

MERGE HEALTHCARE INC
Form 10-Q
August 09, 2011

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 June 30, 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 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.

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Large accelerated filer
Non-accelerated filer

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 August 5, 2011: 89,646,785

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PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

MERGE HEALTHCARE INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except for share data)

ASSETS	June 30, 2011	December 31, 2010
Current assets:		
Cash and cash equivalents, including restricted cash of \$767 and \$1,647 at June 30, 2011 and December 31, 2010, respectively	\$45,234	\$ 41,029
Accounts receivable, net of allowance for doubtful accounts and sales returns of \$2,565 and \$1,322 at June 30, 2011 and December 31, 2010, respectively	58,481	53,254
Inventory	3,095	3,486
Prepaid expenses	3,679	4,191
Deferred income taxes	2,545	2,545
Other current assets	11,853	9,336
Total current assets	124,887	113,841
Property and equipment:		
Computer equipment	9,742	9,859
Office equipment	1,802	2,007
Leasehold improvements	1,201	1,055
	12,745	12,921
Less accumulated depreciation	7,737	7,149
Net property and equipment	5,008	5,772
Purchased and developed software, net of accumulated amortization of \$6,963 and \$9,811 at June 30, 2011 and December 31, 2010, respectively	24,016	26,619
Other intangible assets, net of accumulated amortization of \$9,722 and \$8,419 at June 30, 2011 and December 31, 2010, respectively	41,986	48,957
Goodwill	171,578	169,533
Deferred income taxes	14,566	17,006
Other assets	13,578	14,660
Total assets	\$395,619	\$ 396,388
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$16,629	\$ 18,370
Interest payable	4,935	3,917
Accrued wages	6,426	4,304
Restructuring accrual	1,027	1,707
Other accrued liabilities	7,772	6,875
Deferred revenue	42,134	49,876
Total current liabilities	78,923	85,049
Notes payable, net of unamortized discount	249,065	195,077
Deferred revenue	5,104	3,809
Income taxes payable	5,707	5,683
Other	1,464	1,964

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Total liabilities	340,263	291,582
Shareholders' equity:		
Series A Non-voting Preferred Stock, \$0.01 par value: 50,000 shares authorized; zero and 41,750 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively. Aggregate liquidation preference: zero and \$54,275 at June 30, 2011 and December 31, 2010, respectively.	-	41,750
Common stock, \$0.01 par value: 150,000,000 shares authorized: 84,367,509 shares and 83,258,123 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	844	833
Common stock subscribed, 14,372 shares and 991,053 shares at June 30, 2011 and December 31, 2010, respectively	71	3,323
Additional paid-in capital	525,675	527,228
Accumulated deficit	(473,146)	(469,872)
Accumulated other comprehensive income	1,912	1,544
Total shareholders' equity	55,356	104,806
Total liabilities and shareholders' equity	\$395,619	\$ 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		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net sales:				
Software and other	\$17,639	\$6,592	\$36,310	\$15,957
Professional services	10,515	5,631	18,915	9,377
Maintenance and EDI	27,438	16,780	53,039	23,639
Total net sales	55,592	29,003	108,264	48,973
Cost of sales:				
Software and other	4,681	1,690	11,258	2,394
Professional services	5,016	4,028	10,079	7,025
Maintenance and EDI	6,687	5,809	14,651	7,306
Depreciation, amortization and impairment	2,347	4,487	4,846	5,705
Total cost of sales	18,731	16,014	40,834	22,430
Gross margin	36,861	12,989	67,430	26,543
Operating costs and expenses:				
Sales and marketing	7,853	4,189	16,546	7,008
Product research and development	7,017	5,752	13,769	9,008
General and administrative	8,264	5,591	14,854	9,442
Acquisition-related expenses	375	2,421	479	8,359
Restructuring and other expenses	-	3,483	(36)	3,483
Depreciation, amortization and impairment	5,223	2,181	7,873	3,021
Total operating costs and expenses	28,732	23,617	53,485	40,321
Operating income (loss)	8,129	(10,628)	13,945	(13,778)
Other income (expense):				
Interest expense	(6,746)	(4,316)	(13,106)	(4,321)
Interest income	167	8	173	23
Other, net	(1,209)	33	(1,415)	69
Total other expense, net	(7,788)	(4,275)	(14,348)	(4,229)
Income (loss) before income taxes	341	(14,903)	(403)	(18,007)
Income tax expense	2,026	58	2,871	106
Net loss	(1,685)	(14,961)	(3,274)	(18,113)
Less: preferred stock dividends	1,587	15,944	3,153	15,944
Net loss available to common shareholders	\$(3,272)	\$(30,905)	\$(6,427)	\$(34,057)
Net loss per share - basic	\$(0.04)	\$(0.39)	\$(0.08)	\$(0.44)
Weighted average number of common shares outstanding				
- basic	84,345,025	80,092,926	84,277,343	77,461,669
Net loss per share - diluted	\$(0.04)	\$(0.39)	\$(0.08)	\$(0.44)
Weighted average number of common shares outstanding				
- diluted	84,345,025	80,092,926	84,277,343	77,461,669

See accompanying notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS(Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$(3,274)	\$(18,113)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and impairment	12,719	8,726
Share-based compensation	2,120	816
Change in contingent consideration for acquisitions	128	342
Amortization of notes payable issuance costs & discount	1,156	452
Provision for doubtful accounts receivable and sales returns, net of recoveries	782	(277)
Deferred income taxes	2,440	-
Realized gain on sale of equity security	(405)	-
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(6,432)	(1,954)
Inventory	391	(151)
Prepaid expenses	479	1,012
Accounts payable	(2,814)	645
Accrued wages	2,035	(329)
Restructuring accrual	(892)	2,100
Deferred revenue	(6,784)	3,987
Accrued interest and other liabilities	217	2,506
Other	(439)	2,105
Net cash provided by operating activities	1,427	1,867
Cash flows from investing activities:		
Cash paid for acquisitions, net of cash acquired	(600)	(210,226)
Purchases of property, equipment, and leasehold improvements	(1,277)	(745)
Change in restricted cash		