

ORTHOLOGIC CORP  
Form 8-K  
December 11, 2003

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**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.**

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(Exact name of registrant as specified in its charter)

Delaware

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(State or other jurisdiction of incorporation)

**0-21214**

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(Commission File Number)

**86-0585310**

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(IRS Employer Identification Number)

**1275 West Washington, Phoenix, Arizona**

**85281**

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(Address of principal executive offices)

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(Zip Code)

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

Not Applicable

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

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**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.

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**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.

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

	Historical OrthoLogic	Sale of Bone Device Business	Proforma OrthoLogic
<b>ASSETS</b>			
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)	
	<hr/>	<hr/>	<hr/>
Total current assets	48,486	68,104	116,590
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
	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 56,679</b>	<b>\$ 73,941</b>	<b>\$ 130,620</b>
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>			
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
	<hr/>	500(2)	500
	<hr/>	<hr/>	<hr/>
Total current liabilities	6,265	3,672	9,937
Deferred rent and capital lease obligation	298		298
	<hr/>	<hr/>	<hr/>
Total liabilities	6,563	3,672	10,235
	<hr/>	<hr/>	<hr/>
Commitments and contingencies			
<b>STOCKHOLDERS EQUITY</b>			
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)
	<hr/>	<hr/>	<hr/>
Total stockholders equity	50,116	70,269	120,385
	<hr/>	<hr/>	<hr/>
<b>Total liabilities and stockholders equity</b>	<b>\$ 56,679</b>	<b>\$ 73,941</b>	<b>\$ 130,620</b>

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*See notes to unaudited pro forma consolidated balance sheets.*

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**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
<b>ASSETS</b>			
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
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>			
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			
<b>STOCKHOLDERS EQUITY</b>			
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



*See notes to unaudited pro forma consolidated balance sheets.*

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**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
<b>ASSETS</b>			
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)	
	<u>          </u>	<u>          </u>	<u>          </u>
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
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b>\$ 49,442</b>	<b>\$ (13,727)</b>	<b>\$ 35,715</b>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>			
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
	<u>          </u>	<u>          </u>	<u>          </u>
Total current liabilities	6,659	(1,470)	5,189
Deferred rent and capital lease obligation	287		287
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	6,946	(1,470)	5,476
	<u>          </u>	<u>          </u>	<u>          </u>
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
	<u>          </u>		<u>          </u>
<b>STOCKHOLDERS EQUITY</b>			
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)
	<u>          </u>	<u>          </u>	<u>          </u>
Total stockholders equity	41,896	(12,257)	29,639
	<u>          </u>	<u>          </u>	<u>          </u>

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<b>Total liabilities and stockholders equity</b>	<b>\$ 49,442</b>	<b>\$(13,727)</b>	<b>\$ 35,715</b>
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*See notes to unaudited pro forma consolidated balance sheets.*

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

	<b>Historical OrthoLogic</b>	<b>Sale of Bone Device Business (1)</b>	<b>Proforma OrthoLogic</b>
NET SALES	\$ 34,263	\$ (34,263)	\$
COST OF REVENUES	5,088	(5,088)	
	<u>          </u>	<u>          </u>	<u>          </u>
GROSS PROFIT	29,175	(29,175)	
	<u>          </u>	<u>          </u>	<u>          </u>
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)
	<u>          </u>	<u>          </u>	<u>          </u>
Total operating expenses	28,325	(19,056)	9,269
	<u>          </u>	<u>          </u>	<u>          </u>
OPERATING INCOME (LOSS)	850	(10,119)	(9,269)
OTHER INCOME			