MERGE HEALTHCARE INC
Form 10-Q
November 09, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

o 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 0–29486

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.)

900 Walnut Ridge Drive, Hartland, Wisconsin 53029
(Address of principal executive offices, including zip code)
(Registrant's telephone number, including area code) (262) 367–0700

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 x No o

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 o No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b–2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	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 x

The number of shares outstanding of the Registrant's common stock, par value $0.01 per share, as of November 4, 2010: 83,284,805

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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, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents, including restricted cash of $613 and $559 at September 30, 2010 and December 31, 2009, respectively	$39,998	$19,621
Accounts receivable, net of allowance for doubtful accounts and sales returns of $956 and $1,287 at September 30, 2010 and December 31, 2009, respectively	47,679	17,219
Inventory	2,655	280
Prepaid expenses	5,093	1,896
Deferred income taxes	325	142
Other current assets	6,931	3,590
Total current assets	102,681	42,748
Property and equipment:		
Land	1,050	—
Building and building improvements	4,900	—
Computer equipment	9,448	8,542
Office equipment	1,816	2,347
Leasehold improvements	926	1,715
	18,140	12,604
Less accumulated depreciation	6,233	8,727
Net property and equipment	11,907	3,877
Purchased and developed software, net of accumulated amortization of $8,376 and $15,488 at September 30, 2010 and December 31, 2009, respectively	26,783	12,621
Other intangible assets, net of accumulated amortization of $6,374 and $2,411 at September 30, 2010 and December 31, 2009, respectively	49,412	6,715
Goodwill	162,612	28,749
Deferred income taxes	4,490	4,689
Other assets	12,556	850
Total assets	$370,441	$100,249
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$13,878	$4,444
Interest payable	9,988	—
Accrued wages	5,608	1,950
Restructuring accrual	2,414	879
Other accrued liabilities	2,397	1,665
Deferred revenue	42,164	15,579
Total current liabilities	76,449	24,517

Notes payable, net of unamortized discount of $5,130	194,870	—
Deferred income taxes	49	68
Deferred revenue	1,849	1,193
Income taxes payable	5,491	5,461
Other	1,542	873
Total liabilities	280,250	32,112
Shareholders' equity:		
Series A Non-voting Preferred Stock, $0.01 par value: 50,000 shares authorized; 41,750 and zero shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively. Aggregate liquidation preference: $54,275 and zero at September 30, 2010 and December 31, 2009, respectively.	41,750	—
Common stock, $0.01 par value: 150,000,000 shares authorized: 82,975,261 shares and 74,791,753 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	830	748
Common stock subscribed, 16,197 shares and 9,978 shares at September 30, 2010 and December 31, 2009, respectively	45	32
Additional paid-in capital	525,913	524,114
Accumulated deficit	(479,915)	(458,356)
Accumulated other comprehensive income	1,568	1,599
Total shareholders' equity	90,191	68,137
Total liabilities and shareholders' equity	$370,441	$100,249

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales:				
Software and other	$12,931	$7,755	$28,888	$25,459
Professional services	6,826	3,855	16,203	6,630
Maintenance and EDI	25,432	5,297	49,071	15,480
Total net sales	45,189	16,907	94,162	47,569
Cost of sales:				
Software and other	4,930	600	7,324	2,710
Professional services	4,381	1,885	11,406	3,927
Maintenance and EDI	8,622	1,517	15,928	3,998
Depreciation, amortization and impairment	2,805	899	8,510	2,172
Total cost of sales	20,738	4,901	43,168	12,807
Gross margin	24,451	12,006	50,994	34,762
Operating costs and expenses:				
Sales and marketing	5,776	2,470	12,784	5,968
Product research and development	5,621	2,689	14,629	7,503
General and administrative	6,043	3,616	15,485	8,972
Acquisition-related expenses	854	658	9,213	997
Restructuring and other expenses	1,213	1,974	4,696	1,974
Depreciation and amortization	1,816	755	4,837	1,849
Total operating costs and expenses	21,323	12,162	61,644	27,263
Operating income (loss)	3,128	(156)	(10,650)	7,499
Other income (expense):				
Interest expense	(6,475)	(775)	(10,796)	(2,304)
Interest income	28	6	51	30
Other, net	(140)	18	(71)	(2,801)
Total other income (expense)	(6,587)	(751)	(10,816)	(5,075)
Income (loss) before income taxes	(3,459)	(907)	(21,466)	2,424
Income tax expense (benefit)	(13)	29	93	72
Net income (loss)	(3,446)	(936)	(21,559)	2,352
Less: preferred stock dividends	1,566	—	17,510	—
Net income (loss) available to common shareholders	$(5,012)	$(936)	$(39,069)	$2,352
Net income (loss) per share - basic	$(0.06)	$(0.02)	$(0.49)	$0.04
Weighted average number of common shares outstanding - basic	82,813,533	61,077,637	79,265,227	57,904,467
Net income (loss) per share - diluted	$(0.06)	$(0.02)	$(0.49)	$0.04
Weighted average number of common shares outstanding - diluted	82,813,533	61,077,637	79,265,227	59,552,430

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net income (loss)	$(21,559)	$2,352
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, amortization and impairment	13,347	4,021
Share-based compensation	1,326	1,256
Change in contingent consideration for acquisitions	226	—
Amortization of note payable issuance costs & discount	889	837
Other than temporary impairment on equity investments	—	3,624
Provision for doubtful accounts receivable, sales returns and non-trade receivables, net of recoveries	503	151
Deferred income taxes	(3)	—
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(8,242)	2
Inventory	(1,372)	396
Prepaid expenses	2,118	349
Accounts payable	1,749	(2,404)
Accrued wages	(833)	(554)
Restructuring accrual	1,615	411
Deferred revenue	7,734	(6,189)
Accrued interest and other liabilities	6,769	(373)
Other	2,406	588
Net cash provided by operating activities	6,673	4,467
Cash flows from investing activities:		
Cash paid for acquisitions, net of cash acquired	(212,721)	(1,752)
Purchases of property, equipment, and leasehold improvements	(871)	(165)
Change in restricted cash	(53)	338
Distribution from equity investments	76	886
Net cash used in investing activities	(213,569)	(693)
Cash flows from financing activities:		
Proceeds from issuance of notes, net of discount of $5,468	194,532	—
Proceeds from issuance of stock	41,750	—
Note and stock issuance costs paid	(9,017)	—
Proceeds from exercise of stock options and employee stock purchase plan	102	78
Repurchases of stock	(26)	—
Principal payments on notes	—	(4,570)
Principal payments on capital leases	(122)	(35)
Net cash provided by (used in) financing activities	227,219	(4,527)
Net increase (decrease) in cash and cash equivalents	20,323	(753)
Cash and cash equivalents (net of restricted cash), beginning of period (1)	19,062	17,227
Cash and cash equivalents (net of restricted cash), end of period (2)	$39,385	$16,474

Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$10	$1,463
Cash paid for income taxes, net of refunds	(207)	(173)

(1) Net of restricted cash of $559 and $621 at December 31, 2009 and 2008, respectively.
(2) Net of restricted cash of $613 and $409 at September 30, 2010 and 2009, respectively.

See accompanying notes to unaudited condensed consolidated financial statements.

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MERGE HEALTHCARE INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)
(in thousands, except for share and per share data)

	Preferred Stock		Common Stock							
	Shares Issued	Issued Amount	Shares Subscribed	Subscribed Amount	Shares Issued	Issued Amount	Additional Paid–in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2009	—	$—	9,978	$32	74,791,753	$748	$524,114	$(458,356)	$1,599	$68,137
Issuance of stock	41,750	26,850	—	—	7,515,000	75	13,966	—	—	40,891
Deemed dividend on preferred stock	—	14,900	—	—	—	—	(14,900)	—	—	—
Stock issued under ESPP	—	—	6,219	13	35,191	1	89	—	—	103
Issuance of restricted shares	—	—	—	—	141,866	1	(1)	—	—	—
Share-based compensation expense	—	—	—	—	—	—	1,326	—	—	1,326
Shares issued for acquisitions	—	—	—	—	500,000	5	1,345	—	—	1,350
Treasury stock	—	—	—	—	(8,549)	—	(26)	—	—	(26)
Net loss	—	—	—	—	—	—	—	(21,559)	—	(21,559)
Other comprehensive loss	—	—	—	—	—	—	—	—	(31)	(31)
Balance at September 30, 2010	41,750	$41,750	16,197	$45	82,975,261	$830	$525,913	$(479,915)	$1,568	$90,191

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss)	$(3,446)	$(936)	$(21,559)	$2,352
Unrealized gain (loss) on marketable security	11	(37)	(31)	(203)
Comprehensive income (loss)	$(3,435)	$(973)	$(21,590)	$2,149

See accompanying notes to unaudited condensed consolidated financial statements.

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Merge Healthcare Incorporated and Subsidiaries
Notes to Condensed 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 condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) for reporting on Form 10-Q. Accordingly, certain information and notes required by United States of America generally accepted accounting principles (GAAP) for annual financial statements are not included herein. These 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, 2009 of Merge Healthcare Incorporated, a Delaware corporation, and its subsidiaries and affiliates (which we sometimes refer to collectively as Merge, we, us or our).

Principles of Consolidation

Our unaudited condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of our financial position and results of operations. Such adjustments are of a normal recurring nature, unless otherwise noted. The results of operations for the three and nine month periods ended September 30, 2010 are not necessarily indicative of the results to be expected for any future period.

Our unaudited condensed consolidated financial statements are prepared in accordance with GAAP. These accounting principles require us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe that the estimates, judgments and assumptions are reasonable, based on information available at the time they are made. Actual results could differ materially from those estimates.

Our unaudited condensed consolidated financial statements include the results of AMICAS, Inc. (AMICAS) since April 28, 2010, and insignificant other acquisitions from the dates of acquisition.

Reclassifications

Where appropriate, certain reclassifications have been made to the prior periods' condensed consolidated financial statements to conform to the current year presentation.

(2) Acquisitions

AMICAS, Inc.

On April 28, 2010, we completed our acquisition of AMICAS through a successful tender offer for 37,009,990 outstanding shares of common stock of AMICAS at $6.05 per share in cash. Following the tender offer, we purchased the remaining shares pursuant to a merger of a subsidiary of Merge with and into AMICAS. Total transaction consideration was approximately $223,910. In addition, shortly before the completion of the acquisition, AMICAS paid cash to holders of vested, in-the-money stock options for the difference between $6.05 per share and the exercise price of such options. The holders of shares of restricted stock were paid $6.05 per share in cash. The total consideration paid to option and restricted stock holders was approximately $22,906. We financed the transaction with $200,000 of senior secured notes (Notes), cash already available at the two companies and proceeds of $41,750 from the issuance of preferred and common stock. See Notes 7, 8 and 11 for further information regarding the Notes and preferred and common stock issuance.

Reasons for the Transaction

We believe that our acquisition of AMICAS allows our customers to benefit from the combined company's enhanced suite of products ranging from point solutions to end-to-end solutions for imaging workflow. The acquisition also creates an opportunity to cross-sell our solutions to different provider bases and to use our international footprint to increase revenues of AMICAS's products. In addition, the acquisition of AMICAS is expected to create ongoing cost synergies of approximately $15,000 annually.

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

Accounting

The acquisition of AMICAS was accounted for in accordance with ASC Topic No. 805, Business Combinations. Merge was considered the accounting acquirer. Under the acquisition method of accounting, the total purchase price of approximately $223,910 was allocated to the net tangible and intangible assets acquired and liabilities assumed, based on various estimates of their respective fair values. The allocation of the purchase consideration was based upon estimates made by us with the assistance of independent valuation specialists. The purchase price allocation, based on AMICAS' assets and liabilities as of April 28, 2010, was as follows:

	Estimated Fair Value
Cash	$ 15,125
Other tangible assets	45,202
Liabilities assumed	(30,336)
Purchased and developed software	19,200
Customer relationships	30,400
Backlog	8,100
Trade names	3,600
Non-competes	3,100
Goodwill	129,519
Total consideration	$ 223,910

Liabilities assumed include approximately $2,245 owed to certain former officers of AMICAS. These liabilities were considered part of the acquisition of AMICAS since the contractual obligations were entered into prior to the acquisition and were not for the benefit of Merge.

The amounts allocated to purchased and developed software, customer relationships, trade names, employee non-compete agreements and backlog were estimated by us based on the work performed by independent valuation specialists, primarily through the use of discounted cash flow techniques. Appraisal assumptions utilized under these methods include a forecast of estimated future net cash flows, as well as discounting the future net cash flows to their present value. Acquired intangible assets are being amortized over the estimated useful lives as set forth in the following table:

	Years	Amortization Method
Purchased and developed software	8.0	Straight-line
Customer relationships	9.7	Other
Backlog	4.7	Other
Trade names	12.0	Straight-line
Non-competes	7.0	Straight-line
Goodwill	Indefinite	NA

The estimated asset lives are determined based on projected future economic benefits and expected life cycles of the acquired intangible assets. The amount assigned to goodwill is not being amortized, but will be tested for impairment annually or under circumstances that may indicate a potential impairment. We expect approximately $12,700 of the $129,519 assigned to goodwill will be deductible for federal income tax purposes.

Pro forma Results

The GAAP results of AMICAS for the period April 28, 2010 through September 30, 2010, which include sales of $39,094 and net income of $1,855, have been included in our condensed consolidated financial statements.

The following unaudited pro forma condensed combined results of operations for the nine months ended September 30, 2010 and 2009, respectively, are based on the historical financial statements of Merge and AMICAS giving effect to the business combination as if it had occurred at the beginning of the periods presented. Therefore, this pro forma data has been adjusted to exclude pre-acquisition revenue related to sales by Merge to AMICAS as well as the amortization of intangible assets acquired by AMICAS, while including amortization of purchased intangible assets and interest on the Notes during the entire applicable periods. This data is not necessarily indicative of the results of operations that would have been generated if the transaction had occurred at the beginning of the respective periods. Moreover, this data is not intended to be indicative of future results of operations.

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

	Nine Months Ended September 30, 2010	2009
Net sales	$ 130,849	$ 109,058
Net loss available to common shareholders	(48,775)	(47,196)
Loss per share:		
Basic	$ (0.59)	$ (0.72)
Diluted	$ (0.59)	$ (0.72)

Insignificant Acquisitions

We completed one insignificant acquisition of assets in the first quarter of 2010. Total consideration was $2,674, including $1,350 in cash, $150 held in escrow and contingent consideration of $1,174. We also completed two insignificant acquisitions in the third quarter of 2010. The first was for $2,500 in cash and the second for 500,000 shares of our common stock. Total consideration for these two transactions was $2,500 and $1,350, respectively. See Note 11 for further discussion of the second transaction.

In November 2010, we completed an insignificant acquisition of assets for total cash consideration of $4,000, including $800 held in escrow.

(3) Other Current Assets

Other current assets consist primarily of revenue recognized that has not yet been billed to a customer, taxes receivable and other non-trade receivables, all of which are due within the next twelve months. The balances are comprised of the following as of September 30, 2010 and December 31, 2009:

	Balance at September 30, 2010	Balance at December 31, 2009
Unbilled accounts receivable	$6,434	$2,054
Taxes receivable	370	331
Other non-trade receivables	127	1,205
	$6,931	$3,590

In the third quarter of 2010, we received cash of $123 related to a non-trade receivable that was a result of an equity investment that we had in a company that was sold in the third quarter of 2009. The amount received represented our portion of the release of an escrow. This amount was less than the original amount of expected escrow payments of $450, of which we had recorded $204 in current assets and $246 in long-term assets (as a second release of escrow was due in the third quarter of 2011). Based on discussions with the shareholder representative of the company in which we had the equity investment, there are no further payments expected. As a result, we recorded an other receivable non-cash bad debt expense in the third quarter of $327 within general and administrative expense of our condensed consolidated statement of operations.

(4) Goodwill and Other Intangible Assets

Goodwill

The changes in carrying amount of goodwill for the year ended December 31, 2009 and the nine months ended September 30, 2010, are as follows:

	Total
Balance at December 31, 2009	$ 28,749
Goodwill due to insignificant acquisitions	4,344
Goodwill due to AMICAS acquisition	129,519
Balance at September 30, 2010	$ 162,612

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

Other Intangible Assets

Other than capitalized software development costs, our intangible assets subject to amortization are summarized as of September 30, 2010 as follows:

	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization
Purchased software	6.5	$ 33,335	$ (7,324)
Customer relationships	8.9	40,186	(4,555)
Backlog	4.3	8,100	(1,397)
Trade names	10.8	4,400	(237)
Non-competes	6.6	3,100	(185)
Total		$ 89,121	$ (13,698)

In addition to the increase in intangible assets as a result of the acquisition of AMICAS as set forth in Note 2, we increased the gross carrying amount of purchased software and customer relationships by $1,220 and $1,230, respectively, related to insignificant acquisitions completed in 2010.

Our purchased software assets are measured at fair value on a non-recurring basis using Level 3 inputs (as defined in Note 5). In calculating potential impairment losses, we evaluate the expected future benefit of the assets using discounted cash flow techniques. As a result of decisions related to overlapping products, we recorded a $2,271 expense in the second quarter of 2010 to fully impair certain purchased software assets related to products from which we expect no future benefit. We also wrote-off the fully amortized gross carrying amounts and accumulated amortization of $4,665 in the second quarter of 2010.

Estimated aggregate amortization expense for our intangible assets, which become fully amortized in 2022, for the remaining periods is as follows:

For the remaining 3 months of the year ended:	2010	$3,382
For the year ended December 31:	2011	14,008
	2012	11,817
	2013	10,920
	2014	9,833
	Thereafter	25,463

As of September 30, 2010, we had gross capitalized software development costs of $1,824 and accumulated amortization of $1,052. The weighted average remaining amortization period of capitalized software development costs was 3.8 years as of September 30, 2010. We did not capitalize any software development costs in the three and nine month periods ended September 30, 2010 or 2009.

Our capitalized software assets are measured at fair value on a non-recurring basis using Level 3 inputs (as defined in Note 5), In calculating potential impairment losses, we evaluate the expected future benefit of the assets using discounted cash flow techniques. As a result of decisions related to overlapping products, we recorded a $157 expense in the second quarter of 2010 to fully impair certain capitalized software assets related to products from which we expect no future benefit. We also wrote-off the fully amortized gross carrying amounts and accumulated amortization of $717 in the second quarter of 2010.

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

Amortization expense, including impairments for our intangible assets, is set forth in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Amortization and impairment included in cost of sales				
Purchased software	$1,337	$665	$5,753	$1,620
Capitalized software	91	137	505	455
Backlog	1,124	—	1,397	—
Total	2,552	802	7,655	2,075
Amortization included in operating expenses				
Customer relationships	860	319	2,173	803
Trade names	121	10	209	10
Non-competes	110	—	184	—
Total	1,091	329	2,566	813
Total amortization and impairment	$3,643	$1,131	$10,221	$2,888

(5) Fair Value Measurement

Our financial instruments include cash and cash equivalents, accounts receivable, marketable and non-marketable securities, accounts payable, notes payable, and certain accrued liabilities. The carrying amounts of our cash and cash equivalents (which are comprised primarily of deposit and overnight sweep accounts), accounts receivable, accounts payable, and certain accrued liabilities approximate fair value due to the short maturity of these instruments. The estimated fair values of the non-marketable equity securities have been determined from information obtained from independent valuations and management estimates. The carrying value of our notes payable approximates fair value due to the interest rates and terms approximating those available to the company for similar obligations.

We use a three-tier value hierarchy to prioritize the inputs used in measuring fair value of our financial assets and liabilities. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore, requiring us to develop our own assumptions.

We also consider additional information in estimating fair value when the volume and level of activity for the asset or liability have significantly decreased, or circumstances indicate a transaction is not suitable for fair value measurement.

Non-Current Investments

At September 30, 2010, we held securities in a publicly traded entity valued at $79 and private companies valued at $337, which are classified as non-current assets. In determining fair value, we utilize techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. In calculating potential impairment losses for the private company securities, we evaluate the fair value of these investments by comparing them to certain public company metrics such as revenue multiples, independent transactions involving such securities, and inquiries and estimates made by us. The following tables set forth our non-current investments that are carried at fair value:

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

	Level 1	Level 2	Level 3	Balance at December 30, 2010
Investment in publicly traded equity security	$79	$—	$—	$79
Investments in equity securities of private companies	—	—	337	337
Total	$79	$—	$337	$416

	Level 1	Level 2	Level 3	Balance at December 31, 2009
Investment in publicly traded equity security	$110	$—	$—	$110
Investments in equity securities of private companies	—	—	413	413
Total	$110	$—	$413	$523

We performed the evaluation of our Level 3 investments as of September 30, 2010, and concluded that there was no significant change in their fair value.

The following table sets forth the change in the fair value of our Level 1 publicly traded equity security:

	2010	2009
Balance at January 1	$ 110	$ 318
Unrealized loss	(31)	(203)
Balance at September 30	$ 79	$ 115

The following table sets forth the change in the fair value of our Level 3 non-current investments:

	2010	2009
Balance at January 1	$ 413	$ 5,372
Sale of investment	—	(1,335)
Impairment charge	—	(3,624)
Distribution from investment	(76)	—
Balance at September 30	$ 337	$ 413

Unrealized gains or losses on our available-for-sale (publicly traded) security, as well as foreign currency translation adjustments, are components of accumulated other comprehensive income as set forth in the following table:

	Balance at September 30, 2010	2009
Cumulative translation adjustment	$ 1,936	$ 1,936
Net unrealized loss on available-for-sale security	(368)	(332)
Total accumulated other comprehensive income	$ 1,568	$ 1,604

(6) Restructuring

On April 29, 2010, we committed to a restructuring initiative to materially reduce our workforce by approximately 125 individuals and exit certain facilities. In the second quarter of 2010, we exited each of our Bellevue, Washington, Milwaukee, Wisconsin and Hudson, Ohio facilities. This action was taken concurrent with the acquisition of AMICAS based upon our assessment of ongoing personnel needs. In the third quarter of 2010, we exited our New Brighton, Massachusetts facility as part of the plan for this initiative.

The following table sets forth the activity in the nine months ended September 30, 2010 related to this initiative as well as those taken in prior years:

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

	Employee Termination Costs	Contract Exit Costs	Relocation	Total
	Prior Year Initiatives			
Balance at December 31, 2009	$ 663	$ 216	$ —	$ 879
Payments	(526)	(209)	—	(735)
Foreign exchange	5	—	—	5
Balance at September 30, 2010	142	7	—	149
	Second Quarter 2010 Initiative			
Balance at December 31, 2009	—			