



**ANNUAL REPORT**

**ANNUAL MEETING OF STOCKHOLDERS**

**Friday, June 15, 2012**

**1:00 p.m. Local Time**



## Letter from the Executive Chairman

Dear Fellow Stockholders:

We are pleased to present the enclosed Capstone Therapeutics Corp. Proxy Statement for the Annual Meeting of Stockholders scheduled for June 15, 2012. I will take this opportunity to recap recent events and to articulate how we are thinking about our corporate strategy moving forward.

In early 2011 we reported results from our AZX100 Phase 2a randomized, double-blinded, placebo-controlled studies in arthroscopic shoulder scars and keloid scar revision. We observed an acceptable safety profile and multiple signals of efficacy, primarily from high resolution digital camera analysis, which indicates that AZX100 is an active molecule in dermal scar reduction. However, we have not yet optimized dose and schedule of administration in a statistically powered Phase 2b study.

We have been consistent in our communications to stockholders that a third party validation (through corporate partnering or joint development with another pharma company) would be a requirement for further development of AZX100 in dermal scar reduction. We launched a formal process in early 2011 led by advisors specific to the dermatology space. The efficacy signal was acknowledged by multiple potential corporate partners, but we have not yet succeeded in securing a development agreement with a third party. We are continuing our efforts to find a development partner.

In addition to the dermal scar reduction indication, there are two AZX100 pre-clinical indications that have shown consistent anti-fibrotic activity. We have studies in idiopathic pulmonary fibrosis (scarring of the lungs) at Lovelace Respiratory Research Institute and in epidural fibrosis (spine surgery scarring) at Barrow Neurological Institute (both contracted and substantially paid in 2011) currently in process and scheduled to report data in Q3 2012. AZX100 has now shown anti-fibrotic activity in three tissue types using different methods of administration. We are exploring partnering arrangements in these two pre-clinical indications.

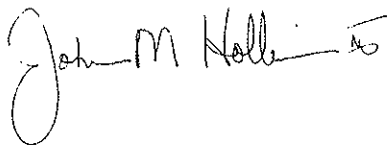
As Capstone's management has always been focused on cash discipline, we reduced our staff from 18 to 4 employees as of October 31, 2011. We have since taken steps to further shrink the headcount and to further decrease cash expenditures. Our board of directors has been downsized from six to three members.

At this point, our clinical pipeline and cash remain our primary assets. We have communicated in our public filings that the current *qui tam* litigation legally inhibits our ability to distribute funds to stockholders. Unfortunately, we cannot currently predict whether this issue will resolve itself in months or years. While we have ceased development activities of AZX100 in dermal scarring and effected numerous other cost reductions, we still remain a publicly-traded company, subject to the reporting requirements and other regulations of the Securities and Exchange Commission. As a result, we will incur certain ongoing costs in maintaining a functioning and compliant corporation.

We continue to search for tactics and strategies that may create stockholder value while the *qui tam* litigation runs its course. As such, we recently reached out to our largest stockholder, Biotechnology Value Fund, to discuss strategic options. BVF, a large institutional biotechnology investor, has agreed to assist us in identifying potential transactions which might include a merger, use of some portion of our funds in a joint development format with a new clinical program or other possible transactions.

The strategic question for Capstone and its stockholders is whether we slowly diminish our cash on required administrative expenses (for an unknown timeframe) as we work to conclude the *qui tam* litigation or whether we try to concurrently create stockholder value through a transaction or other use of our cash. To be clear, the decision to redeploy capital has not been made and will only be made if and when a compelling use of that capital is identified. We plan to explore these various pathways and will report our results as the year progresses. Meanwhile, we will do our best to preserve our cash asset, which stood at \$13.1 million as of March 31, 2012.

Respectfully,



John M. Holliman, III  
Executive Chairman



**Capstone Therapeutics Corp.  
(formerly OrthoLogic Corp.)**

1275 West Washington Street, Suite 101  
Tempe, Arizona 85281

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
To Be Held Friday, June 15, 2012**

**TO THE STOCKHOLDERS:**

The Annual Meeting of Stockholders of Capstone Therapeutics Corp., a Delaware corporation, formerly OrthoLogic Corp., (the "Company"), will be held on **Friday, June 15, 2012 at 1:00 p.m. (local time) at the offices of the Company, 1275 West Washington Street, Suite 101, Tempe, AZ 85281**, for the following purposes:

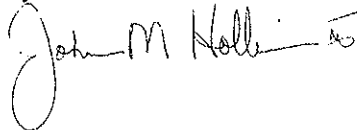
- (1) To elect one director as a Class III director to serve until the Annual Meeting of Stockholders to be held in the year 2015 or until a successor is elected;
- (2) To ratify the appointment of Moss Adams LLP, as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012, 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 May 1, 2012 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 2011 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,



John M. Holliman, III  
Executive Chairman

Tempe, Arizona  
May 10, 2012

**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.**

# Capstone Therapeutics Corp.

## PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS To Be Held Monday, June 15, 2012

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**(formerly OrthoLogic Corp.)**  
1275 West Washington Street, Suite 101  
Tempe, Arizona 85281

**PROXY STATEMENT  
ANNUAL MEETING OF STOCKHOLDERS  
To Be Held Friday, June 15, 2012**

**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 Capstone Therapeutics Corp., formerly OrthoLogic Corp. (the “Company”) for use at the Annual Meeting of Stockholders to be held on **Friday, June 15, 2012, at 1:00 p.m., local time, or any adjournment thereof (the “Annual Meeting”) at the offices of the Company, 1275 West Washington Street, Suite 101, Tempe, AZ 85281.** All shares represented by properly executed proxies, unless such proxies have previously been revoked, will be voted in accordance with the direction on the proxies. If no direction is indicated, the shares will be voted in favor of the proposal to be acted upon at the Annual Meeting described in this Proxy Statement. The Board of Directors of the Company (the “Board”) is not aware of any other matter which may come before the meeting. If any other matters are properly presented at the meeting for action, including a question of adjourning the meeting from time to time, the persons named in the proxies and acting thereunder will have discretion to vote on such matters in accordance with their best judgment.

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

This Proxy Statement and the Form of Proxy which is enclosed are being mailed to the Company’s stockholders commencing on or about May 10, 2012. The Proxy Statement and Form of Proxy, as well as the Company’s Annual Report on Form 10-K are available on the Company’s website, [www.capstonethx.com](http://www.capstonethx.com).

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

In addition to the use of the mails, proxies may be solicited by personal conversations or by telephone, telex, facsimile or telegram by the directors, officers and regular employees of the Company. Such persons will receive no additional compensation for such services. Arrangements will also be made with certain brokerage firms and certain other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of Common Stock held of record by such persons, and such brokers, custodians, nominees and fiduciaries will be reimbursed for their reasonable out-of-pocket expenses incurred in connection therewith. The mailing address of the principal executive offices of the Company is 1275 West Washington Street, Suite 101, Tempe, Arizona 85281.

## VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

Only stockholders of record at the close of business on May 1, 2012 (the "Record Date") will be entitled to vote at the Annual Meeting. On the Record Date, there were issued and outstanding 40,885,411 shares of the Company's Common Stock. Each holder of Common Stock is entitled to one vote, exercisable in person or by proxy, for each share of the Company's Common Stock held of record on the Record Date.

### VOTING PROCEDURES

The presence of a majority of the shares of Common Stock entitled to vote, in person or by proxy, is required to constitute a quorum for the conduct of business at the Annual Meeting. Abstentions and broker non-votes are each included in the determination of the number of shares present for quorum purposes. The Inspector of Election appointed by the Chairman of the Board of Directors shall determine the shares represented at the meeting and the validity of proxies and ballots and shall count all proxies and ballots. The one 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.

### 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 May 1, 2012 with respect to (i) each person known to the Company to own beneficially more than five percent of the outstanding shares of the Company's Common Stock, (ii) each director of the Company, (iii) each of the named executive officers and (iv) all directors and executive officers of the Company as a group. At May 1, 2012 there were 40,885,411 shares of the Company's Common Stock outstanding.

Beneficial Owner	Common Stock Beneficially Owned (1)	
	Number	Percent of Class
Fredric J. Feldman (2)	380,564	*
John M. Holliman, III (3)	992,272	2.4
Elwood D. Howse, Jr. (4)	402,703	*
Randolph C. Steer (5)	520,298	1.3
Les M. Taeger (6)	461,988	1.1
Dana B. Shinbaum (7)	393,774	*
BVF Group (8)	7,755,688	19.0
All directors and executive officers as a group (9)	3,151,599	7.3

\* Less than one percent

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission ("SEC") and generally includes voting or investment power with respect to securities. In accordance with SEC rules, shares, which may be acquired upon exercise of stock options which are currently exercisable or which become exercisable within 60 days of the date of the table, are deemed beneficially owned by the optionee. Except as indicated by footnote, 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 180,000 shares Dr. Feldman has a right to acquire upon exercise of stock options. Voting and investment power shared with spouse.
- (3) Includes 655,000 shares Mr. Holliman has a right to acquire upon exercise of stock options, 3,000 shares indirectly owned as trustee and 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 475,000 shares Dr. Steer has a right to acquire upon exercise of stock options.
- (6) Includes 417,414 shares Mr. Taeger has a right to acquire upon exercise of stock options.
- (7) Includes 349,963 shares Mr. Shinbaum has a right to acquire upon exercise of stock options.
- (8) 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 the Company, 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.
- (9) Includes 2,257,377 shares directors and executive officers have a right to acquire upon exercise of stock options.

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

**PROPOSAL 1: ELECTION OF DIRECTOR**

One director is to be elected at the Annual Meeting to serve as a Class III director until the Annual Meeting of Stockholders to be held in the year 2015 or until a successor is elected. Unless otherwise instructed, the proxy holders will vote the Proxies received by them FOR the Company’s nominee, Elwood D. Howse, Jr. Mr. Howse is currently a director of the Company. The nominee for director receiving the highest number of affirmative votes (whether or not a majority) cast by the shares represented at the Annual Meeting and entitled to vote thereon, a quorum being present, shall be elected as a director. Only affirmative votes are relevant in the election of directors.

Pursuant to the Company’s Certificate of Incorporation, the Board of Directors is classified into three classes, with each class holding office for a three-year period. The 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 name of the nominee for director and of the directors, whose terms continue beyond the Annual Meeting, and certain information about them, are set forth below.

**INFORMATION CONCERNING DIRECTORS**

*Nominee for Class III Director Whose Term Will Expire at the 2015 Annual Meeting*

**Elwood D. Howse** (1) (2) (3)

Director since 1987

Elwood D. Howse, Jr., 72, 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, and 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., BeneSol Corporation and not-for-profits, Junior Achievement Worldwide and Junior Achievement of Washington. Mr. Howse holds a BS in Engineering from Stanford University and an MBA from Stanford Graduate School of Business.