ORTHOLOGIC CORP
Form S-4/A
July 14, 2004

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As filed with the Securities and Exchange Commission on July 13, 2004

Registration No. 333-116153

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1
to

Form S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

OrthoLogic Corp.

(Exact name of Registrant as specified in its charter)

Delaware	**3841**	**86-0585310**	*(State or other Jurisdiction of incorporation or organization)*
			(Primary Standard Industrial Classification Code Number)
			(I.R.S. Employer Identification No.)

OrthoLogic Corp.

1275 West Washington Street
Tempe, Arizona 85281
(602) 286-5520
(Address, including ZIP Code, and telephone number, including area code, of Registrant s principal executive offices)

Thomas R. Trotter

Chief Executive Officer
1275 West Washington Street
Tempe, Arizona 85281
(602) 286-5520
(Name, address, including ZIP Code, and telephone number, including area code, of agent for service)

Copies to:
Steven P. Emerick
Quarles & Brady Streich Lang LLP
Two North Central Avenue
Phoenix, Arizona 85004
(602) 229-5200

Copies to:
Jeffrey R. Harder
Winstead Sechrest & Minick P.C.
600 Town Center One
1450 Lake Robbins Drive
The Woodlands, Texas 77380
(281) 681-5900

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective and the completion of the transactions described herein.

If any of the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $.0005 per share	3,708,649(1)	$8.10(2)	$30,040,049	$3,806.08
Common Stock, par value $.0005 per share			$ 7,000,000(3)	$ 886.90

(1) Maximum number of shares to be issued at the time of the closing of the transaction described in this registration statement.

(2) Calculated solely for the purpose of computing the registration fee under Rule 457(c) on the basis of the average of the high and low sale prices of OrthoLogic common stock as reported on the NASDAQ National Market on May 28, 2004.

(3) Represents the maximum aggregate offering price of such shares to be issued in the future based on the then market price of such shares, in accordance with Rule 457(o).

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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[Chrysalis Letterhead]

Dear Stockholder of Chrysalis Biotechnology, Inc.:

On behalf of the Board of Directors of Chrysalis, I am pleased to inform you that the Board of Directors has approved the sale of substantially all of Chrysalis assets (except cash, but including all intellectual property) to OrthoLogic Corp., Chrysalis long-time strategic partner, pursuant to the Asset Purchase Agreement and Plan of Reorganization by and between Chrysalis and OrthoLogic dated April 28, 2004 as amended (the Asset Purchase Agreement) and attached as Annex A. Through this consent solicitation/prospectus, Chrysalis is seeking your written consent as a Chrysalis stockholder to (i) the Asset Purchase Agreement and the transfer of Chrysalis assets in connection with the Asset Purchase Agreement, and (ii) its plan of complete liquidation and dissolution, which is attached as Annex B. Chrysalis is required to obtain written consents from holders of at least a majority of the outstanding shares of Chrysalis common stock, on an as-converted basis, to approve both of the proposals described above. Chrysalis intends to consummate the asset sale on or about 10 business days following the date of this consent solicitation/prospectus, assuming Chrysalis receives written consents from holders of the requisite number of shares of its voting stock. Chrysalis, however, reserves the right to close the asset sale as soon as it receives a sufficient number of consents.

This consent solicitation/prospectus and the registration statement on Form S-4 in which it is contained is also intended to register under the Securities Act of 1933, as amended, the shares of OrthoLogic s common stock to be issued pursuant to the Asset Purchase Agreement.

Pursuant to the Asset Purchase Agreement, at closing Chrysalis will receive cash of $2.5 million and a number of shares of OrthoLogic common stock that is equal to $25.0 million as of closing based on the 10-day average closing price of OrthoLogic common stock ending immediately prior to closing (the Closing Date Stock Price) if the Closing Date Stock Price is no greater than $8.239 and no less than $6.741 per share. In the event that the Closing Date Stock Price is greater than $8.239, Chrysalis will receive 3,034,349 shares of OrthoLogic common stock and in the event that the Closing Date Stock Price is less than $6.741, Chrysalis will receive 3,708,649 shares of OrthoLogic common stock. This means that Chrysalis could receive a number of shares of OrthoLogic common stock worth more or less than $25.0 million at closing. For example, the closing price of OrthoLogic common stock as of July 1, 2004 was $8.25. Assuming this is the Closing Date Stock Price, Chrysalis would receive $25,033,379 worth of OrthoLogic common stock (based on multiplying $8.25 per share and 3,034,349 shares).

Pursuant to the Asset Purchase Agreement and an escrow agreement among Chrysalis, OrthoLogic and the escrow agent, attached as Annex C, 15% of the shares that Chrysalis receives at the closing of the Asset Purchase Agreement (the General Escrow Shares) will be placed in escrow for 18 months from the closing date to cover indemnification of OrthoLogic by Chrysalis for the representations and warranties made by Chrysalis in the Asset Purchase Agreement. Because of my role as Chrysalis founder, I have agreed to the placement of an additional number of shares (equal to approximately 3% of the shares Chrysalis receives at the closing) allocable to me individually in escrow to be available for indemnification after and in the event the General Escrow Shares are fully used. As a result, the escrow account will contain approximately 18% of the stock portion of the purchase price. Holders of 5% or more of Chrysalis common stock on an as-converted basis will be subject to a 60-day lockup agreement.

In addition, Chrysalis may receive an additional number of shares of OrthoLogic common stock valued at $7.0 million (but not in excess of the number of shares issued at closing) upon the occurrence of certain trigger events, which include the sale or other disposition of OrthoLogic or the acceptance by the U.S. Food and Drug Administration of a new drug application for a product based on Chrysalin, if either such trigger event occurs within five years of closing. A portion of the $7.0 million payment may be paid in cash under certain limited circumstances.

Chrysalis intends to distribute the shares of OrthoLogic common stock received at closing to its stockholders pursuant to its plan of complete liquidation and dissolution as soon as practicable following the closing of the Asset Purchase Agreement. Chrysalis also intends to distribute any of the $2.5 million in cash consideration remaining after the payment of or retention for expenses associated with this transaction, winding down and dissolution, including the payment of a finder s fee incurred in connection with this

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transaction. Chrysalis expects substantially all of the $2.5 million cash portion of the purchase price will be allocated toward these expenses. Any cash distribution will occur following completion of the transition services agreement between Chrysalis and OrthoLogic pursuant to which Chrysalis agreed to retain its employees and conduct certain operations for a 90-day period following closing of the asset sale. A copy of the transition services agreement is attached as Annex D.

Chrysalis urges you to read the consent solicitation/prospectus in its entirety and all of the Annexes as well. **Chrysalis asks that you consent to both the Asset Purchase Agreement and related asset sale and the plan of complete liquidation and dissolution by signing the written consent of stockholders attached as Annex E and returning it in the enclosed self-addressed envelope as soon as possible.** As I stated earlier, the parties intend to close on the asset sale on or before the 10th business day following the date of this consent solicitation/prospectus assuming Chrysalis has received written consents representing a sufficient number of votes to approve the transaction. Please feel free to call me or Dennis McWilliams, Chrysalis Chief Operating Officer, at (409) 750-9251 if you have any questions.

Very truly yours,

Darrell H. Carney, Ph.D.
President and Chief Executive Officer

Galveston, Texas
, 2004

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This consent solicitation/prospectus and the information contained herein is subject to completion or amendment. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of the consent solicitation/prospectus. Any representation to the contrary is a criminal offense. This consent solicitation/prospectus shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

SUBJECT TO COMPLETION
Dated July , 2004

CONSENT SOLICITATION/ PROSPECTUS

[Chrysalis Logo/ Ortho Logo]

This consent solicitation/prospectus relates to the issuance of shares of OrthoLogic Corp. (OrthoLogic) common stock to Chrysalis Biotechnology, Inc. (Chrysalis) in connection with the purchase of substantially all of Chrysalis assets. On April 28, 2004, OrthoLogic and Chrysalis signed an Asset Purchase Agreement and Plan of Reorganization, as later amended, (the Asset Purchase Agreement) pursuant to which OrthoLogic agreed to purchase substantially all the assets of Chrysalis in exchange for the payment described below:

$2.5 million in cash, payable at the closing:

$25.0 million in OrthoLogic common stock, payable at the closing. Chrysalis will receive that number of shares of OrthoLogic common stock with a value of $25.0 million as of closing, based on the 10-day average closing price of OrthoLogic common stock ending immediately prior to closing (the Closing Date Stock Price) if the Closing Date Stock Price is no greater than $8.239 and no less than $6.741 per share. In the event that the Closing Date Stock Price is greater than $8.239, Chrysalis will receive 3,034,349 shares of OrthoLogic common stock and in the event that the Closing Date Stock Price is less than $6.741, Chrysalis will receive 3,708,649 shares of OrthoLogic common stock. This means that Chrysalis could receive a number of shares of OrthoLogic common stock worth more or less than $25.0 million at closing. For example, the closing price of OrthoLogic common stock as of July 1, 2004 was $8.25. Assuming this is the Closing Date Stock Price, Chrysalis would receive $25,033,379 worth of OrthoLogic common stock (based on multiplying $8.25 per share and 3,034,349 shares).

$7.0 million in OrthoLogic common stock, payable if either of the following trigger events occurs before the fifth anniversary of the closing: (1) a sale of substantially all OrthoLogic s assets, or a merger, consolidation, recapitalization, or other transaction, in each case after which OrthoLogic s stockholders immediately before such transaction do not own a majority of the voting power of the resulting entity immediately after such transaction; or (2) OrthoLogic s receipt of written notice from the United States Food and Drug Administration that a new drug application for a product based on Chrysalin has been accepted for filing. The number of shares of OrthoLogic common stock issued will be calculated by using a per share price equal to the average closing price for the 10 trading days preceding the triggering event; in no event shall such number of shares exceed the number issued at closing. In the event that the aggregate number of shares issuable at closing and upon the successful accomplishment of the trigger event equals or exceeds 20% of OrthoLogic s outstanding capital stock at closing, the number of shares issuable upon the trigger event shall be reduced so the amount is less than 20% of its outstanding shares, with the difference paid in cash based on the same OrthoLogic average closing price for the 10 trading days preceding the triggering event.

In connection with the transaction, OrthoLogic is registering for sale all the shares of its common stock that may be issued to Chrysalis and distributed to the Chrysalis stockholders upon Chrysalis liquidation. OrthoLogic s common stock is currently traded on the Nasdaq National Market under the symbol OLGC.

This consent solicitation/prospectus is dated , 2004 and is first being mailed to Chrysalis stockholders on or about , 2004. Chrysalis offices are located at 2200 Market, Suite 600, Galveston, Texas 77550. Chrysalis website address is www.chrysalisbio.com. Chrysalis can be reached by telephone at 409-750-9251. **You should carefully read the discussion in the section entitled Risk Factors beginning on page 13.**

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QUESTIONS AND ANSWERS

What am I being asked to do as a stockholder of Chrysalis?

You are being asked to provide your written consent to approve (i) the sale of substantially all of the Chrysalis assets (except cash) to OrthoLogic pursuant to the Asset Purchase Agreement and Plan of Reorganization and the related transactions described in that agreement, and (ii) the plan of complete liquidation and dissolution pursuant to which Chrysalis will wind down its operations and dissolve. To consummate such proposals, Chrysalis is soliciting written consent from holders of at least a majority of its outstanding common stock on an as-converted basis.

On an as-converted basis as of July 1, 2004, Chrysalis had 2,048,310 shares of Chrysalis common stock eligible to vote on the asset sale and on the plan of liquidation and dissolution. As of such date, Chrysalis had 1,201,940 shares of common stock outstanding, 89,850 Series A preferred shares convertible into 205,371 shares of common stock, Series B preferred shares convertible into 346,467 shares of common stock, Series C preferred shares convertible into 190,476 shares of common stock and convertible notes, which, upon the closing of this transaction, convert into 104,056 shares of Series D preferred stock, which are convertible into 104,056 shares of common stock (assuming a July 1, 2004 conversion date). Because the convertible notes continue to accrue interest until their conversion and the principal and interest on the notes are convertible into Series D preferred stock, which are convertible into a like number of shares of common stock, the convertible notes will convert into 104,723 shares of common stock assuming a July 31, 2004 conversion date.

Chrysalis is asking you to execute and return the written consent attached as Annex E to this consent solicitation to Chrysalis Secretary as soon as possible by returning the executed written consent in the enclosed self-addressed stamped envelope. If you do not respond and Chrysalis receives the requisite number of consents voting in favor of the asset purchase, you will receive a written notice from the Chrysalis Board of Directors of the approval of the consent promptly thereafter.

If I change my mind after I have submitted an executed consent, can I revoke my consent?

If you submit your written consent to us and subsequently wish to revoke your consent, please call Dennis McWilliams at (409) 750-9251 and notify him of your decision, and Chrysalis will disregard your signed consent provided that Chrysalis has not already received and accepted consents from shareholders representing a majority of the Chrysalis shares eligible to be voted to approve the asset sale and plan of liquidation.

Why has Chrysalis Board of Directors decided to sell Chrysalis assets?

Chrysalis Board of Directors considered a number of factors in determining that the asset sale is in the best interests of Chrysalis and its stockholders, including but not limited to the following:

- The expected increased value from having all Chrysalin patent license rights owned by a single entity rather than having multiple owners of rights for different indications;
- Chrysalis Board s assessment of OrthoLogic s commitment to the future growth and commercialization of the Chrysalin technology, and OrthoLogic management s ability to achieve these goals; and
- OrthoLogic s cash position and ability to fund the future development of Chrysalin drug products compared to Chrysalis current ability.

The Board also considered a number of factors that might have a negative impact on Chrysalis and its stockholders. Please see Reasons for Engaging in Asset Sale on page 31 for a complete list of the positive and negative factors that were considered by the Board.

What was the process by which Chrysalis chose to sell its assets to OrthoLogic?

Since inception, Chrysalis has sought ways to increase stockholder value through a variety of financing and corporate partnering activity. More recently, since the termination of the Abbott license agreement,

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Chrysalis has been exploring opportunities through venture capital sources and strategic partnering in order to fund the development of Chrysalin-based products that had not already been exclusively licensed to OrthoLogic. In the fall of 2003, OrthoLogic and Chrysalis began discussing the potential advantages of combining the efforts of the two companies. Chrysalis Board then began considering the benefits of a sale to OrthoLogic in relation to the other strategic options available to Chrysalis at the time. Based on this assessment, Chrysalis Board felt that for the right valuation, the sale to OrthoLogic provided the most strategic benefit to Chrysalis stockholders while providing an improved commercialization environment for the Chrysalin technology. To evaluate the proposed negotiated value, Chrysalis considered the proposed price in the context of the other strategic options available to it, including raising additional capital through the venture capital market, or licensing other applications of Chrysalin to other strategic partners for additional cash. This included using industry standard financial models to consider the impact on stockholder value of the different options. After weighing all the information gathered during this process, the Board concluded that the offer made by OrthoLogic represented the best option for Chrysalis stockholders, and authorized Chrysalis management to execute the Asset Purchase Agreement as well as recommend approval of the sale to the Chrysalis stockholders.

What will the Chrysalis stockholders receive if the asset sale closes?

Chrysalis stockholders will not immediately receive anything upon the consummation of the sale. However, assuming all of the $2.5 million cash portion of the purchase price is used to pay expenses related to the asset sale and Chrysalis liquidation; assuming Chrysalis receives $25.0 million of OrthoLogic stock when the asset sale closes; assuming there are no claims made against the stock in the escrow account; assuming the convertible notes convert as of July 31, 2004 and all the option holders exercise their options, but the warrant holders do not; then Chrysalis expects each of Chrysalis common stockholders to receive approximately $7.84 in OrthoLogic common stock for every share of Chrysalis common stock owned after all preferred preferences are paid. The ratio of OrthoLogic common stock Chrysalis shareholders will receive for each share of Chrysalis common stock will vary depending on the market price of OrthoLogic common stock on the distribution date. Using the high and low ranges of the Closing Date Stock Price collar (of $6.741 and $8.239) as the range of market prices on the date of distribution and the $7.84 distribution amount per Chrysalis common share derived above, Chrysalis common stockholders would receive between 0.95 and 1.16 shares of OrthoLogic common stock per share of Chrysalis common stock as of July 31, 2004.

The Chrysalis Board of Directors plans to pay all Chrysalis creditors (including those to whom Chrysalis owes payment for services related to the sale of the assets), fulfill its post-sale obligations under the transition services agreement and then liquidate as soon as practicable and, in doing so, distribute the remaining cash and shares of OrthoLogic common stock to Chrysalis stockholders. Chrysalis expects to use all or nearly all of the $2.5 million cash portion of the purchase price to pay expenses related to the sale and its liquidation. Chrysalis will pay all preferred stock liquidation preferences in the liquidation. Chrysalis currently has common stock and three series of preferred stock outstanding, Series A, B and C. Additionally, Chrysalis expects to have a Series D preferred stock outstanding (through the conversion of notes) by the closing. Chrysalis preferred stockholders have certain liquidation preferences as well as participation rights in the distributions. The holders of the Chrysalis preferred stock are entitled to liquidation preferences totaling approximately $5.9 million in the aggregate, divided among the series of preferred stockholders approximately as follows:

Series A
$899,000;
Series B
$1,905,000;
Series C
$2,000,000; and
Series D
$1,050,000 (not including accrued interest in connection with the convertible notes).

Assuming Chrysalis holds $25.0 million worth of OrthoLogic common stock at the time of the distribution, Chrysalis will have approximately $19.1 million of OrthoLogic common stock after Chrysalis pays the preferred stock liquidation preferences. In addition, all such series of preferred stock participate with

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the common stockholders on an as converted to common stock basis in the distributions of all remaining assets. Assuming all of Chrysalis outstanding options are exercised prior to closing, and that no warrants are exercised, Chrysalis will have 2,336,154 shares of common stock outstanding to share in the remaining assets, prior to conversion of the convertible notes. Assuming that closing of this transaction occurs on July 31, 2004, an additional 104,723 shares of common stock will be issuable as a result of the conversion of such notes. Please see Plan of Liquidation on page 47.

A 15% portion of each stockholder s distributions (and a larger percentage of Darrell Carney s distributions) will be placed into an escrow account for an 18 month period following the closing which will be used to fund indemnification claims made by OrthoLogic.

Do I have to retain the OrthoLogic stock distributed to me to be eligible to receive my per share portion of the $7.0 million contingent payment?

No. Each holder of Chrysalis stock at the time of Chrysalis liquidation will receive his pro rata portion of the $7.0 million contingent portion of the purchase price, if it is earned, regardless of whether the Chrysalis stockholder has retained or sold his OrthoLogic common stock. Assuming that Chrysalis has already paid all of its preferred shares liquidation preferences, the $7.0 million contingent portion of the purchase price will be paid to holders of Chrysalis capital stock on a pro rata basis with holders of preferred stock participating on an as converted to common stock basis.

What will the Chrysalis option holders and warrant holders receive if the asset sale closes?

If the option holders exercise their options, which are currently exercisable at prices ranging from $0.55 to $1.05 per share, they will receive the same distribution per share as the holders of common stock. Such options must be exercised as of the closing to be valid. There are currently outstanding options exercisable for a total of 391,900 shares.

The warrant holders must exercise their warrants prior to or within 30 days after the closing of the asset sale. They would also receive the same distribution per share as the holders of common stock. Because the exercise price of Chrysalis outstanding warrants is $10.50 per share and the expected value of the OrthoLogic common stock distributable to Chrysalis common stockholders is less than $10.50 per share, Chrysalis believes it is unlikely that any of the warrants will be exercised.

What will happen to Chrysalis after the sale is consummated?

The Chrysalis Board of Directors plans to liquidate Chrysalis, distributing all Chrysalis then remaining assets, after all creditors have been paid, to Chrysalis stockholders, and dissolve Chrysalis as soon as practicable after the closing. Chrysalis has agreed to continue employing all of Chrysalis employees who are not hired by OrthoLogic and to make them available to OrthoLogic for up to 90 days following the closing pursuant to a transition services agreement. Consequently, Chrysalis will not commence formal liquidation of the company until after the end of the transition services agreement.

When will I be able to sell my shares of OrthoLogic?

You will be able to sell shares in the public market as soon the shares of OrthoLogic common stock are distributed to you, unless you are entering into a lockup agreement with OrthoLogic. In addition, you may be subject to volume, time, manner of sale and other restrictions of Rule 145 under the Securities Act of 1933, as amended if you are considered an affiliate of Chrysalis or OrthoLogic. See The Asset Purchase Agreement and Plan of Reorganization Other Related Material Contracts for more information about the lockup agreements.

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What are the federal tax consequences of the asset sale and liquidation to Chrysalis and its Stockholders?

Chrysalis has obtained the opinion of Winstead Sechrest & Minick P.C., counsel to Chrysalis, which is included as an Exhibit to the Registration Statement of which this consent solicitation/prospectus is a part (the Tax Opinion), that the asset sale and liquidation will constitute a Reorganization within the meaning of section 368(a)(1)(C) of the Internal Revenue Code of 1986. The Tax Opinion is subject to certain assumptions and qualifications, including but not limited to the accuracy of certain representations made by Chrysalis. The Tax Opinion is not binding on the Internal Revenue Service (the IRS) and does not preclude the IRS from adopting a contrary position. If this transaction qualifies as a tax-free reorganization, Chrysalis will not recognize gain or loss as a result of the asset sale and Chrysalis stockholders will not recognize gain or loss on the shares of OrthoLogic common stock received or deemed received by them except to the extent of (a) OrthoLogic common stock issuable as the contingent portion of the purchase price that are recharacterized as interest income under the imputed interest rules of federal income tax law; (b) cash received in lieu of fractional shares of OrthoLogic common stock; (c) cash or other non-stock property received or deemed received in exchange for Chrysalis capital stock; and (d) cash issuable as the contingent portion of the purchase price. Certain option holders may also recognize income upon the exercise of their options to acquire Chrysalis capital stock in anticipation of the asset sale and liquidation. The federal income tax consequences described may not apply to all stockholders of Chrysalis. Your tax consequences will depend on your own situation. You are urged to consult your tax advisor so as to fully understand the tax consequences of the sale and liquidation to you. See Material Federal Income Tax Consequences to Chrysalis Stockholders on page 38 for more information.

Are there any conditions to the closing of the sale?

Chrysalis and OrthoLogic are not obligated to consummate the asset sale until specific conditions are satisfied or waived. Some of the conditions are as follows:

The president of Chrysalis must enter into an employment agreement with OrthoLogic;

No statute, rule, regulation, executive order, decree, injunction or other order has been enacted, entered, promulgated or enforced by any court or governmental authority that is in effect and has the effect of preventing the consummation of the sale and plan of reorganization;

Opinions of legal counsel of OrthoLogic, Chrysalis and the University of Texas, as licensor of Chrysalin, must have been obtained;

All representations and warranties must be complete, true and correct; and

All approvals and consents necessary or desirable, if any, in connection with the transfer to OrthoLogic of Chrysalis assets must have been obtained.

Am I entitled to appraisal or dissenter s rights?

No. Chrysalis stockholders are not entitled to any dissenter s or appraisal rights with respect to the sale of Chrysalis assets under Delaware law or Chrysalis Certificate of Incorporation.

Can Chrysalis decide not to proceed with the sale to OrthoLogic?

Chrysalis Board of Directors may terminate the asset sale to OrthoLogic under certain circumstances. However, the termination may make Chrysalis responsible to pay OrthoLogic certain breakup fees or reimburse OrthoLogic for its out-of-pocket expenses incurred in pursuing the Chrysalis sale of assets. See The Asset Purchase Agreement and Plan of Reorganization Termination and Breakup Fees.

What are the interests of Chrysalis directors, officers and affiliates in the asset sale?

In connection with the closing of the asset sale, Chrysalis management team and directors will receive consideration in the form of stockholder distributions upon Chrysalis liquidation and, in some cases, severance

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payments, bonuses and employment contracts with OrthoLogic which may make their interests different from those of Chrysalis stockholders.

Philip Hunke, a Chrysalis director, will receive a $50,000 preference distribution on his 5,000 shares of Series A Preferred Stock.

Chrysalis director and president, Darrell Carney will receive a consulting contract with OrthoLogic.

Chrysalis Chief Operating Officer Dennis McWilliams will receive a severance payment.

All of Chrysalis management and directors, along with all other option holders, will be eligible to have the payment of their exercise prices waived by Chrysalis.

Please see Interests of Certain Chrysalis Related Persons in the Asset Sale for a more complete description of the Chrysalis managements and directors interests in the asset sale.

In addition, two of Chrysalis affiliates are holders of Chrysalis preferred stock and will receive a preference distribution. OrthoLogic will receive approximately $750,000 in a preference distribution on its 136,364 shares of Series B preferred stock and Abbott Corporation will receive approximately $2.0 million in a preference payment on its 190,476 shares of Series C preferred stock.

Who is paying the expenses related to the asset sale?

Both Chrysalis and OrthoLogic have agreed to each pay their own out-of-pocket expenses incurred in pursuing the asset sale. However, if Chrysalis stockholders do not approve the asset sale, Chrysalis will need to pay OrthoLogic a sum equal to OrthoLogic s out-of-pocket expenses incurred in pursuing this asset sale if OrthoLogic terminates this sale.

How is this transaction expected to be treated for accounting purposes?

The asset sale is expected to be treated as an acquisition of net assets by OrthoLogic for financial accounting purposes.

Where can I find more information about OrthoLogic?

Information about OrthoLogic can be obtained in reading the Annexes F-J included herein. Additionally, you can get more information about OrthoLogic by inspecting its annual, quarterly and other reports, which it files 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 OrthoLogic directly at the address and telephone number below.

OrthoLogic Corp.

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

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SUMMARY

This summary highlights information more fully described elsewhere in this consent solicitation/prospectus and may not contain all of the information that may be important to you. You should read the entire consent solicitation/prospectus, including the consolidated financial statements and related notes and other financial data included in this consent solicitation/prospectus and its Annexes. This summary is qualified in its entirety by the more detailed information appearing elsewhere in this document. This summary includes page references in parentheses to direct you to a more complete description of the topics presented in this summary. You should also carefully consider the information set forth under Risk Factors beginning on page 13.

OrthoLogic has supplied all information contained in this consent solicitation/prospectus relating to OrthoLogic and Chrysalis has supplied all information contained in this consent solicitation/prospectus relating to Chrysalis.

Unless the context suggests otherwise, references to Chrysalis refer to Chrysalis Biotechnology, Inc. and references to OrthoLogic refer to OrthoLogic Corp. and its subsidiaries.

The Companies

OrthoLogic Corp.

OrthoLogic Corp. is a Nasdaq listed public company which has been a minority stockholder of Chrysalis since 1997. It is a Delaware corporation involved in the research and development of biopharmaceutical solutions for hard and soft tissue repair. Its research program is focused exclusively on the development of Chrysalin, a patented peptide licensed to it by Chrysalis. Its primary offices are located at 1275 West Washington, Tempe, Arizona 85281 and its telephone number is (602) 286-5520. OrthoLogic s website is www.orthologic.com.

Chrysalis Biotechnology, Inc.

Chrysalis is a privately held biopharmaceutical company developing synthetic peptide compounds targeted at tissue repair and regeneration. Chrysalis has operated as a development stage company since its inception. Its primary offices are located at 2200 Market, Suite 600, Galveston, Texas 77550 and its telephone number is (409) 750-9251. Chrysalis website is www.chrysalisbio.com.

Please see Annexes F-J for more information about OrthoLogic s business and page 24, for more information about Chrysalis business.

The Asset Purchase Agreement and Plan of Reorganization (p. 27)

OrthoLogic has agreed to purchase and Chrysalis has agreed to sell substantially all of Chrysalis assets (except cash), including Chrysalis tangible assets, license rights to Chrysalin and all other intellectual property, in exchange for approximately $27.5 million in cash and shares of OrthoLogic common stock and an additional $7.0 million in OrthoLogic common stock if certain triggers are met. OrthoLogic owns approximately 7.0% of the outstanding capital stock of Chrysalis and as a result, OrthoLogic will receive a portion of the purchase price as a stockholder. The purchase price will be paid to Chrysalis, or, following Chrysalis liquidation, to Chrysalis stockholders as follows:

$2.5 million in cash, payable at the closing;

$25.0 million in OrthoLogic common stock, payable at the closing. At closing, Chrysalis will receive that number of shares of OrthoLogic common stock with a value of $25.0 million as of closing, based on the 10-day average closing price of OrthoLogic common stock ending immediately prior to closing (the Closing Date Stock Price) if the Closing Date Stock Price is no greater than $8.239 and no less than $6.741 per share. In the event that the Closing Date Stock Price is greater than $8.239, Chrysalis will receive 3,034,349 shares of OrthoLogic common stock and in the event that the Closing Date Stock Price is less than $6.741, Chrysalis will receive 3,708,649 shares of OrthoLogic common stock. This means that Chrysalis could receive a number of shares of OrthoLogic common stock worth more

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or less than $25.0 million at closing. For example, the closing price of OrthoLogic common stock as of July 1, 2004 was $8.25. Assuming this is the Closing Date Stock Price, Chrysalis would receive $25,033,379 worth of OrthoLogic common stock (based on multiplying $8.25 per share and 3,034,349 shares); and

$7.0 million in OrthoLogic common stock, payable if either of the following trigger events occurs before the fifth year anniversary of the closing: (1) a sale of substantially all OrthoLogic s assets, or a merger, consolidation, recapitalization, or other transaction, in each case after which OrthoLogic s stockholders immediately before such transaction do not own a majority of the voting power of the resulting entity immediately after such transaction; or (2) OrthoLogic s receipt of written notice from the United States Food and Drug Administration that a new drug application for a product based on Chrysalin has been accepted for filing. The number of shares of OrthoLogic common stock issued will be calculated by using a per share price equal to the average closing price for the 10 trading days preceding the triggering event; in no event shall such number of shares exceed the number issued at closing. In the event that the aggregate number of shares issuable at closing and upon the successful accomplishment of the trigger event equals or exceeds 20% of OrthoLogic s outstanding capital stock at closing, the number of shares issuable upon the trigger event shall be reduced so the amount is less than 20% of its outstanding shares, with the difference paid in cash based on the same OrthoLogic average closing price for the 10 trading days preceding the triggering event.

Chrysalis has agreed to place approximately 18% of the shares issued at closing (15% allocable to all stockholders and approximately 3% additionally allocable to Darrell Carney) of OrthoLogic common stock into an escrow account to pay for indemnification claims made by OrthoLogic within the 18 months following the closing. Except for shares for which OrthoLogic has made an unresolved claim within the 18 months following the closing, all remaining shares in the escrow account will be released to Chrysalis or its stockholders 18 months following the closing.

Chrysalis has agreed to continue to employ all its current employees not immediately hired by OrthoLogic for a period of up to 90 days following the closing. Pursuant to a transition services agreement, Chrysalis has agreed to make these employees available to OrthoLogic for a fee during the 90-day transition period.

Chrysalis has agreed not to engage in discussions regarding a business combination or other similar transaction with another party while the asset sale with OrthoLogic is pending and to notify OrthoLogic of any inquiries or proposals it receives. The Chrysalis Board of Directors will provide the identity of the other party and a summary of the material terms of the competing offer to OrthoLogic and provide OrthoLogic the opportunity to amend the Asset Purchase Agreement and Plan of Reorganization so that the competing proposal is no longer more favorable to Chrysalis. If Chrysalis Board of Directors still believes in good faith that it is in the best interests of Chrysalis to terminate the asset sale to OrthoLogic, it may do so with the payment of certain termination fees described below.

Chrysalis may terminate the Asset Purchase Agreement and Plan of Reorganization in some circumstances without a penalty. However, Chrysalis is required to pay OrthoLogic termination fees if Chrysalis terminates the asset sale under the following circumstances. If Chrysalis terminates this agreement because Chrysalis Board of Directors has concluded in good faith that the Board of Directors believes it must terminate the asset sale in order to fulfill its fiduciary duties to Chrysalis and its stockholders, Chrysalis must pay OrthoLogic a termination fee of $1.5 million in cash. OrthoLogic may terminate the sale and receive the $1.5 million termination fee from Chrysalis if the Chrysalis Board of Directors changes its recommendation that the Chrysalis stockholders approve the sale. Finally, if the stockholders of Chrysalis do not approve the sale, Chrysalis will be obligated to pay OrthoLogic a sum equal to all of OrthoLogic s out-of-pocket expenses related to the proposed asset sale.

Chrysalis plan of liquidation provides for the liquidation, winding up and dissolution of Chrysalis. Following closing of the asset sale and fulfillment of its post closing obligations, including the transition services agreement, Chrysalis will wind up its business, pay any remaining creditors and distribute its remaining assets to its stockholders. The actual amounts of, timing of, and record dates for, any distributions

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to Chrysalis stockholders are not known at this time. These matters will be determined in the sole discretion of the Chrysalis Board of Directors.

OrthoLogic has registered the issuance of its stock to Chrysalis with the U.S. Securities and Exchange Commission (SEC) on a Form S-4. Thus, upon Chrysalis distribution of the OrthoLogic common stock to the Chrysalis stockholders, Chrysalis non-affiliate stockholders who are not subject to a lockup agreement will have freely tradeable OrthoLogic common stock. Chrysalis will require all stockholders who own 5 percent or more of the outstanding stock of Chrysalis to agree to a 60-day lockup agreement that prohibits them for a period of 60 days from the closing from selling, on any single day during such 60-day period, more than 5 percent of their portion of the OrthoLogic common stock distributed to them. OrthoLogic common stock is listed on the Nasdaq National Market under the symbol OLGC. You are encouraged to obtain current market quotations of OrthoLogic common stock.

There is attached to and provided as part of this consent solicitation/prospectus as Annex A a copy of the Asset Purchase Agreement and Plan of Reorganization and as Annex B a copy of the Plan of Complete Liquidation and Dissolution. Please read the Asset Purchase Agreement and Plan of Reorganization, the Plan of Complete Liquidation and Dissolution and also the related Escrow Agreement attached as Annex C and the Transition Services Agreement attached as Annex D because these are the legal documents that govern the asset sale and the subsequent liquidation and dissolution.

Attached as Annex E is the written consent of stockholders, which Chrysalis is requesting that you sign and return to Chrysalis Secretary as soon as possible by sending it back in the enclosed self-addressed stamped envelope. Under Delaware law, Chrysalis is required to obtain stockholder approval to consummate the asset sale and to liquidate and dissolve. Chrysalis does not intend to hold a stockholder meeting to approve this transaction; you are encouraged to contact Chrysalis management if you have any questions or comments.

Reasons for the Purchase and Sale of Chrysalis Assets (p. 31)

OrthoLogic s Reasons

OrthoLogic s Board of Directors believed the acquisition of exclusive rights to Chrysalin for all indications would be a key strategic acquisition for OrthoLogic as it continued its research into orthopedic indications for Chrysalin. The Board of Directors weighed the benefits of the acquisition against the costs of the acquisition and ultimately decided it was in the best interests of OrthoLogic to obtain the full licensed rights to Chrysalin which would broadened the scope of OrthoLogic s potential Chrysalin Product Platform significantly.

Chrysalis Reasons

Chrysalis Board of Directors considered a number of factors in determining that the asset sale is in the best interests of Chrysalis and its stockholders, including but not limited to the following three primary factors:

- The favorable contractual terms of the asset purchase and related transaction documents, including the favorable valuation of Chrysalis in this transaction as compared to other offers considered in the past by Chrysalis Board.
- The opportunity presented by the asset sale to achieve liquidity for Chrysalis existing stockholders, who currently do not have a public market for their shares; and
- The fact that OrthoLogic is in a much better cash position than Chrysalis, and as a result, OrthoLogic s ability to fund development of Chrysalin drug products is much stronger than Chrysalis current ability.

The Board also considered a number of factors that might have a negative impact on Chrysalis and its stockholders. Please see Reasons for Engaging in Asset Sale on page 31 for a description of the positive and negative factors that were considered by the Chrysalis Board.

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Conditions to Consummation of the Sale (p. 28)

Chrysalis and OrthoLogic are not obligated to consummate the sale until specific conditions are satisfied or waived. Some of the conditions are as follows:

The president of Chrysalis must enter into an employment agreement with OrthoLogic;

No statute, rule, regulation, executive order, decree, injunction or other order has been enacted, entered, promulgated or enforced by any court or governmental authority that is in effect and has the effect of preventing the consummation of the sale and plan of reorganization;

Opinions of legal counsel of OrthoLogic, Chrysalis and the University of Texas, as licensor of Chrysalin, must have been obtained;

All representations and warranties must be complete, true and correct; and

All approvals and consents necessary or desirable, if any, in connection with the transfer of Chrysalis assets to OrthoLogic must have been obtained.

Chrysalis Stockholders Approval (p. 36)

To consummate the asset sale and liquidate, Chrysalis is required to obtain the approval of the holders of at least a majority of the outstanding shares entitled to vote on the transaction and the plan of liquidation. Chrysalis does not intend to hold a stockholder meeting to obtain such approval but is soliciting such approval by written consent as permitted by its certificate of incorporation. While a closing could be held as soon as enough consents are received from Chrysalis stockholders, Chrysalis anticipates that a closing will be held on or before 10 business days following the date of this consent solicitation/prospectus.

No Regulatory Approval Required (p. 31)

No regulatory approval is required in order to consummate the transaction.

Tax Treatment of the Asset Sale and Liquidation (p. 38)

Chrysalis has obtained the Tax Opinion of Winstead Sechrest & Minick P.C., counsel to Chrysalis, which is included as an exhibit to the registration statement of which this consent solicitation/prospectus is a part, that the asset sale and liquidation will constitute a Reorganization within the meaning of section 368(a)(1)(C) of the Internal Revenue Code of 1986. The Tax Opinion is subject to certain assumptions and qualifications, including but not limited to the accuracy of certain representations made by Chrysalis. The Tax Opinion is not binding on the IRS and does not preclude the IRS from adopting a contrary position. If this asset sale and liquidation qualifies as a tax-free reorganization, Chrysalis will not recognize gain or loss as a result of the asset sale and Chrysalis stockholders will not recognize gain or loss upon their receipt or deemed receipt (including as a consequence of receiving a beneficial interest in the liquidating trust or the escrowed shares) of OrthoLogic common stock in exchange for Chrysalis capital stock upon the liquidation except to the extent of (i) OrthoLogic common stock issuable as the contingent portion of the purchase price that are recharacterized as interest income under the imputed interest rules of federal tax law; (ii) cash received in lieu of fractional shares of OrthoLogic common stock; (iii) cash or other non-stock property received in exchange for Chrysalis capital stock; and (iv) cash issuable as the contingent portion of the purchase price. In addition, the fair market value of shares of Chrysalis capital stock received upon the exercise of certain options held by holders of non-qualified stock options in excess of the option exercise price, which will be taxable upon exercise thereof. In general, the tax basis of the OrthoLogic common stock received by Chrysalis stockholders in the asset sale and liquidation, other than the Deferred Interest Shares (as defined under Material Federal Income Tax Consequences to Chrysalis Stockholders), including OrthoLogic common stock that is deemed to be received by Chrysalis stockholders as a result of receiving a beneficial interest in the liquidating trust or the escrowed shares, should be the same as the aggregate tax basis of the Chrysalis capital stock surrendered in exchange, increased by any gain recognized in the exchange and decreased by the amount of cash (or any other property) other than OrthoLogic common stock received

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or deemed received as a result of the receipt of a beneficial interest in the Liquidating Trust or the escrow shares. The federal income tax consequences described above may not apply to all stockholders of Chrysalis. Your tax consequences will depend on your own situation. You are urged to consult your tax advisor so as to fully understand the tax consequences of the sale and liquidation to you. Please see Material Federal Income Tax Consequences to Chrysalis Stockholders on page 38 for more information.

Accounting Treatment of the Sale (p. 31)

The asset sale is expected to be treated as an acquisition of net assets by OrthoLogic for financial accounting purposes.

Appraisal Rights (p. 36)

Chrysalis stockholders are not entitled to any dissenter s or appraisal rights with respect to the sale of Chrysalis assets under Delaware law or Chrysalis Certificate of Incorporation.

Expenses Incurred in the Sale (p. 29)

Both Chrysalis and OrthoLogic have agreed to each pay their own out-of-pocket expenses incurred in pursuing the asset sale. However, if OrthoLogic or Chrysalis elects to terminate the sale because the Chrysalis stockholders do not approve the asset sale, Chrysalis must reimburse OrthoLogic for its out-of-pocket expenses incurred in connection with the proposed transaction. Assuming the asset sale closes, it is anticipated that most or all of the $2.5 million cash portion of the purchase price will be allocated toward transaction and liquidation related expenses incurred by Chrysalis. The estimated expenses, which total $2,425,000, are as follows:

$1,375,000 for the finder s fee payable in cash to HC Technologies, Inc.;

$400,000 for legal and accounting expenses;

$400,000 for employee related expenses, including deferred compensation, severance and bonus payments; and

$250,000 for a reserve for residual operations.

Interests of Certain Chrysalis Related Persons in the Asset Sale (p. 36)

In connection with the closing of the Asset Purchase Agreement, Chrysalis management team and directors will receive severance payments, bonuses or employment contracts, which may make their interests different from those of Chrysalis stockholders. Please see Interests of Certain Chrysalis Related Persons in the Asset Sale on page 36 for a complete description of such interests.

Interest of Chrysalis in OrthoLogic after the Asset Sale

On the closing of the asset sale and subject to the escrow, Chrysalis will receive between 3,034,349 and 3,708,649 shares of OrthoLogic common stock, based on the Closing Date Stock Price. This is equal to approximately 8.1% to 9.7% of the outstanding stock of OrthoLogic as of June 30, 2004. However, as a preferred stockholder in Chrysalis, OrthoLogic will receive a portion of the shares back as shareholder distributions. OrthoLogic conservatively estimates it will receive about $1.5 million of consideration back in shareholder distributions, or between approximately 180,000 to 223,000 shares of OrthoLogic common stock (subject to the requirement that 15% of such amount be held in escrow for indemnification claims). Assuming the number of shares of OrthoLogic common stock is equal to the number of shares outstanding as of June 30, 2004, assuming Chrysalis makes the distribution to shareholders immediately after the closing and assuming OrthoLogic cancels the shares received by it, then Chrysalis stockholders will own between 7.6% and 9.2% of OrthoLogic s outstanding common stock. The following chart shows the percentage of OrthoLogic shares

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outstanding that will be owned by affiliates and non-affiliates of Chrysalis after the consummation of the asset sale and liquidation of Chrysalis and applying the assumptions described above:

	Percentage of Outstanding OrthoLogic Common Stock Owned If 3,034,349 Shares Are Issued to Chrysalis	Percentage of Outstanding OrthoLogic Common Stock Owned If 3,708,649 Shares Are Issued to Chrysalis
By affiliates of Chrysalis	3.9%	4.7%
By non-affiliates of Chrysalis	3.7%	4.5%

Trading Market (p. 45)

OrthoLogic s common stock trades on the Nasdaq National Market under the symbol OLGC. See Market Data on page 45 for more information. Chrysalis is not listed on any trading market and there is no market for its shares.

Risk Factors (p. 13)

You should consider carefully all of the information set forth in or attached to this consent solicitation/prospectus and, in particular, should evaluate the specific factors set forth in the section entitled Risk Factors on page 13 for an explanation of certain risks of any investment decision.

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ORTHOLOGIC CORP.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The selected historical consolidated financial data should be read together with the consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein in Annex F and G to this consent solicitation/prospectus. The selected historical consolidated financial data presented below for each of the years in the three year period ended December 31, 2003 and the December 31 balance sheet data for 2003 and 2002 is derived from OrthoLogic Corp. s audited financial statements included elsewhere herein in Annex F to this consent solicitation/prospectus. The statements of operations data for 2000 and 1999 and the 2001, 2000 and 1999 balance sheet data is derived from audited financial statements not included in this filing. The selected historical consolidated financial data for the three month periods ended March 31, 2004 and 2003 is derived from OrthoLogic Corp. s unaudited financial statements included elsewhere herein in Annex G to this consent solicitation/prospectus and, in OrthoLogic s management s opinion, reflect all adjustments that are necessary to present fairly the financial results for such periods.

ORTHOLOGIC CORP.

STATEMENTS OF OPERATIONS DATA

	Three Months Ended March 31,		Years Ended December 31,				
	2004	2003	2003(1)	2002(2)	2001(3)	2000(4)	1999
	(In thousands, except per share amounts)						
Total net revenues	$	$	$2,230	$31,879	$69,570	$71,159	
Total cost of revenues			5,811	14,103	15,947		
Gross profit			26,068	55,467	55,212		

Operating expenses

Selling, general and administrative
555 1,289 4,331 4,576 29,274 55,872 48,973
Research and development
3,371 1,390 9,008 3,488 3,460 4,112 2,191
Restructuring and other charges
(216)
Legal settlement
4,499
Write-off of goodwill
23,348
Net gain from discontinuation of co- promotion agreement
(844)
CPM divestiture and related gains
(111) (743) (1,047) 14,327

Total operating expenses
3,815 2,679 12,596 7,017 47,061 86,987 50,948

Operating (loss) income
(3,815) (2,679) (12,596) (4,787) (20,993) (31,520) 4,264
Other income
306 132 568 706 682 451 225

(Loss) income from continuing operations before taxes	(3,509)	(2,547)	(12,028)	(4,081)	(20,311)	(31,069)	4,489
Income taxes (benefit)	(294)	(981)	(4,414)	(1,571)	(2,778)	42	1,614
Net (loss) income from continuing operations	(3,215)	(1,566)	(7,614)	(2,510)	(17,533)	(31,111)	2,875
Net gain on the sale of the Bone Device Business, net of taxes $5,205							72,692
Income (loss) from the operations of the Bone Device Business net of taxes $0, $994, $4,414, $1,577, $2,790, ($54), ($1,672) respectively	1,708	7,358	8,119	4,438	(79)	(2,637)	

Net income (loss) from discontinued operations	1,708	80,050	8,119	4,438	(79)	(2,637)
Accretion of non-cash preferred stock dividend						(824)
Net income (loss) applicable to common stockholders	$(3,215)	$142	$72,436	$5,609	$(13,095)	$(31,190)	$(586)

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	Three Months Ended March 31,		Years Ended December 31,				
	2004	2003	2003(1)	2002(2)	2001(3)	2000(4)	1999
	(In thousands, except per share amounts)						
Net (loss) income from continuing operations							
Basic	$(0.09)	$(0.05)	$(0.23)	$(0.08)	$(0.56)	$(1.04)	$0.11
Diluted	$(0.09)	$(0.05)	$(0.23)	$(0.08)	$(0.56)	$(1.04)	$0.11
Net income (loss) from discontinued operations							
Basic	$(0.00)	$0.05	$2.43	$0.25	$0.14	$(0.00)	$(0.10)

Diluted
$(0.00) $0.05 $2.38 $0.24 $0.14 $(0.00) $(0.10)

Net income (loss)

Basic
$(0.09) $(0.00) $2.20 $0.17 $(0.42) $(1.04) $(0.02)

Diluted
$(0.09) $(0.00) $2.16 $0.17 $(0.42) $(1.04) $(0.02)

Basic shares outstanding	34,310	32,809	32,970	32,642	31,464	29,855	26,078
Equivalent shares		219	613	731			
Diluted shares outstanding	34,310	33,028	33,583	33,373	31,464	29,855	26,078

(1) On November 26, 2003, OrthoLogic completed the sale of all the assets and related liabilities of its bone growth stimulation device business (which OrthoLogic also calls its Bone Device Business). The Bone Device Business comprised all OrthoLogic s revenue generating operations. OrthoLogic s consolidated financial statements for the year ended December 31, 2003 include the results of operations prior to the divestiture and the related gain on the sale as discontinued operations.

Total operating expenses in 2003 were reduced by $743,000 as a result of settlement payments received against the contingent payment due from the buyer of the continuous passive motion (CPM) business and additional collections of the accounts receivable balances which are fully

reserved.

(2) Total operating expenses in 2002 were reduced by $1.0 million as a result of better than anticipated collection of CPM accounts receivable than had been originally estimated when the CPM business was sold in July 2001. Also, during 2002, OrthoLogic paid a $500,000 milestone payment to Chrysalis that was recorded as a research and development expense.

(3) The net loss in 2001 includes $14.3 million of CPM divestiture and related charges, and a $1.0 million payment to Chrysalis recorded as research and development expense for a license extension for Chrysalin.

(4) The net loss in 2000 includes charges of $4.5 million for the class action legal settlement and other legal settlements; $27.8 million of additional expenses related to the CPM business composed of the write-off of impaired goodwill, adjustments to accounts receivable, and other legal settlements; and $2.0 million of research and development expense paid to Chrysalis to obtain additional Chrysalin rights. Also, during 2000, OrthoLogic recorded an $844,000 net gain from the discontinuation of the Co-Promotion Agreement for Hyalgan.

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ORTHOLOGIC CORP.

BALANCE SHEET DATA

	March 31,	December 31,				
	2004	2003	2002	2001	2000	1999
	(In thousands)					
Working capital	$112,701	$112,679	$39,585	$40,039	$43,056	$40,865
Total assets	128,906	130,106	53,420	49,442	65,035	92,203
Long term liabilities, less current maturities	190	280	352	287	88	209
Stockholders equity	$124,502	$123,975	$48,233	$41,896	$51,910	$73,054

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CHRYSALIS BIOTECHNOLOGY, INC.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The selected historical consolidated financial data should be read together with the financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this consent solicitation/prospectus. The selected historical consolidated financial data presented below as of and for each of the years in the two year period ended December 31, 2003 and the December 31, 2002 balance sheet data is derived from Chrysalis Biotechnology, Inc. audited consolidated financial statements included elsewhere in this consent solicitation/prospectus. The selected historical consolidated financial data for the three month periods ended March 31, 2004 and 2003 is derived from Chrysalis Biotechnology s unaudited consolidated financial statements included elsewhere in this consent solicitation/prospectus. The selected historical consolidated financial data for the years ended December 31, 2001, 2000 and 1999 are derived from Chrysalis Biotechnology s unaudited consolidated financial statements not included in this filing. In Chrysalis Biotechnology s management s opinion, the unaudited financial statements reflect all adjustments that are necessary to present fairly the financial results for such periods.

CHRYSALIS BIOTECHNOLOGY, INC.

STATEMENTS OF OPERATIONS DATA

	Three Months Ended March 31,		Year Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
	(In thousands)						
Revenues	$530	$457	$2,574	$1,581	$1,851	$1,472	$1,039
Research and development	795	468	2,215	2,274	2,203	1,192	1,190
General and administrative	381	314	1,357	1,082	1,749	1,234	469

Total expenses	1,176	782	3,572	3,356	3,952	2,426	1,659
Minority interest				(72)	(14)		
Net loss	$(646)	$(325)	$(998)	$(1,703)	$(2,087)	$(954)	$(620)
Net loss per share	$(0.54)	$(0.27)	$(0.83)	$(1.43)	$(1.75)	$(0.80)	$(0.52)

Basic and diluted shares outstanding	1,202	1,194	1,196	1,194	1,194	1,194	1,194

CHRYSALIS BIOTECHNOLOGY, INC

BALANCE SHEET DATA

	March 31, 2004	December 31, 2003	2002	2001	2000	1999
		(In thousands)				
Working capital	$(135)	$230	$639	$2,668	$4,682	$868
Total assets	1,047	1,462	1,280	3,221	5,419	1,314
Long term liabilities, less current maturities	3,900	3,636	3,119	3,430	3,801	710
Stockholders equity (deficit)	$(3,903)	$(3,257)	$(2,268)	$(565)	$1,522	$476

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ORTHOLOGIC CORP.

SELECTED UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The selected unaudited proforma consolidated financial data presented below is derived from unaudited proforma consolidated financial statements included elsewhere herein in the F pages to this consent solicitation/ prospectus. The summary selected unaudited proforma consolidated financial data are based on the historical consolidated financial statements of OrthoLogic Corp. and subsidiaries included elsewhere herein, adjusted to give effect to the acquisition of substantially all of Chrysalis net assets excluding non-recurring expenses pursuant to the Asset Purchase Agreement by and between Chrysalis and OrthoLogic dated April 28, 2004.

The unaudited pro forma consolidated balance sheet data gives effect to the proposed transaction as if it occurred on the date of the balance sheet. The unaudited pro forma consolidated statements of operations data for the three months ended March 31, 2004 and the year ended December 31, 2003 give effect to the transaction as if it had occurred as of January 1, 2003.

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 selected unaudited pro forma condensed consolidated financial statements should be read in conjunction with the historical consolidated financial statements for OrthoLogic and the audited financial statements of Chrysalis included elsewhere in this filing.

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ORTHOLOGIC CORP.

SELECTED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS DATA

	Three Months Ended March 31, 2004	Year Ended December 31, 2003
	(In thousands) (Unaudited)	
REVENUES		
Grant Revenue	$	$131
Sponsored research		
Licensing fees		
Total revenues		131
OPERATING EXPENSES		
General and administrative	$963	$5,868
Research and development	3,501	8,590
CPM divestiture and related gains	(111)	(743)
Total operating expenses	4,353	13,715
OPERATING LOSS	(4,353)	(13,584)
OTHER INCOME		
Interest income, net	287	564

Loss from continuing operations before taxes	(4,066)	(13,020)
Income tax benefit	(294)	(4,796)
Net loss from continuing operations	$(3,772)	$(8,224)
Net loss from continuing operations		
Basic and diluted	$(0.10)	$(0.22)
Basic and diluted shares outstanding	37,795	36,678

PRO FORMA BALANCE SHEET DATA

	March 31, 2004
	(In thousands) (Unaudited)
Working capital	$108,413
Total assets	126,652
Long term liabilities, less current maturities	190
Stockholders equity	$121,783

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RISK FACTORS

Risks of OrthoLogic s Business

OrthoLogic is a biopharmaceutical company with no revenue generating operations and high investment costs. OrthoLogic expects to incur losses for a number of years as it expands its research and development projects. There is no assurance that OrthoLogic s current level of funds will be sufficient to support all research expenses to achieve commercialization.

With the November 2003 sale of its bone growth stimulation business, OrthoLogic currently has no revenue generating operations. With the acquisition of Chrysalis, OrthoLogic will be a pure research and development company. OrthoLogic estimates that its 2004 net cash expenditures, including the cash associated with the CBI acquisition, will be approximately $20.0 million. OrthoLogic anticipates evaluating both its and CBI s research projects after the closing of the asset purchase transaction to determine future cash flow requirements. However, based on current research and development plans, OrthoLogic expects its 2005 cash expenditures to be approximately $25.0-$30.0 million. OrthoLogic cautions that its future cash expenditure levels are difficult to estimate because the estimates include a number of assumptions about the number of research projects OrthoLogic pursues, the pace at which it pursues them, the quality of the data collected and the requests of the FDA to expand, narrow or conduct again clinical trials and analyze data. Changes in any of these assumptions can change significantly OrthoLogic s estimated cash expenditure levels.

OrthoLogic s product candidates are in various stages of development and may not be successfully developed or commercialized. If it fails to commercialize its product candidates, it will not be able to generate revenue:

OrthoLogic currently does not sell any products. OrthoLogic s product candidates are at the following stages of development:

Acceleration of Fracture Repair Phase 3 human clinical trials

Spine Fusion Phase 1/2 human clinical trials

Cartilage Defect Repair Late stage pre-clinical trials

Tendon and Ligament Repair Early stage pre-clinical trials

Consequently, OrthoLogic is subject to the risk that:

the FDA finds some or all of OrthoLogic s product candidates ineffective or unsafe;

OrthoLogic does not receive necessary regulatory approvals;

OrthoLogic is unable to get some or all of its product candidates to market in a timely manner;

OrthoLogic is not able to produce its product candidates in commercial quantities at reasonable costs;

OrthoLogic s products undergo post-market evaluations resulting in marketing restrictions or withdrawal of OrthoLogic s products; or

the patient and physician community does not accept OrthoLogic s products.

In addition, OrthoLogic s product development programs may be curtailed, redirected or eliminated at any time for many reasons, including:

adverse or ambiguous results;

undesirable side effects which delay or extend the clinical trials;

inability to locate, recruit, qualify and retain a sufficient number of patients for clinical trials;

regulatory delays or other regulatory actions;

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difficulties in obtaining sufficient quantities of the particular product candidate or any other components needed for OrthoLogic s preclinical testing or clinical trials;

change in the focus of OrthoLogic s development efforts; and

re-evaluation of OrthoLogic s clinical development strategy.

OrthoLogic cannot predict whether it will successfully develop and commercialize any of its product candidates. If it fails to do so, it will not be able to generate revenue.

OrthoLogic s product candidates are all based on the same chemical peptide, Chrysalin. If one of OrthoLogic s product candidates reveals safety or fundamental inefficacy issues in clinical trials, it could impact the development path for all OrthoLogic s other current product candidates.

The development of each of OrthoLogic s product candidates in the Chrysalin product platform is based on OrthoLogic s knowledge and understanding of how the human thrombin molecule contributes to the repair of soft tissue and bone. While there are important differences in each of the product candidates in terms of their purpose (fracture repair, spine fusion, cartilage repair, etc.), each product candidate is focused on accelerating the repair of soft tissue and bone and is based on the ability of Chrysalin to mimic specific attributes of the human thrombin molecule to stimulate the body s natural healing processes.

Since OrthoLogic is developing the product candidates in the Chrysalin product platform in parallel, OrthoLogic expects to learn from the results of each trial and apply some of OrthoLogic s findings to the development of the other product candidates in the platform. If one of the product candidates has negative clinical trial results or is shown to be ineffective, it could impact the development path or future development of the other product candidates in the platform. If OrthoLogic finds that one of the biopharmaceutical product candidates is unsafe, it could impact the development of OrthoLogic s other product candidates in clinical trials.

OrthoLogic s rights to Chrysalin are licensed from the University of Texas and if the license is invalid or unenforceable, OrthoLogic may lose its rights to use the Chrysalin technology, which would ultimately prevent OrthoLogic from commercializing and selling any Chrysalin-based products.

OrthoLogic s rights to the development, use and marketing of all of its therapeutic products within the Chrysalin product platform are currently governed by a series of sub-licensing agreements from Chrysalis. Upon the consummation of the asset sale, the license agreements with Chrysalis will be replaced by a direct license agreement with the University of Texas, which OrthoLogic and Chrysalis negotiated in conjunction with the asset sale. Under this direct license, OrthoLogic will expand its current license for Chrysalin from a license for only orthopedic soft tissue indications to a license for any and all indications. In return, OrthoLogic must pay the University of Texas continuing royalties, sublicense fees and various other fees in connection with filing and maintaining patents. The license agreement will expire upon the expiration of all licensed patents, and is not subject to termination by the University of Texas, except for fraud by OrthoLogic or a payment default following assignment of the license by OrthoLogic. If OrthoLogic loses its rights to Chrysalin under the license agreement, OrthoLogic would be unable to continue its product development programs and its business and prospects would be materially harmed.

If OrthoLogic cannot protect the Chrysalin patent or its intellectual property generally, OrthoLogic s ability to develop and commercialize its products will be severely limited.

OrthoLogic s success will depend in part on the University of Texas and OrthoLogic s ability to maintain and enforce patent protection for Chrysalin and each product resulting from Chrysalin. Without patent protection, other companies could offer substantially identical products for sale without incurring the sizable discovery, development and licensing costs that OrthoLogic has incurred. OrthoLogic s ability to recover these expenditures and realize profits upon the sale of products would then be diminished.

Chrysalin is patented and there have been no successful challenges to the Chrysalin patent. However, if there were to be a challenge to the patent or any of the patents for product candidates, a court may determine

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that the patents are invalid or unenforceable. Even if the validity or enforceability of a patent is upheld by a court, a court may not prevent alleged infringement on the grounds that such activity is not covered by the patent claims. Any litigation, whether to enforce OrthoLogic s rights to use its or its licensors patents or to defend against allegations that OrthoLogic infringes third party rights, will be costly, time consuming, and may distract management from other important tasks.

As is commonplace in the biotechnology and pharmaceutical industry, OrthoLogic employs individuals who were previously employed at other biotechnology or pharmaceutical companies, including OrthoLogic s competitors or potential competitors. To the extent OrthoLogic s employees are involved in research areas which are similar to those areas in which they were involved at their former employers, OrthoLogic may be subject to claims that such employees and/or OrthoLogic have inadvertently or otherwise used or disclosed the alleged trade secrets or other proprietary information of the former employers. Litigation may be necessary to defend against such claims, which could result in substantial costs and be a distraction to management and which may have a material adverse effect on OrthoLogic, even if it is successful in defending such claims.

OrthoLogic also relies on its business on trade secrets, know-how and other proprietary information. OrthoLogic seeks to protect this information, in part, through the use of confidentiality agreements with employees, consultants, advisors and others. Nonetheless, OrthoLogic cannot assure you that those agreements will provide adequate protection for its trade secrets, know-how or other proprietary information and prevent their unauthorized use or disclosure. To the extent that consultants, key employees or other third parties apply technical information independently developed by them or by others to OrthoLogic s proposed products, disputes may arise as to the proprietary rights to such information, which may not be resolved in OrthoLogic s favor. The breach by other parties of confidentiality agreements with OrthoLogic, or OrthoLogic s trade secrets becoming known or independently discovered by competitors, could adversely affect OrthoLogic by enabling its competitors, who may have greater experience and financial resources, to copy or use its trade secrets and other proprietary information in the advancement of their products, methods or technologies.

Some of OrthoLogic s product candidates are in early stages of development and may never be commercialized.

Research, development and pre-clinical testing are long, expensive and uncertain processes. Other than indications for fracture repair and spine fusions, none of OrthoLogic s other Chrysalin product candidates have reached clinical trial testing. OrthoLogic s development of Chrysalin for the repair of cartilage defects, ligaments and tendons is currently in pre-clinical testing or the research stage. OrthoLogic s future success depends, in part, on its ability to complete pre-clinical development of these and other product candidates and advance them through the clinical trial process.

If OrthoLogic is unsuccessful in advancing its early stage product candidates into and through clinical testing for any reason, its business prospects will be harmed.

The loss of OrthoLogic s key scientific personnel may hinder its ability to execute its business plan.

As a small company with 34 employees, OrthoLogic s success depends on the continuing contributions of OrthoLogic s scientific personnel, and maintaining relationships with the network of medical and academic centers in the United States that conduct its clinical trials. OrthoLogic is most highly dependent on the services of Dr. James Ryaby, its Senior Vice-President and Chief Technology Officer, whom OrthoLogic considers its key scientific employee. A long time employee of OrthoLogic, Dr. Ryaby oversees all of OrthoLogic s clinical trials, is a well respected orthopedic scientist and is OrthoLogic s primary contact with the medical community. Like all companies in its field, OrthoLogic faces intense competition in its hiring efforts with other pharmaceutical and biotechnology companies, as well as universities and nonprofit research organizations, and it may have to pay higher salaries to attract and retain qualified personnel. The loss of one or more members of OrthoLogic s current management team or any of its scientific personnel, could delay OrthoLogic s business plan. The loss of Dr. Ryaby, depending on what stage of development OrthoLogic s research is at upon Dr. Ryaby s departure, could cause a substantial delay in implementing OrthoLogic s

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business plan. Not only could the nationwide search for a similarly qualified candidate be lengthy, but Dr. Ryaby s replacement would need time to become familiar with OrthoLogic s Chrysalin product platform. OrthoLogic maintains employment contracts with its senior management and key scientific personnel.

OrthoLogic faces an inherent risk of liability in the event that the use or misuse of its products results in personal injury or death.

The use of OrthoLogic s product candidates in clinical trials, and the sale of any approved products, may expose OrthoLogic to product liability claims, which could result in financial losses. OrthoLogic s clinical liability insurance coverage may not be sufficient to cover claims that may be made against it. In addition, OrthoLogic may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts or scope to protect it against losses. Any claims against OrthoLogic, regardless of their merit, could severely harm OrthoLogic s financial condition, strain its management and other resources and adversely impact or eliminate the prospects for commercialization of the product which is the subject of any such claim.

OrthoLogic s stock price is volatile and fluctuates due to a variety of factors.

OrthoLogic s stock price has varied significantly in the past (from a low of $3.22 to a high of $8.96 since January 1, 2002) and may vary in the future due to a number of factors, including:

- fluctuations in OrthoLogic s operating results;
- developments in litigation to which OrthoLogic or a competitor is subject;
- announcements and timing of potential acquisitions, divestitures, and conversions of preferred stock;
- announcements of technological innovations or new products by OrthoLogic or its competitors;
- FDA and international regulatory actions;
- actions with respect to reimbursement matters;
- developments with respect to OrthoLogic or its competitors patents or proprietary rights;
- public concern as to the safety of products developed by OrthoLogic or others;
- changes in health care policy in the United States;
- changes in stock market analyst recommendations regarding OrthoLogic, other drug development companies or the pharmaceutical industry generally; and
- general market conditions.

In addition, the stock market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of OrthoLogic s stock.

Risks of OrthoLogic s Industry

OrthoLogic is in a highly regulated field with high investment costs and high risks.

OrthoLogic s Chrysalin product platform is currently in the human testing phase for two potential products and earlier preclinical testing phases for two other 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.

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.

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If OrthoLogic successfully brings one or more products to market, there is no assurance that it 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 OrthoLogic will sell any such products is dominated by a number of large corporations that have vastly greater resources than OrthoLogic has, which may impact OrthoLogic s ability to successfully market its products or maintain any technological advantage OrthoLogic might develop. OrthoLogic also would be subject to changes in regulations governing the manufacture and marketing of its products, which could increase its costs, reduce any competitive advantage it may have and/or adversely affect its marketing effectiveness.

The results of OrthoLogic s late stage clinical trials may be insufficient to obtain FDA approval which could result in a substantial delay in OrthoLogic s ability to generate revenue.

Positive results from preclinical studies and early clinical trials do not ensure positive results in more advanced clinical trials. If OrthoLogic is unable to demonstrate that a product candidate will be safe and effective in advanced clinical trials involving larger numbers of patients, OrthoLogic will be unable to submit the new drug application necessary to receive approval from the FDA to commercialize that product.

OrthoLogic is currently conducting a Phase 3 human clinical trial on Chrysalin for fracture repair indications. OrthoLogic expects to have enrollment for the trial completed by the end of 2004. If it fails to achieve the clinical benefits sought in this Phase 3 clinical trial or the results are ambiguous, OrthoLogic will have to determine whether to redesign its Chrysalin fracture repair product candidate and its protocols and continue with additional testing, or cease activities in this area. Redesigning the product could be extremely costly and time-consuming. A substantial delay in obtaining FDA approval or termination of the Chrysalin fracture repair product candidate could result in a delay in OrthoLogic s ability to generate revenue.

Patients may discontinue their participation in OrthoLogic s clinical studies, which may negatively impact the results of these studies and extend the timeline for completion of OrthoLogic s development programs.

As with all clinical trials, OrthoLogic is subject to the risk that patients enrolled in its clinical studies may discontinue their participation at any time during the study as a result of a number of factors, including, withdrawing their consent or experiencing adverse clinical events, which may or may not be judged related to its product candidates under evaluation. OrthoLogic is subject to the risk that if a large number of patients in any one of its studies discontinue their participation in the study, the results from that study may not be positive or may not support an NDA for regulatory approval of OrthoLogic s product candidates.

In addition, the time required to complete clinical trials is dependent upon, among other factors, the rate of patient enrollment. Patient enrollment is a function of many factors, including:

the size of the patient population;

the nature of the clinical protocol requirements;

the diversion of patients to other trials or marketed therapies;

OrthoLogic s ability to recruit and manage clinical centers and associated trials;

the proximity of patients to clinical sites; and

the patient eligibility criteria for the study.

Even if OrthoLogic obtains marketing approval, its products will be subject to ongoing regulatory oversight, which may affect OrthoLogic s ability to successfully commercialize any products it may develop.

Even if OrthoLogic receives regulatory approval of a product candidate, the approval may be subject to limitations on the indicated uses for which the product is marketed or require costly post-marketing follow-up

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studies. After OrthoLogic obtains marketing approval for any product, the manufacturer and the manufacturing facilities for that product will be subject to continual review and periodic inspections by the FDA and other regulatory agencies. The subsequent discovery of previously unknown problems with the product, or with the manufacturer or facility, may result in restrictions on the product or manufacturer, including withdrawal of the product from the market.

If OrthoLogic fails to comply with applicable regulatory requirements, it may be subject to fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution.

OrthoLogic s product candidates may not gain market acceptance among physicians, patients and the medical community. If OrthoLogic s product candidates fail to achieve market acceptance, its ability to generate revenue will be limited.

Even if OrthoLogic obtains regulatory approval for its products, market acceptance will depend on its ability to demonstrate to physicians and patients the benefits of its products in terms of safety, efficacy, convenience, ease of administration and cost effectiveness. In addition, OrthoLogic believes market acceptance depends on the effectiveness of its marketing strategy, the pricing of its products and the reimbursement policies of government and third-party payors. Physicians may not prescribe OrthoLogic s products, and patients may determine, for any reason, that OrthoLogic s product is not useful to them. If OrthoLogic s product candidates fail to achieve market acceptance, its ability to generate revenue will be limited.

OrthoLogic s success also depends on its ability to operate and commercialize products without infringing on the patents or proprietary rights of others.

Third parties may claim that OrthoLogic or its licensors or suppliers are infringing their patents or are misappropriating their proprietary information. In the event of a successful claim against OrthoLogic or its licensors or suppliers for infringement of the patents or proprietary rights of others, OrthoLogic may be required to, among other things:

pay substantial damages;

stop using certain OrthoLogic technologies;

stop certain research and development efforts;

develop non-infringing products or methods; and

obtain one or more licenses from third parties.

A license required under any such patents or proprietary rights may not be available to us, or may not be available on acceptable terms. If OrthoLogic or its licensors or suppliers are sued for infringement, OrthoLogic could encounter substantial delays in, or be prohibited from, developing, manufacturing and commercializing OrthoLogic s product candidates.

The pharmaceutical industry is subject to stringent regulation, and failure to obtain regulatory approval from the United States Food and Drug Administration will prevent commercialization of OrthoLogic s products.

OrthoLogic s research, development, preclinical and clinical trial activities and the manufacture and marketing of any products that it may successfully develop are subject to an extensive regulatory approval process by the FDA. The process of obtaining required regulatory approvals for drugs is lengthy, expensive and uncertain, and any such regulatory approvals may entail limitations on the indicated usage of a drug, which may reduce the drug s market potential.

In order to obtain FDA approval to commercialize any product candidate, an NDA must be submitted to the FDA demonstrating, among other things, that the product candidate is safe and effective for use in

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humans for each target indication. OrthoLogic s regulatory submissions may be delayed, or OrthoLogic may cancel plans to make submissions for product candidates for a number of reasons, including:

negative or ambiguous preclinical or clinical trial results;

changes in regulations or the adoption of new regulations;

unexpected technological developments; and

developments by OrthoLogic s competitors that are more effective than OrthoLogic s product candidates.

Consequently, OrthoLogic cannot assure you that it will make its submissions to the FDA in the timeframe that OrthoLogic has planned, or at all, or that its submissions will be approved by the FDA. Even if regulatory clearance is obtained, post-market evaluation of OrthoLogic s products, if required, could result in restrictions on a product s marketing or withdrawal of a product from the market as well as possible civil and criminal sanctions.

Clinical trials are subject to oversight by institutional review boards and the FDA to ensure compliance with the FDA s good clinical practice regulations, as well as other requirements for good clinical practices. OrthoLogic depends, in part, on third-party laboratories and medical institutions to conduct preclinical studies and clinical trials for its products and other third-party organizations, usually universities, to perform data collection and analysis, all of which must maintain both good laboratory and good clinical practices. If any such standards are not complied with in OrthoLogic s clinical trials, the FDA may suspend or terminate such trials, which would severely delay OrthoLogic s development of, and possibly end the development of, a product candidate.

OrthoLogic also currently depends and in the future will depend upon third party manufacturers of its products, which are and will be required to comply with the applicable FDA Good Manufacturing Practices regulations. OrthoLogic cannot be certain that its present or future manufacturers and suppliers will comply with these regulations. The failure to comply with these regulations may result in restrictions on the sale of, or withdrawal of the products from the market. Compliance by third parties with these standards and practices are outside of OrthoLogic s direct control.

If OrthoLogic s competitors develop and market products that are more effective than OrthoLogic s, or obtain marketing approval before OrthoLogic does, OrthoLogic s commercial opportunities will be reduced or eliminated.

Competition in the pharmaceutical and biotechnology industries is intense and is expected to increase. Several biotechnology and pharmaceutical companies, as well as academic laboratories, universities and other research institutions, are involved in research and/or product development for various treatments for or involving fracture repair, spine fusion surgery, cartilage defect repair and ligament and tendon repair. Many of OrthoLogic s competitors have significantly greater research and development capabilities, experience in obtaining regulatory approvals and manufacturing, marketing, financial and managerial resources than OrthoLogic has. OrthoLogic is currently aware of the following development efforts by its competitors:

Acceleration of Fracture Repair: While there is currently no product approved by the FDA for acceleration of fracture repair, at least one large pharmaceutical company, Pfizer, Inc., appears to have received FDA clearance to begin human clinical trials in the United States for this indication.

Spine Fusion: Although there are already many products approved by the FDA for use in spinal fusion, only one, InFuse from Medtronic, a bone morphogenic protein (BMP), includes a bioactive component. OrthoLogic believes others are in the development stage, but none are yet in human clinical trials in the United States.

Cartilage Defect Repair: Several products with bioactive components are in the development stage for this indication, including BMPs. However, OrthoLogic believes no company has yet received FDA authorization to begin human clinical trials in the United States for this indication.

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OrthoLogic s competitors may succeed in developing products that are more effective than the ones OrthoLogic has under development or that render OrthoLogic s proposed products or technologies noncompetitive or obsolete. In addition, certain of such competitors may achieve product commercialization before OrthoLogic does. If any of OrthoLogic s competitors develops a product that is more effective than one OrthoLogic is developing or plans to develop, or is able to obtain FDA approval for commercialization before OrthoLogic does, OrthoLogic may not be able to achieve significant market acceptance for certain of its products, which would have a material adverse effect on OrthoLogic s business.

Healthcare reform and restrictions on reimbursements may limit OrthoLogic s financial returns.

OrthoLogic s ability to successfully commercialize its products may depend in part on the extent to which government health administration authorities, private health insurers and other third party payors will reimburse consumers for the cost of these products. Third party payors are increasingly challenging both the need for, and the price of, novel therapeutic drugs and uncertainty exists as to the reimbursement status of newly approved therapeutics. Adequate third party reimbursement may not be available for OrthoLogic s drug products to enable OrthoLogic to maintain price levels sufficient to realize an appropriate return on OrthoLogic s investments in research and product development, which could restrict OrthoLogic s ability to commercialize a particular drug candidate.

Risks Related to the Asset Sale

Even if Chrysalis obtains stockholder approval, the asset sale may not close. In that case, Chrysalis will need to raise additional bridge financing while it pursues other strategic options.

There are a number of conditions the parties must meet or waive before the asset sale can close. Obtaining Chrysalis stockholder approval is just one of the closing conditions. Some of the conditions require the co-operation of third parties and current Chrysalis employees. If the parties do not meet all the closing conditions and those closing conditions that the parties do not achieve are not waived, the asset sale will not be consummated. In the event that the asset sale does not close, Chrysalis will be required to raise additional bridge financing to cover corporate operations while the company pursues other strategic options for the company. These strategic options would include a potential financing by venture capital, and/or licensing the rights to Chrysalin for wound healing, dental/bone, or cardiovascular applications, for which the company has already received some interest. The funds from these additional partnerships or venture financings would be used to pursue product applications of Chrysalin retained by Chrysalis. Currently, Chrysalis is not in negotiations with any venture capital groups or other strategic corporate collaborators and is prevented by the terms of the Asset Purchase Agreement from soliciting any other potential bidders or buyers. There is no assurance that such resources will become available on a timely basis or on terms Chrysalis finds favorable.

If the asset sale is terminated under certain circumstances, Chrysalis would be required to pay OrthoLogic a termination fee of $1.5 million or reimburse OrthoLogic for its out-of-pocket fees incurred in pursuing the asset sale which would require funds it currently does not have.

If the asset sale is terminated because Chrysalis Board of Directors changes its recommendation from an approval of the asset sale to a recommendation against the proposed asset sale, or because Chrysalis Board of Directors believes in good faith that its fiduciary responsibilities to Chrysalis require it to terminate the Asset Purchase Agreement and Plan of Reorganization, Chrysalis will be required to pay OrthoLogic a termination fee of $1.5 million in cash. If the asset sale is terminated because the Chrysalis stockholders do not approve of the transaction, Chrysalis will be required to pay OrthoLogic a sum equal to OrthoLogic s out of pocket expenses incurred in pursuing the asset sale. While Chrysalis does not have enough cash to pay these fees, it is anticipated that if the fees arise because of the appearance of a superior competing offer by another company, the acquiring company in such transaction would pay these fees. There is no assurance that Chrysalis will receive a superior competing offer. Chrysalis is prevented from entering into such discussions at this time pursuant to the Asset Purchase Agreement and Plan of Reorganization.

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If the asset sale and reorganization do not qualify as a tax-free reorganization, Chrysalis will recognize income on the sale of the assets and stockholders will recognize income from the distribution of the sale proceeds to them as ordinary income.

Chrysalis and OrthoLogic believe the asset sale will qualify as a tax-free reorganization. However, certain pre-closing and post-closing conditions must be met to qualify as a tax-free reorganization. Some of those conditions include (1) OrthoLogic must intend to continue at least one significant historic business line of Chrysalis or use a significant portion of Chrysalis assets in OrthoLogic s ongoing business; (2) Chrysalis cannot be an investment company as defined under the Internal Revenue Code; and (3) the portion of the purchase price that is paid in OrthoLogic common stock must equal at least 80 percent of the Total Consideration, as that term is defined in the Asset Purchase Agreement and Plan of Reorganization. If the asset sale does not qualify as a tax-free reorganization, Chrysalis will recognize a significant gain on the sale of its assets and will owe income tax on such gain. Further, in the liquidation, the Chrysalis stockholders will recognize the distribution of the remainder of the purchase price as ordinary income.

Chrysalis may never receive the $7.0 million contingent portion of the purchase price.

Even if the asset sale closes, payment of $7.0 million of the purchase price is contingent upon the occurrence of certain trigger events within five years of the closing. Those trigger events are: (1) a sale of substantially all of OrthoLogic s assets, or a merger, consolidation, recapitalization, or other transaction, in each case after which OrthoLogic stockholders immediately before such transaction do not own a majority of the voting power of the resulting entity immediately after such transaction; or (2) OrthoLogic s receipt of written notice from the United States Food and Drug Administration that a new drug application for a product based on Chrysalin has been accepted for filing. Both trigger events are beyond the control of Chrysalis and its stockholders and may not occur within the five-year deadline or ever. If the trigger events do not occur within the five-year deadline, Chrysalis (or, if Chrysalis no longer exists, its shareholders) will not receive the $7.0 million contingent portion of the purchase price.

Risks Related to the Liquidation of Chrysalis

Chrysalis cannot determine at this time the amount of distributions to its stockholders because there are a variety of factors that will affect that amount.

Chrysalis cannot determine at this time the amount of its distributions to its stockholders upon a liquidation and distribution of the company because that determination depends on a variety of factors, including but not limited to the following:

Value of OrthoLogic shares received by Chrysalis at the closing. As a result of the ceiling and floor on the number of shares of OrthoLogic s common stock being issued upon closing, the value of the shares that Chrysalis may receive at closing could be higher or lower than $25.0 million and is unknown at this time.

Transaction costs and expenses. Although Chrysalis expects substantially all of the $2.5 million cash portion of the purchase price will likely be used to cover the costs related to the asset sale and liquidation expenses, Chrysalis is unable to determine at this time the actual amount of such expenses and thus cannot determine how much of the cash, if any, will be distributed to Chrysalis stockholders. As of the date of this filing, Chrysalis estimates that its transaction related expenses will equal approximately $2,425,000.

Escrow shares. Approximately 18% of the shares issued at closing are to be placed in escrow to cover indemnification claims made by OrthoLogic against Chrysalis. It is impossible to ascertain at this time whether any or all of these shares will be available as part of the distribution to Chrysalis stockholders or will be paid to OrthoLogic on its claims for indemnification. In addition, shares not paid to OrthoLogic will not be distributed until the end of the 18-month term of the escrow. The market value of the OrthoLogic shares released to Chrysalis stockholders at the end of the escrow period is unknown.

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Contingent payment. There is the potential of additional shares being issued as a result of the $7.0 million contingent portion of the purchase price. These shares are to be issued only upon the happening of certain trigger events that may or may not occur after the closing. Because of the uncertainty relating to the occurrence of any trigger event, it is impossible to ascertain at this time whether any or all of these shares will be available for issuance to Chrysalis stockholders in the future.

The timing of the dissolution of Chrysalis is not known and therefore Chrysalis cannot determine the timing of any distributions to its stockholders.

Several factors affect the timing of Chrysalis ability to dissolve, including the timing of the completion of the asset sale and Chrysalis ability to determine the amount of its known and unknown debts and liabilities. The Asset Purchase Agreement and Plan of Reorganization provides the parties with termination rights if the closing does not occur before September 26, 2004; however, Chrysalis cannot guarantee that the closing of the asset sale will occur by that date, or at all. Any delay in the dissolution of Chrysalis will result in a delay in making distributions and a decline in the value of OrthoLogic common stock during such delay would negatively affect the value of OrthoLogic common stock ultimately received by Chrysalis stockholders.

The foregoing list of important factors is not exhaustive and will not be updated.

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FORWARD LOOKING STATEMENTS

OrthoLogic and Chrysalis may from time to time make written or oral forward-looking statements. The safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 protects companies from liability for their forward-looking statements if they comply with the requirements of that Act.

This consent solicitation/prospectus and its related Annexes contain forward-looking statements made pursuant to that safe harbor. These forward-looking statements relate to future events or to future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as may, could, expect, intend, plan, seek, anticipate, believe, estimate, pre continue, or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond the control of OrthoLogic and Chrysalis and which could materially affect actual results, levels of activity, performance or achievements. Factors that may cause actual results to differ materially from current expectations, which are described in more detail in the section titled Risks Factors, include, but are not limited to:

- unfavorable results of product candidate development efforts;
- unfavorable results of preclinical or clinical testing;
- delays in obtaining, or failure to obtain FDA approvals;
- increased regulation by the FDA and other agencies;
- the introduction of competitive products;
- impairment of license, patent or other proprietary rights;
- failure to achieve market acceptance of products;
- the impact of present and future collaborative agreements; and
- failure to successfully implement OrthoLogic s or Chrysalis drug development strategy, or plans for obtaining further financing.

If one or more of these or other risks or uncertainties materialize, or if the underlying assumptions prove to be incorrect, actual results may vary significantly from what was projected. Any forward-looking statement you read in this consent solicitation/prospectus reflects OrthoLogic s and/or Chrysalis current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to each companies operations, results of operations, business strategy and liquidity. Neither OrthoLogic nor Chrysalis assumes any obligation to publicly update or revise these forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

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THE COMPANIES

OrthoLogic Corp.

OrthoLogic is a drug-development company focused on the healing of musculoskeletal tissue through biopharmaceutical approaches. OrthoLogic s research is focused exclusively on the potential commercialization of its Chrysalin® Product Platform. Chrysalin, or TP508, is a 23-amino acid synthetic peptide representing a receptor-binding domain of the human thrombin molecule, a naturally occurring molecule in the body responsible for both blood clotting and initiating many of the cellular events responsible for tissue repair in bone and cartilage. OrthoLogic licenses Chrysalin for orthopedic uses from Chrysalis Biotechnology, Inc. OrthoLogic is currently enrolling patients in a Phase 3 Chrysalin product human clinical trial for fracture indications, has completed the enrollment of patients in a Phase 1/2 Chrysalin product clinical trial for spine fusion indications, has a potential Chrysalin product in late-stage pre-clinical development for cartilage defect repair, and is planning the development for two additional areas of research.

Please see Annexes F-J for more information about OrthoLogic its business, management and financial condition.

Strategic Activities

OrthoLogic, as part of its ongoing analysis of the most effective way to maximize the value to stockholders of its Chrysalin product platform in light of the inherent uncertainties associated with the development of drug candidates, is actively considering appropriate strategic alternatives for its business. These alternatives include joint ventures, sublicensing, partnerships and other similar arrangements that mitigate risk and provide value for OrthoLogic s stockholders, sale of the company and continuation of the current approach of independent development of Chrysalin. In connection with this, OrthoLogic is considering the long-term funding that might be required to fully develop independently the orthopedic and other indications of the Chrysalin product platform. This funding may include new debt, equity or other arrangements. OrthoLogic has not entered into any definitive agreements in regard to any of the foregoing, and there is no assurance that these strategic alternatives or additional funding arrangements would be available on terms acceptable to OrthoLogic or at all. If OrthoLogic does not enter into arrangements for sharing the development cost of the Chrysalin product platform or for additional debt or equity funding, OrthoLogic may need to reduce the rate at which it is developing drug candidates or the number of candidates being supported during the next few years in order to conserve funds for use in pursuing its initial NDA filing and until such arrangements or funds are available on acceptable terms or a drug candidate is successfully commercialized.

Chrysalis Biotechnology, Inc.

Chrysalis is a privately held biopharmaceutical company founded in 1995 to commercialize the Chrysalin peptide technology invented by Dr. Darrell Carney at the University of Texas Medical Branch Galveston (UTMB). Since inception, Chrysalis has operated as a development stage company and has focused its efforts on developing synthetic peptide compounds targeted at tissue repair and regeneration. Chrysalis is currently in Phase 2 testing for chronic diabetic ulcers and has completed a Phase 1/2 60-patient study for this indication. Through its collaboration with OrthoLogic, Chrysalis lead compound, Chrysalin®, is currently in Phase 3 clinical testing for bone fracture healing and Phase 1/2 testing for spine fusion.

Chrysalis is initially targeting the following market applications for its technology: dermal wound healing, orthopedic (through its license agreement with OrthoLogic), dental bone repair and cardiovascular.

Dermal Wound Healing Applications. Chrysalin has shown significant effects on dermal wound healing. Preclinical animal studies in normal and impaired healing models showed that the peptide could increase the rate of healing by 40-100% compared with controls.

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In 2001, Chrysalis completed a multi-center Phase 1/2 randomized, double-blinded, placebo controlled, three-armed human trial in chronic diabetic ulcers that involved 60 patients. The results of the study showed the following:

- No drug related adverse events or patient sensitivity to the drug.
- In the per-protocol population (patients meeting all inclusion/exclusion criteria), 57% of patients treated at the 10 microgram treatment level experienced full wound closure versus 45% in the 1 microgram treatment group and 33% in the saline control group.
- Subgroup analysis of neuropathic foot ulcers, post unblinding, showed significant effects with complete closure occurring in 70% of Chrysalin-treated ulcers relative to 33% in placebo controls.

Orthopedic Applications. Chrysalis has licensed all orthopedic applications of Chrysalin to OrthoLogic, which is in preclinical and human clinical trials for varying uses.

Dental Bone Repair Applications. Chrysalin has an active preclinical program in dental bone repair focused on improving dental implants and repairing jaw or maxillo-facial defects following surgical removal of bone. This project is based on positive preclinical results seen in bone gap filling and fracture healing experiments conducted by both Chrysalis and OrthoLogic. Preclinical research at Louisiana State University has shown that addition of Chrysalin to a commercially accepted bone graft substitute resulted in a four-fold increase in new bone formation between graft segments by two weeks post implant and a three-fold increase over that seen with bone graft material alone at five weeks.

Cardiovascular Applications. The angiogenic and tissue regenerative properties of Chrysalin may also be directly applicable to treatment of myocardial and vascular disease, and is the focus of additional preclinical research by Chrysalis.

- Preclinical research in chronic ischemia conducted at Texas A&M University shows that Chrysalin injection into porcine ischemic heart tissue stimulates revascularization, improving perfusion and heart function.
- Preclinical data collected as part of a National Institute of Health sponsored grant to Chrysalis showed that Chrysalin injection into rabbit ischemic heart tissue increases the formation of new blood capillaries.
- Additional preclinical studies are planned to evaluate dosing regimens and modes of therapeutic delivery.

Additional Technologies. In addition to Chrysalin, Chrysalis has proprietary rights to two new classes of peptide compounds that are in the early stage of development:

- *Neutrophil Targeting Peptide, or NTP.* NTP recruits neutrophils which are important infection fighting cells naturally occurring in the human body, to the site of damaged tissue. Chrysalis envisions that this peptide may be used in a topical drug formulation for infected wounds to enhance the body s natural infection fighting capabilities as an adjunct or primary therapy for drug-resistant bacterial infections.
- *Antagonists for Non-Proteolytically Activated thrombin Receptors, or aNPAR peptides.* These peptides block the binding of molecules to certain thrombin receptors, may have the potential to inhibit surgical adhesions and may block specific cellular events that contribute to cancer metastasis.

Chrysalis Patents. Chrysalis maintains an intellectual property portfolio that covers the Chrysalin technology and related formulations. Patents for Chrysalin are issued in North America, the major European PCT countries, and Japan. Patents are filed and pending for additional uses and formulations of Chrysalin, as well as for the NTP and aNPAR peptides.

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Chrysalis product portfolio is protected by several United States and international patents, which include the following:

THROMBIN DERIVED POLYPEPTIDES: COMPOSITIONS AND METHODS FOR USE 06/925,201			
10/31/86	U.S.	Darrell H. Carney, *et al.*	5,352,664
10/04/94	Issued		
THROMBIN DERIVED POLYPEPTIDES: COMPOSITIONS AND METHODS FOR USE 08/007,173			
01/21/93	U.S.	Darrell H. Carney, *et al.*	5,500,412
03/19/96	Issued		
SYNTHETIC PEPTIDE NEUTROPHIL CELL CHEMOTACTIC AGENTS 08/330,594			
10/28/94	U.S.	Darrell H. Carney, *et al.*	6,184,342
02/06/01	Granted		

All TP508 patents, the basis of Chrysalin, are licensed to Chrysalis from the University of Texas pursuant to that certain Exclusive License Agreement dated November 10, 1995, which agreement has been amended and restated in its entirety in connection with this transaction. (See Amended and Restated Patent License Agreement starting on page 30 for a full description of such amended and restated license.) Chrysalis has received registered domestic trademark status for the Chrysalin mark, which is being planned for use as the product name of its lead compound. Chrysalis has an application pending for the Chrysalis company name trademark, which is currently in publication at the U.S. Patent and Trademark Office.

Chrysalis Partnership with OrthoLogic. In December 1997, Chrysalis signed a licensing agreement with OrthoLogic for the orthopedic applications of Chrysalin, including bone and cartilage regeneration. The OrthoLogic partnership began with a $750,000 equity investment in Chrysalis in 1997, and has been maintained by continued milestone and option payments over the past five years totaling over $5.0 million. In 2001, OrthoLogic completed a Phase 2 pilot clinical study of Chrysalin in the treatment of bone fractures. Data from this trial were positive and OrthoLogic began a Phase 3 study in the fourth quarter of 2002. In addition, OrthoLogic subcontracts research and development work back to Chrysalis in the areas of formulation, toxicology, bioassay development, and some preclinical work.

Chrysalis Intellectual Property Relationship with The University of Texas. Chrysalis has a worldwide, exclusive licensing agreement with The University of Texas System (the University) relating to the intellectual property surrounding Chrysalin. As part of this agreement, Chrysalis reimburses the University for all Chrysalin-related patent expenses and is required to make royalty payments based on net sales and milestone/license payments. As part of this agreement, any inventions related to thrombin peptides and tissue repair made by Dr. Carney are automatically added to the licensing agreement. The initial agreement was built around two patents covering the composition and use of TP508. Additional patents have been added to the agreement for new uses of the peptide in cardiovascular, orthopedics, and chronic wounds. This licensing agreement has been amended subject to consummation of the asset purchase agreement. The terms of the amended license agreement are described under Amended and Restated Patent License Agreement starting on page 30.

Chrysalis Facilities. Chrysalis corporate offices are located at 2200 Market, Suite 600, Galveston Texas with approximately 2,000 sq. ft. for offices, equipment and a conference room. Chrysalis occupies approximately 4,000 square feet of laboratory space in the same building, and has analytical chemistry equipment, refrigerated monitored storage, and capacity for tissue culture, microbiology, and bioactivity assay development.

Dr. Darrell Carney and other UTMB staff conduct research for Chrysalis utilizing laboratory facilities at the UTMB Human Biological Chemistry and Genetics Department and Dr. Carney s Thrombin Receptor Research Lab. This space includes laboratories assigned to Dr. Carney and others for biochemistry, peptide synthesis and purification, tissue culture, molecular biology, and microscopy and shared UTMB resource core laboratories, and facilities for animal surgery and housing, computation analysis, and histology analysis.

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Chrysalis Employees. Chrysalis currently employs 13 employees. All of Chrysalis employees are expected to remain as Chrysalis employees during the 90-day transition services period. Darrell Carney is expected to enter into a two year consulting agreement with OrthoLogic prior to closing. In the event OrthoLogic does not hire Chrysalis employees following the transition services period, Chrysalis will pay them severance equal to three months salary unless any such employee is entitled to receive a greater amount payable pursuant to a written consent.

Chrysalis Legal Proceedings. Chrysalis is not a party to any material legal proceedings.

THE ASSET PURCHASE AGREEMENT AND PLAN OF REORGANIZATION

Description of the Asset Sale

On April 28, 2004, Chrysalis and OrthoLogic announced that they had entered into an Asset Purchase Agreement and Plan of Reorganization to sell substantially all of Chrysalis assets (except cash but including intellectual property) to OrthoLogic.

Consideration to be Received in the Asset Sale. In exchange for Chrysalis assets, OrthoLogic will pay Chrysalis:

$2.5 million in cash, payable at the closing:

$25.0 million in OrthoLogic common stock, payable at the closing. Chrysalis will receive that number of shares of OrthoLogic common stock with a value of $25.0 million as of closing, based on the 10-day average closing price of OrthoLogic common stock ending immediately prior to closing (the Closing Date Stock Price) if the Closing Date Stock Price is no greater than $8.239 and no less than $6.741 per share. In the event that the Closing Date Stock Price is greater than $8.239, Chrysalis will receive 3,034,349 shares of OrthoLogic common stock and in the event that the Closing Date Stock Price is less than $6.741, Chrysalis will receive 3,708,649 shares of OrthoLogic common stock. This means that Chrysalis could receive a number of shares of OrthoLogic common stock worth more or less than $25.0 million at closing. For example, the closing price of OrthoLogic common stock as of July 1, 2004 was $8.25. Assuming this is the Closing Date Stock Price, Chrysalis would receive $25,033,379 worth of OrthoLogic common stock (based on multiplying $8.25 per share and 3,034,349 shares).

$7.0 million in OrthoLogic common stock, payable if either of the following trigger events occurs before the fifth anniversary of the closing: (1) a sale of substantially all OrthoLogic s assets, or a merger, consolidation, recapitalization, or other transaction, in each case after which OrthoLogic s stockholders immediately before such transaction do not own a majority of the voting power of the resulting entity immediately after such transaction; or (2) OrthoLogic s receipt of written notice from the United States Food and Drug Administration that a new drug application for a product based on Chrysalin has been accepted for filing. The number of shares of OrthoLogic common stock issued will be calculated by using a per share price equal to the average closing price for the 10 trading days preceding the triggering event; in no event shall such number of shares exceed the number issued at closing. In the event that the aggregate number of shares issuable at closing and upon the successful accomplishment of the trigger event equals or exceeds 20% of OrthoLogic s outstanding capital stock at closing, the number of shares issuable upon the trigger event shall be reduced so the amount is less than 20% of its outstanding shares, with the difference paid in cash based on the same OrthoLogic average closing price for the 10 trading days preceding the triggering event.

Chrysalis has agreed to place approximately 18% of the shares issued at closing (15% allocable to all stockholders and an approximately 3% additionally allocable to Darrell Carney) of OrthoLogic common stock into an escrow account to pay for indemnification claims made by OrthoLogic within the 18 months following the closing. Except for shares for which OrthoLogic has made a claim within the 18 months following the closing and which claims have not yet been resolved, all remaining shares in the escrow account will be released to Chrysalis or its assigns 18 months following the closing.

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Assets Transferred and Liabilities Assumed.