

MERGE HEALTHCARE INC
Form 10-Q
October 29, 2014

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 September 30, 2014

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 39-1600938
(State or other jurisdiction of incorporation or organization) (I. R. S. Employer Identification No.)

350 North Orleans Street, 1st Floor
Chicago, Illinois 60654
(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.

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes o No T

The number of shares outstanding of the Registrant's common stock, par value \$0.01 per share, as of October 29, 2014:
98,601,322

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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)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of \$209 and \$392 at September 30, 2014 and December 31, 2013	\$34,537	\$19,729
Accounts receivable, net of reserves of \$7,293 and \$11,938 at September 30, 2014 and December 31, 2013	52,314	61,895
Inventory	5,232	5,851
Prepaid expenses	3,643	4,803
Deferred income taxes	2,074	1,915
Other current assets	10,898	12,506
Total current assets	108,698	106,699
Property and equipment:		
Computer equipment	10,755	8,930
Office equipment	2,878	2,857
Leasehold improvements	1,589	1,870
	15,222	13,657
Less accumulated depreciation	10,784	8,918
Net property and equipment	4,438	4,739
Purchased and developed software, net of accumulated amortization of \$22,230 and \$18,591 at September 30, 2014 and December 31, 2013	15,316	15,906
Other intangible assets, net of accumulated amortization of \$36,698 and \$34,466 at September 30, 2014 and December 31, 2013	19,628	26,200
Goodwill	214,374	214,374
Deferred income taxes	5,641	6,979
Other assets	2,647	7,184
Total assets	\$370,742	\$382,081
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$18,117	\$22,072
Current maturities of long-term debt	11,750	2,490
Accrued wages	9,346	5,559
Restructuring accrual	-	1,301
Other current liabilities	6,183	8,205
Deferred revenue	52,852	55,183
Total current liabilities	98,248	94,810
Long-term debt, less current maturities, net of unamortized discount	216,440	233,942
Deferred income taxes	4,485	4,065
Deferred revenue	370	378
Income taxes payable	1,074	1,399

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Other liabilities	1,905	2,227
Total liabilities	322,522	336,821
Shareholders' equity:		
Preferred Stock, \$0.01 par value: 1,000,000 shares authorized; none issued	-	-
Series A Non-voting Preferred Stock, \$0.01 par value: 50,000 shares authorized; none issued	-	-
Common stock, \$0.01 par value: 150,000,000 shares authorized: 98,579,903 and 96,688,889 shares issued and outstanding at September 30, 2014 and December 31, 2013	986	967
Common stock subscribed, 21,419 and 26,259 shares at September 30, 2014 and December 31, 2013	45	57
Additional paid-in capital	590,028	585,102
Accumulated deficit	(545,098)	(543,175)
Accumulated other comprehensive income	1,778	1,862
Total Merge shareholders' equity	47,739	44,813
Noncontrolling interest	481	447
Total shareholders' equity	48,220	45,260
Total liabilities and shareholders' equity	\$370,742	\$382,081

See accompanying notes to unaudited condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

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

	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
Net sales:				
Software and other	\$ 18,539	\$ 19,357	\$ 51,643	\$ 60,807
Professional services	9,074	10,447	29,734	34,122
Maintenance and EDI	26,369	27,441	77,322	83,143
Total net sales	53,982	57,245	158,699	178,072
Cost of sales:				
Software and other	7,064	11,702	22,250	33,107
Professional services	6,539	6,248	18,903	19,175
Maintenance and EDI	7,174	6,875	20,968	22,328
Depreciation and amortization	2,495	1,804	5,767	5,425
Total cost of sales	23,272	26,629	67,888	80,035