr. White is currently a director of Zimmer Holdings, Inc., a publicly held designer, marketer and manufacturer of orthopedic products.

Class I Directors Whose Terms Will Expire at the 2007 Annual Meeting:

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

Fredric J. Feldman, Ph.D., 65, 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. He was previously a director of Sangstat Medical Corp., a publicly held biotech transplant drug company, and of Ostex International, Inc., a publicly held developer of diagnostics and therapeutics for skeletal and connective tissue diseases before their respective acquisitions by Genzyme and Inverness Medical.

Michael D. Casey (4) Director since 2004

Michael D. Casey, 60, became a director of the Company in January 2004, filling a newly created vacancy on the Board of Directors. Mr. Casey, who currently works as a consultant in the biopharmaceutical field, was the Chairman, President, and Chief Executive Officer and a Director of Matrix Pharmaceutical, Inc., a publicly traded cancer therapy company until it was acquired by Chiron Corporation in March 2002. Mr. Casey joined Matrix in October 1997 from Schein Pharmaceutical, Inc., where he was Executive Vice President from November 1995 to December 1996. In 1996 he was appointed President of the retail and specialty products division of Schein. From June 1993 to November 1995, he served as President and Chief Operating Officer of Genetic Therapy, Inc., a biopharmaceutical company. Mr. Casey was President of McNeil Pharmaceutical (a unit of Johnson & Johnson) from 1989 to June 1993 and Vice President, Sales and Marketing, for the Ortho Pharmaceutical Corp. (a subsidiary of Johnson & Johnson) from 1985 to 1989. Mr. Casey is a Director of Allos Therapeutics Inc., Celgene Corporation, Cholestech Corporation and DURECT Corporation.

James M. Pusey, MD Director 2005 -2006

James M. Pusey, 47, most recently served as an executive vice president of neurology at Serono, Inc. USA, a unit of Serono, SA (Geneva, Switzerland). Serono, Inc. USA is a biotechnology company and a developer of recombinant prescription medicines, headquartered in Rockland, Mass. From December 1999 to July 2003, Dr. Pusey was employed by AstraZeneca Pharmaceuticals USA, where he served as Vice President of Marketing and then as a Vice President and Therapeutic Area Leader. Prior to his employment with AstraZeneca, Dr. Pusey held a senior management position with SmithKline Beecham, a research based pharmaceutical company. Dr. Pusey earned a Bachelor of Medicine and Bachelor of Surgery degree from the Royal Free Hospital School of Medicine (London University) and a Master of Business Administration from the London Business School.

Dr. Pusey resigned from the Board of Directors and the position of Chief Executive Officer and President of the Company on April 5, 2006.

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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 Nominating Committee

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BOARD MEETINGS AND COMMITTEES

The Board of Directors was composed of six outside directors and one employee director, Dr. Pusey. Dr. Pusey resigned from the Board of Directors and the position of Chief Executive Officer and President of the Company on April 5, 2006. The Board has determined that each director other than Dr. Pusey is independent for purposes of Marketplace Rule 4200(a)(15) of the National Association of Securities Dealers, Inc. (NASD). The Board of Directors held a total of five meetings during the fiscal year ended December 31, 2005. 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.

The Board presently has an Executive Committee, an Audit Committee, a Compensation Committee and a 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 and met five times during 2005.

Audit Committee

The Audit Committee, which is a separately-designated standing committee established in accordance with section 3(a)(58)(A) of the Exchange Act, consisted of Mr. Howse (Chairman), Dr. White and Mr. Holliman and met four times in 2005. Effective February 11, 2006, Dr. Feldman replaced Mr. Holliman on the Audit Committee. The Audit Committee assists the Board of Directors in its oversight of financial reporting practices, including the independent auditors qualifications and independence, and the performance of the Company s internal audit function. The Audit Committee appoints the Company s independent auditors. The Audit Committee meets independently with representatives of the Company s independent auditors and with representatives of senior management. The Committee reviews the general scope of the Company s annual audit, the fee charged by the independent auditors 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 auditors. The Audit Committee operates under a written charter that has been adopted by the Board of Directors.

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 NASD 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 401(h) 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 NASD Marketplace Rule 4200(a)(15).

The Audit Committee Charter is attached as Appendix A.

Compensation Committee

The Compensation Committee, which consists of Dr. Feldman and Mr. Howse, met four times during 2005. Each member of the Compensation Committee is an independent director as defined in NASD Marketplace Rule 4200(a)(15) 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.

Nominating Committee

The Nominating Committee examines and recommends nominations for the Board of Directors and officers of the Company. The criteria prepared by the Nominating Committee are used to determine whether the selection of a particular nominee, either nominated by the Company or by a stockholder, would be appropriate. The Nominating Committee operates under a written charter, a copy of which was provided as an annex to the proxy statement relating to the Company s June 7, 2004 Annual Meeting for the fiscal year ended December 31, 2003. The Company does not, however, post the Nominating Committee Charter on its website. Although the Nominating Committee has not established minimum standards for Board nominees, the Nominating Committee generally seeks candidates with chief operating, executive or financial officer experience in complex 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. On an as needed basis, the Nominating Committee uses the services of outside consultants to assist the Nominating Committee to identify capable director candidates.

The Nominating Committee consists of Mr. Holliman and Dr. White. Dr. White is and Mr. Holliman was an independent director under NASD Marketplace Rule 4200(a)(15). However, on April 5, 2006, Mr. Holliman became Executive Chairman and Principal Executive Officer of the Company and is no longer an independent director under NASD Marketplace Rule 4200(a)(15). On April 7, 2006, Dr. Wardell replaced Mr. Holliman on the Nominating Committee. The Nominating Committee met one time during 2005. The Nominating Committee nominated Mr. Howse and Dr. Wardell for election as Class III directors for this year s annual meeting of stockholders. Dr. Wardell was selected from a list of potential director candidates obtained from a variety of sources, including from the CEO, existing directors and referrals from business acquaintances and was appointed on February 11, 2006 to fill a vacancy on the Board. Dr. Wardell was recommended for board service by a non-management director of the Company and Dr. Pusey.

Stockholder Nomination of Director Candidates

The 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.

Stockholders wishing to recommend candidates for consideration by the Nominating Committee may do so by providing the candidate s name, contact details, biographical data, and qualifications in writing to the Nominating Committee, c/o Secretary, 1275 West Washington Street, Tempe, Arizona 85281. The Board may change the process for the means by which stockholders may recommend director candidates to the Nominating Committee. Please refer to the Company s website at www.orthologic.com and the Company s SEC filings for any changes to this process. The Company has not received any stockholder recommendations of director candidates with regard to the election of directors covered by this Proxy Statement or otherwise.

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, Tempe, Arizona or by United States mail, postage prepaid to

Secretary, OrthoLogic Corp., 1275 West Washington Street, 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.

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, 1275 West Washington Street, 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.orthologic.com for any changes to this process.

COMPENSATION OF DIRECTORS

During the year ended December 31, 2005, the Company paid non-employee directors an annual retainer of $24,000 payable quarterly in advance. All directors are eligible for the grant of nonqualified stock options pursuant to the Company s 1997 Stock Option Plan. The Company issued non-qualified options to acquire 10,000 shares at a price of $4.90 to each non-employee director on January 1, 2006. All such options vested immediately and were granted at the market price on the date of grant. The options have been granted with ten-year terms.

On June 10, 2005 the Board of Directors approved an annual award to each non-employee director of $25,000 of restricted stock. Restricted stock will be granted on January 1 of each year with the number of shares determined by the preceding day s closing market price. The shares granted are restricted from sale for a period of one year from the date of issuance. On June 10, 2005 and January 1, 2006 the Board awarded 6,410 and 5,102 shares of restricted stock, respectively, to non-employee directors, subject to stockholder approval of Proposal 2 in this Proxy Statement.

EXECUTIVE OFFICERS

The following table sets forth information regarding our executive officers:

Name	Age	Title
John M. Holliman, III	52	Executive Chairman and Principal Executive Officer
Randolph C. Steer, MD, Ph.D.	56	President
James M. Pusey, MD	47	President and Chief Executive Officer (resigned effective April 5, 2006)
James T. Ryaby, Ph.D.	47	Senior Vice President and Chief Scientific Officer
Les M. Taeger	55	Senior Vice President and Chief Financial Officer
Dana B. Shinbaum	43	Vice President, Business Development

On March 4, 2005, OrthoLogic announced the resignation of its Chief Executive Officer, Thomas R. Trotter, and the hiring of Dr. James M. Pusey as its new Chief Executive Officer. Dr. Pusey commenced employment on March 15, 2005. Effective December 31, 2005 Mr. Trotter s employment with the Company terminated. On January 9, 2006 OrthoLogic announced the resignation of its Chief Financial Officer, Sherry A. Sturman, and the hiring of its new Chief Financial Officer, Les M. Taeger, effective January 16, 2006. Effective

Table of Contents

January 16, 2006 Ms. Sturman began a two-year transition period per the terms of her employment agreement leading to the termination of her employment with the Company. On April 5, 2006 the Company announced the resignation of its Chief Executive Officer, Dr. James M. Pusey. Effective April 5, 2006, John M. Holliman, III, Chairman of the Board, assumed certain duties of the Chief Executive Officer and Randolph C. Steer assumed the duties of the President.

Thomas R. Trotter (departed Executive) joined OrthoLogic as President and Chief Executive Officer and a Director in October 1997. From 1988 to October 1997, Mr. Trotter held various positions at Mallinckrodt, Inc. in St. Louis, Missouri, most recently as President of the Critical Care Division and a member of the Corporate Management Committee. From 1984 to 1988, he was President and Chief Executive Officer of Diamond Sensor Systems, a medical device company in Ann Arbor, Michigan. From 1976 to 1984, he held various senior management positions at Shiley, Inc. (a division of Pfizer, Inc.) in Irvine, California. He holds a B.S. degree from the University of Maryland and a Masters of Business Administration from Pepperdine University.

James M. Pusey, MD (departed Executive), joined OrthoLogic as President and Chief Executive Officer on March 15, 2005. He most recently served as an executive vice president of neurology at Serono, Inc. USA, a unit of Serono, SA (Geneva, Switzerland). Serono, Inc. USA is a biotechnology company and a developer of recombinant prescription medicines, headquartered in Rockland, Mass. From December 1999 to July 2003, Dr. Pusey was employed by AstraZeneca Pharmaceuticals USA, where he served as Vice President of Marketing and then as a Vice President and Therapeutic Area Leader. Prior to his employment with AstraZeneca, Dr. Pusey held a senior management position with SmithKline Beecham, a research based pharmaceutical company. Dr. Pusey earned a Bachelor of Medicine and Bachelor of Surgery degree from the Royal Free Hospital School of Medicine (London University) and a Master of Business Administration from the London Business School.

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 and Valley Ventures III, LP, all of which are venture capital funds. From 1985 to 1993, he was the Managing Director and Senior Managing Director of Valley Ventures predecessor, Valley National Investors, Inc., a venture capital subsidiary of The Valley National Bank of Arizona.

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 BioCryst Pharmaceuticals. 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.

Sherry A. Sturman (departing Executive) joined OrthoLogic as Director of Finance in October 1997 and began serving as the Vice President of Administration and Chief Financial Officer in June 2000, and was promoted to Senior Vice President in early 2003. From 1994 to 1997, Ms. Sturman was employed as the Chief Financial Officer for ComCare, a large managed care company based in Phoenix. She has over eighteen years of financial management experience in both health care and public companies. She is a Certified Public Accountant, with a Masters degree in Business Administration.

Les M. Taeger joined OrthoLogic 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 develops, manufactures and sells advanced products for the treatment of cardiovascular disease. From September, 2000 to February, 2004, when Mr. Taeger became

Table of Contents

Chief Financial Officer of CardioTech, Mr. Taeger served as Chief Financial Officer of Gish Biomedical, Inc. (Gish). Gish, now 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 degree in accounting.

Dana B. Shinbaum joined OrthoLogic 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 sixteen 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 served in a variety of market planning and marketing roles, including Product Manager for the PREMARIN® franchise. Dana 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.

James T. Ryaby, Ph.D., joined OrthoLogic as Director of Research in 1991, became Vice President of Research in 1997 and was promoted to Senior Vice President and Chief Technology Officer in early 2003. Prior to joining OrthoLogic, he was a research scientist at Mt. Sinai School of Medicine in New York, where he received his Ph.D. degree in cellular biology. His current research interests are applications of peptides, cytokines, growth factors, and biophysical stimulation in musculoskeletal tissue repair. Dr. Ryaby also serves as Adjunct Professor of Bioengineering at Arizona State University.

COMMITTEE REPORTS

The following Reports of the Compensation Committee and Audit Committee of the Company s Board of Directors and the performance graph included elsewhere in this proxy statement shall not be deemed soliciting material or otherwise deemed filed and shall not be subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, or deemed to be incorporated by reference by any general statement incorporating by reference this proxy statement into any other filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates the Reports or the performance graph by reference therein.

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 Chief Executive Officer 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 certain option grants under the Company s stock option plans (the Plans).

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. During 2005, the Company used base salary, executive officer cash bonuses, restricted stock and stock options to achieve these objectives.

Review of Current Compensation Components of CEO and other Executive Officers

The Compensation Committee reviews all components of the CEO and other executive officers compensation, including salary, bonus, restricted stock, 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, change-in-control scenarios and any limitations on the deductibility for federal income tax purposes of all compensation. Documentation is provided to the Compensation Committee consisting of the following:

Table of Contents

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 CEO 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 CEO also has individual performance objectives identified for each fiscal year. The Compensation Committee evaluates the CEO 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 CEO 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 used as a benchmark.* To enable the Company to continue to attract and retain executives in the competitive marketplace, executive compensation for similar companies is reviewed annually. The Company typically retains this data through a review of publicly available executive compensation information for comparable public companies listed on the Nasdaq National Market and through purchased survey data tailored to the industry and size of the Company.

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 CEO and other executive officers compensation and bonuses. The final decisions regarding the CEO and other executives total compensation packages are made by the full Board of Directors.

The Compensation Committee presents its recommendations to the full Board following the initial Compensation Committee meeting, after which the Board votes on the recommendations from the Compensation Committee. The recent changes to the CEO s and other executives compensation have been disclosed on Form 8-K and filed with the U.S. Securities and Exchange Commission on February 16, 2006.

Chief Executive Officer Compensation

The Compensation Committee reviews the performance of the Chief Executive Officer at least annually. In February 2006, the Compensation Committee and Dr. Pusey reviewed the compensation terms of Dr. Pusey s employment agreement. The Compensation Committee reviewed data from a survey of salaries for companies comparable in size that are in the biopharmaceutical research and development industry , the Company s operations and the executive s success in the attainment of priority goals, particularly those related to clinical development of its lead product candidate, product pipeline development, and financial strength of the Company. Based on these criteria, the Compensation Committee recommended a base salary of $367,000 with an incentive bonus targeted at 50% of Dr. Pusey s base salary and special bonuses based on the occurrence of certain events.

Bonus Compensation

During the February 2006 meeting, the Compensation Committee recommended discretionary bonuses based on individual and Company performance during 2005 and awarded $126,000 to its Chief Executive Officer, $92,003 to James T. Ryaby, $20,000 to Dana B. Shinbaum and $97,706 to Sherry A. Sturman. For more information on the executive officers compensation, see the Summary Compensation Table.

Table of Contents

Compensation Committee During 2005:

Fredric J. Feldman	Elwood D. Howse, Jr.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2005, Fredric J. Feldman and Elwood D. Howse, Jr., each an independent director, served on the Compensation Committee of the Board of Directors.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The role of the Audit Committee (the Audit Committee) is to assist the Board of Directors in its oversight of the Company s financial reporting process. Management of the Company is responsible for the preparation, presentation and integrity of the Company s financial statements, the Company s accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for auditing the Company s financial statements and expressing an opinion as to their conformity with generally accepted accounting principles.

Among other matters, the Audit Committee monitors and oversees the activities and performance of the external auditors, including the audit scope, external audit fees, and auditor independence matters. The Audit Committee also is responsible for approving non-audit services proposed to be performed by the independent auditor. The Audit Committee has responsibility to appoint and dismiss the Company s independent auditor. Management and independent auditor presentations to and discussions with the Audit Committee also cover various topics and events that may have significant financial impact or are the subject of discussions between management and the independent auditor.

In the performance of its oversight function, the Audit Committee reviewed and discussed the audited financial statements with management and the independent auditors. The Audit Committee has also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, *Communication with Audit Committees*, and Rule 2-07 of Regulation S-X. Finally, the Audit Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as currently in effect, and written confirmations from management with respect to services provided by the auditors, has considered whether the provision of non-audit services by the independent auditors to the Company is compatible with maintaining the auditor s independence and has discussed with the auditors the auditors independence. The Audit Committee met four times in 2005, each time meeting separately with the auditors without the presence of management.

Based upon the reports and discussions described in this report, the Audit Committee recommended to the Board that the audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the Securities and Exchange Commission.

Audit Committee During 2005

John M. Holliman, III	Elwood D. Howse, J., Chairman	Augustus A. White, III

CODE OF CONDUCT AND CORPORATE GOVERNANCE

In March 2004, the Company adopted a code of conduct that applies to all of its employees and has particular sections that apply only to its principal executive officer and senior financial officers. The Company has posted the text of its code of conduct on its website under the Investors section under the link for the Code of Conduct. In addition, the Company will promptly disclose on its website (1) the nature of any amendment to its code of conduct that applies to its principal executive officer and senior financial officers, and (2) the nature of any waiver, including an implicit waiver, from a provision of its code of conduct that is granted to one of these specified officers, the name of such officer who is granted the waiver and the date of the waiver.

Table of Contents

The full Board of Directors addresses all matters regarding corporate governance (that is, the relationships of the Board, the stockholders and management in determining the direction and performance of the Company) and the procedural rules regarding the operation of the Board itself. As such, the Board reviews all proposals submitted by stockholders for action at the annual stockholders meeting with regards to each such proposal.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has entered into indemnity agreements with all of its directors and officers for the indemnification of and advancing of expenses to such persons to the fullest extent permitted by law.

On February 23, 2006, the Company entered into an Asset Purchase Agreement and Plan of Reorganization (the Definitive Agreement) to acquire certain assets and certain liabilities of AzERx, Inc. (AzERx) for $390,000 in cash and the issuance of 1,325,000 shares of the Company s common stock, with a market value of $7.5 million based on the closing share price on the date the Definitive Agreement was entered into. Pursuant to the terms of the Definitive Agreement, the Company acquired an exclusive license for the core intellectual property relating to AzERx s lead compound, AZX100, a 24-amino acid peptide. In addition, the Company agreed to issue 30,000 shares of its common stock to Arizona Science and Technology Enterprises, LLC, the licensor of AzERx s core technology patents, in connection with certain modifications of the license effective upon consummation of the transactions contemplated in the Definitive Agreement. The transaction closed February 27, 2006.

The Chairman of the Company s Board of Directors, John M. Holliman, III, is a member of the AzERx board of directors and is affiliated with Valley Ventures III, L.P., an investment fund that owned approximately 30% of AzERx s fully diluted equity at the time of the transaction. Mr. Holliman recused himself from all Board matters involving AzERx. This included the Board s analysis of AzERx as a potential target of acquisition for expanding the Company s drug development portfolio, and subsequent negotiations between the Company and AzERx, which were led by the Company s Chief Executive Officer. In addition, Mr. Holliman was not present during the deliberations and vote of the Board approving the Definitive Agreement and the transactions contemplated thereby. The Board has evaluated NASDAQ Listing Standards and Security and Exchange Regulations regarding director independence and believes Mr. Holliman continued to meet the requirements to be considered an independent director until April 5, 2006, at which time Mr. Holliman became Executive Chairman and Principal Executive Officer of the Company and no longer met the requirements to be considered an independent director.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth, with respect to the years ended December 31, 2005, 2004 and 2003 compensation awarded to, earned by or paid to the Company s named executive officers at December 31, 2005.

Name and Principal Position	Year	Annual Compensation Salary $	Bonus $	Other Annual Compensation $ (6)	Long Term Compensation Awards Restricted Stock Awards $ (3)(5)(7)(8)	Securities Underlying Options/SARs	All Other Compensation $ (1)(2)(4)
(Departed) James M. Pusey President and CEO	2005	281,346	126,000		1,176,000	500,000	464,500
(Departed)	2005	350,000	35,840	1038			
Thomas R. Trotter	2004	350,000	157,500	5400		500	
President and CEO	2003	359,823	673,250	5400			
(Departed)	2005	225,000	&nbs				