ORTHOLOGIC CORP
Form 10-Q
May 14, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-21214

ORTHOLOGIC CORP.
(Exact name of registrant as specified in its charter)

Delaware	86-0585310
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1275 W. Washington Street, Suite 101, Tempe, Arizona	85281
(Address of principal executive offices)	(Zip Code)

(602) 286-5520
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
¨ Yes x No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

40,775,411 shares of common stock outstanding as of April 30, 2010.

ORTHOLOGIC CORP.
(dba Capstone Therapeutics)
(A Development Stage Company)

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PART I – Financial Information
Item 1. Financial Statements

ORTHOLOGIC CORP.
(dba Capstone Therapeutics)
(A Development Stage Company)
CONDENSED BALANCE SHEETS
(in thousands, except share data)

	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	$14,280	$12,874
Short-term investments	18,559	22,268
Interest, income taxes and other current assets	653	1,660
Total current assets	33,492	36,802
Furniture and equipment, net	331	333
Total assets	$33,823	$37,135
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$382	$719
Accrued compensation	406	549
Accrued clinical and other accrued liabilities	1,175	1,139
Total current liabilities	1,963	2,407
Stockholders' Equity		
Common Stock $.0005 par value; 100,000,000 shares authorized; 40,775,411 shares issued and outstanding in 2010 and 2009	20	20
Additional paid-in capital	188,726	188,643
Accumulated deficit ($129,124 at March 31, 2010 and $126,173 at December 31, 2009, accumulated during development stage period)	(156,886)	(153,935)
Total stockholders' equity	31,860	34,728
Total liabilities and stockholders' equity	$33,823	$37,135

See notes to unaudited condensed financial statements

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ORTHOLOGIC CORP.
(dba Capstone Therapeutics)
(A Development Stage Company)
CONDENSED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(Unaudited)

	Three months ended March 31,		As a Development Stage Company August 5, 2004 - March 31,
	2010	2009	2010
OPERATING EXPENSES			
General and administrative	$973	$807	$ 23,949
Research and development	2,023	3,608	87,510
Purchased in-process research and development	-	-	34,311
Other	-	-	(375)
Total operating expenses	2,996	4,415	145,395
Interest and other income, net	(45)	(267)	(13,416)
Loss from continuing operations before taxes	2,951	4,148	131,979
Income tax benefit	-	-	(1,016)
Loss from continuing operations	2,951	4,148	130,963
Discontinued operations - net gain on sale of the bone device business, net of taxes of $267	-	-	(2,202)
NET LOSS	$2,951	$4,148	$ 128,761
Per Share Information:			
Net loss, basic and diluted	$0.07	$0.10	
Basic and diluted shares outstanding	40,775	40,775	

See notes to unaudited condensed financial statements

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ORTHOLOGIC CORP.
(dba Capstone Therapeutics)
(A Development Stage Company)
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three months ended March 31,		As a Development Stage Company August 5, 2004 - March 31,
	2010	2009	2010
OPERATING ACTIVITIES			
Net loss	$(2,951)	$(4,148)	$ (128,761)
Non cash items:			
Deferred tax expense	-	-	770
Depreciation and amortization	33	32	3,723
Non-cash stock compensation	83	79	4,473
Gain on sale of bone device business	-	-	(2,298)
In-process research and development	-	-	34,311
Change in other operating items:			
Interest, income taxes and other current assets	1,007	241	1,055
Accounts payable	(337)	(412)	(589)
Accrued liabilities	(107)	(197)	(1,433)
Cash flows used in operating activities	(2,272)	(4,405)	(88,749)
INVESTING ACTIVITIES			
Expenditures for furniture and equipment, net	(31)	-	(996)
Proceeds from sale of assets	-	-	7,000
Cash paid for assets of AzERx/CBI	-	-	(4,058)
Cash paid for patent assignment rights	-	-	(650)
Purchases of investments	(12,938)	(7,549)	(270,336)
Maturities of investments	16,647	9,486	309,715
Cash flows provided by investing activities	3,678	1,937	40,675
FINANCING ACTIVITIES			
Net proceeds from stock option exercises	-	-	4,612
Net proceeds from sale of stock	-	-	3,376
Common stock purchases	-	-	(1,041)
Cash flows provided by financing activities	-	-	6,947
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,406	(2,468)	(41,127)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,874	23,088	55,407
CASH AND CASH EQUIVALENTS, END OF PERIOD	$14,280	$20,620	$ 14,280

Supplemental Disclosure of Non-Cash Investing Activities AzERx and CBI AzERx/CBI Acquisitions

Current assets acquired	$	29
Patents acquired		2,142
Liabilities acquired, and accrued acquisition costs		(457)
Original investment reversal		(750)
In-process research and development acquired		34,311
Common stock issued for acquisition		(31,217)
Cash paid for acquisition	$	4,058

See notes to unaudited condensed financial statements

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ORTHOLOGIC CORP.
(dba Capstone Therapeutics)
(A Development Stage Company)
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS
March 31, 2010

OVERVIEW OF BUSINESS

Description of the business

OrthoLogic Corp., dba Capstone Therapeutics, is a biotechnology company committed to developing a pipeline of novel peptides and other molecules aimed at helping patients with under-served conditions. We are focused on the development and commercialization of two product platforms: AZX100 and Chrysalin® (TP508).

AZX100 is a novel synthetic 24-amino acid peptide that is believed to have smooth muscle relaxation and anti-fibrotic properties. AZX100 is currently being evaluated for medically and commercially significant applications, such as prevention or reduction of hypertrophic and keloid scarring, treatment of pulmonary fibrosis and vascular intimal hyperplasia. We filed an IND for a dermal scarring indication in 2007 and completed in 2008 Phase 1a and Phase 1b safety clinical trials supporting AZX100 safety in this indication. We commenced Phase 2 clinical trials in dermal scarring following shoulder surgery and keloid scar revision in the first quarter of 2009. In 2010 we expect to continue our Phase 2 clinical trials and perform further pre-clinical studies supporting multiple indications for AZX100. We have an exclusive worldwide license to AZX100.

Chrysalin, a novel synthetic 23-amino acid peptide, is believed to produce angiogenic and other tissue repair effects in part by 1) activating or upregulating endothelial nitric oxide synthase (eNOS); 2) modulating inflammatory cytokines; 3) inhibiting apoptosis (programmed cell death); and 4) promoting angiogenesis and revascularization. Chrysalin may have therapeutic value in diseases associated with endothelial dysfunction. We own exclusive worldwide rights to Chrysalin.

We have conducted clinical trials for two potential Chrysalin applications: acceleration of fracture repair and diabetic foot ulcer healing. We previously conducted a pilot clinical trial for spine fusion, and pre-clinical testing for cartilage defect repair, cardiovascular repair, dental bone repair, and tendon repair. Current efforts in support of Chrysalin are focued on identifying and exploring partnering or development collaboration opportunities for Chrysalin’s future development.

Company History

Prior to November 26, 2003, we developed, manufactured and marketed proprietary, technologically advanced orthopedic products designed to promote the healing of musculoskeletal bone and tissue, with particular emphasis on fracture healing and spine repair. Our product lines included bone growth stimulation and fracture fixation devices including the OL1000 product line, SpinaLogic® and OrthoFrame/Mayo, which we sometimes refer to as our “Bone Device Business.”

On November 26, 2003, we sold our Bone Device Business. Our principal business remains focused on tissue repair, although through biopharmaceutical approaches rather than through the use of medical devices.

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On August 5, 2004, we purchased substantially all of the assets and intellectual property of Chrysalis Biotechnology, Inc. ("CBI"), including exclusive worldwide rights to Chrysalin. We became a development stage entity commensurate with the acquisition. Subsequently, our efforts were focused on research and development of Chrysalin with the goal of commercializing our product candidates.

On February 27, 2006, we purchased certain assets and assumed certain liabilities of AzERx, Inc. Under the terms of the transaction, we acquired an exclusive license for the core intellectual property relating to AZX100.

Our development activities for Chrysalin and AZX100 represent a single operating segment as they share the same product development path and utilize the same Company resources. As a result, we have determined that it is appropriate to reflect our operations as one reportable segment. Through March 31, 2010, we have incurred $129 million in net losses as a development stage company.

OrthoLogic Corp. commenced doing business as Capstone Therapeutics on October 1, 2008.

In this document, references to "we", "our", the "Company", "Capstone Therapeutics" and "Capstone", refer to OrthoLogic Corp. References to our Bone Device Business refer to our former business line of bone growth stimulation and fracture fixation devices, including the OL1000 product line, SpinaLogic®, OrthoFrame® and OrthoFrame/Mayo.

Financial Statement Presentation

In the opinion of management, the unaudited condensed interim financial statements include all adjustments necessary for the fair presentation of our financial position, results of operations, and cash flows, and all adjustments were of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the complete fiscal year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to Securities and Exchange Commission rules and regulations, although we believe that the disclosures herein are adequate to make the information presented not misleading. It is suggested that these unaudited condensed financial statements be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009. Information presented as of December 31, 2009 is derived from audited financial statements.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires that management make a number of assumptions and estimates that affect the reported amounts of assets, liabilities, and expenses in our financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's assumptions regarding current events and actions that may impact us in the future, actual results may differ from these estimates and assumptions.

Accrued Clinical

Accrued clinical represents the liability recorded on a per patient basis of the costs incurred for our human clinical trials. Total patient costs are based on the specified clinical trial protocol, recognized over the period of time service is provided to the patient. Our Phase 1a and Phase 1b clinical trials for AZX100 in dermal scarring were both commenced and completed during 2008. In the first quarter of 2009, we commenced Phase 2 clinical trials for

AZX100 in keloid scar revision and dermal scarring following shoulder surgery. At March 31, 2010 and December 31, 2009, accounts payable and accrued clinical and other accrued liabilities include $1,100,000 and $1,078,000, respectively, related to the Phase 2 clinical trials.

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Loss per Common Share

In determining loss per common share for a period, we use weighted average shares outstanding during the period for primary shares and we utilize the treasury stock method to calculate the weighted average shares outstanding during the period for diluted shares. Utilizing the treasury stock method for the three month period ended March 31, 2010, 221,360 shares were determined to be outstanding during the period but were excluded from the calculations of diluted loss per share as they were anti-dilutive. At March 31, 2010, options and warrants to purchase 4,120,552 shares of our common stock, at exercise prices ranging from $0.42 to $7.83 per share, were outstanding.

A. Investments and Fair Value Disclosures

At March 31, 2010 and December 31, 2009, investments were classified as held-to-maturity securities, as we do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost basis, which may be maturity. Such classification requires these securities to be reported at amortized cost unless they are deemed to be other than temporarily or permanently impaired in value.

A summary of the fair value and unrealized gains and losses on these securities is as follows (in thousands):

March 31, 2010 Short-term investments	Amortized cost	Gross unrealized Gain	Gross unrealized Loss	Fair value
Corporate Debt Securities	$ 18,559	$ 2	$ (192)	$ 18,369
Total short-term investments	$ 18,559	$ 2	$ (192)	$ 18,369

December 31, 2009 Short-term investments	Amortized cost	Gross unrealized Gain	Gross unrealized Loss	Fair value
US Government Securities	$ 2,220	$ 10	$ -	$ 2,230
Government-Sponsored Enterprize Securities	1,104	-	(23)	1,081
Corporate Debt Securities	18,944	2	(230)	18,716
Total short-term investments	$ 22,268	$ 12	$ (253)	$ 22,027

For our cash and cash equivalent investments, the carrying amount is assumed to approximate the fair value because of the liquidity of these instruments.

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B. Stock Based Compensation

2010 Stock Options

On January 1, 2010, the Company granted each director a fully vested option to purchase 10,000 shares of the Company's common stock with the exercise price determined by the closing market price on the date of grant ($0.72). The options have a ten-year term.

On February 4, 2010, the Company granted options to employees to purchase 324,000 shares of the Company's common stock with the exercise price determined by the closing market price on the date of grant ($0.82). The options have a ten-year term and vest monthly over a two-year period.

We used the Black-Scholes model with the following assumptions to determine the total fair value of $168,000 for options to purchase 374,000 shares of our common stock issued during the three months ended March 31, 2010:

	Three months ended March 31, 2010
Risk free interest rate	2.3% - 2.7%
Volatility	66%
Expected term from vesting	3.9 Years
Dividend yield	0%

Stock Option Summary

Non-cash stock compensation cost for the three months ended March 31, 2010 totaled $83,000. In the Condensed Statements of Operations for the three months ended March 31, 2010, non-cash stock compensation expense of $68,000 was recorded as a general and administrative expense and $15,000 was recorded as a research and development expense.

Non-cash stock compensation cost for the three months ended March 31, 2009, totaled $79,000. In the Condensed Statements of Operations for the three months ended March 31, 2009, non-cash stock compensation expense of $55,000 was recorded as a general and administrative expense and $24,000 was recorded as a research and development expense.

No options were exercised in the three month periods ended March 31, 2010 and 2009.

It is our policy to issue options from shareholder approved incentive plans. However, if the options are issued as an inducement for an individual to join the Company, we may issue stock options outside of shareholder approved plans. Options granted to employees under shareholder approved incentive plans have a ten-year term and vest over a two to four-year period of service. All options and stock purchase rights are granted with an exercise price equal to the current market value on the date of grant and, accordingly, options or stock purchase rights have no intrinsic value on the date of grant. Based on the closing market price of our common stock at March 31, 2010 of $0.90, stock options exercisable or expected to vest at March 31, 2010, have an intrinsic value of $253,000. At March 31, 2010, 395,302 shares remain available to grant under our existing stock plans.

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C. Authorization of Company Buy-Back of Common Stock

On March 5, 2008, we announced that our Board of Directors approved a stock repurchase program for up to five percent of our then outstanding common shares. The shares may be repurchased from time to time in open market transactions or privately negotiated transactions at our discretion, subject to market conditions and other factors. There were approximately 41.8 million shares of common stock outstanding on March 5, 2008.

During the three month period ended March 31, 2010, we did not purchase any shares and we did not purchase any shares in 2009. During the year ended December 31, 2008, we repurchased and retired 1,131,622 shares of our common stock at a total cost of $1,041,000.

D. Contingency – Legal Proceedings

On or about April 20, 2009, we became aware of a qui tam complaint that was filed under seal by Jeffrey J. Bierman on March 28, 2005 in the United States District Court for the District of Massachusetts against us and other companies that have allegedly manufactured bone growth stimulation devices, including Orthofix International N.V., Orthofix, Inc., DJO Incorporated, Reable Therapeutics, Inc., the Blackstone Group, L.P., Biomet, Inc., EBI, L.P., EBI Holdings, Inc., EBI Medical Systems, Inc., Bioelectron, Inc., LBV Acquisition, Inc., and Smith & Nephew, Inc. By order entered on March 24, 2009, the court unsealed the amended complaint. The amended complaint alleges various causes of action under the federal False Claims Act and state and city false claims acts premised on the contention that the defendants improperly promoted the sale, as opposed to the rental, of bone growth stimulation devices. The amended complaint also includes claims against the defendants for, among other things, allegedly misleading physicians and purportedly causing them to file false claims and for allegedly violating the Anti-kickback Act by providing free products to physicians, waiving patients' insurance co-payments, and providing inducements to independent sales agents to generate business. Mr. Bierman is seeking civil penalties under various state and federal laws, as well as treble damages.

The United States Government declined to intervene or participate in the case. On September 4, 2009, Jeffrey J. Bierman, the Relator/Plaintiff, served the amended complaint to the Company. We sold our bone growth stimulation business in November 2003 and have had no further activity in the bone growth stimulation business since that date. We intend to defend this matter vigorously and believe that at all times our billing practices in our bone growth stimulation business complied with applicable laws. On December 4, 2009, the Company moved to dismiss the amended complaint with prejudice. That motion is currently pending. Based upon the currently available information, we believe that the ultimate resolution of this matter will not have a material adverse effect on our financial position, liquidity or results of operations.

Item 2.Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is management's discussion of significant events in the quarter ended March 31, 2010 and factors that affected our interim financial condition and results of operations. This should be read in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2009, our "Risk Factors" contained therein and Item 1A. Risk Factors included in Part II of this quarterly report.

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Overview of the Business

OrthoLogic Corp., dba Capstone Therapeutics, is a biotechnology company focused on the development and commercialization of the novel synthetic peptides AZX100 and Chrysalin® (TP508).

In 2010 and 2009, our activities included:

- Evaluating AZX100 for medically and commercially significant applications, such as prevention or reduction of hypertrophic and keloid scarring, treatment of pulmonary fibrosis and vascular intimal hyperplasia. We are executing a development plan for this peptide, which included filing an IND for dermal scarring in 2007 and commencement of Phase 1 safety studies in this indication in the first quarter of 2008. Our Phase 1a study was completed in May 2008. We initiated a second safety study in dermal scarring (Phase 1b), which was completed in the fourth quarter of 2008. The Studies' Safety Committee reviewing all safety-related aspects of the clinical trials was satisfied with the profile of AZX100. We commenced in the first quarter of 2009 AZX100 Phase 2 human clinical trials in keloid scar revision and dermal scarring following shoulder surgery. These Phase 2 studies completed enrollment in 2009 and are targeted to be complete in 2010. We also continued to perform pre-clinical studies supporting multiple indications for AZX100.

- Pre-clinical experiments investigating the potential of Chrysalin to modulate the health of endothelial tissue in blood vessels and other mechanism-of-action studies to support our strategy to partner our vascular product candidates. We did not perform additional pre-clinical or clinical studies in fracture repair, wound healing, spine fusion, cartilage defect repair, dental bone repair or tendon repair. In 2010, we are continuing our vascular partnering/development collaboration efforts.

Critical Accounting Policies

Our critical accounting policies are those that affect, or could affect our financial statements materially and involve a significant level of judgment by management. The accounting policies and related risks described in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 12, 2010, for the year ended December 31, 2009 are those that depend most heavily on these judgments and estimates. As of March 31, 2010, there have been no material changes to any of the critical accounting policies contained therein.

Results of Operations Comparing Three-Month Period Ended March 31, 2010 to the Corresponding Period in 2009.

General and Administrative ("G&A") Expenses: G&A expenses related to our ongoing development operations were $973,000 in the first quarter of 2010 compared to $807,000 in the first quarter of 2009. Our administrative expenses during the first quarter of 2010 reflect a comparable level of administrative activity to the same period of 2009 with the increase related to increased business development, legal and accounting expenses in 2010.

Research and Development Expenses: Research and development expenses were $2,023,000 for the first three months in 2010 compared to $3,608,000 for the first three months in 2009. Our research and development expenses decreased $1,585,000 in the first quarter of 2010 compared to the same period in 2009 primarily due to the purchase of $600,000 of peptide in the first quarter of 2009 and completion in 2009 of our planned partnering or development collaboration research support activities for Chrysalin. Given the overlapping nature of our research efforts, it is not possible to clearly separate research expenditures between AZX100 and Chrysalin; however, the majority of our research and development expenses in the first quarter of 2010 and 2009 were directed towards AZX100 development efforts.

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Interest and Other Income, Net: Interest and other income, net decreased from $267,000 in the first quarter of 2009 to $45,000 in the first quarter of 2010 due to the decrease in interest rates earned on investments between the two periods and reduction in the amount available for investment.

Net Loss: We incurred a net loss in the first quarter of 2010 of $3.0 million compared to a net loss of $4.1 million in the first three months of 2009. The $1.1 million decrease in the net loss for the first quarter of 2010 compared to the same period in 2009 resulted primarily from the purchase of $600,000 of peptide in the first quarter of 2009 and completion in 2009 of our planned partnering or development collaboration research support activities for Chrysalin. These cost decreases were partially offset by reduced interest income, due to the decrease in interest rates earned on investments between the two periods and reduction in the amount available for investment.

Liquidity and Capital Resources

We have historically financed our operations through operating cash flows and the public and private sales of equity securities. However, with the sale of our Bone Device Business in November 2003, we sold all of our revenue producing operations. We received approximately $93.0 million in cash from the sale of our Bone Device Business. On December 1, 2005, we received the additional $7.2 million, including interest, from the escrow balance related to the sale of the Bone Device Business. Since the sale of our Bone Devise Business, we have relied on our cash and investments to finance all our operations, the focus of which was research and development of our Chrysalin and AZX100 product candidates. On February 27, 2006, we entered into an agreement with Quintiles (see Note 15 to our Annual Report on Form 10-K filed with the Securities Exchange Commission on March 5, 2008), which provided an investment by Quintiles in our common stock, of which $2,000,000 was received on February 27, 2006 and $1,500,000 was received on July 3, 2006. We also received net proceeds of $4,612,000 from the exercise of stock options during our development stage period and in January 2010 we received a tax refund of $1,009,000 for the tax year 2003, related to federal tax legislation enacted in the fourth quarter of 2009. At March 31, 2010, we had cash and cash equivalents of $14.3 million and short-term investments of $18.6 million.

We previously announced that we have no immediate plans to re-enter clinical trials for Chrysalin-based product candidates and a strategic shift in our development approach for Chrysalin-based product candidates. We currently intend to pursue development partnering, collaboration or licensing opportunities for our Chrysalin-based product candidates, a change from our previous development history of independently conducting human clinical trials necessary to advance our Chrysalin-based product candidates to market. We will continue research and development expenditures for further pre-clinical studies supporting multiple indications for AZX100 and plan to continue our Phase 2 human clinical trials for dermal scarring following shoulder surgery and keloid scar revision.

Our future research and development expenses may vary significantly from prior periods depending on the Company’s decisions on its future AZX100 and Chrysalin development plans. Our future interest and other income may vary significantly from prior periods based on changes in interest rates and amounts available for investment.

On March 5, 2008, we announced a stock repurchase program and at March 31, 2010, we have repurchased and retired 1,131,622 shares of our common stock, at a total cost of $1,041,000, and have allocated approximately $1,000,000 to fund possible future stock repurchases.

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We anticipate that our cash and short-term investments at March 31, 2010 will be sufficient to meet our presently projected cash and working capital requirements for the next year. However, to complete the clinical trials and supporting research and production efforts necessary to obtain FDA approval for either AZX100 or Chrysalin product candidates would require us to seek other sources of capital. New sources of funds, including raising capital through the sales of our debt or equity securities, joint venture or other forms of joint development arrangements, sales of developments rights, or licensing agreements, may not be available or may only be available at terms that would have a material adverse impact on our existing stockholders' interests.

Item 4T. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial and accounting officer, has reviewed and evaluated our disclosure controls and procedures (as defined in the Securities Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Form 10-Q. Based on that evaluation, our management, including our principal executive officer and principal financial and accounting officer, has concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Form 10-Q in ensuring that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial and accounting officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

Reference is made to Item 3. Legal Proceedings in our Form 10-K filed with the Securities and Exchange Commission on March 12, 2010.

Item 1A. Risk Factors

Forward looking statements

We may from time to time make written or oral forward-looking statements, including statements contained in our filings with the Securities and Exchange Commission and our reports to stockholders. The safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 protects companies from liability for their forward looking statements if they comply with the requirements of that Act. This Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009, and contains forward-looking statements made pursuant to that safe harbor. These forward-looking statements relate to future events or to our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance or achievements

expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as “may,” “could,” “expect,” “intend,” “plan,” “seek,” “anticipate,” “believe,” “estimate,” “potential,” “continue,” or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, levels of activity, performance or achievements. Factors that may cause actual results to differ materially from current expectations include, but are not limited to:

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- unfavorable results of our product candidate development efforts;
- unfavorable results of our pre-clinical or clinical testing;
- delays in obtaining, or failure to obtain FDA approvals;
- increased regulation by the FDA and other agencies;
- the introduction of competitive products;
- impairment of license, patent or other proprietary rights;
- failure to achieve market acceptance of our products;
- the impact of present and future collaborative agreements;
- failure to successfully implement our drug development strategy; and
- failure in the future to meet the requirements for continued listing on the Nasdaq Capital Market.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary significantly from what we projected. Any forward-looking statement you read in this Quarterly Report on Form 10-Q reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, business strategy and liquidity. We assume no obligation to publicly update or revise these forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

There are no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

Item 6. Exhibits

See Exhibit List following this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ORTHOLOGIC CORP.
(Registrant)

Signature	Title	Date
/s/ John M. Holliman, III John M. Holliman, III	Executive Chairman (Principal Executive Officer)	May 14, 2010
/s/ Les M. Taeger Les M. Taeger	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	May 14, 2010

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OrthoLogic Corp.
(the "Company")
Exhibit Index to Quarterly Report on Form 10-Q
For the Quarterly Period Ended March 31, 2010

Exhibit No.	Description	Incorporated by Reference To:	Filed Herewith
31.1	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rule 13a-14(a), as amended.		X
31.2	Certification of Principal Financial and Accounting Officer Pursuant to Securities Exchange Act Rule 13a-14(a), as amended		X
32	Certification of Principal Executive Officer and Principal Financial and Accounting Officer Pursuant to 18 U.S.C. Section 1350*		

* Furnished herewith