

ORTHOLOGIC CORP  
Form DEF 14A  
April 11, 2008

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

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934

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

Check the appropriate box:

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

- No fee required.  
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- 1) Title of each class of securities to which transaction applies:
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- 1) Amount Previously Paid:
- 2) Form, Schedule or Registration Statement No.:
- 3) Filing Party:
- 4) Date Filed:

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1275 West Washington Street  
Tempe, Arizona 85281

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held Friday, May 9, 2008

TO THE STOCKHOLDERS:

The Annual Meeting of Stockholders of OrthoLogic Corp., a Delaware corporation (the "Company"), will be held on Friday, May 9, 2008 at 8:00 a.m., at the Phoenix Hilton Airport located at 2435 South 47th Street, Phoenix, AZ 85034, for the following purposes:

- (1) To elect two directors as Class II directors to serve until the Annual Meeting of Stockholders to be held in the year 2011 or until a successor is elected;
- (2) To ratify the appointment of Ernst & Young LLP, as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008; and
- (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 Monday, March 24, 2008 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 2007 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 11, 2008

**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.

PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD Friday, May 9, 2008

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1275 West Washington Street  
Tempe, Arizona 85281

PROXY STATEMENT  
ANNUAL MEETING OF STOCKHOLDERS  
To Be Held Friday, May 9, 2007

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 9, 2008, at 8:00 a.m., local time, or any adjournment thereof (the "Annual Meeting") at the Phoenix Hilton Airport located at 2435 South 47th Street, Phoenix, AZ 85034. 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 11, 2008. 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.orthologic.com](http://www.orthologic.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. 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.



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## VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Only stockholders of record at the close of business on March 24, 2008 (the “Record Date”) will be entitled to vote at the Annual Meeting. On the Record Date, there were issued and outstanding 41,814,438 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 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 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 18, 2008 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.

Identity of Stockholder or Group	Shares Beneficially Owned (1)	
	Number	Percent
Fredric J. Feldman (2)	334,564	*
John M. Holliman, III (3)	573,076	1.4
Elwood D. Howse, Jr. (4)	276,258	*
William M. Wardell (5)	113,692	*
Augustus A. White, III (6)	263,158	*
Randolph C. Steer (7)	244,049	*
Les M. Taeger (8)	273,312	*
Dana B. Shinbaum (9)	239,010	*
BVF Group (10)	3,858,808	9.2
All directors and executive officers as a group (11)	2,316,019	5.5

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\* 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, 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 190,000 shares Dr. Feldman has a right to acquire upon exercise of stock options. Voting and investment power shared with spouse.

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- (3) Includes 405,834 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 180,000 shares Mr. Howse has a right to acquire upon exercise of stock options.
- (5) Includes 55,000 shares Dr. Wardell has a right to acquire upon exercise of stock options.
- (6) Includes 190,000 shares Dr. White has a right to acquire upon exercise of stock options.
- (7) Includes 218,751 shares Dr. Steer has a right to acquire upon exercise of stock options.
- (8) Includes 228,738 shares Mr. Taeger has a right to acquire upon exercise of stock options.
- (9) Includes 195,199 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) Includes 1,663,522 shares directors and executive officers have a right to acquire upon exercise of stock options.

PROPOSAL 1: ELECTION OF DIRECTOR

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 2011 or until their respective successor is elected. Unless otherwise instructed, the proxy holders will vote the Proxies received by them FOR the Company's nominees, John M. Holliman, III and Augustus A. White, III, MD, Ph.D. Both, Mr. Holliman and Dr. White are currently directors of the Company. The 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 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.

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 The Named Nominees

INFORMATION CONCERNING DIRECTORS

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

John M. Holliman, III (1)

Director since 1987

John M. Holliman III, 54, 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.

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

Director since 1993

Dr. White, 71, became a director of the Company in July 1993. He is the former Master of the Oliver Wendell Holmes Society and currently the Ellen and Melvin Gordon Distinguished Professor of Medical Education and Professor of Orthopedic Surgery at the Harvard Medical School and the Harvard-MIT Division of Health Sciences and Technology (1978 – 2007). He is the 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 a former 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 III Directors Whose Terms Will Expire at the 2009 Annual Meeting:

Elwood D. Howse, Jr. (1) (2) (3)

Director since 1987

Elwood D. Howse, Jr., 68, 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., Perlego Systems Inc., The PowerTech Group, Inc., and not-for-profits, Junior Achievement Worldwide, Junior Achievement of Washington and the MadreMonte Foundation.

William M. Wardell, MD, Ph.D. (4)

Director since February 2006

Dr. Wardell, 69, 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 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. and the Scientific Advisory Board of Eleos, Inc.



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Class I Director Whose Term Will Expire at the 2010 Annual Meeting

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

Director since 1991

Fredric J. Feldman, Ph.D., 67, 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 has been a director of a number of public and private companies involved in the healthcare industry.

\*\*\*\*\*

- (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

\*\*\*\*\*

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 NASD Marketplace Rule 4200(a)(15). The Board has determined that each director other than Mr. Holliman 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 eight meetings during the fiscal year ended December 31, 2007. 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 2007 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 Exchange Act, consisted of Mr. Howse (Chairman), Dr. White and Dr. Feldman and met five times in 2007. 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.



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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 available on the Company’s website at [www.orthologic.com](http://www.orthologic.com).

## Compensation Committee

The Compensation Committee consisted of Mr. Casey and Mr. Howse until May 10, 2007. Dr. Feldman replaced Mr. Casey on May 10, 2007 upon Mr. Casey’s decision to not seek re-election to the Board at the May 10, 2007 Annual meeting. The Committee met two times during 2007. 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. The Compensation Committee does not have a written charter.

## Corporate Governance/Nominating Committee

The Corporate Governance/Nominating Committee examines and recommends nominations for the Board of Directors and officers of the Company. The criteria prepared by the Corporate Governance/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 Corporate Governance/Nominating Committee operates under a written charter, a copy of which is posted on our website. Although the Corporate Governance/Nominating Committee has not established minimum standards for Board nominees, the Corporate Governance/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 Corporate Governance/Nominating Committee uses the services of outside consultants to assist the Corporate Governance/Nominating Committee to identify capable director candidates.

The Corporate Governance/Nominating Committee consists of Dr. Wardell and Dr. White. Dr. Wardell and Dr. White are independent directors under NASD Marketplace Rule 4200(a)(15). The Corporate Governance/Nominating Committee met one time during 2007. The Corporate Governance/Nominating Committee nominated Mr. Holliman and Dr. White for election as Class II directors 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.

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, 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 Corporate Governance/Nominating Committee. Please refer to the Company's website at [www.orthologic.com](http://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.

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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, 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](http://www.orthologic.com) for any changes to this process.

## COMPENSATION OF DIRECTORS

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Fredric J. Feldman, Ph.D. Director	32,000	25,000	7,000				64,000
Elwood D. Howse, Jr. Director	32,000	25,000	7,000				64,000
William M. Wardell, MD, Ph.D. Director	32,000	25,000	7,000				64,000

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Augustus A. White, III, MD, Ph.D. Director	32,000	25,000	7,000	64,000
Michael D. Casey Former Director	11,000		7,000	18,000

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During the year ended December 31, 2006, the Company paid directors an annual retainer of \$24,000 payable quarterly in advance and \$1,000 for each board meeting attendance. Effective June, 2007, the Company altered board meeting attendance fees to be \$2,500 for each board meeting attended in person and \$1,000 for each board meeting attended by telephone. All directors are eligible for the 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 issued to each director non-qualified options to acquire 10,000 shares at a price of \$1.43 per share on January 1, 2007 (fair value of \$7,000). These options vested immediately and were granted at the market price on the date of grant. 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, 2007 the Board awarded 17,483 shares of restricted stock to each director, which represents a fair value of \$25,000, with the number of shares determined by the closing price of the Company's Common stock on the date of grant.

On April 4, 2006, John M. Holliman, III, became Executive Chairman of the Company and subsequently entered into an agreement that provides for annual compensation of \$200,000 and eligibility for an additional payment (bonus) of up to 40% of his annual compensation. Compensation earned in his role as Executive Chairman is shown in the Summary Compensation Table in this Proxy Report.

Michael D. Casey's term on the Board of Directors ended effective May 10, 2007, upon his decision to not seek re-election to the Board of Directors at our Annual Shareholder Meeting held May 10, 2007.

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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
*	158,333	41,667		1.75	5/12/2016
William M. Wardell, MD, Ph.D.	10,000			5.33	2/11/2016
Augustus A. White, III, MD, Ph.D.	10,000			3.25	8/21/2008
Various directors:					
(1) (2) (3) (5)	5,000			5.53	1/1/2008
(1) (2) (3) (5)	5,000			3.34	12/31/2008
(1) (2)	5,000			2.53	12/29/2009
(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
Feldman, Fred (1)					

Holliman, John (2)

Howse, Elwood (3)

\* Vest monthly over a two-year period ending  
5/12/08

Wardell, William (4)

All other directors options were fully vested on  
12/31/2007

White, Augustus (5)

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## Executive Officers

The following table sets forth information regarding our executive officers:

Name	Age	Title
John M. Holliman, III	54	Executive Chairman and Principal Executive Officer
Randolph C. Steer, MD, Ph.D.	58	President
Les M. Taeger	57	Senior Vice President and Chief Financial Officer
Dana B. Shinbaum	45	Vice President, Business Development

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 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.

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 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 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 eighteen 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.

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### 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.

##### 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. Documentation is provided to the Compensation Committee consisting of 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 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 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.

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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.

### 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 2007 ranged from \$325,000 for Dr. Steer, to \$200,000 for Mr. Holliman. In 2007 the bonus potential was 40% of base salary for Mr. Holliman, Dr. Steer, Mr. Taeger and Mr. Shinbaum. 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 2007, 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 2007 bonus plan serve to align our executive's 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.

### Stock Option Grants

As part of our long-term incentives we grant options to purchase shares of our common stock to our executives. During 2007, we granted Dr. Steer an option to purchase 50,000 shares. Grants are targeted such that an annual \$1 increase in market price, currently an annual \$42,000,000 increase in shareholder value, would provide approximately 10% 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 Awards

We believe stock awards are an important element in our compensation plan and in 2007 we awarded stock valued at \$30,000 to Mr. Taeger and \$25,000 to Mr. Shinbaum. Awards made are targeted to comprise approximately 10% of

total executive compensation and will be a fixed dollar amount award with the number of shares determined by the closing market price on the date of grant. Given the compensation levels of our executives we believe awards at these levels serve to gradually increase our executive's commitment to our company and align their interests with other stockholders of the company.

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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 are not provided to other employees or that in aggregate exceed \$10,000 per year.

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 2007:

Michael D. Casey  
Elwood D. Howse, Jr.  
Fredric J. Feldman, Ph.D. (replaced Mr. Casey on May 10, 2007)

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2007, Fredric J. Feldman, Ph.D., Michael D. Casey and Elwood D. Howse, Jr., each an independent director, served on the Compensation Committee of the Board of Directors. Mr. Casey was replaced on the Compensation Committee by Dr. Feldman on May 10, 2007.

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## SUMMARY COMPENSATION TABLE

The following table sets forth, with respect to the years ended December 31, 2007 and 2006, compensation awarded to, earned by or paid to the Company's named executive officers.

Name	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compens (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
John M. Holliman, III	2007	200,000	73,000	25,000	66,000			32,000
Executive Chairman	2006	133,000	57,000	20,000	174,000			28,000
Randolph C. Steer, MD, Ph.D.	2007	319,000	116,000	-	81,000			66,000
President	2006	200,000	86,000		174,000			
Les M. Taeger	2007	235,000	130,000(3)	-	138,000			5
Chief Financial Officer	2006	198,000	86,000		351,000			
Dana B. Shinbaum	2007	235,000	112,000(3)	-	90,000			5
VP Business Development	2006	227,000	107,000	26,000	187,000			

(1) Mr. Holliman is a member of the Board of Directors and received \$32,000 and \$28,000 in Board fees in 2007 and 2006, respectively. Mr. Holliman received total Director's compensation (Board fees, stock awards and option grants) of \$64,000 and \$94,000 in 2007 and 2006, respectively, as more fully described in the Compensation of Directors section of this Proxy Report.

(2) Prior to becoming an employee, Dr. Steer performed consulting services for the Company for which he was paid \$66,000 in 2006.

(3) 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 fiscal year to the executive officers named in the Summary Compensation Table.

## Grants of Plan-based Awards

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards (1) (\$)
(a)	(b)	(i)	(j)	(k)	(l)
John M. Holliman, III Executive Chairman	1/1/07 1/1/07	17,483	10,000	1.43	7,000 25,000
Randolph C. Steer, MD, Ph.D. President	5/21/07		50,000	1.53	38,000
Les M. Taeger Chief Financial Officer	5/9/07	19,868			30,000
Dana B. Shinbaum VP Business Development	5/9/07	16,556			25,000

(1) Fair value of the grants at the date of the grants was determined using the Black-Scholes model as described in Note 8 to our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 5, 2008.



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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	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date
(a)	(b)	(c)	(d)	(e)	(f)
John M. Holliman, III	5,000			5.53	1/1/2008
	5,000			3.34	12/31/2008
	5,000			2.53	12/29/2009
	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			1.75	5/12/2016
**	158,333	41,667		1.75	5/12/2016
	10,000			1.43	12/31/2017
Randolph C. Steer, MD, Ph.D.	5,000			5.94	1/30/2008
**	158,333	41,667		1.75	5/12/2016
	14,583	35,417		1.53	5/21/2017
Les M. Taeger ***	71,875	78,125		5.15	1/16/2016
**	112,500	37,500		1.70	6/2/2016

Dana B. Shinbaum		27,083	22,917	3.27	10/29/2015
	*	16,771	18,229	5.39	1/30/2016
	**	112,500	37,500	1.70	6/2/2016

- \* Vesting four years - 25% year one and monthly thereafter
- \*\* Vesting two years monthly
- \*\*\* Vesting four years monthly

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## OPTION EXERCISES AND STOCK VESTED

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired On Vesting (#)	Value Realized on Vesting (\$)
(a)	(b)	(c)	(d)	(e)
John M. Holliman, III			17,483	24,000
Les M. Taeger			19,868	30,000
Dana B. Shinbaum			16,556	25,000

EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT, AND  
CHANGE-IN-CONTROL ARRANGEMENTS

Effective April 5, 2006, Mr. John M. Holliman, III, became Executive Chairman and Principal Executive Officer. On May 12, 2006, the Company entered into an agreement with VV III Management, LLC and John M. Holliman, III, to compensate Mr. Holliman for his services as the Company's Executive Chairman and principal executive officer (the "Holliman Agreement").

Under the Holliman Agreement, Mr. Holliman's services to the Company may be terminated by the Company at any time, with or without cause. In the event of termination without cause in connection with or following a Change in Control, payments under the Holliman Agreement will continue for six months after the date of termination. It provides for annual base cash compensation of \$200,000, payable in accordance with the Company's standard payroll practices and a target bonus of 40% of base compensation upon the achievement of individual and corporate performance objectives. In addition, the Holliman Agreement includes other terms and conditions consistent with agreements entered into with other Company executives.

In the event of a change of control or liquidation of the Company, the vesting of the options to purchase shares of the Company's common stock held by Mr. Holliman, will be accelerated so that the options will become fully exercisable.

Effective April 5, 2006, Randolph C. Steer, MD, Ph.D., became President of the Company. Dr. Steer has performed consulting services for the Company since 2002. On May 12, 2006, the Company also entered into an agreement with Randolph C. Steer, MD, Ph.D., to compensate Dr. Steer for his services as the Company's President and Chief Operating Officer (the "Steer Agreement"). Under the Steer Agreement, Dr. Steer's services to the Company may be terminated by the Company at any time, with or without cause. If the event of termination is without cause, payments under the Steer Agreement will continue for three months after the date of termination. In the event of termination without cause in connection with or following a Change in Control, payments under the Steer Agreement will continue for twelve months after the date of termination. Effective April 1, 2007, Dr. Steer's annual base cash compensation was increased from \$300,000 to \$325,000, payable in accordance with the Company's standard payroll practices. Dr. Steer is also eligible for a target bonus of 40% of base compensation upon the achievement of individual and corporate performance objectives. In addition, the Steer Agreement includes other terms and

conditions consistent with agreements entered into with other Company executives.

In the event of a change of control or liquidation of the Company, the vesting of the options to purchase shares of the Company's common stock held by Dr. Steer, will be accelerated so that the options will become fully exercisable.

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On January 10, 2006, the Company entered into an employment agreement with Les M. Taeger, dated as of January 10, 2006, effective as of January 16, 2006 (the “Taeger Employment Agreement”), pursuant to which Mr. Taeger serves as the Company’s Senior Vice President / Chief Financial Officer. Under the Taeger Employment Agreement, Mr. Taeger may be terminated at any time, with or without cause, at the option of either the Company or Mr. Taeger. If the Company terminates Mr. Taeger without cause, provided Mr. Taeger first executes a Severance Agreement in the form then used by the Company, the Company shall continue to pay to Mr. Taeger his minimum base salary in effect at the time of termination for a period of one year following the date of termination, at the time and in the manner dictated by the Company’s standard payroll policies. Should such termination occur as a result of a Change in Control, the Company shall also pay Mr. Taeger a pro-rata share of his bonus at the time of termination. Effective January 1, 2008, Mr. Taeger’s annual base salary was increased to \$242,000. Mr. Taeger is eligible to participate in the Company’s discretionary bonus program, which provides for a bonus of up to 40% of his base salary, and Mr. Taeger will receive medical, dental and other fringe benefits generally granted to the Company’s senior management.

On October 17, 2005, the Company entered into an employment agreement with Dana B. Shinbaum (the “Shinbaum Employment Agreement”), pursuant to which Mr. Shinbaum serves as the Company’s Vice President of Business Development and Strategic Marketing. Under the Shinbaum Employment Agreement, Mr. Shinbaum may be terminated at any time, with or without cause, at the option of either the Company or Mr. Shinbaum. If the Company terminates Mr. Shinbaum without cause, provided Mr. Shinbaum first executes a Severance Agreement in the form then used by the Company, the Company shall continue to pay to Mr. Shinbaum his minimum base salary in effect at the time of termination for a period of one year following the date of termination, at the time and in the manner dictated by the Company’s standard payroll policies. Should such termination occur as a result of a Change in Control, the Company shall also pay Mr. Shinbaum a pro-rata share of his bonus at the time of termination. Effective January 1, 2008, Mr. Shinbaum’s annual base salary was increased to \$242,000. Mr. Shinbaum is eligible to participate in the Company’s discretionary bonus program, which provides for a bonus of up to 40% of his base salary, and Mr. Shinbaum will receive medical, dental and other fringe benefits generally granted to the Company’s senior management.

Under the Company’s stock option plans, upon the occurrence of a merger in which the Company is not the surviving entity, a sale of substantially all of the assets of the Company, an acquisition by a third party of 100% of the Company’s outstanding equity securities or a similar reorganization of the Company, 75% of all unvested options will vest, with the balance vesting equally over 12 months or according to the individual’s vesting schedule, whichever is earlier. If the option holder loses his position with the Company as a result of the merger or sale, 100% of his options will immediately vest. Additionally, the Company’s 1997 Stock Option Plan and 2005 Equity Incentive Plan provide that, upon a merger, consolidation or reorganization with another corporation in which the Company is not the surviving corporation, outstanding options shall be substituted on an equitable basis for options for appropriate shares of the surviving corporation, or optionees shall receive cash in exchange for cancellation of outstanding options.

## 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 registered public accountant is 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 independent registered public accountant, 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.

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In the performance of its oversight function, the Audit Committee reviewed and discussed the audited financial statements with management and the independent registered public accountant. The Audit Committee has also discussed with the independent registered public accountant 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 registered public accountant 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 independent registered public accountant, has considered whether the provision of non-audit services by the independent registered public accountant to the Company is compatible with maintaining the auditor's independence and has discussed with the independent registered public accountant the independent registered public accountant's independence. The Audit Committee met five times in 2007, each time meeting separately with the independent registered public accountant 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, 2007 for filing with the Securities and Exchange Commission.

Audit Committee during 2007:

Elwood D. Howse, Jr.  
Augustus A. White, III, MD, Ph.D.  
Fredric J. Feldman, Ph.D.

The foregoing report of the Audit Committee of the Company's Board of Directors 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 that we specifically incorporate the Report by reference therein.

## 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.

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 Board of Directors reviews transactions with related parties, but has no formal policies in place with respect to such reviews or the approval of such transactions. During 2007 there were no reported related party transactions with

directors, executive officers or other related parties, which might have required disclosure under SEC rules or which were otherwise material to the Company.

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.



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## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under the securities laws of the United States, the Company's directors, its executive officers and any persons holding more than 10% of the Company's Common Stock are required to report their initial ownership of the Company's Common Stock and any subsequent changes in that ownership to the SEC. Specific due dates for these reports have been established, and the Company is required to disclose any failure to file by these dates. The company believes that all of these filing requirements were satisfied during the year ended December 31, 2007.

In making these disclosures, the Company has relied solely on written representations of those persons it knows to be subject to the reporting requirements and copies of the reports that they have filed with the SEC.

## EQUITY COMPENSATION PLANS

The following provides tabular disclosure of the number of securities to be issued upon the exercise of outstanding options, the weighted average exercise price of outstanding options, and the number of securities remaining available for future issuance under equity compensation plans as of December 31, 2007, aggregated into two categories – plans that have been approved by stockholders and plans that have not.

Plan Category:	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted Average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column a)
Equity Compensation Plans Approved by Security Holders	3,200,125	\$3.43	436,026
Equity Compensation Plans Not Approved by Security Holders (1)	103,125	\$5.88	-
	3,303,250	\$3.51	436,026

(1) Includes options outstanding and exercisable by James M. Pusey, MD, former CEO, to purchase 103,125 shares of the Company's common stock at a weighted average exercise price of \$5.88 with no additional options available for future issuance.

## PROPOSAL 2: RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT

On June 14, 2006 the Company dismissed Deloitte & Touche, LLP, ("Deloitte") as its independent registered public accounting firm. The decision to dismiss Deloitte was initiated and approved by the Audit Committee of the Company's Board of Directors. On June 19, 2006, the Audit Committee of the Board of Directors appointed Ernst & Young LLP ("E&Y") as our independent registered public accounting firm. On May 10, 2007, Shareholders of the Company approved the election of E&Y as our independent registered public accounting firm for the year ended December 31, 2007.

The Board of Directors is submitting the selection of the independent registered public accountant firm for the year ending December 31, 2008, for shareholder ratification at the 2008 Annual Meeting and recommends that stockholders vote FOR ratification of such appointment.

In the event the shareholders fail to ratify the appointment, the Audit Committee will consider it a direction to consider other accounting firms for the subsequent year. E&Y representatives are expected to be present at the Annual Meeting with the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

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Deloitte's reports on the Company's financial statements for the fiscal years ended December 31, 2005 and 2004, respectively, did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. Deloitte's audit reports on the Company's financial statements for the fiscal years ended December 31, 2005 and 2004 did contain an explanatory paragraph regarding the fact that the Company was in the Development Stage. The audit reports of Deloitte on management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2005 and 2004 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. In connection with the audits of the financial statements of the Company for the years ended December 31, 2005 and 2004 and through the interim period of January 1, 2006 through June 14, 2006, there were no disagreements between us and Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Deloitte's satisfaction, would have caused Deloitte to make a reference to the subject matter of the disagreements in connection with its reports. During the years ended December 31, 2005 and 2004, and during the subsequent interim period of January 1, 2006 through June 14, 2006, there were no reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K. During the Company's fiscal years ended December 31, 2005 and 2004 and through the interim period of January 1, 2006 through June 14, 2006, we did not consult with E&Y regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulations S-K.

The Company provided Deloitte with a copy of this disclosure and requested that Deloitte furnish it with a letter addressed to the Securities and Exchange Commission stating whether or not Deloitte agrees with the above statements. A copy of such letter dated June 19, 2006 from Deloitte is filed as Exhibit 16.1 to our Form 8-K filed with the Securities and Exchange Commission on June 20, 2006.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTANT FOR THE 2008 FISCAL YEAR.

#### PRINCIPAL ACCOUNTING FIRM FEES

The following table sets forth the aggregate fees billed to the Company for the years ended December 31, 2007 and December 31, 2006 by our principal accounting firms Ernst & Young LLP and Deloitte & Touche LLP.

Type of Fee	Amount	
	2007	2006
Audit-Fees (1)	\$ 278,000	\$ 332,000
Audit-Related Fees (2)	-	59,000
Total Audit and Audit-Related Fees	278,000	391,000
Tax Fees (3)	-	28,000
All Other Fees (4)	-	-
Total Fees	\$ 278,000	\$ 419,000

(1) Audit fees include fees for services rendered in connection with the audits of the Company's financial statements for the fiscal years ended December 31, 2007 and 2006, audit of Internal Control over Financial Reporting as of December 31, 2007 and 2006, and reviews of the financial statements included in the Company's quarterly reports on Form 10-Q during the applicable fiscal year.

(2) Audit-related fees include fees for services rendered for matters such as the purchase of substantially all of the assets of AzERx, Inc., sales of shares of the Company's common stock to PharmaBio Development, Inc., and

responses to accounting and reporting-related matters.

- (3) Tax fees include fees for services rendered for tax compliance, preparation of original and amended tax returns, claims for refunds and other tax services.
- (4) Our principal accounting firms did not perform nor bill the Company for any other services during the fiscal years ended December 31, 2007 and 2006 that are appropriately classified as "All Other Fees."

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The Audit Committee has concluded that the services provided by the principal accounting firms that were not related to the audit of the Company's financial statements were at all times compatible with maintaining that firm's independence.

Consistent with the rules of the Securities and Exchange Commission regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation for, and overseeing the work of, the independent auditor. In recognition of this responsibility, the Audit Committee has included in its charter the responsibility to pre-approve "all auditing services and permitted non-auditing services proposed to be performed by the independent auditor, subject to the de minimis exceptions for non-audit services that were not recognized as non-audit services at the time of engagement and which are subsequently approved by the committee prior to completion of the audit." No fees were paid to the independent auditor pursuant to the "de minimis" exception to the foregoing pre-approval policy in 2007.

## OTHER MATTERS

The Company knows of no other matters to be submitted at the Annual Meeting. If any other matter properly comes before the Annual Meeting, it is the intention of the persons named in the enclosed proxy card to vote the shares they represent as the Board of Directors may recommend.

## STOCKHOLDER PROPOSALS

Proposals of stockholders of the Company which are intended to be presented by such stockholders at the Company's Annual Meeting for the fiscal year ending December 31, 2008 must be received by the Company no later than December 13, 2008 in order that they may be considered for inclusion in the proxy statement and form of proxy relating to that meeting. Additionally, if a stockholder wishes to present to the Company an item for consideration as an agenda item for a meeting without inclusion in the proxy statement, he, she or it must timely give notice to the Secretary and give a brief description of the business desired to be discussed. To be timely for next year's Annual Meeting, our bylaws require that such notice must have been delivered to or mailed to and received by the Company between 60 and 90 days prior to that Annual Meeting. If we do not publicly announce our meeting date or give notice of our meeting date at least 70 days before next year's Annual Meeting, stockholders may submit items for consideration as agenda items until 5:00 pm on the 15th day after the public disclosure or notice.

## ANNUAL REPORT

A copy of the Company's 2007 Annual Report to Stockholders is enclosed. The Annual Report to Stockholders is not a part of the proxy soliciting material enclosed herewith. 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.orthologic.com](http://www.orthologic.com). Upon the written request of any stockholder entitled to vote at the Annual Meeting, the Company will furnish, without charge, a copy of the Company's annual report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission. Copies of exhibits to the annual report on Form 10-K are also available upon specific request and payment of 25 cents per page for reproduction plus \$3.00 for postage and handling. All requests should be directed to the Secretary of the Company at 1275 West Washington Street, Tempe, Arizona 85281.

## HOUSEHOLDING

We have adopted the "householding" procedure approved by the Securities and Exchange Commission that allows the Company to deliver one proxy statement and annual report to a household of stockholders instead of delivering a set

of documents to each stockholder in the household. This procedure is more cost effective because it reduces the number of materials to be printed and mailed. If they have elected, stockholders who share the same last name and address will receive one proxy statement and annual report per address unless the Company receives, or has previously received, contrary instructions. Stockholders will continue to receive separate proxy cards/voting instruction forms to vote their shares.

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If you would like to receive a separate copy of the proxy statement and annual report for this year, please write or call the Company at the following address or telephone number: OrthoLogic Corp., Corporate Secretary, 1275 West Washington Street, Tempe, Arizona 85281; (800) 937-5520. Upon receipt of your request, the Company will promptly deliver the requested materials to you.

If you and other OrthoLogic stockholders of record with whom you share and address currently receive multiple sets of the proxy statement and annual report, and you would like to receive only a single copy of each in the future, please contact our distribution agent, ADP, by calling (800) 542-1061. If you hold your shares in street name (that is, through a bank, brokerage account or other record holder), please contact your bank, broker or the other record holder to request information about householding. You may also revoke your consent to householding by contacting ADP, Attention Householding Department, 51 Mercedes Way, Edgewood, NY 11717, telephone (800) 542-1061.

April 11, 2008

THE BOARD OF DIRECTORS

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Dated: \_\_\_\_\_, 2008

Signature

Votes must be indicated in Black or Blue ink.

Please sign, date and return this proxy in the enclosed postage prepaid envelope. 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.orthologic.com](http://www.orthologic.com).

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