

MERGE TECHNOLOGIES INC

Form 10-Q

May 09, 2007

Table of Contents

**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, 2007

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

For the transition period from to

Commission file number 0-29486

MERGE TECHNOLOGIES INCORPORATED

(Exact name of Registrant as specified in its charter.)

Wisconsin

(State or other jurisdiction of
incorporation or organization)

39-1600938

(IRS Employer Identification No.)

**6737 West Washington Street, Suite 2250,
Milwaukee, WI**

(Address of principal executive offices)

53214-5650

(zip code)

(414) 977-4000

(Registrant's telephone number, including area code)

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 is a large accelerated filer, accelerated filer or a non-accelerated filer (see definition of accelerated filer and large accelerated filer as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ○ Accelerated filer ☐ Non-accelerated filer ○

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

☐
As of May 4, 2007, the Registrant had 32,198,650 shares of Common Stock outstanding.

INDEX

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements</u>	1
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	
<u>Condensed Consolidated Statements of Operations (Unaudited)</u>	
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	18
<u>Item 4. Controls and Procedures</u>	19
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	22
<u>Item 1A. Risk Factors</u>	22
<u>Item 6. Exhibits</u>	23
<u>EX-31.1 SECTION 302 CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER</u>	
<u>EX-31.2 SECTION 302 CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER</u>	
<u>EX-32.0 SECTION 906 CERTIFICATIONS OF THE PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER</u>	

Table of Contents**PART I****Item 1. Consolidated Financial Statements**

MERGE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except for share data)

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,169	\$ 45,945
Accounts receivable, net of allowance for doubtful accounts of \$1,955 and \$1,683 at March 31, 2007 and December 31, 2006, respectively	17,820	17,210
Inventory	2,130	2,164
Prepaid expenses	1,972	1,660
Deferred income taxes	196	196
Other current assets	1,749	812
Total current assets	61,036	67,987
Property and equipment:		
Computer equipment	5,087	5,017
Office equipment	1,945	1,919
Leasehold improvements	1,494	1,460
	8,526	8,396
Less accumulated depreciation	4,885	4,456
Net property and equipment	3,641	3,940
Purchased and developed software, net of accumulated amortization of \$12,300 and \$11,235 at March 31, 2007 and December 31, 2006, respectively	15,997	16,628
Customer intangibles, net of accumulated amortization of \$4,536 and \$3,966 at March 31, 2007 and December 31, 2006, respectively	8,941	9,511
Goodwill	124,407	124,407
Deferred income taxes	3,614	3,303
Other assets	8,719	8,887
Total assets	\$ 226,355	\$ 234,663
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 9,190	\$ 10,665
Accrued wages	6,774	6,244
Income taxes payable		4,033
Deferred revenue	18,922	18,175
Total current liabilities	34,886	39,117
Deferred revenue	2,751	3,218

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Income taxes payable	5,329	
Other	396	633
Total liabilities	43,362	42,968
Shareholders' equity:		
Preferred stock, \$0.01 par value: 2,999,997 shares authorized; zero shares issued and outstanding at March 31, 2007 and December 31, 2006		
Series A Preferred Stock, \$0.01 par value: 1,000,000 shares authorized; zero shares issued and outstanding at March 31, 2007 and December 31, 2006		
Series B Junior Participating Preferred Stock, \$0.01 par value: 1,000,000 shares authorized; zero shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively		
Series 3 Special Voting Preferred stock, no par value: one share authorized; one share issued and outstanding at March 31, 2007 and December 31, 2006		
Common Stock, \$0.01 par value: 100,000,000 shares authorized; 31,979,852 shares and 29,291,030 shares issued and outstanding at March 31, 2007 and December 31, 2006	320	293
Common Stock subscribed: 7,898 and 5,242 shares at March 31, 2007 and December 31, 2006, respectively	37	33
Additional paid-in capital	452,428	451,130
Accumulated deficit	(271,722)	(261,648)
Accumulated other comprehensive income	1,930	1,887
Total shareholders' equity	182,993	191,695
Total liabilities and shareholders' equity	\$ 226,355	\$ 234,663

See accompanying notes to consolidated financial statements.

Table of Contents**MERGE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(in thousands, except for share and per share data)**

	Three Months Ended March 31,	
	2007	2006
Net sales:		
Software and other	\$ 8,056	\$ 9,545
Services and maintenance	7,615	6,651
Total net sales	15,671	16,196
Cost of sales:		
Software and other	1,995	1,658
Services and maintenance	3,499	3,686
Amortization	1,062	1,277
Total cost of sales	6,556	6,621
Gross profit	9,115	9,575
Operating costs and expenses:		
Sales and marketing	4,750	5,221
Product research and development	5,399	4,843
General and administrative	7,431	5,841
Restructuring and other expenses	797	22
Depreciation and amortization	1,002	1,042
Total operating costs and expenses	19,379	16,969
Operating loss	(10,264)	(7,394)
Other income (expense):		
Interest expense	(45)	(4)
Interest income	450	660
Other, net	47	20
Total other income	452	676
Loss before income taxes	(9,812)	(6,718)
Income tax expense (benefit)	262	(1,818)
Net loss	\$ (10,074)	\$ (4,900)
Loss per share basic	\$ (0.30)	\$ (0.15)
Weighted average number of common shares outstanding basic	33,885,682	33,634,778

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Loss per share diluted	\$ (0.30)	\$ (0.15)
Weighted average number of common shares outstanding diluted	33,885,682	33,634,778

See accompanying notes to consolidated financial statements.

2

Table of Contents

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

	Three Months Ended	
	March 31,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (10,074)	\$ (4,900)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,064	2,318
Stock-based compensation	1,191	1,289
Provision for doubtful accounts receivable, net of recoveries	272	(177)
Deferred income taxes		(1,652)
Change in assets and liabilities:		
Accounts receivable	(867)	3,740
Inventory	33	(398)
Prepaid expenses	(310)	(692)
Accounts payable and other accrued liabilities	(1,711)	163
Accrued wages	527	(672)
Deferred revenue	281	2,212
Other	216	765
Net cash provided by (used in) operating activities	(8,378)	1,996
Cash flows from investing activities:		
Purchases of property, equipment, and leasehold improvements	(123)	(254)
Purchased technology		(367)
Capitalized software development	(422)	(549)
Net cash used in investing activities	(545)	(1,170)
Cash flows from financing activities:		
Proceeds from exercise of stock options and employee stock purchase plan	139	25
Net cash provided by financing activities	139	25
Effect of exchange rate changes on cash	8	(1)
Net increase (decrease) in cash	(8,776)	850
Cash and cash equivalents, beginning of period	45,945	64,278
Cash and cash equivalents, end of period	\$ 37,169	\$ 65,128
Supplemental Disclosures of Cash Flow Information:		
Cash paid for income taxes, net of refunds	\$ 39	\$ 69
Equity securities received in sales transactions	\$	\$ 2,010

See accompanying notes to consolidated financial statements.

Table of Contents

MERGE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(in thousands)

	Three Months Ended	
	March 31,	
	2007	2006
Net loss	\$ (10,074)	\$ (4,900)
Accumulated other comprehensive income:		
Cumulative translation adjustment	(16)	
Unrealized gain (loss) on marketable securities (1)	36	(29)
Comprehensive net loss	\$ (10,054)	\$ (4,929)

(1) Net of income tax expense of \$24 and \$19 for the three months ended March 31, 2007 and 2006, respectively.

See accompanying notes to consolidated financial statements.

Table of Contents

Merge Technologies Incorporated and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited and in thousands, except for share and per share data)

(1) Basis of Presentation and Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for reporting on Form 10-Q. Accordingly, certain information and footnotes required by United States of America generally accepted accounting principles (GAAP) for complete financial statements are not included herein. The interim statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2006 of Merge Technologies Incorporated, a Wisconsin corporation, and its subsidiaries and affiliates (which we sometimes refer to collectively as Merge Healthcare, we, us, or our).

Our accompanying unaudited consolidated financial statements reflect all adjustments of a normal recurring nature, which are, in the opinion of management, necessary to present a fair statement of our financial position and results of operations. Such adjustments are of a normal recurring nature unless otherwise noted. The results of operations for any quarter are not necessarily indicative of the results to be expected for any future period.

(a) Reclassifications

Where appropriate, certain reclassifications have been made to the prior years financial statements to conform to the current year presentation. Specifically, we reclassified \$286 of expense from product research and development to software and other cost of sales within the Consolidated Statement of Operations for the three months ended March 31, 2006, to conform to current year presentation.

(b) Accounting for uncertainty in income taxes

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN No. 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standard (SFAS) No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The pronouncement also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Pursuant to FIN No. 48 we have reclassified as noncurrent, unrecognized tax benefits not expected to be paid within one year. The impact of adopting FIN No. 48 had the cumulative effects explained in Note 7 below.

(c) Presentation of sales tax in statement of operations

On January 1, 2007, we adopted Emerging Issues Task Force (EITF) No. 06-3, *How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That Is, Gross Versus Net Presentation)* (EITF No. 06-3), which discusses taxes imposed on, and imposed concurrent with, a specific revenue-producing transaction between a seller and its customer. It requires entities to disclose, if significant, on an interim and annual basis for all periods presented: (a) the accounting policy elected for these taxes; and (b) the amounts of the taxes reflected gross (as revenue) in the income statement. We account for sales taxes on a net basis and EITF No. 06-3 did not have a material impact on our consolidated financial statements for the three months ended March 31, 2007.

Table of Contents

Merge Technologies Incorporated and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(Unaudited and in thousands, except for share and per share data)

(2) Other Intangibles

Our intangible assets, other than capitalized software development costs, subject to amortization are summarized as of March 31, 2007 as follows:

	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization
Purchased technology	3.5	\$ 16,990	\$ (6,883)
Customer relationships	4.0	13,477	(4,536)
Patents	9.0	129	(13)
Total	3.7	\$ 30,596	\$ (11,432)

Purchased technology amortization expense, which is being recorded in cost of sales ratably over the life of the related intangible asset, was \$753 for the three months ended March 31, 2007 and 2006. Customer relationships and patent amortization expense, which is being recorded ratably over the life of the related intangible asset in depreciation and amortization included in operating costs and expenses, was \$570 for the three months ended March 31, 2007 and 2006, respectively.

Estimated aggregate amortization expense for the remaining periods is as follows:

For the remaining 9 months for the year ended:	2007	\$ 3,833
For the year ended:	2008	4,810
	2009	4,404
	2010	4,277
	2011	1,785
	Thereafter	55

As of March 31, 2007, we had gross capitalized software development costs of \$11,178 and accumulated amortization of \$5,404. The weighted-average remaining amortization period of capitalized software development costs was 2.5 years as of March 31, 2007. During three months ended March 31, 2007 and 2006, we capitalized software development costs of \$422 and \$549, respectively. Amortization expense related to developed software of \$309 and \$524 was recorded to cost of sales during the three months ended March 31, 2007 and 2006, respectively. Amortization expense during the three months ended March 31, 2006 included the impairment of certain of our capitalized software projects of approximately \$169, as we no longer anticipate future sales of such products.

(3) Earnings Per Share

Basic earnings per share is computed by dividing income (loss) available to common shareholders by the weighted average number of shares outstanding. Diluted earnings per share reflects the potential dilution that could occur based on the exercise of stock options, except for options with an exercise price of more than the average market price of our Common Stock, because such exercise would be anti-dilutive. The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2007 and 2006:

Table of Contents

Merge Technologies Incorporated and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(Unaudited and in thousands, except for share and per share data)

	Three Months Ended March 31,	
	2007	2006
Numerator:		
Net loss per share basic and diluted	\$ (10,074)	\$ (4,900)
Denominator:		
Weighted average number of shares of Common Stock outstanding basic and diluted	33,885,682	33,634,778
Net loss per share basic and diluted	\$ (0.30)	\$ (0.15)

The weighted average number of shares of Common Stock outstanding used to calculate basic net loss per share includes exchangeable share equivalent securities for the three months ended March 31, 2007 and 2006 of 4,128,757 and 5,305,509, respectively.

As a result of the losses during the three months ended March 31, 2007 and 2006, incremental shares from the assumed conversion of employee stock options totaling 59,183 and 928,484, respectively, have been excluded from the calculation of diluted loss per share as their inclusion would have been anti-dilutive.

For the three months ended March 31, 2007 and 2006, options to purchase 3,375,110 and 149,500 shares of our Common Stock, respectively, had exercise prices greater than the average market price of our Common Stock, and, therefore, are not included in the above calculations of net loss per share.

(4) Share-Based Compensation

We maintain four stock-based employee compensation plans (including our employee stock purchase plan) and one director option plan under which we grant options to acquire shares of our Common Stock to certain employees, non-employees, non-employee directors and to existing stock option holders in connection with the consolidation of option plans following an acquisition. Options generally have an exercise price equal to the fair market value of our Common Stock at the date of grant, with the exception of the options granted in 2005 to replace existing Cedara Software Corp. options (Replacement Options). The Replacement Options, which we granted pursuant to the merger agreement, had the same economic terms as the Cedara options that they replaced, as adjusted for the conversion ratio and currency. The majority of these options vest over a three or four year period and have a contractual life of six years.

We maintain an employee stock purchase plan that allows eligible employees to purchase shares of our Common Stock through payroll deductions of up to 10% of eligible compensation on an after-tax basis. The price eligible employees pay per share of Common Stock is at a 5% discount from the market price at the end of each calendar quarter.

Table of Contents

Merge Technologies Incorporated and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(Unaudited and in thousands, except for share and per share data)

The following table summarizes share-based compensation expense related to share-based awards subject to SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)) recognized during the three months ended March 31, 2007 and 2006, respectively:

	Three Months Ended March 31,	
	2007	2006
Share-based compensation expense included in statement of operations:		
Services and maintenance (cost of sales)	\$ 106	\$ 136
Sales and marketing	265	391
Product research and development	302	372
General and administrative	510	550
Total	1,183	1,449
Tax benefit		(176)
Share-based compensation expense, net of tax	\$ 1,183	\$ 1,273
Decrease in basic loss per share	\$ (0.03)	\$ (0.04)
Decrease in diluted loss per share	\$ (0.03)	\$ (0.04)

The differences between the amounts recorded as share-based compensation expense in the statements of operations and the amounts of share-based compensation recorded as additional paid-in capital during the three months ended March 31, 2007 and 2006 of \$8 and \$16, respectively, was attributed to share-based compensation incurred by product research and development personnel who worked on capitalizable software development projects during these periods.

(5) Restructuring

The following table shows the restructuring activity during the three months ended March 31, 2007:

	Accrued Restructuring
Balance at December 31, 2006	\$ 1,997
Charges to expense	797
Payments	(1,716)
Balance at March 31, 2007	\$ 1,078

At March 31, 2007, the remaining costs consist of one-time termination benefits and as such are primarily classified within accrued wages.

(6) Segment Information

Late in 2006, we reorganized our business to better reflect emerging market needs. We established three distinct business units: Merge Healthcare North America, which primarily sells directly to the end-user healthcare market comprised of hospitals, imaging centers and specialty clinics located in the U.S. and Canada and also distributes certain products through the Internet via our website; Cedara Software, our original equipment manufacturer (OEM) business unit, which primarily sells to OEMs and value added resellers (VARs), comprised of companies that develop,

manufacture or resell medical imaging software or devices; and Merge Healthcare EMEA, which sells to the end-user healthcare market in Europe, the Middle East and Africa.

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131) establishes annual and interim reporting standards for operating segments of a company. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues, and its major customers. Our principal executive officer has been identified as the chief operation decision maker in assessing the performance of the segments and the allocation of resources to segments. The

Table of Contents

Merge Technologies Incorporated and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(Unaudited and in thousands, except for share and per share data)

principal executive officer relies on the information derived from our financial reporting process. During the three months ended March 31, 2007, the primary financial measure used by the principal executive officer in assessing performance and allocating resources was revenue. All other components of operating results and assets, including goodwill, are managed on a consolidated basis.

The following tables provide revenue from our reportable segments for the three months ended March 31, 2007 and 2006, respectively:

	For the Three Months Ended March 31, 2007			
	Merge Healthcare North America	Cedara Software	Merge Healthcare EMEA	Total
Net sales:				
Software and other	\$ 4,659	\$ 2,922	\$ 475	\$ 8,056
Service and maintenance	5,496	1,918	201	7,615
Total net sales	\$ 10,155	\$ 4,840	\$ 676	\$ 15,671

	For the Three Months Ended March 31, 2006			
	Merge Healthcare North America	Cedara Software	Merge Healthcare EMEA	Total
Net sales:				
Software and other	\$ 4,386	\$ 5,007	\$ 152	\$ 9,545
Service and maintenance	4,629	1,822	200	6,651
Total net sales	\$ 9,015	\$ 6,829	\$ 352	\$ 16,196

(7) Income Taxes

We adopted the provisions of FIN No. 48 on January 1, 2007. The total amount of unrecognized tax benefits as of the date of adoption was \$5,566. This amount was increased by \$367 during the period ending March 31, 2007. We recognize interest and penalties in the provision for income taxes. Total accrued interest and penalties as of March 31, 2007 was \$186. The adoption of FIN No. 48 did not result in an adjustment to retained earnings due to the full valuation allowance maintained on our deferred tax assets.

The total amount of unrecognized tax benefits at January 1, 2007 and March 31, 2007 that, if recognized, would affect the effective tax rate from continuing operations is \$2,529 and \$2,748, respectively. The remainder of unrecognized tax benefits, if recognized, would result in a decrease to goodwill. We do not anticipate a significant change to the total amount of unrecognized tax benefits within the next twelve months.

We are subject to taxation in the U.S. and Canada federal jurisdictions, various state and other foreign jurisdictions. With few exceptions, we are no longer subject to U.S. Federal, state, local or foreign examinations by tax authorities for years before 2003.

(8) Commitments and Contingencies

Between March 22, 2006, and April 26, 2006, seven putative securities class action lawsuits were filed in the United States District Court for the Eastern District of Wisconsin, on behalf of a class of persons who acquired shares

of our Common Stock between August 2, 2005 and March 16, 2006. On November 22, 2006, the Court consolidated the seven cases, appointed the Southwest Carpenters Pension Trust to be the lead plaintiff and

Table of Contents

Merge Technologies Incorporated and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(Unaudited and in thousands, except for share and per share data)

approved the Trust's choice of its lead counsel. The lead plaintiff filed the consolidated amended complaint on March 21, 2007. Defendants in the suit currently include us, Richard A. Linden, our former President and Chief Executive Officer, Scott T. Veech, our former Chief Financial Officer, David M. Noshay, our former Senior Vice President of Strategic Business Development, and KPMG, our auditing firm. The consolidated amended complaint arises out of our restatement of our financial statements, as well as our investigation of allegations made in anonymous letters received by us. The lawsuits allege that we and the other defendants violated Section 10(b) and that the individuals violated Section 20(a) of the Securities Exchange Act of 1934, as amended. The consolidated amended complaint seeks damages in unspecified amounts. The defendant's deadline to move, answer or otherwise respond to the remainder of the operative amended complaint is May 21, 2007. We intend to vigorously defend the lawsuit, including, but not limited to, possibly moving to dismiss the consolidated amended complaint.

On August 28, 2006, a derivative action was filed in the Circuit Court of Milwaukee County, Civil Division, against Messrs. Linden and Veech, William C. Mortimore (our founder, former Chairman and Chief Strategist, who served as our interim Chief Executive Officer from May 15, 2006 to July 2, 2006) and all of the then-current members of our Board of Directors. The plaintiffs allege that each of the individual defendants breached fiduciary duties to us by violating generally accepted accounting principles, willfully ignoring problems with accounting and internal control practices and procedures and participating in the dissemination of false financial statements. The plaintiffs also allege that we and the director defendants failed to hold an annual meeting of shareholders for 2006 in violation of Wisconsin law. The plaintiffs ask for unspecified amounts in damages and costs, as well as equitable relief. In response to the filing of this action, our Board of Directors formed a Special Litigation Committee, which Committee has full authority to investigate the allegations of the derivative complaint and determine whether pursuit of the claims against any or all of the individual defendants would be in our best interest. The Special Litigation Committee's investigation is substantially complete. The defendant's deadline to move, answer or otherwise respond to the remainder of the operative amended complaint has been extended to May 16, 2007.

On April 27, 2006, we received an informal, nonpublic inquiry from the SEC requesting voluntary production of documents and other information. The inquiry principally relates to our announcement on March 17, 2006 that we would revise our results of operations for the fiscal quarters ended June 30, 2005 and September 30, 2005, as well as our investigation of allegations made in anonymous letters received by us. The SEC has advised us that this inquiry should not be interpreted as an adverse reflection on any entity or individual involved, nor should it be interpreted as an indication by the SEC that any violation of the federal securities laws has occurred. We continue to cooperate with the SEC.

We, and our subsidiaries, are from time to time parties to legal proceedings, lawsuits and other claims incident to our business activities. Such matters may include, among other things, assertions of contract breach or intellectual property infringement, claims for indemnity arising in the course of our business and claims by persons whose employment has been terminated. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability, amounts which may be covered by insurance or recoverable from third parties, or the financial impact with respect to these matters as of the date of this report.

(9) Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; is irrevocable (unless a new

election date occurs); and is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is expected to expand the use of fair value measurement, which is consistent with the FASB's long-term measurement objectives for accounting for financial instruments. SFAS No. 159 is effective as

Table of Contents

**Merge Technologies Incorporated and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(Unaudited and in thousands, except for share and per share data)**

of the beginning of an