

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

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Current assets:		
Cash (including restricted cash)	\$ 19,690	\$ 17,848
Accounts receivable, net	13,387	12,779
Inventory	114	550
Prepaid expenses	1,456	1,509
Deferred income taxes	217	217
Other current assets	<u>278</u>	<u>721</u>
Total current assets	35,142	33,624
Property and equipment, net	1,730	1,974
Purchased and developed software, net	5,003	5,653
Customer relationships, net	2,054	2,291
Deferred tax assets	4,585	4,585
Investments	5,527	5,690
Other	<u>775</u>	<u>920</u>
Total assets	<u><u>\$ 54,816</u></u>	<u><u>\$ 54,737</u></u>
Current liabilities:		
Accounts payable	\$ 2,760	\$ 3,387
Accrued wages	1,759	1,590
Restructuring accrual	673	1,173
Deferred revenue	14,324	16,150
Other accrued liabilities	<u>2,760</u>	<u>3,070</u>
Total current liabilities	22,276	25,370
Note payable	14,358	14,230
Deferred income taxes	39	39
Deferred revenue	466	644
Income taxes payable	5,435	5,418
Other	<u>177</u>	<u>195</u>
Total liabilities	42,751	45,896
Total shareholders' equity	12,065	8,841
Total liabilities and shareholders' equity	<u><u>\$ 54,816</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	
	March 31,	
	<u>2009</u>	<u>2008</u>
Net sales		
Software and other	\$ 8,684	\$ 6,055
Services and maintenance	6,625	7,688
Total net sales	<u>15,309</u>	<u>13,743</u>
Cost of sales		
Software and other	1,230	1,199
Services and maintenance	2,150	3,775
Amortization	650	716
Total cost of sales	<u>4,030</u>	<u>5,690</u>
Gross margin	11,279	8,053
Operating costs and expenses:		
Sales and marketing	1,672	3,362
Product research and development	2,271	4,735
General and administrative	3,252	6,158
Restructuring and other expenses	-	1,362
Depreciation and amortization	548	842
Total operating costs and expenses	<u>7,743</u>	<u>16,459</u>
Operating income (loss)	3,536	(8,406)
Other income (expense)	(672)	574
Income (loss) before income taxes	2,864	(7,832)
Income tax expense	22	-
Net income (loss)	<u>\$ 2,842</u>	<u>\$ (7,832)</u>
Net income (loss) per share - basic	<u>\$ 0.05</u>	<u>\$ (0.23)</u>
Weighted average number of common shares outstanding - basic	<u>56,304,568</u>	<u>33,926,183</u>
Net income (loss) per share - diluted	<u>\$ 0.05</u>	<u>\$ (0.23)</u>
Weighted average number of common shares outstanding - diluted	<u>57,189,532</u>	<u>33,926,183</u>

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

	Three Months Ended	
	March 31,	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income (loss)	\$ 2,842	\$ (7,832)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,198	1,558
Share-based compensation	519	1,328
Amortization of note payable issuance costs & discount	274	-
Provision for doubtful accounts receivable and sales returns, net of recoveries	234	18
Net change in assets and liabilities (net of effects of dispositions)	<u>(3,184)</u>	<u>(221)</u>
Net cash provided by (used in) operating activities	1,883	(5,149)
Cash flows from investing activities:		
Purchases of property, equipment and leasehold improvements	(67)	(296)
Change in restricted cash	<u>258</u>	<u>-</u>
Net cash provided by (used in) investing activities	191	(296)
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	<u>26</u>	<u>-</u>
Net cash provided by financing activities	26	-
Effect of exchange rate changes on cash	<u>-</u>	<u>(33)</u>
Net increase (decrease) in cash	2,100	(5,478)
Cash and cash equivalents, beginning of period (net of restricted cash) (1)	<u>17,227</u>	<u>13,637</u>
Cash and cash equivalents, end of period (net of restricted cash) (2)	<u>\$ 19,327</u>	<u>\$ 8,159</u>

- (1) Restricted cash of \$621 and \$363 as of December 31, 2008 and 2007, respectively.
(2) Restricted cash of \$363 and \$363 as of March 31, 2009 and 2008, respectively.