

ORTHOLOGIC CORP
Form 8-K
December 11, 2003

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 26, 2003

OrthoLogic Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

0-21214

86-0585310

(Commission File Number)

(IRS Employer Identification Number)

1275 West Washington, Phoenix, Arizona

85281

(Address of principal executive offices)

(Zip Code)

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

Not Applicable

(Former name or former address, if changed since last report)

TABLE OF CONTENTS

Item 2. Acquisition or Disposition of Assets

Item 7. Financial Statements and Exhibits

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEETS

Notes to Unaudited Pro forma Consolidated Balance Sheets:

UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS

Notes to Unaudited Pro forma Consolidated Statements of Operations

SIGNATURES

EXHIBIT INDEX

EX-2.1

EX-2.2

Table of Contents

Item 2. Acquisition or Disposition of Assets

On November 26, 2003, OrthoLogic Corp. completed its previously announced sale of substantially all its bone device business assets pursuant to an Asset Purchase Agreement dated October 8, 2003, as amended on November 26, 2003 (the "Asset Purchase Agreement"). At the closing, OrthoLogic Corp. received \$93.0 million from dj Orthopedics, LLC, a wholly-owned subsidiary of dj Orthopedics, Inc., as the purchase price of the bone device business assets (the "Bone Device Business"), of which \$7.5 million was put into escrow accounts and from which certain escrow fees were paid. dj Orthopedics, LLC also assumed approximately \$1.4 million of OrthoLogic Corp.'s liabilities.

Of the \$7.5 million deposited into escrow accounts, \$7.0 million was placed into an account that dj Orthopedics, LLC may draw upon to fund any claims against OrthoLogic Corp. deemed eligible for indemnification. The remaining \$0.5 million was placed into an escrow account to fund the payment of employee stay-bonuses described in the Asset Purchase Agreement. Any remaining funds held in escrow in excess of the aggregate amount of any pending claims, together with any earnings or interest, will be released to OrthoLogic Corp. on the second anniversary of the closing.

The purchase price was determined in an arm's length negotiation. Neither dj Orthopedics, LLC nor dj Orthopedics, Inc. was affiliated with OrthoLogic Corp., its directors, officers or any associates of any OrthoLogic Corp. director or officer.

A copy of the press release announcing the transaction was filed as exhibit 99.1 to OrthoLogic Corp.'s Form 8-K filed November 26, 2003. A copy of the executed Asset Purchase Agreement and the Amendment No. 1 to the Asset Purchase Agreement are filed with this Form 8-K and are incorporated herein by reference. The foregoing description of the transaction is qualified in its entirety by the complete text of the Asset Purchase Agreement and Amendment No. 1 to the Asset Purchase Agreement attached hereto.

Item 7. Financial Statements and Exhibits

- (a) Financial statements of the business acquired. None.
- (b) Pro forma financial information.

See below.

Table of Contents

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following unaudited pro forma condensed consolidated financial statements are based on the historical consolidated financial statements of OrthoLogic Corp. and subsidiaries, adjusted to give effect to the disposition of the bone device business assets (the Bone Device Business) in accordance with the Asset Purchase Agreement dated October 8, 2003 between us and dj Orthopedics, LLC.

The unaudited pro forma consolidated balance sheets give effect to the proposed transaction as if it occurred on the date of the balance sheet. The cash proceeds and resulting gain are only included in the September 30, 2003 balance sheet. The unaudited pro forma consolidated statements of operations for the nine months ended September 30, 2003 and 2002 and the years ended December 31, 2002, 2001 and 2000 give effect to the transaction as if it had occurred as of January 1, 2000.

The pro forma consolidated financial information is presented for illustrative purposes only, and is not necessarily indicative of the operating results or financial position that would have occurred if all of the events as described above had occurred on the first day of the respective periods presented, nor is it necessarily indicative of our future operating results or financial position. The unaudited pro forma condensed consolidated financial statements should be read in conjunction with OrthoLogic's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

Table of Contents

ORTHOLOGIC CORP.
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
(in thousands, except per share data)
September 30, 2003

| | <u>Historical OrthoLogic</u> | <u>Sale of Bone Device Business</u> | <u>Proforma OrthoLogic</u> |
|---|----------------------------------|---|--------------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 12,287 | \$ 80,500(2) | \$ 92,787 |
| Short-term Investments | 22,174 | | 22,174 |
| Accounts receivable less allowance for doubtful accounts | 9,479 | (8,398)(1) | 1,081 |
| Inventories, net | 2,284 | (2,284)(1) | |
| Prepays and other current assets | 595 | (47)(1) | 548 |
| Deferred income taxes - current | 1,667 | (1,667)(1) | |
| | <u>48,486</u> | <u>68,104</u> | <u>116,590</u> |
| Furniture and equipment, net | 1,245 | (690)(1) | 555 |
| Long-term investments | 5,024 | | 5,024 |
| Deferred income taxes - non-current | 964 | (964)(1) | |
| Deposits and other assets | 210 | (9)(1) | 201 |
| Escrow deposit receivable | | 7,500(2) | 7,500 |
| Investment in Chrysalis BioTechnology | 750 | | 750 |
| | <u>56,679</u> | <u>73,941</u> | <u>130,620</u> |
| Total assets | \$ 56,679 | \$ 73,941 | \$ 130,620 |
| LIABILITIES & STOCKHOLDERS EQUITY | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 988 | \$ (613)(1) | \$ 375 |
| Income taxes payable | | 5,000(2) | 5,000 |
| Accrued compensation | 2,295 | (544)(1) | 1,751 |
| Accrued CPM divestiture costs | | | |
| Other accrued liabilities | 2,982 | (671)(1) | 2,311 |
| | | 500(2) | 500 |
| | <u>6,265</u> | <u>3,672</u> | <u>9,937</u> |
| Deferred rent and capital lease obligation | 298 | | 298 |
| | <u>6,563</u> | <u>3,672</u> | <u>10,235</u> |
| Total liabilities | 6,563 | 3,672 | 10,235 |
| Commitments and contingencies | | | |
| STOCKHOLDERS EQUITY | | | |
| Common stock, \$.0005 par value: | | | |
| 50,000,000 shares authorized; and 32,933,096 and 32,891,296 shares issued and outstanding | 16 | | 16 |
| Additional paid-in capital | 139,700 | | 139,700 |
| Accumulated deficit | (89,463) | 70,269(2) | (19,194) |
| Treasury stock at cost, 41,800 shares | (137) | | (137) |
| | <u>50,116</u> | <u>70,269</u> | <u>120,385</u> |
| Total stockholders equity | 50,116 | 70,269 | 120,385 |
| Total liabilities and stockholders equity | \$ 56,679 | \$ 73,941 | \$ 130,620 |



See notes to unaudited pro forma consolidated balance sheets.



Table of Contents

ORTHOLOGIC CORP.
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
(in thousands, except per share data)
December 31, 2002

| | Historical OrthoLogic | Sale of Bone Device Business | Proforma OrthoLogic |
|---|--------------------------|---------------------------------|------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 11,286 | | \$ 11,286 |
| Short-term Investments | 18,660 | | 18,660 |
| Accounts receivable less allowance for doubtful accounts | 9,641 | (8,313)(1) | 1,328 |
| Inventories, net | 2,568 | (2,568)(1) | |
| Prepays and other current assets | 598 | (61)(1) | 537 |
| Deferred income taxes current | 1,667 | (1,667)(1) | |
| Total current assets | 44,420 | (12,609) | 31,811 |
| Furniture and equipment, net | 1,498 | (711)(1) | 787 |
| Long-term investments | 5,659 | | 5,659 |
| Deferred income taxes non-current | 964 | (964)(1) | |
| Deposits and other assets | 129 | (11)(1) | 118 |
| Investment in Chrysalis BioTechnology | 750 | | 750 |
| Total assets | \$ 53,420 | \$(14,295) | \$ 39,125 |
| LIABILITIES & STOCKHOLDERS EQUITY | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 478 | \$ (312)(1) | \$ 166 |
| Accrued compensation | 2,290 | (58)(1) | 2,232 |
| Accrued CPM divestiture costs | 210 | | 210 |
| Other accrued liabilities | 1,857 | (560)(1) | 1,297 |
| Total current liabilities | 4,835 | (930) | 3,905 |
| Deferred rent and capital lease obligation | 352 | | 352 |
| Total liabilities | 5,187 | (930) | 4,257 |
| Commitments and contingencies | | | |
| STOCKHOLDERS EQUITY | | | |
| Common stock, \$.0005 par value: | | | |
| 50,000,000 shares authorized; and 32,088,021 and 32,047,021 shares issued and outstanding | 16 | | 16 |
| Additional paid-in capital | 136,945 | | 136,945 |
| Common stock to be issued for legal settlement | 2,078 | | 2,078 |
| Accumulated deficit | (90,669) | (13,365)(1) | (104,034) |
| Treasury stock at cost, 41,800 shares | (137) | | (137) |
| Total stockholders equity | 48,233 | (13,365) | 34,868 |
| Total liabilities and stockholders equity | \$ 53,420 | \$(14,295) | \$ 39,125 |

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See notes to unaudited pro forma consolidated balance sheets.

Table of Contents

ORTHOLOGIC CORP.
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
(in thousands, except per share data)
December 31, 2001

| | Historical OrthoLogic | Sale of Bone Device Business | Proforma OrthoLogic |
|--|--------------------------|---------------------------------|------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 19,503 | | \$ 19,503 |
| Short-term Investments | 11,008 | | 11,008 |
| Accounts receivable less allowance for doubtful accounts | 11,362 | (8,578)(1) | 2,784 |
| Inventories, net | 1,507 | (1,507)(1) | |
| Prepays and other current assets | 687 | (101)(1) | 586 |
| Deferred income taxes current | 2,631 | (2,631)(1) | |
| Total current assets | 46,698 | (12,817) | 33,881 |
| Furniture and equipment, net | 1,902 | (903)(1) | 999 |
| Long-term investments | | | |
| Deferred income taxes non-current | | | |
| Deposits and other assets | 92 | (7)(1) | 85 |
| Investment in Chrysalis BioTechnology | 750 | | 750 |
| Total assets | \$ 49,442 | \$(13,727) | \$ 35,715 |
| LIABILITIES & STOCKHOLDERS EQUITY | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 776 | \$ (458)(1) | \$ 318 |
| Accrued compensation | 2,415 | (164)(1) | 2,251 |
| Accrued CPM divestiture costs | 2,446 | | 2,446 |
| Other accrued liabilities | 1,022 | (848)(1) | 174 |
| Total current liabilities | 6,659 | (1,470) | 5,189 |
| Deferred rent and capital lease obligation | 287 | | 287 |
| Total liabilities | 6,946 | (1,470) | 5,476 |
| Commitments and contingencies | | | |
| Series B Convertible Preferred Stock, \$1,000 per value; 600 shares issued and outstanding; liquidation preference, \$600,000 at December 31, 2001 | 600 | | 600 |
| STOCKHOLDERS EQUITY | | | |
| Common stock, \$.0005 par value: | | | |
| 50,000,000 shares authorized; and 32,088,021 and 32,047,021 shares issued and outstanding | 16 | | 16 |
| Additional paid-in capital | 136,216 | | 136,216 |
| Common stock to be issued for legal settlement | 2,078 | | 2,078 |
| Accumulated deficit | (96,277) | (12,257)(1) | (108,534) |
| Treasury stock at cost, 41,800 shares | (137) | | (137) |
| Total stockholders equity | 41,896 | (12,257) | 29,639 |

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| | | | |
|--|-----------|------------|-----------|
| Total liabilities and stockholders equity | \$ 49,442 | \$(13,727) | \$ 35,715 |
|--|-----------|------------|-----------|

See notes to unaudited pro forma consolidated balance sheets.

Table of Contents

Notes to Unaudited Pro forma Consolidated Balance Sheets:

Divestiture

On November 26, 2003, OrthoLogic Corp. completed its previously announced sale of substantially all its bone device business assets pursuant to an Asset Purchase Agreement dated October 8, 2003, as amended on November 26, 2003. At the closing, OrthoLogic Corp. received \$93.0 million from dj Orthopedics, LLC, a wholly-owned subsidiary of dj Orthopedics, Inc., as the purchase price of the bone device business assets, of which \$7.5 million was put into escrow accounts and from which certain escrow fees were paid. dj Orthopedics, LLC also assumed approximately \$1.4 million of Orthologic Corp. s liabilities.

Of the \$7.5 million deposited into escrow accounts, \$7.0 million was placed into an account that dj Orthopedics, LLC may draw upon to fund any claims against OrthoLogic Corp. deemed eligible for indemnification. The remaining \$0.5 million was placed into an escrow account to fund the payment of employee stay-bonuses described in the Asset Purchase Agreement. Any remaining funds held in escrow in excess of the aggregate amount of any pending claims, together with any earnings or interest, will be released to OrthoLogic Corp. on the second anniversary of the closing.

- (1) To give effect to the disposition of the Bone Device Business as of balance sheet date presented. Pursuant to the Asset Purchase Agreement, Orthologic Corp. sold substantially all of the assets of the Bone Device Business, including substantially all of the related machinery, equipment, inventory, work in process, licenses, customer lists and intellectual property and certain agreements and contracts to dj Orthopedics. dj Orthopedics assumed substantially all of the Bone Device Business trade payables and other current liabilities less payables in an amount approximately equal to the amount of retained Medicare receivables. Therefore, the adjustment removes the related historical assets and liabilities of the Bone Device Business that will not be retained by OrthoLogic Corp.
 - (2) To give effect to the net cash proceeds, gain on disposition and related income taxes as a result of the sale of the Bone Device Business as if it occurred on September 30, 2003. The cash amount reflects the \$93.0 million payment from djOrthopedics net of the \$7.5 million placed in escrow, shown as escrow deposit receivable, and direct costs of the transaction of \$5.0 million, for net proceeds of \$80.5 million. The gain reflected in accumulated deficit is composed primarily of the cash proceeds, net of the net assets sold, direct costs, and related income taxes payable and the increase of the valuation allowance for the remaining deferred tax asset.
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Table of Contents

ORTHOLOGIC CORP.
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except share and per share data)
Nine months ended September 30, 2003

| | <u>Historical OrthoLogic</u> | <u>Sale of Bone Device Business (1)</u> | <u>Proforma OrthoLogic</u> |
|--|----------------------------------|---|--------------------------------|
| NET SALES | \$ 34,263 | \$ (34,263) | \$ |
| COST OF REVENUES | 5,088 | (5,088) | |
| GROSS PROFIT | 29,175 | (29,175) | |
| OPERATING EXPENSES | | | |
| Selling, general and administrative | 22,503 | (18,820) | 3,683 |
| Research and development | 6,299 | (236) | 6,063 |
| CPM divestiture and related charges | (477) | | (477) |
| Total operating expenses | 28,325 | (19,056) | 9,269 |
| OPERATING INCOME (LOSS) | 850 | (10,119) | (9,269) |
| OTHER INCOME | 387 | | 387 |
| INCOME (LOSS) BEFORE INCOME TAXES | 1,237 | (10,119) | (8,882) |
| Provision for income taxes | 31 | | 31 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | \$ 1,206 | \$ (10,119) | \$ (8,913) |
| Net income (loss) per common share basic | \$ 0.04 | | \$ (0.27) |
| Net income (loss) per common share diluted | \$ 0.04 | | \$ (0.27) |
| Basic shares outstanding | 32,892 | | 32,892 |
| Equivalent shares | 385 | | |
| Diluted shares outstanding | 33,277 | | 32,892 |

See notes to unaudited pro forma consolidated statements of operations.

Table of Contents

ORTHOLOGIC CORP.
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share data)
Nine months ended September 30, 2002

| | <u>Historical OrthoLogic</u> | <u>Sale of Bone Device Business (1)</u> | <u>Pro forma OrthoLogic</u> |
|---|----------------------------------|---|---------------------------------|
| REVENUES | | | |
| Net sales | \$28,221 | \$(28,221) | \$ |
| Royalties from co-promotion agreement | 1,872 | | 1,872 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total revenues | 30,093 | (28,221) | 1,872 |
| COST OF REVENUES | 4,621 | (4,621) | |
| | <u> </u> | <u> </u> | <u> </u> |
| GROSS PROFIT | 25,472 | (23,600) | 1,872 |
| | <u> </u> | <u> </u> | <u> </u> |
| OPERATING EXPENSES | | | |
| Selling, general and administrative | 20,534 | (16,917) | 3,617 |
| Research and development | 2,391 | (208) | 2,183 |
| CPM divestiture and related charges | (1,047) | | (1,047) |
| | <u> </u> | <u> </u> | <u> </u> |
| Total operating expenses | 21,878 | (17,125) | 4,753 |
| | <u> </u> | <u> </u> | <u> </u> |
| OPERATING INCOME (LOSS) | 3,594 | (6,475) | (2,881) |
| OTHER INCOME | 537 | | 537 |
| | <u> </u> | <u> </u> | <u> </u> |
| INCOME (LOSS) BEFORE INCOME TAXES | 4,131 | (6,475) | (2,344) |
| Provision for income taxes | 37 | | 37 |
| | <u> </u> | <u> </u> | <u> </u> |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | \$ 4,094 | \$ (6,475) | \$ (2,381) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net income (loss) per common share basic | \$ 0.13 | | \$ (0.07) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net income (loss) per common share diluted | \$ 0.13 | | \$ (0.07) |
| | <u> </u> | <u> </u> | <u> </u> |
| Basic shares outstanding | 32,615 | | 32,615 |
| Equivalent shares | 96 | | |
| | <u> </u> | <u> </u> | <u> </u> |
| Diluted shares outstanding | 32,711 | | 32,615 |
| | <u> </u> | <u> </u> | <u> </u> |

See notes to unaudited pro forma consolidated statements of operations.

Table of Contents

ORTHOLOGIC CORP.
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except share and per share data)
Year ended December 31, 2002

| | <u>Historical OrthoLogic</u> | <u>Sale of Bone Device Business (1)</u> | <u>Pro forma OrthoLogic</u> |
|---|----------------------------------|---|---------------------------------|
| REVENUES | | | |
| Net sales | \$ 38,159 | \$ (38,159) | \$ |
| Royalties from co-promotion agreement | 2,230 | | 2,230 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total revenues | 40,389 | (38,159) | 2,230 |
| COST OF REVENUES | <u>6,158</u> | <u>(6,158)</u> | <u> </u> |
| GROSS PROFIT | <u>34,231</u> | <u>(32,001)</u> | <u>2,230</u> |
| OPERATING EXPENSES | | | |
| Selling, general and administrative | 26,604 | (22,028) | 4,576 |
| Research and development | 3,765 | (277) | 3,488 |
| CPM divestiture and related charges | (1,047) | | (1,047) |
| | <u> </u> | <u> </u> | <u> </u> |
| Total operating expenses | 29,322 | (22,305) | 7,017 |
| OPERATING INCOME (LOSS) | <u>4,909</u> | <u>(9,696)</u> | <u>(4,787)</u> |
| OTHER INCOME | <u>706</u> | <u> </u> | <u>706</u> |
| INCOME (LOSS) BEFORE INCOME TAXES | <u>5,615</u> | <u>(9,696)</u> | <u>(4,081)</u> |
| Provision for income taxes | 6 | | 6 |
| | <u> </u> | <u> </u> | <u> </u> |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | <u>\$ 5,609</u> | <u>\$ (9,696)</u> | <u>\$ (4,087)</u> |
| Net income (loss) per common share basic | <u>\$ 0.17</u> | <u>\$ (0.13)</u> | <u>\$ (0.13)</u> |
| Net income (loss) per common share diluted | <u>\$ 0.17</u> | <u>\$ (0.13)</u> | <u>\$ (0.13)</u> |
| Basic shares outstanding | 32,556 | | 32,556 |
| Equivalent shares | 808 | | <u> </u> |
| | <u> </u> | <u> </u> | <u> </u> |
| Diluted shares outstanding | <u>33,364</u> | <u> </u> | <u>32,556</u> |

See notes to unaudited pro forma consolidated statements of operations.

Table of Contents

ORTHOLOGIC CORP.
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except share and per share data)
Year ended December 31, 2001

| | Historical OrthoLogic | Sale of Bone Device Business (1) | Pro forma OrthoLogic |
|---|--------------------------|--|-------------------------|
| REVENUES | | | |
| Net sales | \$ 59,338 | \$ (30,477) | \$ 28,861 |
| Royalties from co-promotion agreement | 3,018 | | 3,018 |
| Total revenues | 62,356 | (30,477) | 31,879 |
| COST OF REVENUES | | | |
| | 11,349 | (5,538) | 5,811 |
| GROSS PROFIT | | | |
| | 51,007 | (24,939) | 26,068 |
| OPERATING EXPENSES | | | |
| Selling, general and administrative | 46,556 | (17,282) | 29,274 |
| Research and development | 3,889 | (429) | 3,460 |
| CPM divestiture and related charges | 14,327 | | 14,327 |
| Total operating expenses | 64,772 | (17,711) | 47,061 |
| OPERATING INCOME (LOSS) | | | |
| | (13,765) | (7,228) | (20,993) |
| OTHER INCOME | | | |
| | 682 | | 682 |
| INCOME (LOSS) BEFORE INCOME TAXES | | | |
| Provision for income taxes | 12 | | 12 |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | | | |
| | \$ (13,095) | \$ (7,228) | \$ (20,323) |
| Net income (loss) per common share basic | \$ (0.42) | | \$ (0.65) |
| Net income (loss) per common share diluted | \$ (0.42) | | \$ (0.65) |
| Basic and diluted shares outstanding | 31,293 | | 31,293 |

See notes to unaudited pro forma consolidated statements of operations.

Table of Contents

ORTHOLOGIC CORP.
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except share and per share data)
Year ended December 31, 2000

| | Historical OrthoLogic | Sale of Bone Device Business (1) | Pro forma OrthoLogic |
|---|--------------------------|--|-------------------------|
| REVENUES | | | |
| Net sales | \$ 80,769 | \$ (20,509) | \$ 60,260 |
| Royalties from co-promotion agreement | 9,310 | | 9,310 |
| Total revenues | 90,079 | (20,509) | 69,570 |
| COST OF REVENUES | | | |
| | 18,289 | (4,186) | 14,103 |
| GROSS PROFIT | | | |
| | 71,790 | (16,323) | 55,467 |
| OPERATING EXPENSES | | | |
| Selling, general and administrative | 71,727 | (15,855) | 55,872 |
| Research and development | 4,689 | (577) | 4,112 |
| Legal settlements | 4,499 | | 4,499 |
| Write-off of goodwill | 23,348 | | 23,348 |
| Net gain from discontinuation of co-promotion agreement | (844) | | (844) |
| Total operating expenses | 103,419 | (16,432) | 86,987 |
| OPERATING INCOME (LOSS) | | | |
| | (31,629) | 109 | (31,520) |
| OTHER INCOME | | | |
| | 451 | | 451 |
| INCOME (LOSS) BEFORE INCOME TAXES | | | |
| | (31,178) | 109 | (31,069) |
| Provision for income taxes | 12 | | 12 |
| NET INCOME (LOSS) | | | |
| | \$ (31,190) | \$ 109 | \$ (31,081) |
| Net income (loss) per common share basic | \$ (1.04) | | \$ (1.04) |
| Net income (loss) per common share diluted | \$ (1.04) | | \$ (1.04) |
| Basic and diluted shares outstanding | 29,855 | | 29,855 |

See notes to unaudited pro forma consolidated statements of operations.

Table of Contents

Notes to Unaudited Pro forma Consolidated Statements of Operations

Divestiture

On November 26, 2003, OrthoLogic Corp. completed its previously announced sale of substantially all its bone device business assets pursuant to an Asset Purchase Agreement dated October 8, 2003, as amended on November 26, 2003. At the closing, OrthoLogic Corp. received \$93.0 million from dj Orthopedics, LLC, a wholly-owned subsidiary of dj Orthopedics, Inc., as the purchase price of the bone device business assets, of which \$7.5 million was put into escrow accounts and from which certain escrow fees were paid. dj Orthopedics, LLC also assumed approximately \$1.4 million of OrthoLogic Corp. s liabilities.

Of the \$7.5 million deposited into escrow accounts, \$7.0 million was placed into an account that dj Orthopedics, LLC may draw upon to fund any claims against OrthoLogic Corp. deemed eligible for indemnification. The remaining \$0.5 million was placed into an escrow account to fund the payment of employee stay-bonuses described in the Asset Purchase Agreement. Any remaining funds held in escrow in excess of the aggregate amount of any pending claims, together with any earnings or interest, will be released to OrthoLogic Corp. on the second anniversary of the closing.

- (1) To reflect the elimination of the historical revenues as well as historical costs and expenses relating to the operations of the Bone Device Business pursuant to the Asset Purchase Agreement, as if the transactions were consummated as of January 1, 2000. Any gain related to this transaction is not reflected in the pro forma statements of operations. The historical expenses of the Bone Device Business were derived using a variety of factors including percentage of revenues, headcount and specific identification which management believes are reasonable and representative of such historical expenses.

(c) Exhibits

2.1 Asset Purchase Agreement between OrthoLogic Corp. and dj Orthopedics, LLC dated October 8, 2003

2.2 Amendment No. 1 dated November 26, 2003 to the Asset Purchase Agreement between OrthoLogic Corp. and dj Orthopedics, LLC dated October 8, 2003

**OrthoLogic Corp. agrees to furnish supplementally a copy of any schedule to the Asset Purchase Agreement dated October 8, 2003 and to the Amendment No. 1 omitted from this filing to the Securities and Exchange Commission upon its request.

Table of Contents

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 hereunto duly authorized.

Dated: December 11, 2003

OrthoLogic Corp.

/s/ Thomas Trotter

Thomas Trotter
Chief Executive Officer

Table of Contents

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