

MERGE HEALTHCARE INC  
Form 10-Q  
May 05, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT  
PURSUANT TO  
SECTION 13 OR  
15(d) OF THE  
SECURITIES  
EXCHANGE ACT OF  
1934

For the quarterly period ended March 31, 2011

- TRANSITION REPORT  
PURSUANT TO  
SECTION 13 OR  
15(d) OF THE  
SECURITIES  
EXCHANGE ACT OF  
1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33006

MERGE HEALTHCARE INCORPORATED  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

39-1600938  
(I. R. S. Employer  
Identification No.)

200 East Randolph Street, 24th Floor  
Chicago, Illinois 60601-6436  
(Address of principal executive offices, including zip code)  
(Registrant's telephone number, including area code) (312) 565-6868

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b–2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b–2 of the Act). Yes  No

The number of shares outstanding of the Registrant’s common stock, par value \$0.01 per share, as of May 2, 2011: 84,272,059

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## PART I – FINANCIAL INFORMATION

## Item Condensed Consolidated Financial Statements

1.

MERGE HEALTHCARE INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except for share data)

	March 31, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents, including restricted cash of \$847 and \$1,647 at March 31, 2011 and December 31, 2010, respectively	\$47,736	\$41,029
Accounts receivable, net of allowance for doubtful accounts and sales returns of \$1,750 and \$1,322 at March 31, 2011 and December 31, 2010, respectively	54,418	53,254
Inventory	3,612	3,486
Prepaid expenses	3,223	4,191
Deferred income taxes	2,545	2,545
Other current assets	13,705	9,336
<b>Total current assets</b>	<b>125,239</b>	<b>113,841</b>
Property and equipment:		
Computer equipment	8,976	9,859
Office equipment	1,945	2,007
Leasehold improvements	1,151	1,055
	12,072	12,921
Less accumulated depreciation	7,172	7,149
<b>Net property and equipment</b>	<b>4,900</b>	<b>5,772</b>
Purchased and developed software, net of accumulated amortization of \$11,250 and \$9,811 at March 31, 2011 and December 31, 2010, respectively	25,120	26,619
Other intangible assets, net of accumulated amortization of \$11,023 and \$8,419 at March 31, 2011 and December 31, 2010, respectively	47,043	48,957
Goodwill	170,079	169,533
Deferred income taxes	16,394	17,006
Other assets	12,748	14,660
<b>Total assets</b>	<b>\$401,523</b>	<b>\$396,388</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$20,433	\$18,370
Interest payable	9,792	3,917
Accrued wages	4,371	4,304
Restructuring accrual	1,225	1,707
Other accrued liabilities	6,874	6,875
Deferred revenue	45,877	49,876
<b>Total current liabilities</b>	<b>88,572</b>	<b>85,049</b>
Notes payable, net of unamortized discount	195,292	195,077
Deferred revenue	5,814	3,809

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Income taxes payable	5,683	5,683
Other	1,683	1,964
Total liabilities	297,044	291,582
Shareholders' equity:		
Series A Non-voting Preferred Stock, \$0.01 par value: 50,000 shares authorized; 41,750 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively. Aggregate liquidation preference: \$54,275 at March 31, 2011 and December 31, 2010, respectively.	41,750	41,750
Common stock, \$0.01 par value: 150,000,000 shares authorized: 84,259,176 shares and 83,258,123 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	843	833
Common stock subscribed, 12,883 shares and 991,053 shares at March 31, 2011 and December 31, 2010, respectively	60	3,323
Additional paid-in capital	531,515	527,228
Accumulated deficit	(471,461 )	(469,872 )
Accumulated other comprehensive income	1,772	1,544
Total shareholders' equity	104,479	104,806
Total liabilities and shareholders' equity	\$401,523	\$396,388

See accompanying notes to unaudited condensed consolidated financial statements.

INDEXMERGE HEALTHCARE INCORPORATED AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except for share and per share data)

	Three Months Ended March 31,	
	2011	2010
Net sales:		
Software and other	\$18,671	\$9,365
Professional services	8,400	3,745
Maintenance and EDI	25,601	6,860
Total net sales	52,672	19,970
Cost of sales:		
Software and other	6,577	704
Professional services	5,063	2,997
Maintenance and EDI	7,964	1,497
Depreciation and amortization	2,499	1,218
Total cost of sales	22,103	6,416
Gross margin	30,569	13,554
Operating costs and expenses:		
Sales and marketing	8,693	2,819
Product research and development	6,752	3,256
General and administrative	6,590	3,851
Acquisition-related expenses	104	5,938
Restructuring and other expenses	(36)	-
Depreciation and amortization	2,650	840
Total operating costs and expenses	24,753	16,704
Operating income (loss)	5,816	(3,150)
Other income (expense):		
Interest expense	(6,360)	(5)
Interest income	6	15
Other, net	(206)	36
Total other income (expense)	(6,560)	46
Loss before income taxes	(744)	(3,104)
Income tax expense	845	48
Net loss	(1,589)	(3,152)
Less: preferred stock dividends	1,566	-
Net loss available to common shareholders	\$(3,155)	\$(3,152)
Net loss per share - basic	\$(0.04)	\$(0.04)
Weighted average number of common shares outstanding - basic	84,208,907	74,801,177
Net loss per share - diluted	\$(0.04)	\$(0.04)
Weighted average number of common shares outstanding - diluted	84,208,907	74,801,177

See accompanying notes to unaudited condensed consolidated financial statements.

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MERGE HEALTHCARE INCORPORATED AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (in thousands)

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$(1,589 )	\$(3,152 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,149	2,058
Share-based compensation	1,062	354
Change in contingent consideration for acquisitions	-	165
Amortization of notes payable issuance costs & discount	569	-
Provision for doubtful accounts receivable and sales returns, net of recoveries	428	55
Deferred income taxes	612	-
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(2,015 )	(3,574 )
Inventory	(126 )	(20 )
Prepaid expenses	934	(72 )
Accounts payable	1,863	694
Accrued wages	(20 )	(70 )
Restructuring accrual	(613 )	(408 )
Deferred revenue	(2,335 )	849
Accrued interest and other liabilities	5,584	(324 )
Other	(2,602 )	(1,157 )
Net cash provided by (used in) operating activities	6,901	(4,602 )
Cash flows from investing activities:		
Cash paid for acquisitions, net of cash acquired	-	(1,350 )
Purchases of property, equipment, and leasehold improvements	(284 )	(555 )
Change in restricted cash	800	42
Preferred stock deposits in escrow	-	(25,700 )
Net cash provided by (used in) investing activities	516	(27,563 )
Cash flows from financing activities:		
Note and stock issuance costs paid	-	(1,551 )
Proceeds from exercise of stock options and employee stock purchase plan	90	31
Principal payments on capital leases	-	(57 )
Preferred stock deposits	-	30,000
Net cash provided by financing activities	90	28,423
Net increase (decrease) in cash and cash equivalents	7,507	(3,742 )
Cash and cash equivalents (net of restricted cash), beginning of period (1)	39,382	19,062
Cash and cash equivalents (net of restricted cash), end of period (2)	\$46,889	\$15,320
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$1	\$5
Cash paid for income taxes, net of refunds	(6 )	56

(1) Net of restricted cash of \$1,647 and \$559 at December 31, 2010 and 2009, respectively.

(2) Net of restricted cash of \$847 and \$517 at March 31, 2011 and 2010, respectively.

See accompanying notes to unaudited condensed consolidated financial statements.

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MERGE HEALTHCARE INCORPORATED AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
 (Unaudited)  
 (in thousands, except for share and per share data)

	Preferred Stock		Common Stock			Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares Issued	Issued Amount	Shares Subscribed	Subscribed Amount	Shares Issued				
Balance at December 31, 2010	41,750	\$41,750							