

MERGE HEALTHCARE INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	<u>September 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Current assets:		
Cash (including restricted cash)	\$ 16,883	\$ 17,848
Accounts receivable, net	15,714	12,779
Inventory	377	550
Prepaid expenses	1,965	1,509
Deferred income taxes	217	217
Other current assets	<u>3,002</u>	<u>721</u>
Total current assets	38,158	33,624
Property and equipment, net	3,405	1,974
Purchased and developed software, net	13,978	5,653
Customer relationships and trade names, net	7,738	2,291
Goodwill	25,145	-
Deferred tax assets	4,585	4,585
Investments	528	5,690
Other	<u>326</u>	<u>920</u>
Total assets	<u><u>\$ 93,863</u></u>	<u><u>\$ 54,737</u></u>
Current liabilities:		
Accounts payable	\$ 5,957	\$ 4,036
Accrued wages	1,933	1,590
Restructuring accrual	1,582	1,173
Deferred revenue	14,895	16,150
Note payable	14,623	-
Current portion of capital lease obligations	188	-
Other accrued liabilities	<u>2,669</u>	<u>2,421</u>
Total current liabilities	41,847	25,370
Note payable	-	14,230
Capital lease obligations, net of current portion	94	-
Deferred income taxes	39	39
Deferred revenue	1,622	644
Income taxes payable	5,461	5,418
Other	<u>227</u>	<u>195</u>
Total liabilities	49,290	45,896
Total shareholders' equity	44,573	8,841
Total liabilities and shareholders' equity	<u><u>\$ 93,863</u></u>	<u><u>\$ 54,737</u></u>

MERGE HEALTHCARE INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net sales				
Software and other	\$ 7,755	\$ 7,398	\$ 25,459	\$ 19,733
Services and maintenance	9,152	7,218	22,110	21,941
Total net sales	<u>16,907</u>	<u>14,616</u>	<u>47,569</u>	<u>41,674</u>
Cost of sales				
Software and other	600	1,314	2,710	3,842
Services and maintenance	3,402	2,528	7,925	9,471
Depreciation and amortization	899	742	2,172	2,174
Total cost of sales	<u>4,901</u>	<u>4,584</u>	<u>12,807</u>	<u>15,487</u>
Gross margin	<u>12,006</u>	<u>10,032</u>	<u>34,762</u>	<u>26,187</u>
Operating costs and expenses:				
Sales and marketing	2,470	1,824	5,968	7,497
Product research and development	2,689	2,931	7,503	11,151
General and administrative	3,616	3,483	8,972	18,093
Acquisition-related expenses	658	-	997	-
Trade name impairment, restructuring and other expenses	1,974	(205)	1,974	11,862
Depreciation, amortization and impairment	755	654	1,849	2,954
Total operating costs and expenses	<u>12,162</u>	<u>8,687</u>	<u>27,263</u>	<u>51,557</u>
Operating income (loss)	<u>(156)</u>	<u>1,345</u>	<u>7,499</u>	<u>(25,370)</u>
Other income (expense)	<u>(751)</u>	<u>(648)</u>	<u>(5,075)</u>	<u>(346)</u>
Income (loss) before income taxes	<u>(907)</u>	<u>697</u>	<u>2,424</u>	<u>(25,716)</u>
Income tax expense (benefit)	<u>29</u>	<u>269</u>	<u>72</u>	<u>(115)</u>
Net income (loss)	<u>\$ (936)</u>	<u>\$ 428</u>	<u>\$ 2,352</u>	<u>\$ (25,601)</u>
Net income (loss) per share - basic	<u>\$ (0.02)</u>	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ (0.59)</u>
Weighted average number of common shares outstanding - basic	<u>61,077,637</u>	<u>56,171,905</u>	<u>57,904,467</u>	<u>43,496,189</u>
Net income (loss) per share - diluted	<u>\$ (0.02)</u>	<u>\$ 0.01</u>	<u>\$ 0.04</u>	<u>\$ (0.59)</u>
Weighted average number of common shares outstanding - diluted	<u>61,077,637</u>	<u>56,859,379</u>	<u>59,552,430</u>	<u>43,496,189</u>

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

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ 2,352	\$ (25,601)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, amortization and impairment	4,021	5,128
Share-based compensation	1,256	3,836
Loss on disposal of subsidiary	-	1,665
Amortization of note payable issuance costs & discount	837	336
Realized loss on investment	3,624	-
Trade name impairment	-	1,060
Provision for doubtful accounts receivable and sales returns, net of recoveries	151	267
Deferred income taxes	-	(384)
Net change in assets and liabilities (net of effects of acquisitions and dispositions)	(7,774)	(3,344)
Net cash provided by (used in) operating activities	4,467	(17,037)
Cash flows from investing activities:		
Cash paid for acquisitions, net of cash acquired	(1,752)	-
Proceeds from sale of subsidiary	-	413
Purchases of property, equipment and leasehold improvements	(165)	(503)
Change in restricted cash	338	-
Proceeds from sale of equity investment	886	-
Net cash used in investing activities	(693)	(90)
Cash flows from financing activities:		
Proceeds from issuance of term note, net of non-cash discount of \$510	-	14,490
Proceeds from issuance of Common Stock	-	5,479
Note and stock issuance costs paid	-	(2,386)
Proceeds from exercise of stock options and employee stock purchase plan	78	63
Principal payments on notes	(4,570)	-
Principal payments on capital leases	(35)	-
Repurchase of Common Stock	-	(47)
Dividends paid	-	(57)
Net cash provided by (used in) financing activities	(4,527)	17,542
Effect of exchange rate changes on cash	-	9
Net increase (decrease) in cash	(753)	424
Cash and cash equivalents, beginning of period (net of restricted cash) (1)	17,227	13,637
Cash and cash equivalents, end of period (net of restricted cash) (2)	\$ 16,474	\$ 14,061

(1) Restricted cash of \$621 and \$363 at December 31, 2008 and 2007, respectively.

(2) Restricted cash of \$409 and \$363 at September 30, 2009 and 2008, respectively.

MERGE HEALTHCARE INCORPORATED AND SUBSIDIARIES
RECONCILIATION OF GAAP NET INCOME TO ADJUSTED EBITDA
(in thousands)
(unaudited)

	Three Months Ended			Nine Months Ended	
	September 30,		June 30,	September 30,	
	2009	2008	2009	2009	2008
GAAP net income (loss)	\$ (936)	\$ 428	\$ 446	\$ 2,352	\$ (25,601)
Net interest expense	769	683	752	2,274	776
Income tax expense (benefit)	29	269	21	72	(115)
Depreciation and amortization	1,654	1,396	1,169	4,021	5,128
Stock-based compensation expense	371	302	366	1,256	1,866
EBITDA	<u>1,887</u>	<u>3,078</u>	<u>2,754</u>	<u>9,975</u>	<u>(17,946)</u>
Impairment of investments	71	-	3,553	3,624	-
Sale of non-core patents	-	-	(382)	(510)	-
Acquisition related costs	658	-	339	997	-
Acquisition related severance (not qualifying for restructuring cost)	225	-	-	225	-
Restructuring, tradename impairment and other	1,974	(205)	-	1,974	11,862
Adjusted EBITDA	<u>\$ 4,815</u>	<u>\$ 2,873</u>	<u>\$ 6,264</u>	<u>\$ 16,285</u>	<u>\$ (6,084)</u>
GAAP diluted net income (loss) per share	\$ (0.02)	\$ 0.01	\$ 0.01	\$ 0.04	\$ (0.59)
Share impact of non-GAAP adjustments identified above	0.10	0.04	0.10	0.23	0.45
Adjusted EBITDA per share	<u>\$ 0.08</u>	<u>\$ 0.05</u>	<u>\$ 0.11</u>	<u>\$ 0.27</u>	<u>\$ (0.14)</u>