

ORTHOLOGIC CORP
Form PREM14A
October 15, 2003

SCHEDULE 14A

**INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION**

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

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary proxy statement. Confidential, for use of the
 Definitive proxy statement. Commission only (as permitted
 Definitive additional materials. by Rule 14a-6(e)(2)).
 Soliciting material pursuant to Rule 14a-11(c) or 14a-12.

ORTHOLOGIC CORP.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than Registrant)

Payment of filing fee (check the appropriate box):

- No fee required.
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

Title of each class of securities to which transaction applies: N/A

2) Aggregate number of securities to which transaction applies: N/A

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): _____

4) Proposed maximum aggregate value of transaction: \$94.5 million, composed of \$93.0 million cash payment and \$1.5 million as the value of the assumed liabilities _____

Total fee paid: \$7,725.95

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[Fee paid previously with preliminary materials.

]

[Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

[LOGO]

1275 West Washington
Tempe, Arizona 85281

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held November 25, 2003

TO OUR STOCKHOLDERS:

A Special Meeting of Stockholders of OrthoLogic Corp., a Delaware corporation, will be held on Tuesday, November 25, 2003 at 8:00 a.m. local time, at our offices at 1275 West Washington, Tempe, Arizona 85281, for the following purposes:

- (1) To consider and vote upon a resolution for the sale of substantially all of the assets of OrthoLogic Corp. s bone growth stimulation device business, which may be deemed a sale of substantially all our assets for purposes of Delaware law; and
- (2) To transact such other business as may properly come before the Special 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 October 14, 2003 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 our corporate headquarters for any purpose germane to the meeting during ordinary business hours for 10 days prior to the meeting.

By order of the Board of Directors,

Thomas R. Trotter
Chief Executive Officer

Tempe,
Arizona

_____,
2003

IMPORTANT: It is important that your stockholdings be represented at this meeting. Whether or not you expect to attend the meeting, please complete, date and sign the enclosed Proxy and mail it promptly in the enclosed envelope to assure representation of your shares. No postage need be affixed if mailed in the United States.

OrthoLogic Corp.

PROXY STATEMENT FOR THE SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD NOVEMBER 25, 2003

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1275 West Washington
Tempe, Arizona 85281

**PROXY STATEMENT
SPECIAL MEETING OF STOCKHOLDERS
To Be Held November 25, 2003**

When used in this proxy statement, the terms OrthoLogic, we, our, or us refer to OrthoLogic Corp. or OrthoLogic Corp. and its subsidiaries, as appropriate in the context. Throughout this proxy statement, we refer to OL1000, SpinaLogic® and OrthoFrame® Mayo®, which are federally registered marks or common law trade marks of OrthoLogic. Chrysalin® is a federally registered mark of Chrysalis BioTechnology, Inc.

SOLICITATION, EXECUTION AND REVOCATION OF PROXIES

Proxies in the accompanying form are solicited on behalf, and at the direction, of the Board of Directors of OrthoLogic Corp. for use at the Special Meeting of Stockholders to be held on November 25, 2003 or any adjournment thereof (the Special Meeting) at our offices located at 1275 West Washington, Tempe, Arizona 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 sell substantially all assets of our bone growth stimulation device business. We are 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 only if signed by all such persons. If the stockholder is a corporation, the proxy should be signed in the name of such corporation by the president 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 our stockholders commencing on or about _____, 2003.

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 our corporate Secretary prior to the vote at the meeting, by written notice of revocation received by the Secretary prior to the vote at the meeting or by appearing in person at the 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 our directors, officers and regular employees. Such persons will receive no additional compensation for such services. Arrangements will also be made with certain brokerage firms and various other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of our 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. We have also retained the firm of Georgeson Shareholder Communications, Inc., to assist us in the solicitation of proxies. Georgeson Shareholder Communications, Inc. is located at 111 Commerce Road, Carlstadt, New Jersey, 07072-2586. We will pay it approximately \$_____ in fees plus expenses for their services. All expenses incurred in connection with this solicitation will be borne by us.

The mailing address of our principal corporate office is 1275 West Washington, Tempe, Arizona 85281.

SUMMARY OF PROPOSED ASSET SALE TERMS

The following summary highlights the material terms of the proposed sale of substantially all of the assets of our bone growth stimulation device business (the Bone Device Business) to dj Orthopedics, LLC, a Delaware limited liability company (dj Orthopedics or the Buyer) and our use of the proceeds. This summary does not contain all of the information that may be important for you to consider in evaluating the proposed sale. We have included cross references to direct you to more complete information that appears elsewhere in this proxy statement. You should read this entire proxy statement, the Asset Purchase Agreement and the other documents attached to this proxy statement in their entirety to fully understand the asset sale and its consequences to you before voting. A copy of the Asset Purchase Agreement between us and the Buyer dated October 8, 2003 governing the asset sale is attached to this proxy statement as Exhibit A.

The Companies. OrthoLogic manufactures and sells medical devices that use proprietary technology to stimulate bone growth and spinal fusion. We call this line of business, which includes our external bone fixation device, our bone growth stimulation business and refer to it in this proxy statement as the Bone Device Business. Sales from the Bone Device Business account for all of our sales revenue. We are also involved in the research and development of Chrysalin®, a synthetic peptide for bone and tissue repair. Chrysalin is currently undergoing human clinical trials. Our website is www.orthologic.com.

dj Orthopedics, LLC is a wholly-owned subsidiary of dj Orthopedics, Inc., a global orthopedic sports medicine company specializing in the design, manufacture and marketing of products and services that rehabilitate soft tissue and bone, help protect against injury and treat osteoarthritis of the knee. dj Orthopedics, Inc. sells over 600 orthopedic products, including rigid knee braces, soft goods and specialty and other complementary orthopedic products. dj Orthopedics, LLC is the principal operating subsidiary dj Orthopedics, Inc. Its website is www.djortho.com.

Assets Transferred and Liabilities Assumed. We are selling substantially all of the assets of our Bone Device Business (other than our Medicare accounts receivable, which were approximately \$1.0 million in the aggregate as of August 31, 2003) including substantially all of the related machinery, equipment, inventory, work in process, licenses, customer lists and intellectual property and some of our agreements and contracts. dj Orthopedics will assume substantially all of our trade payables and other current liabilities related to the Bone Device Business, less an amount approximately equal to the net amount of retained Medicare receivables. dj Orthopedics is also offering employment to substantially all of the Bone Device Business staff. See Description of the Asset Sale Assets Transferred and Liabilities Assumed on Page 10.

Purchase Price. If the proposed sale to dj Orthopedics is consummated, dj Orthopedics will pay us \$93.0 million in cash and will assume the trade payables and other current liabilities discussed above, which were approximately \$1.3 million as of August 31, 2003. The purchase price is subject to reduction on a dollar-for-dollar basis if our closing date net working capital (as defined in the Asset Purchase Agreement) is below \$8.0 million. See Description of Asset Sale Consideration to be Received in the Asset Sale on Page 10.

dj Orthopedics will deposit \$7.5 million of the \$93.0 million purchase price in an escrow account that dj Orthopedics may draw upon to fund any claims against us deemed eligible for indemnification and other commitments related to stay-bonuses under 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 us on the second anniversary of the closing.

Conditions to the Transaction. dj Orthopedics has the right to terminate the sale if certain conditions are not satisfied prior to closing, including the following:

the Bone Device Business shall not have suffered, a material adverse effect (as defined in the Asset Purchase Agreement), such as any adverse changes in the laws relating to reimbursements for purchases of medical devices of the type manufactured and sold by the Bone Device Business, or our failure to generate specified cumulative levels of earnings before interest, taxes, depreciation and amortization.

none of our material suppliers, distributors or customers has terminated its relationship with us or notified us that it intends to do so;
receipt of all necessary government approvals and consents of all parties necessary to assign material contracts to dj Orthopedics;
OrthoLogic stockholder approval of the sale;

receipt by dj Orthopedics of financing to consummate the sale.

See Other Material Terms of the Asset Purchase Agreement Conditions of the Closing on Page 11.

Representations and Warranties. The Asset Purchase Agreement contains customary representations, warranties and covenants. All representations and warranties will survive the closing and will expire on the second anniversary of the closing, with some customary exceptions. See Other Material Terms of the Asset Purchase Agreement Representations and Warranties, on Page 11.

Indemnification. We have agreed to indemnify dj Orthopedics for any losses and claims against it arising from our breach of any covenants or any representations or warranties in the Asset Purchase Agreement and other matters. Our indemnity obligations are capped at the value of the purchase price under the Asset Purchase Agreement. Our payment obligations only commence after dj Orthopedics has absorbed the first \$250,000 of claims otherwise eligible for indemnification. dj Orthopedics has agreed to similar indemnification obligations in favor of us. See Other Material Terms of the Asset Purchase Agreement Indemnification on Page 12.

We have established an escrow account into which we will deposit \$7.5 million of the purchase price. The funds will be divided into two accounts: one for \$7.0 million from which dj Orthopedics indemnity and breach of contract claims eligible for indemnification will be paid and the other for \$0.5 million from which a portion of agreed upon incentive stay bonuses will be paid to former OrthoLogic executives on the first anniversary of the closing.

The remaining funds in the \$7.0 million escrow account, in excess of the amount of any pending claims, will be released to us on the second anniversary of the closing.

Termination Fees. We must pay a termination fee to dj Orthopedics if it terminates the Asset Purchase Agreement under specified circumstances as follows:

A \$2.0 million fee if the termination is because of our failure to obtain stockholder approval.

A \$2.0 million fee and reimbursement of up to \$2.0 million of expenses if the termination is because our Board decides to accept a different, superior offer as defined in, and subject to, the provisions of the Asset Purchase Agreement.

dj Orthopedics must pay us a \$2.0 million termination fee if we terminate the Asset Purchase Agreement because dj Orthopedics fails to obtain financing as a result of the status of or any change in dj Orthopedics financial condition.

Post-Closing Agreements. We have agreed that we will not, for a period of five years following the closing date, enter into product markets with a bone growth stimulation device that competes with the Bone Device Business anywhere in the world. We have also agreed that for two years following the closing, we will not solicit former OrthoLogic customers or distributors to divert them from the Bone Device Business. We will enter into various other agreements with dj Orthopedics relating to the transfer of the Bone Device Business. See Other Material Terms of the Asset Purchase Agreement Conditions to the Closing and Noncompetition and Nonsolicitation Agreements on Page 12.

Opinions of Our Financial Advisors. On October 9, 2003, J.P. Morgan Securities Inc. (J.P. Morgan), our financial advisor, delivered its opinion to us that, as of that date, and based on and subject to the matters described in its written opinion, the consideration we expect to receive from the sale is fair from a financial point of view to OrthoLogic. Because J.P. Morgan, through its affiliate J.P. Morgan Partners, LLC, owns approximately 41% of dj Orthopedics, Inc. (with voting control over approximately 47%), we also obtained an opinion from First Albany Corporation. First Albany Corporation's written opinion dated as of October 8, 2003 confirmed the fairness of the consideration we expect to receive from a financial point of view. See Opinions of Financial Advisors on Page 17.

The written opinions of J.P. Morgan dated October 9, 2003 and First Albany Corporation dated October 8, 2003, are attached to this proxy statement as Exhibit B. The J.P. Morgan and First Albany Corporation opinions are directed to our Board of Directors and do not constitute a recommendation to any stockholder as to any matter relating to the transactions described in this proxy statement.

QUESTIONS AND ANSWERS ABOUT THE PROPOSAL

What am I being asked to vote upon?

Each stockholder is being asked to vote in favor of a transaction in which we will sell substantially all of the assets of our Bone Device Business, other than Medicare accounts receivable, to dj Orthopedics for \$93.0 million in cash and the assumption of our related trade payables and other current liabilities, less an amount approximately equal to the net amount of the retained Medicare receivables.

This sale may constitute a sale of substantially all our assets for purposes of Delaware law, which governs our corporate matters. Accordingly, the sale is being submitted to stockholders for approval pursuant to Section 271 of the Delaware General Corporation Law.

Why has the Board decided to sell the bone growth stimulation device division?

Our Board of Directors unanimously decided that it is in the best interests of OrthoLogic to sell the Bone Device Business assets. Currently, we are devoting our funds and efforts to pursue two lines of business: developing and selling bone growth stimulation devices and researching and developing the Chrysalin-based products. We believe we should focus our efforts solely and specifically on developing the Chrysalin product platform because we believe the orthopedic field is shifting to a future in orthobiologics. We believe Chrysalin is a promising entry into orthobiologics for us. The sale of our Bone Device Business will generate significant capital to fund our Chrysalin research and development and allow us to explore other complementary orthobiologic technology opportunities that may arise from time to time. See Proposal to Approve the Sale of the Bone Device Business Reasons for Engaging in the Asset Sale on Page .

What will OrthoLogic receive in exchange for the Bone Device Business assets?

dj Orthopedics will pay us \$93.0 million in cash and assume our trade payables and other current liabilities related to the Bone Device Business, less an amount equal to the net amount of the retained Medicare receivables if the sale of the Bone Device Business closes. A \$7.5 million portion of the purchase price will be held in escrow for at least two years after the closing and drawn upon to pay any claims against us deemed eligible for indemnification and other commitments related to stay bonuses that will be paid to former OrthoLogic executives.

What will the stockholders receive if the asset sale is approved and closes?

There will be no distributions made to the stockholders as a result of the sale of the Bone Device Business assets. Rather, we will use the proceeds from the sale primarily to fund the research and development of our Chrysalin product platform.

What was the process by which OrthoLogic chose to sell the Bone Device Business assets to dj Orthopedics?

We, with the help of our financial advisors, including J.P. Morgan, explored a variety of strategic alternatives including continued funding of our Chrysalin research through the revenue generated by our existing Bone Device Business and/or securing a strategic partner to share the Chrysalin research costs. After reviewing our available alternatives, our Board of Directors directed us to pursue an asset sale of our Bone Device Business. In a

process spanning 18 months, during which we approached 20 different potential buyers, we received four indications of interest and, after additional negotiations, concluded that a transaction with dj Orthopedics represented the best value for selling the Bone Device Business. See Opinions of our Financial Advisors on Page 17.

What will be the management structure of OrthoLogic after the sale?

Thomas R. Trotter, our President and CEO, has a commitment to stay through the end of this year. Sherry Sturman, our Senior Vice President of Finance and CFO, and Dr. James Ryaby, our Chief Technology Officer and Senior Vice President, Research and Clinical, each are expected to remain after the sale. All of our other employees who are currently directly involved with the Chrysalin program are expected to remain with OrthoLogic immediately after the sale. We expect that immediately after closing, we will have approximately 30 employees. Our administrative staff will report to Ms. Sturman. Ms. Sturman and Dr. Ryaby will report to the CEO.

What are the risks of the proposed asset sale?

If the stockholders approve the sale of the Bone Device Business assets and the sale is consummated, we will be selling our only revenue producing business and we will become less diversified. We will become a drug development company. The drug development industry has heavy investment requirements and high risk, but high profit potential if a drug is successful. We cannot assure you that our available resources will be sufficient to fund the commercialization of a Chrysalin-based product, or that commercialization can be accomplished. See Risk Factors on Page 7.

What will occur if the sale transaction is not approved?

If the sale transaction is not approved we will not consummate the sale. We will continue to operate our on-going business and re-evaluate our strategic alternatives. In addition, we will be required to pay dj Orthopedics a break-up fee of \$2.0 million if we fail to obtain our stockholders approval and the sale is terminated.

What are the federal tax consequences of the asset sale to OrthoLogic?

We believe we will be able to apply our approximately \$63.0 million tax loss carry-forward to offset the majority of the taxable gain from the sale of the Bone Device Business assets.

Am I entitled to appraisal or dissenter s rights?

No. Stockholders are not entitled to any dissenter s or appraisal rights with respect to the sale of the Bone Device Business assets under Delaware law or our Certificate of Incorporation.

Where and when is the special meeting?

The special meeting will be held on Tuesday, November 25, 2003 at 8:00 a.m. local time, at our offices at 1275 West Washington, Tempe, Arizona 85281.

Who may vote?

Holders of our common stock at the close of business on October 14, 2003, the record date, may vote at the meeting or any adjournment or postponement of the meeting. On October 14, 2003, _____ shares of our common stock were issued and outstanding. Each stockholder is entitled to one vote per share.

How do I vote?

You may vote by proxy or in person at the meeting. To vote by proxy, please complete, sign, date and return your proxy card in the postage-prepaid envelope that we have provided.

How do proxies work?

Giving your proxy means that you authorize us to vote your shares at the special meeting in the manner you direct. If you sign, date and return the enclosed proxy card but do not specify how to vote, we will vote your shares FOR the sale of substantially all of the assets of the Bone Device Business. We do not know of any other matters that will be brought before the special meeting. If, however, other matters are properly brought before the special meeting, we will vote your proxy on those matters as determined by the person identified on the proxy card as your proxy.

How do I revoke my proxy?

You may revoke your proxy before it is voted by submitting a new proxy with a later date, or by providing written notice of such revocation to the Secretary of OrthoLogic at our offices at 1275 West Washington, Tempe, Arizona 85281.

What happens if I choose not to submit a proxy or to vote?

If you do not submit a proxy and do not vote at the special meeting, it will have the same effect as a vote against approval of the sale of the assets of the Bone Device Business.

What is a quorum ?

To vote on proposals at the special meeting, a quorum must be present. A quorum requires the presence, in person or by proxy, of the holders of at least a majority of the votes entitled to be cast at the meeting. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when you fail to provide voting instructions to your broker for shares that your broker holds on your behalf in a nominee name, which is commonly referred to as holding your shares in street name. Under those circumstances, your broker may be authorized to vote for you on some routine items but is prohibited from voting on other items. Those items for which your broker cannot vote result in broker non-votes.

How many votes are required to approve the sale of the Bone Device Business assets?

The affirmative vote of a majority of the outstanding shares of common stock entitled to vote is necessary for approval of the sale of the Bone Device Business assets. For this purpose, if you do not vote or vote to abstain on this proposal, your action will have the same effect as if you voted against the proposal. Broker non-votes also will have the same effect as a vote against the proposal.

Who pays for this proxy solicitation?

Our Board of Directors is soliciting your proxy. We will pay the expenses of preparing and distributing this proxy statement and soliciting proxies, including the reasonable expenses of brokerage houses and other custodians, nominees and fiduciaries for forwarding solicitation materials to beneficial owners. We have also retained the firm, Georgeson Shareholder Communications, Inc., to assist us in the solicitation of proxies and we will pay them approximately \$_____ in fees plus expenses for their services.

Where can I find more information about OrthoLogic and this proposal?

You can get more information about us by inspecting our annual, quarterly and other reports which we file with the U.S. Securities and Exchange Commission, by copying them at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549 or by calling the SEC at 1-800-SEC-0330 (the SEC). You can obtain these reports from the SEC website at www.sec.gov through the EDGAR system or by contacting us directly at the address and telephone number below.

If you have other questions about the proposal or the special meeting you can contact us at the following address:

OrthoLogic Corp.
Attn: Investor Relations
1275 West Washington
Tempe, Arizona 85281
(602) 286-5220

The information contained or incorporated in this proxy statement constitutes the information we believe you should rely on in deciding how to vote on the proposal. We have not authorized anyone to provide you with information that is different from what is contained or incorporated in this proxy statement. This proxy statement is dated _____, 2003. You should not assume that the information contained in this proxy statement is accurate as of any date other than this date. See Incorporation of Certain Documents by References on Page 39.

RISK FACTORS

Risks if Asset Sale is not Approved

If the asset sale is not approved, OrthoLogic will continue to operate the Bone Device Business unless and until it is able to negotiate another transaction that the Board of Directors believes is acceptable to the stockholders and to OrthoLogic. As discussed below under Proposal To Approve the Sale of the Bone Device Business Reasons for Engaging in the Asset Sale, the Board of Directors believes that we will need additional funding to properly continue the development of our Chrysalin product platform while still making the necessary investments in the Bone Device Business to maintain our historical growth rates and profitability. To the extent that we do not obtain needed capital through the sale of the Bone Device Business, we will have to obtain it through the issuance of additional debt or equity, by entering into a joint venture pursuant to which we share our rights to the Chrysalin product platform, or through other means, any one of which may reduce the value to us, perhaps substantially, of any commercialization of Chrysalin products. There is no guarantee that we would be able to obtain such funding on terms acceptable to us or at all.

Risks if the Asset Sale is Approved

The sale might not be consummated even though the stockholders approve the sale.

Stockholder approval is only one of the closing conditions. If the remaining closing conditions are not satisfied or waived, the sale might not be consummated, even if the stockholders approve the sale.

By completing the asset sale, we will become less diversified.

By selling our Bone Device Business assets, we will be selling our only business that is generating revenue. We will become a pure drug research and development company focused on the development of the Chrysalin product platform. We may invest in other orthobiologic or complementary technology in the future, but we have no current specific plans to do so at this time. This would increase our business risk because we will be less diversified than before the sale of the Bone Device Business assets and because our remaining business is in the relatively high-risk, but potentially high reward, field of orthobiologic pharmaceutical development.

After the sale, we will become a pure drug research and development company in a highly regulated field with high investment costs and high risks.

After the sale, we will be a drug research and development company. We currently have no pharmaceutical products being sold or ready for sale and do not expect to be able to introduce any pharmaceutical products for at least several years. Our Chrysalin product platform is still in the human testing phase for two potential products. The U.S. Food and Drug Administration (FDA) and comparable agencies in many foreign countries impose substantial limitations on the introduction of new pharmaceuticals through costly and time-consuming laboratory and clinical testing and other procedures. The process of obtaining FDA and other required regulatory approvals is lengthy, expensive and uncertain. Chrysalin, as a new drug, is subject to the most stringent level of FDA review.

Even after we have invested substantial funds in the development of our three Chrysalin products and even if the results of our current clinical trials are favorable, there can be no guarantee that the FDA will grant approval of Chrysalin for the indicated uses or that it will do so in a timely manner.

If we successfully bring one or more products to market, there is no assurance that we will be able to successfully manufacture or market the products or that potential customers will buy them if, for example, a competitive product has greater efficacy or is deemed more cost effective. In addition, the market in which we will sell any such products is dominated by a number of large corporations that have vastly greater resources than we have, which may impact our ability to successfully market our products or maintain any technological advantage we might develop. We also would be subject to changes in regulations governing the manufacture and marketing of our products, which could increase our costs, reduce any competitive advantage we may have and/or adversely affect our marketing effectiveness.

FORWARD-LOOKING STATEMENTS

When used in this proxy statement, the words estimate, project, intend, expect and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement. Actual results may differ materially from those contemplated in forward-looking statements and projections. Risks and uncertainties that may cause such differences include, but are not limited to, our ability to close the sale of the Bone Device Business assets, the effects on OrthoLogic if the sale is not completed, and other risk factors detailed under Risk Factors, above and in our Securities and Exchange Commission filings, including our Form 10-K for the year ended December 31, 2002 and Form 10-Q for the quarter ended June 30, 2003.

PROPOSAL TO APPROVE THE SALE OF THE BONE DEVICE BUSINESS

If the sale of the assets of our Bone Device Business is approved by our stockholders, we intend to complete the sale of substantially all of the assets of the Bone Device Business to dj Orthopedics pursuant to the terms of the Asset Purchase Agreement. We expect to use the net proceeds of the sale to fund the development of our Chrysalin product platform and to explore other opportunities in orthobiologic or complementary technologies that may come up from time to time. A detailed description of the asset sale, and related information is included in this proxy statement. Descriptions of the asset sale in this proxy statement are qualified in their entirety by reference to the Asset Purchase Agreement that is attached to this proxy statement as Exhibit A. Stockholders are encouraged to read the Asset Purchase Agreement in its entirety.

OrthoLogic Corp.

OrthoLogic develops, manufactures and markets proprietary, technologically advanced orthopedic products designed to promote the healing of musculoskeletal bone and tissue, with particular emphasis on fracture healing and spinal repair. Our products are designed to enhance the healing of diseased, damaged, degenerated or recently repaired musculoskeletal tissue. Our products focus on improving the clinical outcomes and cost-effectiveness of orthopedic procedures that are characterized by compromised healing, high-cost, potential for complication and long recuperation time.

In 1999, we exercised our option to license the United States development, marketing, and distribution rights for the fracture indications for Chrysalin, a new tissue repair synthetic peptide. In 2000, we exercised our option to license Chrysalin for all orthopedic applications worldwide. Since that time, our research and development efforts have focused primarily on our Chrysalin product development program. We currently have three potential Chrysalin products either in human clinical trials or in late-stage pre-clinical development.

Products

Our Bone Device Business product line, which comprises all of our current products, includes bone growth stimulation and fracture fixation devices.

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Bone Growth Stimulation Products. The OL1000 is a U.S. Food and Drug Administration (FDA) approved portable, noninvasive, physician-prescribed, electromagnetic bone growth stimulator designed for patients with nonunion fractures. The OL1000 comprises two magnetic field treatment transducers (coils) and a microprocessor-controlled signal generator that delivers a highly specific, low energy signal to the injured area. The device is attached to the patient's arm, leg or other area where there is a nonunion fracture. The OL1000 then evenly distributes a magnetic field over the patient's injured area.

The patient wears the device for 30 minutes each day. We believe the reduced treatment time leads to increased patient compliance with treatment protocol. In addition, the micro-controller tracks the patient's daily treatment compliance.

The OL1000 is used for the noninvasive treatment of an established nonunion fracture acquired secondary to trauma, excluding vertebrae and all flat bones. A nonunion fracture is considered to be established when the fracture site shows no visibly progressive signs of healing.

The OL1000 SC is an FDA approved single coil device, which utilizes the same combined magnetic field as the OL1000, is available in three sizes and is designed to be more comfortable for patients with certain types of fractures.

SpinaLogic® is a portable, noninvasive, electromagnetic bone growth stimulator, which enhances the healing process as an adjunct to spinal fusion surgery. SpinaLogic offers benefits similar to those of the OL1000 in that it is relatively easy to use, requires a small power supply and requires only 30 minutes of treatment per day. The patient attaches the device to the lumbar injury location where it provides localized magnetic field treatment to the fusion site. Like the OL1000, the SpinaLogic device contains a micro-controller that tracks the patient's daily treatment compliance and can easily be checked by the surgeon upon follow-up visits. SpinaLogic is approved by the FDA as an adjunct treatment for primary lumbar spinal fusions for one or two levels. It is designed for single patient use and is programmed for 270 consecutive, 30-minute daily treatments.

Our OL1000 product line is sold primarily through our direct sales force supplemented by regional distributors. Our SpinaLogic product line is sold exclusively through a worldwide spine product distributor.

Fracture Fixation Devices. We began to manufacture and distribute the OrthoFrame®/Mayo® line of external fixation products in 1993. The OrthoFrame/Mayo product is an external fixation device used in conjunction with surgical procedures. It is low profile, lightweight, and primarily sold to hospitals. We temporarily ceased manufacturing this product in 2000 to improve the product packaging, and began its relaunch in the fourth quarter of 2002.

Products In Research

In addition to our Bone Device Business products, we are developing a Chrysalin-based product platform. In January 1998, we made a minority equity investment (less than 10%) in a biotech firm, Chrysalis BioTechnology, Inc. (Chrysalis), and acquired, as part of that investment, an option to license a unique synthetic peptide called TP508, or Chrysalin. Chrysalin is a 23-amino acid synthetic peptide representing a fragment of the human thrombin molecule. Thrombin has been shown to be involved in the healing process for both soft tissue and bone. By mimicking specific attributes of the thrombin molecule, Chrysalin stimulates the body's natural healing processes, resulting in accelerated tissue repair.

During 2001 we completed a Phase 1/2 human clinical trial utilizing Chrysalin for fracture repair to test the safety and preliminary efficacy of Chrysalin. In July 2002, we received authorization to begin a Phase 3 human clinical trial under an Investigational New Drug application from the U.S. Food and Drug Administration (FDA). The trial will be performed at 25 to 30 clinical sites and will include approximately 500 patients.

In March 2002, we received authorization from the FDA to commence a Phase 1/2 clinical trial for a spinal fusion indication for Chrysalin. We began enrolling patients during the fourth quarter of 2002. The clinical trial will include approximately 330 patients and will be performed at 15 to 20 centers in the United States. The purpose of

the study is to evaluate the safety and preliminary efficacy of Chrysalin in combination with allograft bone (donor bone graft). The patient enrollment process is expected to take approximately 18 to 24 months with a nine-month follow-up period. We also hope to begin a Phase 1/2 human clinical trial for Chrysalin for articular cartilage repair in 2004.

We have not yet applied for FDA approval to market Chrysalin and there is no assurance that we will do so or that we would receive such approval if sought.

OrthoLogic does not own the patents to Chrysalin. Chrysalin was developed by and patented by Chrysalis BioTechnology, Inc., a company in which we hold a minority equity interest. We obtained the worldwide rights to use Chrysalin for all orthopedic indications through a series of licensing agreements with Chrysalis BioTechnology, Inc.

dj Orthopedics

dj Orthopedics, LLC is a wholly-owned subsidiary of dj Orthopedics, Inc., a global orthopedic sports medicine company specializing in the design, manufacture and marketing of products and services that rehabilitate soft tissue and bone, help protect against injury and treat osteoarthritis of the knee. dj Orthopedics, Inc. sells over 600 orthopedic products, including rigid knee braces, soft goods and specialty and other complementary orthopedic products. dj Orthopedics, LLC is the principal operating subsidiary dj Orthopedics, Inc.

Description of the Asset Sale

On October 9, 2003, we announced that we had entered into an Asset Purchase Agreement to sell our Bone Device Business assets (including the rights to produce and market the OL1000, OL1000SC, SpinaLogic and OrthoFrame/Mayo) to dj Orthopedics. Upon the closing of the asset sale, we will assign and dj Orthopedics will assume and agree to perform those obligations outstanding on or arising after the closing date relating to the operation of the Bone Device Business (including various liabilities related to our employees).

Consideration to be Received in the Asset Sale. In exchange for the Bone Device Business assets, dj Orthopedics will pay us \$93.0 million in cash at closing and assume substantially all of our trade payables and other current liabilities related to the Bone Device Business, less an amount approximately equal to the net amount of Medicare receivables.

The \$93.0 million purchase price is subject to certain adjustments. In particular, the purchase price may be adjusted downward on a dollar-for-dollar basis if the closing date net working capital (as defined in the Asset Purchase Agreement) is less than \$8.0 million. As of August 31, 2003, the net working capital, as so defined, was approximately \$9.0 million. In addition, the purchase price may be adjusted downward by the amount by which Medicare accounts receivable excluded from the purchased assets exceeds the amount of trade payables we retained.

Of the \$93.0 million we will receive in the sale, \$7.5 million will be placed in an escrow account. The funds will be divided into two accounts: \$7.0 million from which dj Orthopedic's eligible indemnity and breach of contract claims, if any, may be paid and \$0.5 million from which a portion of the agreed upon incentive stay bonuses will be paid by the Buyer to former OrthoLogic executives on the first anniversary of the closing. The remaining funds in the \$7.0 million escrow account, in excess of the amount of any pending claims, will be released to us on the second anniversary of the closing.

Assets Transferred and Liabilities Assumed. We are selling and transferring substantially all of the assets of our Bone Device Business (other than cash and accounts receivable related to Medicare), which includes substantially all of the Bone Device Business non-Medicare accounts receivable, equipment, work-in-process, inventory, licenses, customer lists and rights to intellectual property and some contracts and agreements. dj Orthopedics will assume our obligations under the assumed contracts and will agree to perform our obligations under substantially all Bone Device Business contracts that are not assumed, pursuant to the terms of a subcontracting agreement. dj Orthopedics also is hiring substantially all of the Bone Device Business staff and

assuming or otherwise relieving us of related employee obligations. However, any obligation not expressly assumed by dj Orthopedics pursuant to the Asset Purchase Agreement will remain our responsibility, which will include obligations related to any employee severance payments, change-in-control severance payments, worker's compensation claims, stock options, taxes, liabilities related to excluded assets and undisclosed or contingent liabilities, if any.

Other Material Terms of the Asset Purchase Agreement

Representations and Warranties. The Asset Purchase Agreement contains customary representations and warranties from us to dj Orthopedics relating to, among other things:

due organization and good standing;

corporate authority to enter into the Asset Purchase Agreement;

the accuracy of financial statements;

ownership of the Bone Device Business assets;

absence of certain liabilities;

compliance with laws, including environmental and safety laws;

absence of material changes or events;

tax matters;

absence of liabilities related to employee benefit plans;

absence of litigation;

matters related to the amount and condition of the Bone Device Business assets, including intellectual property and other intangible assets; and

matters related to contracts and commitments.

dj Orthopedics has made representations and warranties to us regarding its legal capacity and authority to enter into and perform its obligations under the Asset Purchase Agreement, its financing commitment regarding the sale and the lack of required consents or approvals.

Most of our and dj Orthopedics's representations and warranties expire at the two year anniversary of the closing. Some, related to organization, authorization and the absence of brokers, survive indefinitely and others, related principally with taxes, employment benefits, the environment and government contracts expire 120 days after the respective statute of limitations for such claims expire.

Conditions to the Closing. The closing of the sale will be held promptly after approval by our stockholders and the satisfaction of all other conditions to closing. The obligation of dj Orthopedics to purchase the assets of the Bone Device Business is subject to various conditions, which must be satisfied prior to January 31, 2004, including the following:

our representations and warranties must be true and correct on the closing date;

the Bone Device Business shall not have suffered, a material adverse effect (as defined in the Asset Purchase Agreement), such as any adverse changes in the laws relating to reimbursements for purchases of medical devices of the type manufactured and sold by the Bone Device Business, or our failure to generate specified cumulative levels of earnings before interest, taxes, depreciation and amortization.

that none of the material suppliers, distributors or customers of the Bone Device Business has terminated its relationship with us or notified us that it intends to do so;

the parties shall have entered into a transition services agreement governing the provision of certain transition services, a sublease governing the lease by dj Orthopedics of certain space in our headquarters facility, an escrow agreement governing the escrow of \$7.5 million of the purchase price, a subcontract agreement by which we will temporarily subcontract our obligations under Bone Device Business-related contracts to dj Orthopedics while dj Orthopedics negotiates new

contracts with the customers, and a billing services agreement by which we will subcontract the collection of the retained Medicare receivables to dj Orthopedics;

receipt of all necessary government approvals and the consent of all parties necessary to transfer and assign material Bone Device Business contracts;

approval by our stockholders of the sale of the Bone Device Business assets; and

dj Orthopedics shall have obtained financing necessary to fund the purchase.

Indemnification. We have agreed to indemnify dj Orthopedics for any losses and claims against it arising from:

our breach of any covenants or any representations or warranties in the Asset Purchase Agreement;

any liabilities we have agreed to retain;

any of the assets dj Orthopedics did not purchase;

some claims arising out of conduct that occurred prior to the closing;

taxes; and

bulk transfer laws.

Of the \$93.0 million purchase price, \$7.0 million will be deposited in an escrow fund to pay for such eligible indemnity claims, if any, that are brought to us within two years of the closing. The eligible indemnity claims are, in the aggregate, monetarily capped at the value of the purchase price under the Asset Purchase Agreement. Our payment obligations under the indemnity commence after dj Orthopedics has absorbed the first \$250,000 of claims otherwise eligible for indemnity under the indemnity provisions.

dj Orthopedics has agreed to indemnify us for any of our losses resulting from any inaccuracy in or breach or nonperformance of any of dj Orthopedics' representations, warranties, covenants or agreements, its conduct and operation of the Bone Device Business after the closing and its failure to pay, perform or otherwise discharge the liabilities it agreed to assume as part of its purchase of the Bone Device Business.

Termination and Breakup Fee. We must pay a termination fee to dj Orthopedics if it terminates the Asset Purchase Agreement under specified circumstances as follows:

A \$2.0 million fee if the termination is because of our failure to obtain stockholder approval.

A \$2.0 million fee and reimbursement of up to \$2.0 million of expenses if the termination is because our Board decides to accept a different, superior offer as defined in, and subject to, the provisions of the Asset Purchase Agreement.

dj Orthopedics must pay us a \$2.0 million termination fee if we terminate the Asset Purchase Agreement because dj Orthopedics fails to obtain financing as a result of the status of or any change in dj Orthopedics' financial condition.

Noncompetition and Nonsolicitation Agreements. We have agreed that we will not, for a period of five years following the closing date, enter into product markets with a bone growth stimulation device that competes with the Bone Device Business anywhere in the world. Further, for two years after the closing, we may not solicit our former Bone Device Business customers or distributors to divert them from the Bone Device Business. We and dj Orthopedics have also agreed that, for two years after the closing, neither will not solicit the other's remaining employees or otherwise induce them to leave such employment.

Reasons for Engaging in the Asset Sale

Our Board of Directors believes that the proposed sale of the Bone Device Business assets to dj Orthopedics under the terms of the Asset Purchase Agreement is in our best interests and the best interests of our stockholders. Among other things, the Board believes that the sale is an essential step in carrying out our current strategy to transform ourselves from an orthopedic medical device company to a orthobiologics company by focusing on the development of the Chrysalin product platform.

In reaching the decision to sell the Bone Device Business assets, our Board of Directors considered a number of factors, including those described below:

Emphasis on Orthobiologics. Our Board of Directors believes the orthopedic healing industry is moving its focus from mechanical fixation devices to a future in orthobiologics. In the early 1990s, several healthcare and medical specialty companies began evaluating a new class of orthopedic products called orthobiologics. This new class of therapeutics combines innovations in biotechnology with material sciences and tissue biology to utilize the body's natural capacity to regenerate and repair musculoskeletal tissue. Although orthobiologic products make up just a fraction of the total worldwide orthopedic market, many analysts view orthobiologics as a potential key driver of industry growth and profitability going forward. Today, nearly all of the major orthopedic companies and several pharmaceutical companies have active research and development efforts underway to bring to market orthobiologic products for one or more orthopedic indications.

In 1997, as part of a long-range strategic planning process, we began investigating promising technologies in the orthobiologics arena. Our search led us to a development-stage healthcare technology company based in Galveston, Texas - Chrysalis BioTechnology, Inc. This company had developed and patented a unique small synthetic peptide, known as TP508 or Chrysalin, which had shown great promise in accelerating the healing process for both soft tissue and bone in animal studies.

In early 1998, we made an initial equity investment in Chrysalis BioTechnology, and by July 2001 we had secured the license rights for Chrysalin to include options for all orthopedic indications worldwide. Our desire to enter into the orthobiologics market with Chrysalin products is the primary reason we are proposing to sell our Bone Device Business assets.

The Chrysalin technology serves as the basis for a family of potential products we refer to collectively as the Chrysalin product platform. To date, we have initiated pre-clinical and clinical trials of three potential Chrysalin products - one for acceleration of fracture repair, a second for spine fusion procedures, and a third for cartilage defect repair. In addition, we are planning early pre-clinical tests on potential Chrysalin products for both ligament and tendon repair.

Each of the three potential Chrysalin products now in development is at a different stage in the new drug application (NDA) process. Depending upon the rate of patient enrollment, the success of the clinical trials, the quality of a potential NDA filing, and the evaluation timeframe at the FDA, it is possible that the first of the Chrysalin products could receive NDA approval in the 2007-2008 timeframe. However, completing all of these steps will require significant and steady funding over a sustained period of time.

Operating History and Financial Condition. Our Board of Directors considered the current and historical financial condition and results of operations of the Bone Device Business, as well as our strategic objectives, primarily the research and development of the Chrysalin product platform. During much of the last five years, our Bone Device Business generated sufficient revenues and earnings to fund Chrysalin-related research-and-development activities. However, internal projections for 2004 and going forward include research and development spending targets that would substantially exceed funds generated from our existing device business and available funds. Therefore, during the last two years, our Board of Directors has been exploring strategic alternatives to assure we would be able to fully fund our orthobiologics efforts.

Strategic Alternatives. The decision of the Board to approve and recommend the sale of the Bone Device Business assets was the result of an extended evaluation process. During the last two years, the Board and senior management have, from time to time, evaluated and considered a number of alternatives. Among these were:

Continue to fund the R&D requirements of the Chrysalin program from existing device business cash flow and earnings. Our Board of Directors determined that this strategy would be viable in 2004 and perhaps 2005 but was unlikely to be sustainable beyond then without securing significant additional funding. Furthermore, we believe that the Bone Device Business would also require additional investment in order to maintain its historical growth rates and profitability.

Continue to fund the research and development requirements of the Chrysalin program from existing device business cash flow and earnings and secure a strategic partner to share the cost of the Chrysalin program in exchange for some rights to the Chrysalin program. This alternative would likely generate sufficient funds to cover Chrysalin-related research and development costs beyond 2005 and allow us to post net profits during that period. However, our Board believes that Chrysalin is still relatively early in the commercialization cycle and, therefore, we would have to give up disproportionately greater future value to obtain funding from a strategic partner now, rather than in later stages of development when we might have additional favorable human clinical data. The Board believes that the longer we retain control over our orthobiologic product platform, the more valuable Chrysalin becomes to potential partners, licensees and/or acquirers.

Sell the Bone Device Business and become a pure-play orthobiologics company focused on commercializing Chrysalin-based products and seeking other orthobiologic technologies that could complement our development efforts. In the Board's view, this alternative positions us as a drug-development company in some of the most promising segments of the orthopedics market and provides needed capital to further our development of Chrysalin.

After careful consideration and consultation with medical and financial industry experts, our Board of Directors decided that stockholders were likely to benefit most if we were to successfully pursue the sale of the Bone Device Business. A process was then put in place to explore such a sale.

The Board believes this alternative provides the following advantages:

allows us to focus exclusively on orthobiologics as a pure-play without the distraction of simultaneously attempting to manage two very different businesses;

gives us significant financial flexibility to pursue Chrysalin commercialization and explore complementary technologies;

allows us to maintain a greater degree of control over the Chrysalin product platform as we negotiate with potential strategic partners whether large orthopedic companies or major pharmaceutical concerns;

grants us greater visibility into the long-term value of Chrysalin-based technologies; and

provides greater clarity of our vision for both our current stockholders and the investment community as a whole.

The above information and factors considered by our Board are not intended to be exhaustive, but includes all of the material factors considered by our Board.

Background, Past Contacts, and Negotiations

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Set forth below is a chronological description of some of the events leading up to and the material contacts between OrthoLogic and dj Orthopedics relating to the sale of the Bone Device Business.

January 29, 2002 OrthoLogic engaged the services of J.P. Morgan, a nationally recognized investment banking firm and financial advisor, to explore strategic alternatives.

January 2002 May 2003 J.P. Morgan approached 20 potential acquirers, including dj Orthopedics, LLC, to discuss strategic transactions with OrthoLogic, including a sale of the Bone Device Business assets. By May, six potential purchasers (including dj Orthopedics) executed non-disclosure agreements with OrthoLogic, and OrthoLogic allowed them access to certain non-public financial and other information regarding the Bone Device Business

May 1, 2003 dj Orthopedics submitted an executed non-disclosure agreement to OrthoLogic.

May 9, 2003 dj Orthopedics submitted a non-binding proposal to OrthoLogic. Between March 21, 2003 and May 12, 2003, four of the six potential purchasers had submitted non-binding proposals to OrthoLogic.

May 12, 2003 OrthoLogic entered into an exclusivity agreement with one of the four potential purchasers other than dj Orthopedics and commenced negotiations with that other party.

June 24, 2003 OrthoLogic received an unsolicited, revised expression of interest from dj Orthopedics, LLC suggesting a potential purchase price for the Bone Device Business that was higher than the dj Orthopedics original non-binding proposal and higher than the first party's offer. OrthoLogic notified the first party of the material terms of the unsolicited dj Orthopedics offer, but did not respond to dj Orthopedics.

June 28, 2003 OrthoLogic's exclusivity agreement with the first party expired.

July 3, 2003 OrthoLogic and dj Orthopedics entered into an exclusivity agreement to negotiate the definitive terms of a purchase agreement.

July 7-10, 2003 dj Orthopedics management, financial advisors and general counsel met in Phoenix, Arizona with OrthoLogic's management and legal counsel to discuss the terms of the sale. dj Orthopedics staff conducted its financial and legal due diligence at OrthoLogic's facilities.

July 21, 2003 dj Orthopedics submitted a revised proposed term sheet based on its due diligence to acquire the Bone Device Business assets and to extend the exclusivity agreement to August 1, 2003.

August 1, 2003 The exclusivity agreement with dj Orthopedics expired. Senior management and legal counsel for dj Orthopedics and OrthoLogic held a conference call to further negotiate terms of the sale. The two companies decided to proceed in negotiations without an exclusivity agreement.

August 13, 2003 While in New York, our CEO, Thomas R. Trotter, met representatives of J.P. Morgan and a director of dj Orthopedics to discuss the status of the negotiations of the sales.

August 19 September 5, 2003 During this period, legal counsel and management continued to negotiate the terms of the sale and explore the resolution of open issues.

September 8, 2003 dj Orthopedics chairman of the board, senior management and general counsel met in Phoenix, Arizona with OrthoLogic's senior management and legal counsel to further negotiate the terms of the sale.

September 10, 2003 The parties signed an exclusivity agreement to negotiate a transaction.

September 10 October 7, 2003 Legal counsel for both parties further negotiated the terms of the sale, leading to the present proposed sale of the Bone Device Business assets.

October 8, 2003 The parties signed the Asset Purchase Agreement after the markets closed and publicly announced the sale the next day before the markets opened.

Recommendation of the Board of Directors to Stockholders

Our Board of Directors has approved the sale of the Bone Device Business assets and the Asset Purchase Agreement. Our Board of Directors believes that the sale of the Bone Device Business assets is in the best interests of OrthoLogic Corp. and our stockholders and recommends that stockholders vote in favor of the sale of the Bone Device Business assets pursuant to the Asset Purchase Agreement.

Vote Required for the Approval of the Asset Sale

In order for us to sell the Bone Device Business assets to dj Orthopedics, holders of a majority of the common stock outstanding must vote to approve the sale of the Bone Device Business assets.

CONFLICTS OF INTEREST; INTERESTS OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Under the terms of his July 15, 2002 employment agreement, Thomas R. Trotter, our President and Chief Executive Officer and a director on our Board of Directors, will be paid a special incentive bonus payment upon the sale of the Bone Device Business assets equal to one-half of one percent (1/2%) of the sale price or approximately \$465,000 (assuming no adjustment to the purchase price in accordance with the terms of the Asset Purchase Agreement).

Under the terms of our stock option plans, the vesting of outstanding stock options will accelerate upon the closing of the sale to dj Orthopedics. Terminated employees' options will vest immediately upon the sale. Continuing employees and our directors will have 75% of their unvested options vest upon the sale, with the remainder vesting over a 12 month period or on their regular vesting schedule, if earlier. For more detail about the shareholdings of and options held by our officers and directors, see the Security Ownership of Certain Beneficial Owners and Management on Page 37.

ACCOUNTING TREATMENT OF THE ASSET SALE

Under accounting principles generally accepted in the United States, upon consummation of the sale of the Bone Device Business assets, we will remove the net assets sold from our consolidated balance sheet and record the gain on the sale, net of transaction costs, severance and other related costs, including applicable state and federal income taxes, in our consolidated statement of income.

MATERIAL UNITED STATES TAX CONSEQUENCES OF THE ASSET SALE

The following is a summary of the principal material United States federal income tax consequences relating to the proposed sale of our Bone Device Business assets to dj Orthopedics. The summary does not consider the effect of any applicable foreign, state, local or other tax laws nor does it address tax consequences applicable to stockholders that may be subject to special federal income tax rules. The following summary is based on the current provisions of the Internal Revenue Code, existing, temporary, and proposed Treasury regulations thereunder, and current administrative rulings and court decisions. Future legislative, judicial or administrative actions or decisions, which may be retroactive in effect, may affect the accuracy of any statements in this summary with respect to the transactions entered into or contemplated prior to the effective date of those changes.

The proposed sale of our Bone Device Business assets to dj Orthopedics will be a transaction taxable to us for United States federal income tax purposes. We will recognize taxable income equal to the amount realized on the sale in excess of our tax basis in the assets sold. The amount realized on the sale will consist of the cash we receive in exchange for the assets sold, plus the amount of related liabilities assumed by dj Orthopedics.

Although the sale of our Bone Device Business assets to dj Orthopedics will result in a taxable gain to us, a portion of the taxable gain will be offset to the extent of current year losses from operations plus available net operating loss carry forwards, as currently reflected on our consolidated federal income tax returns. The taxable gain will differ from the gain to be reported in the OrthoLogic financial statements due to temporary tax differences and certain other differences between the tax laws and generally accepted accounting principles.

We believe we will be able to apply our approximately \$63.0 million tax loss carry forward without limitation against the taxable gain from the sale of the Bone Device Business assets. However, due to the limitation of net operating loss carry forwards under the federal alternative minimum tax system, a portion of the taxable gain reduced by our net operating loss carry forwards may be subject to the federal alternative minimum income tax. The availability and amount of net operating loss carry forwards are subject to audit and adjustment by the Internal Revenue Service. In the event that the Internal Revenue Service adjusts the net operating loss carry forwards, we may incur an increased tax liability.

Our stockholders will experience no federal income tax consequences as a result of the consummation of the proposed sale of our Bone Device Business assets to dj Orthopedics.

EACH HOLDER OF OUR COMMON STOCK IS URGED TO CONSULT HIS OR HER OWN TAX ADVISOR AS TO THE FEDERAL INCOME TAX CONSEQUENCES OF THE SALE, AND ALSO AS TO ANY STATE, LOCAL, FOREIGN OR OTHER TAX CONSEQUENCES BASED ON HIS OR HER OWN PARTICULAR FACTS AND CIRCUMSTANCES.

REGULATORY APPROVALS

Other than compliance with the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, we are not required to comply with any federal or state regulatory requirements or obtain approval from any federal or state agency in connection with the asset sale. dj Orthopedics has represented to us in the Asset Purchase Agreement that it is not required to comply with any such requirements or obtain approval from any such agencies other than compliance with the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

OPINIONS OF FINANCIAL ADVISORS

General

Our financial advisor in this transaction, J.P. Morgan, has rendered an opinion to our Board that the consideration we will receive in this transaction is, from a financial point of view, fair to us. Because J.P. Morgan, through its affiliated company (J.P. Morgan Partners, LLC), owns approximately 41% of dj Orthopedics, Inc. (with voting control over approximately 47%), we also engaged First Albany Corporation to advise us and render an opinion regarding the fairness of the consideration we will receive in this transaction, from a financial point of view. First Albany Corporation conducted its analysis and rendered its opinion independent of J.P. Morgan.

We selected J.P. Morgan and First Albany Corporation, in part, because both have substantial experience in transactions similar to our sale. The investment bankers at J.P. Morgan and First Albany Corporation have regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, secondary distributions of listed and unlisted securities and private placements.

On October 7, 2003, J.P. Morgan rendered an oral opinion that, as of such date, and based upon the assumptions made, matters considered and limits of review set forth in its written opinion, the consideration anticipated to be received by us as a result of the proposed transaction was fair, from a financial point of view. This opinion was reaffirmed in writing by a letter dated October 9, 2003 (the J.P. Morgan Opinion).

On October 7, 2003, First Albany Corporation made a presentation to our Board stating that, based on assumptions made and other matters considered, as set forth in the written opinion, the consideration we expected to

be paid by selling our Bone Device Business to dj Orthopedics was fair to OrthoLogic Corp., from a financial point of view. This opinion was reaffirmed in writing by a letter dated October 8, 2003 (the First Albany Opinion).

Summary of J.P. Morgan Fairness Opinion

Pursuant to an engagement letter dated January 29, 2002 and amended as of January 29, 2003, OrthoLogic retained J.P. Morgan as its financial advisor in connection with the proposed transaction with dj Orthopedics.

At the meeting of our Board of Directors on October 7, 2003, J.P. Morgan rendered its oral opinion to the Board of Directors that, as of such date, the consideration to be received by us in the proposed transaction was fair, from a financial point of view. J.P. Morgan has confirmed such oral opinion by delivering its written opinion, dated October 9, 2003, to our Board of Directors, stating that, as of such date, the consideration to be received us in the proposed transaction was fair, from a financial point of view. No limitations were imposed by the OrthoLogic Board of Directors upon J.P. Morgan with respect to the investigations made or procedures followed by it in rendering its written opinion.

The full text of the written opinion of J.P. Morgan dated October 9, 2003, which sets forth the assumptions made, matters considered and limits on the review undertaken, is attached as Exhibit B to this proxy statement and is incorporated herein by reference. OrthoLogic's stockholders are urged to read the opinion in its entirety. J.P. Morgan's written opinion is addressed to the Board of Directors of OrthoLogic, is directed only to the consideration to be received by OrthoLogic in the proposed transaction and does not constitute a recommendation to any of our stockholders as to how such stockholder should vote at the OrthoLogic special meeting. The summary of the opinion of J.P. Morgan set forth in this proxy statement is qualified in its entirety by reference to the full text of such opinion.

In arriving at its opinion, J.P. Morgan, among other things:

reviewed the executed Asset Purchase Agreement dated October 8, 2003;

reviewed certain publicly available business and financial information concerning the Bone Device Business and the industry in which it operates;

compared the proposed financial terms of the transaction with dj Orthopedics with the publicly available financial terms of certain transactions involving companies or businesses J.P. Morgan deemed relevant and the consideration received for such companies or businesses;

compared the financial and operating performance of the Bone Device Business with publicly available information concerning certain other companies J.P. Morgan deemed relevant;

reviewed certain internal financial analyses and forecasts prepared based on information provided by OrthoLogic management relating to its Bone Device Business as well as publicly available information concerning such business and the industry in which it operates; and

performed such other financial studies and analyses and considered such other information as J.P. Morgan deemed appropriate for the purposes of its opinion.

J.P. Morgan also held discussions with certain members of the management of OrthoLogic with respect to certain aspects of the proposed transaction, and the past and current business operations of OrthoLogic and its Bone Device Business, and the financial condition and future prospects and operations of OrthoLogic and its Bone Device Business, and certain other matters J.P. Morgan believed necessary or appropriate to its inquiry.

J.P. Morgan relied upon and assumed, without independent verification, the accuracy and completeness of all information that was publicly available or that was furnished to it by OrthoLogic or otherwise reviewed by J.P. Morgan, and J.P. Morgan has not assumed any responsibility or liability therefor. J.P. Morgan did not conduct any

valuation or appraisal of any assets or liabilities, nor were any valuations or appraisals provided to J.P. Morgan. In relying on financial analyses and forecasts referred to above, J.P. Morgan assumed that they were based on assumptions reflecting the best currently available estimates and judgments by management as to the expected future results of operations and financial condition of OrthoLogic's Bone Device Business to which such analyses or forecasts relate. J.P. Morgan also assumed that the proposed transaction contemplated by the Asset Purchase Agreement will be consummated as described in such agreement. J.P. Morgan relied as to all legal matters relevant to the rendering of its opinion upon the advice of counsel.

The projections relied upon by J.P. Morgan for OrthoLogic's Bone Device Business were prepared based on information provided by OrthoLogic management relating to such business as well as publicly available information concerning the business and the industry in which it operates. OrthoLogic does not publicly disclose internal management projections of the type relied upon by J.P. Morgan in connection with J.P. Morgan's analysis of the proposed transaction with dj Orthopedics, and such projections were not prepared with a view toward public disclosure. These projections were based on numerous variables and assumptions that are inherently uncertain and may be beyond the control of management, including, without limitation, factors related to general economic and competitive conditions and prevailing interest rates. Accordingly, actual results could vary significantly from those set forth in such projections.

J.P. Morgan's opinion is based on economic, market and other conditions as in effect on, and the information made available to J.P. Morgan as of, the date of such opinion. Subsequent developments may affect the written opinion dated October 9, 2003, and J.P. Morgan does not have any obligation to update, revise, or reaffirm such opinion. J.P. Morgan's opinion is limited to the fairness, from a financial point of view, of the consideration to be received by OrthoLogic in the proposed transaction, and J.P. Morgan has expressed no opinion as to the underlying decision by OrthoLogic to engage in such transaction. J.P. Morgan expressed no opinion as to the price at which OrthoLogic's common stock will trade at any future time.

In accordance with customary investment banking practice, J.P. Morgan employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial analyses utilized by J.P. Morgan in connection with providing its opinion.

Discounted Cash Flow Analysis. J.P. Morgan conducted a discounted cash flow analysis for the purpose of determining the enterprise value of OrthoLogic's Bone Device Business. J.P. Morgan calculated the unlevered free cash flows that the business is expected to generate during fiscal years 2004 through 2013 based upon financial projections which were prepared on the basis of information provided by our management relating to the business, as well as publicly available information concerning the business and the industry in which it operates. J.P. Morgan also calculated a range of terminal values of the business at the end of the 10-year period ending 2013 by applying a perpetual growth rate ranging from 0.0% to 2.0% to the unlevered free cash flow of the business during the final year of the 10-year period, derived from the projections referred to above. The unlevered free cash flows and the range of terminal values were then discounted to values as of December 31, 2003, using a range of discount rates from 13.0% to 15.0%, which were selected by J.P. Morgan based upon an analysis of the weighted average cost of capital of the business. Based on the projections and a discount rate range of 13.0% to 15.0%, the foregoing discounted cash flow analysis indicated a range of enterprise values of between \$76.0 million and \$93.0 million.

In addition, J.P. Morgan conducted an alternative discounted cash flow analysis, using unlevered free cash flow forecast periods of 15 years and 25 years, respectively, and assuming no perpetuity value at the end of such periods. In calculating the unlevered free cash flows of the business for the years after the initial 10-year period, J.P. Morgan assumed an annual sales growth rate of 1.0% and profitability margins equal to that of the final year of the initial 10-year period, which were derived from the terminal growth rate assumptions utilized in the other discounted cash flow analysis summarized above. Based on the projections for the 15-year and 25-year periods, the assumption of no perpetuity value, and a discount rate range of 13.0% to 15.0%, this alternative discounted cash flow analysis indicated a range of enterprise values of between \$66.0 million and \$85.0 million.

Precedent Transaction Analysis. J.P. Morgan reviewed the purchase prices paid in ten selected transactions (as set forth in the table below) in the orthopedic device sector of the healthcare industry. Financial data for the selected transactions were based on publicly available information at the time of announcement of the relevant

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transaction. J.P. Morgan then calculated the ratio of the enterprise value (calculated as equity value, plus debt, less cash and cash equivalents) to the trailing 12-month revenue for each selected transaction and compared the results of these calculations with the corresponding calculation for the proposed transaction between OrthoLogic and dj Orthopedics. J.P. Morgan selected a revenue multiple range of 1.7 - 2.0x (reflecting selected and broad median observations from the transaction analysis) to apply to the trailing twelve month revenues of OrthoLogic's Bone Device Business (as of June 30, 2003), yielding an enterprise value range of \$71.0 million to \$84.0 million.

Acquirer	Target	Enterprise Value / LTM Revenue
AbilityOne Corporation	Smith & Nephew Rehabilitation	1.2x
Biomet, Inc.	Bioelectron, Inc.	2.0 ¹
dj Orthopedics, Inc.	DePuy Orthotech	1.0
The Carlyle Group	Empi, Inc.	2.2
Chase Capital	DonJoy, LLC	1.9x
Smith & Nephew PLC	Parker Medical (Fracture & Splinting)	4.0
DePuy, Inc.	Orthopedic Technology	2.4
Orthofix International, NV	AME	1.7
(Corange) DePuy, Inc.	Ace Medical Company	3.2
Biomet, Inc.	EBI, LP	0.7
Broad median		2.0x
Selected median²		1.7x

Notes:

¹ LTM figure was not publicly disclosed; run-rate sales were reported as \$45mm, implying a transaction multiple of 2.0x run rate sales

² Selected median reflects only the following transactions: Biomet/Bioelectron; Orthofix/AME; Biomet/EBI. These transactions were selected based on the similarity of the target company to OrthoLogic's Bone Device Business.

Public Trading Multiples. Using publicly available information, J.P. Morgan reviewed the trading and operating statistics of the following selected publicly traded companies in the orthopedic device sector of the healthcare industry, based on closing stock prices on October 1, 2003:

Conmed Corporation

Orthofix International, NV

dj Orthopedics, Inc.

Encore Medical Corporation

Compex Technologies, Inc.

J.P. Morgan calculated the ratio of enterprise value to calendar 2004 estimated revenue for each of the selected companies, and compared the ratios derived from these analyses to corresponding financial data for OrthoLogic's Bone Device Business. J.P. Morgan selected a revenue multiple range of 0.9 - 1.7x (reflecting the low and median of the range of the selected companies) to apply to the 2004 estimated revenues of the business, yielding an enterprise value range of \$48.0 million to \$90.0 million.

The summary set forth above does not purport to be a complete description of the analyses or data presented by J.P. Morgan. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. J.P. Morgan believes that the summary set forth above and its analyses must be considered as a whole and that selecting portions thereof, without considering all of its analyses, could create an incomplete view of the processes underlying its analyses and opinion. J.P. Morgan based its analyses on assumptions that it deemed reasonable, including assumptions concerning general business and economic conditions and industry-specific factors. The other principal assumptions upon which J.P. Morgan based its analyses are set forth above under the description of each such analysis. J.P. Morgan's analyses are not necessarily indicative of actual values or actual future results that might be achieved, which values may be higher or lower than those indicated. Moreover, J.P. Morgan's analyses are not and do not purport to be appraisals or otherwise reflective of the prices at which businesses actually could be bought or sold.

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As a part of its investment banking business, J.P. Morgan and its affiliates are continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, investments for passive and control purposes, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes. J.P. Morgan was selected to advise OrthoLogic with respect to the proposed transaction and to deliver an opinion to OrthoLogic's Board of Directors with respect to the proposed transaction on the basis of such experience and its familiarity with OrthoLogic.

OrthoLogic entered into a letter agreement dated January 29, 2002 (amended January 29, 2003) with J.P. Morgan relating to the services to be provided by J.P. Morgan in connection with the proposed transaction. We agreed to pay J.P. Morgan a total fee of \$1,395,000 plus reimbursement of expenses. There are no other current arrangements to compensate J.P. Morgan for any services rendered to us.

J.P. Morgan and its affiliates maintain investment banking, commercial banking and other business relationships with OrthoLogic and its affiliates, for which they receive customary fees. In addition, J.P. Morgan Partners, an affiliate of J.P. Morgan, owns approximately 41% of the outstanding stock of dj Orthopedics. In the ordinary course of their businesses, J.P. Morgan and its affiliates may actively trade the debt and equity securities of OrthoLogic or dj Orthopedics for their own accounts or for the accounts of customers and, accordingly, they may at any time hold long or short positions in such securities.

Summary of First Albany Corporation Opinion

We engaged First Albany Corporation to act as our financial advisor with respect to rendering an opinion to our Board of Directors as to the fairness, from a financial point of view, of the consideration we will receive in the sale of the Bone Device Business assets. No instructions were provided to and no limitations were imposed by our Board of Directors upon First Albany Corporation with respect to the investigation made or the procedures followed by First Albany Corporation in rendering its opinion as of October 8, 2003.

First Albany Corporation delivered its oral opinion to our Board of Directors on October 7, 2003 as to the fairness of the consideration we will receive in the sale. First Albany Corporation's opinion is that, as of October 7, 2003 and based upon and subject to the factors and assumptions set forth therein, the consideration we will receive is fair, from a financial point of view, to us. Such oral opinion was followed by delivery of the written fairness opinion dated October 8, 2003 to our Board of Directors to the same effect.

THE FULL TEXT OF FIRST ALBANY CORPORATION'S OPINION DATED OCTOBER 8, 2003, WHICH SETS FORTH THE ASSUMPTIONS MADE, MATTERS CONSIDERED AND SCOPE AND LIMITATIONS OF THE REVIEW UNDERTAKEN AND THE PROCEDURES FOLLOWED BY FIRST ALBANY CORPORATION, IS ATTACHED HERETO AS EXHIBIT B AND IS INCORPORATED HEREIN BY REFERENCE. ORTHOLOGIC STOCKHOLDERS ARE URGED TO READ THIS OPINION CAREFULLY AND IN ITS ENTIRETY FOR ASSUMPTIONS MADE, MATTERS CONSIDERED AND LIMITS OF THE REVIEW BY FIRST ALBANY CORPORATION. THE SUMMARY OF THE OPINION AS SET FORTH IN THIS PROXY STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE OPINION.

First Albany Corporation's opinion was prepared for our Board of Directors and was directed only to the fairness, from a financial point of view, as of the date thereof, of the consideration we would receive for the sale of the Bone Device Business assets. First Albany Corporation was not asked to consider, and First Albany Corporation's opinion does not address, any other aspect of the sale or our underlying business decision of to effect the sale. First Albany Corporation's opinion does not constitute a recommendation to any stockholder as to how such stockholder should vote on, or take any other action with respect to, the sale. First Albany Corporation was not asked to consider, and First Albany Corporation's opinion does not address, the relative merits of the sale as compared to any alternative business strategy that may exist for us. First Albany Corporation was not requested to, nor did it, solicit the interest of any other party in acquiring the Bone Device Business assets. First Albany Corporation expressed no opinion, nor should one be implied, as to the fair market value of our common stock at any time.

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In connection with rendering its opinion, First Albany Corporation, among other things:

reviewed certain publicly available business and financial data relating us and the Bone Device Business assets;

reviewed certain financial and operating information with respect to the business, operations and prospects of OrthoLogic and the Bone Device Business assets,

compared the financial performance of the Bone Device Business and the prices and trading activity of OrthoLogic's common stock with those of other companies that First Albany Corporation deemed relevant;

compared the financial terms of the sale with the financial terms, to the extent publicly available, of other transactions First Albany Corporation deemed relevant;

held discussions with our management concerning the past and current business operations of OrthoLogic and the Bone Device Business assets;

reviewed the financial terms and conditions of the sale as set forth in the Asset Purchase Agreement and certain related exhibits provided prior to the date of the First Albany Opinion; and

made such other studies and inquiries, and considered such other information, financial studies, analyses and investigations and financial, economic and market criteria, as First Albany Corporation deemed relevant.

First Albany Corporation's opinion is based on market, economic and other conditions and circumstances involving OrthoLogic, the Bone Device Business and their respective industries as they were in effect on, and which, by necessity, could only be evaluated on, the date of the First Albany Corporation opinion. First Albany Corporation assumed no responsibility to update, revise or reaffirm its opinion based upon events or circumstances occurring after the date thereof.

In connection with its review and arriving at its opinion, with the consent of our Board of Directors, First Albany Corporation:

assumed that the final executed form of the Asset Purchase Agreement did not differ in any material respect from the draft that First Albany Corporation examined at the date of its opinion, and that we and dj Orthopedics would comply with all material terms of the Asset Purchase Agreement;

relied upon and assumed the accuracy and completeness of all of the financial and other information provided to or discussed with First Albany Corporation by us or otherwise publicly available, and have assumed that there were no material changes in our business operations, financial condition or prospects, or with respect to the Bone Device Business since the respective dates of such information;

did not assume any responsibility for independent verification of any of the information referred to above and relied on it as being complete and accurate in all material respects;

assumed that the financial forecasts relating to OrthoLogic and the Bone Device Business referred to above were reasonably prepared on bases reflecting the best currently available estimates and judgments of our management as to the future financial performance of OrthoLogic and the Bone Device Business; and

did not make any independent evaluation or appraisal of any of the assets, properties or facilities of OrthoLogic, or the Bone Device Business, nor was First Albany Corporation furnished with any such evaluation or appraisal.

The following is a summary of the significant financial analyses used by First Albany Corporation in connection with the rendering of its opinion. The following summary, however, does not purport to be a complete description of the financial data presented or analyses performed by First Albany. Instead, it describes in summary form, the material elements of the presentation First Albany Corporation made to our Board of Directors on October 7, 2003 in connection with the preparation of its fairness opinion. The financial analyses summarized below include

information presented in tabular format. In order to understand the financial analyses fully, the tables must be read together with the text of each summary. Considering the data set forth below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses.

Selected Comparable Public Company Analysis. Using publicly available information, First Albany Corporation compared selected financial information, ratios and public market multiples for the Bone Device Business to the corresponding data for the following seven publicly-traded medical device companies all of which are broadly comparable to the Bone Device Business:

CONMED Corporation

Orthofix International NV

ArthroCare Corporation

dj Orthopedics Inc.

Encore Medical Corporation

CryoLife Inc.

Compex Technologies Inc.

Although none of the selected companies is directly comparable to the Bone Device Business, the companies were chosen because, for purposes of the analysis, First Albany Corporation considered them comparable to the Bone Device Business in that these companies are small-to-mid-cap, independent medical devices companies in lines of business or with product characteristics that are reasonably similar to that of the Bone Device Business. For informational purposes only, First Albany Corporation also looked at the relative valuations of Biomet and Smith & Nephew, but deemed them irrelevant to the comparable companies analysis due to the fact that they are both multi-billion dollar market capitalization companies with highly diversified lines of business of which only a very small portion are competitive or comparable to the Bone Device Business.

First Albany Corporation reviewed, among other information, the comparable companies' multiples of total enterprise value, referred to as TEV, which consists of the market value of the particular company's equity plus the total debt minus cash, cash equivalents and marketable securities of the company to:

latest twelve months revenue, referred to as LTM revenue;

estimated calendar year 2003 revenue, referred to as CY 2003E revenue; and

LTM earnings before interest, taxes, depreciation and amortization, referred to as LTM EBITDA.

All of the multiples were based on closing stock prices on October 2, 2003. Estimated financial and operating data for the Bone Device Business was based on internal estimates of OrthoLogic's management and for the selected comparable companies was based on publicly available research analysts' estimates. Actual financial and operating data was based on the respective companies' relevant SEC filings.

First Albany Corporation applied a range of selected multiples derived from the selected comparable companies to the corresponding LTM revenues, CY 2003E revenues and LTM EBITDA of the Bone Device Business. This analysis indicated the following implied enterprise value range for the Bone Device Business of approximately \$67.7 million to \$111.6 million, as compared to the value of the consideration to be received in the sale to dj Orthopedics of \$95.4 million (which includes \$93.0 million in cash plus \$2.4 million in assumed liabilities):

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(\$ in millions)

Implied Enterprise Value Range ⁽¹⁾			Value of Consideration to be Received
Low	Midpoint	High	
\$67.7	\$89.7	\$111.6	\$ 95.4

(1) Note that the low of the range is equal to the low multiple from the comparable companies universe times the relevant operating statistic for the Bone Device Business and the high of the range is equal to the greater of the mean and median multiple for the comparable companies universe times the relevant operating statistic for the Bone Device Business. The midpoint is the average of the high and the low.

Selected Precedent Transaction Analysis. Using publicly available information, First Albany reviewed financial information relating to the following selected transactions in the medical device industry:

Acquiror	Target
Patterson Dental Company	AbilityOne Products Corp.
Encore Medical Corp.	Chattanooga Group, Inc.
OrthoRehab Inc.	OrthoLogic CPM Business
Biomet, Inc.	Bioelectron Inc.
Smith & Nephew plc	Exogen, Inc.
Fox Paine & Company	Maxxim Medical, Inc.
Carlyle Group	Empi, Inc.
Chase Capital Partners and Affiliates	Donjoy (Smith & Nephew)

First Albany Corporation chose the selected transactions because they were business combinations that, for the purposes of the analysis, First Albany Corporation considered to be reasonably similar to our sale of the Bone Device Business in that these transactions involved the acquisition of small to mid-sized companies in the medical device industry and in lines of business or with product characteristics that are reasonably similar to that of the Bone Device Business.

First Albany Corporation reviewed, among other things, the multiples of the transaction enterprise value of the business combination, which consist of the transaction value of the target company's equity plus the total debt minus cash, cash equivalents and marketable securities, of the target company to:

latest twelve months revenue, referred to as LTM revenue; and

latest twelve months earnings before interest, taxes, depreciation and amortization, referred to as LTM EBITDA.

Actual financial and operating data for the Bone Device Business was based on information provided by the OrthoLogic management and SEC filings. Financial and operating data for the transactions was based on relevant SEC filings, press releases and publicly available research analysts' estimates.

First Albany Corporation applied a range of selected multiples derived from the selected transactions to the corresponding LTM revenues and LTM EBITDA of the Bone Device Business. This analysis indicated the following implied enterprise value range for the Bone Device Business of approximately \$44.4 million to \$92.1 million, as compared to the value of the consideration to be received in the sale of the Bone Device Business to dj Orthopedics of \$95.4 million (which includes \$93.0 million in cash plus \$2.4 million in assumed liabilities):

Implied Enterprise Value Range ⁽¹⁾			Value of Consideration to be Received
Low	Midpoint	High	
\$44.4	\$68.3	\$92.1	

(1) Note that the low of the range is equal to the low multiple from the precedent transactions universe times the relevant operating statistic for the Bone Device Business and the high of the range is equal to the greater of the mean and median multiple for the precedent transactions universe times the relevant operating statistic for the Bone Device Business. The midpoint is the average of the high and the low.

The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, is not susceptible to partial analysis or summary descriptions. In arriving at its opinion, First Albany Corporation made qualitative judgments as to the significance and relevance of each analysis and factor considered by it, and based on the results of all the analyses undertaken by it and assessed as a whole. First Albany Corporation did not draw conclusions, in isolation, from or with regard to any one factor or method of analysis. Accordingly, First Albany Corporation believes that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, could create a misleading or incomplete view of the processes underlying the analyses set forth in its opinion.

In performing its analyses, First Albany Corporation made numerous assumptions with respect to industry performance, general business, financial, market and economic conditions and other matters, many of which are beyond OrthoLogic's control. No company, transaction or business used in those analyses as a comparison is identical to OrthoLogic, the Bone Device Business or the sale to dj Orthopedics, nor is an evaluation of the results entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the operating results, public trading or other values of the companies or transactions being analyzed.

The estimates contained in the analyses performed by First Albany Corporation and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than suggested by these analyses. Accordingly, such estimates are inherently subject to substantial uncertainty and neither OrthoLogic nor First Albany Corporation assumes responsibility for the accuracy of such analyses and estimates. In addition, analyses relating to the value of securities do not purport to be appraisals or to reflect the prices at which a business might actually be sold or the prices at which any securities may trade at the present time or at any time in the future.

First Albany Corporation is a full service investment banking and capital markets securities firm which is engaged on a regular basis in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, private placements and valuations for corporate, estate and other purposes. First Albany Corporation was not retained as an advisor or agent to the OrthoLogic stockholders or any other person. As a customary part of its business, First Albany may from time to time effect transactions for its own account or for the account of its customers, and hold positions (long or short) in securities of, or options on, securities of OrthoLogic.

First Albany Corporation received a fee of \$300,000 plus reimbursement of expenses in connection with its opinion, which fee was not contingent upon the nature of the conclusions expressed in its opinion nor upon the consummation of the sale to dj Orthopedics. There are no other current arrangements to compensate First Albany Corporation, its affiliates or unaffiliated representatives for any services rendered to OrthoLogic, its affiliates, directors or executive officers.

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 incorporated by reference into this proxy statement, adjusted to give effect to the disposition of the Bone Device Business in accordance with the Asset Purchase Agreement dated October 9, 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 June 30, 2003 balance sheet. The unaudited pro forma consolidated statements of operations for the six months ended June 30, 2003 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 proforma condensed consolidated financial statements should be read in conjunction with the historical consolidated financial statements for OrthoLogic and the Bone Device Business included or incorporated by reference in this proxy statement.

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

	Historical OrthoLogic	Sale of Bone Device Business	Proforma OrthoLogic
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 12,927	\$ 80,500(2)	\$ 93,427
Short-term Investments	17,969		17,969
Accounts receivable less allowance for doubtful accounts	8,960	(7,866)(1)	1,094
Inventories, net	2,445	(2,445)(1)	
Prepays and other current assets	454	(43)(1)	411
Deferred income taxes current	1,667	(1,667)(1)	
	<u>44,422</u>	<u>68,479</u>	<u>112,901</u>
Furniture and equipment, net	1,329	(631)(1)	698
Long-term investments	6,642		6,642
Deferred income taxes non-current	964	(964)(1)	
Deposits and other assets	110	(9)(1)	101
Escrow deposit receivable		7,500(2)	7,500
Investment in Chrysalis BioTechnology	750		750
	<u>54,217</u>	<u>74,375</u>	<u>128,592</u>
Total assets	\$ 54,217	\$ 74,375	\$ 128,592
LIABILITIES & STOCKHOLDERS EQUITY			
Current Liabilities:			
Accounts payable	\$ 703	\$ (472)(1)	\$ 231
Income taxes payable		5,000(2)	5,000
Accrued compensation	2,186	(422)(1)	1,764
Accrued CPM divestiture costs	38		38
Other accrued liabilities	1,746	(602)(1)	1,644
		500(2)	
	<u>4,673</u>	<u>4,004</u>	<u>8,677</u>
Deferred rent and capital lease obligation	316		316
	<u>4,989</u>	<u>4,004</u>	<u>8,993</u>
Total liabilities	4,989	4,004	8,993
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	139,318		139,318
Accumulated deficit	(89,969)	70,371(2)	(19,598)
Treasury stock at cost, 41,800 shares	(137)		(137)
	<u>49,228</u>	<u>70,371</u>	<u>119,599</u>
Total stockholders equity	49,228	70,371	119,599
Total liabilities and stockholders equity	\$ 54,217	\$ 74,375	\$ 128,592

See notes to unaudited pro forma financial statements

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)	
	<u>44,420</u>	<u>(12,609)</u>	<u>31,811</u>
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
	<u>53,420</u>	<u>(14,295)</u>	<u>39,125</u>
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
	<u>4,835</u>	<u>(930)</u>	<u>3,905</u>
Total current liabilities	4,835	(930)	3,905
Deferred rent and capital lease obligation	352		352
	<u>5,187</u>	<u>(930)</u>	<u>4,257</u>
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)
	<u>48,233</u>	<u>(13,365)</u>	<u>34,868</u>
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 financial statements

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



See notes to unaudited pro forma financial statements



Notes to Unaudited Proforma Balance Sheets:

Divestiture

On October 9, 2003, OrthoLogic Corp. and subsidiaries (OrthoLogic) announced that it had entered into an agreement (the Asset Purchase Agreement) to sell substantially all of the assets and related liabilities of the Bone Device Business (the 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, LLC (dj Orthopedics). dj Orthopedics will assume substantially all of the trade payables and other current liabilities related to the Business. (Collectively, the Proposed Transaction.) The sale will be accounted for by Orthologic as a discontinued operation.

If the Proposed Transaction is consummated, dj Orthopedics will pay \$93.0 million in cash at the closing and will assume trade payables and other current liabilities as discussed above. The purchase price is subject to reduction on a dollar-for-dollar basis if the net closing working capital value (as defined in the Asset Purchase Agreement) is below \$8.0 million on the closing date. A \$7.5 million portion of the purchase price will be deposited in an escrow account that may be drawn upon to settle any claims by dj Orthopedics for indemnification or breach of the Asset Purchase Agreement, and other commitments. Any remaining funds held in escrow, together with any interest earnings, will be released to OrthoLogic on the second anniversary of the closing. dj Orthopedics has the right to terminate the sale if certain conditions are not satisfied prior to closing, including: (i) receipt by OrthoLogic of any necessary government approvals and the consent of any parties necessary to assign material contracts to dj Orthopedics; (ii) OrthoLogic approval of the sale; (iii) no material adverse change in OrthoLogic's business; and (iv) execution of transition agreements coordinating the orderly transfer of the Business.

- (1) To give effect to the disposition of the Bone Device Business as of the balance sheet date presented. Pursuant to the Asset Purchase Agreement, Orthologic will sell 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 djOrthopedics. dj Orthopedics will assume 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.
- (2) To give effect to the net cash proceeds, gain on disposition and related taxes as a result of the sale of the Bone Device Business as if it occurred on June 30, 2003. The cash amount reflects the \$93.0 million payment from djOrthopedics net of the \$7.5 million to be 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, taxes payable and the increase of the valuation allowance for the remaining deferred tax asset.

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

	Historical OrthoLogic	Sale of Bone Device Business (1)	Proforma OrthoLogic
NET SALES	\$21,740	\$(21,740)	\$
COST OF REVENUES	3,161	(3,161)	—
GROSS PROFIT	18,579	(18,579)	—
OPERATING EXPENSES			
Selling, general and administrative	14,683	(12,116)	2,567
Research and development	3,778	(152)	3,626
CPM divestiture and related charges	(345)	—	(345)
Total operating expenses	18,116	(12,268)	5,848
OPERATING INCOME (LOSS)	463	(6,311)	(5,848)
OTHER INCOME	263	—	263
INCOME (LOSS) BEFORE INCOME TAXES	726	(6,311)	(5,585)
Provision for income taxes	26	—	26
INCOME (LOSS) FROM CONTINUING OPERATIONS	\$ 700	\$ (6,311)	\$ (5,611)
Net income (loss) per common share basic	\$ 0.02	—	\$ (0.17)
Net income (loss) per common share diluted	\$ 0.02	—	\$ (0.17)
Basic shares outstanding	32,849	—	32,849
Equivalent shares	230	—	—
Diluted shares outstanding	33,079	—	32,849

See notes to unaudited pro forma financial statements

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

	Historical OrthoLogic	Sale of Bone Device Business (1)	Pro forma OrthoLogic
REVENUES			
Net sales	\$ 17,942	\$(17,942)	\$
Royalties from co-promotion agreement	1,371		1,371
Total revenues	19,313	(17,942)	1,371
COST OF REVENUES			
	2,755	(2,755)	
GROSS PROFIT			
	16,558	(15,187)	1,371
OPERATING EXPENSES			
Selling, general and administrative	13,356	(11,204)	2,152
Research and development	1,669	(135)	1,534
CPM divestiture and related charges	(826)		(826)
Total operating expenses	14,199	(11,339)	2,860
OPERATING INCOME (LOSS)			
	2,359	(3,848)	(1,489)
OTHER INCOME			
	368		368
INCOME (LOSS) BEFORE INCOME TAXES			
Provision for income taxes	25		25
INCOME (LOSS) FROM CONTINUING OPERATIONS			
	\$ 2,702	\$ (3,848)	\$ (1,146)
Net income (loss) per common share basic	\$ 0.08		\$ (0.04)
Net income (loss) per common share diluted	\$ 0.08		\$ (0.04)
Basic shares outstanding	32,556		32,556
Equivalent shares	808		
Diluted shares outstanding	33,364		32,556

See notes to unaudited pro forma financial statements

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

	Historical OrthoLogic	Sale of Bone Device Business (1)	Pro forma OrthoLogic
REVENUES			
Net sales	\$ 38,159	\$(38,159)	\$
Royalties from co-promotion agreement	2,230		2,230
Total revenues	40,389	(38,159)	2,230
COST OF REVENUES			
	6,158	(6,158)	
GROSS PROFIT			
	34,231	(32,001)	2,230
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)
Total operating expenses	29,322	(22,305)	7,017
OPERATING INCOME (LOSS)			
	4,909	(9,696)	(4,787)
OTHER INCOME			
	706		706
INCOME (LOSS) BEFORE INCOME TAXES			
Provision for income taxes	6		6
INCOME (LOSS) FROM CONTINUING OPERATIONS			
	\$ 5,609	\$ (9,696)	\$ (4,087)
Net income (loss) per common share basic	\$ 0.17		\$ (0.13)
Net income (loss) per common share diluted	\$ 0.17		\$ (0.13)
Basic shares outstanding	32,556		32,556
Equivalent shares	808		
Diluted shares outstanding	33,364		32,556

See notes to unaudited pro forma financial statements

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 financial statements

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