MERGE TECHNOLOGIES INC
Form 8-K/A
September 29, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 8-K/A
Amendment No. 1

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

Date of Report: July 17, 2003
(Date of earliest event reported)

MERGE TECHNOLOGIES INCORPORATED
(Exact name of registrant as specified in the charter)

Wisconsin	0-29486	39-1600938
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

1126 South 70th Street, Milwaukee, Wisconsin 53214-3151
(Address of Principal Executive Offices)

(414) 977-4000
(Registrant's telephone number including area code)

N/A
(Former name or former address, if changed since last report)

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) FINANCIAL STATEMENTS OF BUSINESS ACQUIRED

RIS LOGIC, INC.

Audited
Financial
Statements

for the
years ended
December 31,
2002 and 2001

RIS LOGIC, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
RIS Logic, Inc.
Solon, Ohio

We have audited the accompanying balance sheets of RIS Logic, Inc. as of December 31, 2002 and 2001, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of RIS Logic, Inc. as of December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our previously issued Auditors' Report dated January 21, 2003 has been withdrawn and as discussed in Note P, the accompanying financial statements have been restated.

/s/ Saltz, Shamis, & Goldfarb

CERTIFIED PUBLIC ACCOUNTANTS

Cleveland, Ohio
January 21, 2003, except Note P which is dated September 4, 2003

RIS LOGIC, INC.
Balance Sheets

	DECEMBER 31, 2002	DECEMBER 31, 2001
CURRENT ASSETS		
Cash	$ 28,030	$ 33,153
Accounts receivable - trade, net of allowance for doubtful accounts of $15,000	1,696,753	568,126
Advance - related party	----	22,500
Prepaid expenses	16,003	18,234
TOTAL CURRENT ASSETS	1,740,786	642,013
PROPERTY AND EQUIPMENT, net	227,918	202,747
OTHER ASSETS		
Purchased and developed software, net	143,288	22,969
Deposits	10,562	10,562
	153,850	33,531
	$ 2,122,554	$ 878,291

RIS LOGIC, INC.
Balance Sheets

	DECEMBER 31, 2002	DECEMBER 31, 2001

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Line of credit	$ 499,000	$ 25,000
Accounts payable - trade	159,035	83,100
Accrued expenses	434,100	68,294
Customer deposits	----	78,000
Unearned revenue	2,205,807	774,675
TOTAL CURRENT LIABILITIES	3,297,942	1,029,069
STOCKHOLDERS' EQUITY		
Common stock, no par value and additional paid in capital, 1,000,000 shares authorized, 701,472 and 670,391 shares issued and outstanding, respectively	2,260,824	2,145,824
Retained deficit	(3,436,212)	(2,296,602)
	(1,175,388)	(150,778)
	$ 2,122,554	$ 878,291

RIS LOGIC, INC.
Statements of Income

	FOR THE YEARS ENDED DECEMBER 31,			
	2002	% of Revenues	2001	% Reve
REVENUES	$ 3,318,232	100.0	$ 1,006,026	1
OPERATING EXPENSES				
Sales expenses	1,003,227	33.2	317,392	
Development expenses	821,537	24.8	756,673	
Professional services expenses	739,567	22.3	349,696	
General and administrative expenses	612,017	18.4	640,106	
Marketing expenses	459,665	13.9	371,970	
Software component expenses	283,481	8.5	----	
Quality assurance expenses	234,897	7.1	173,391	
Technical support expenses	187,874	5.7	73,978	
Product management expenses	2,774	0.1	67,143	
Hardware expenses	----	----	43,006	
	4,445,039	134.0	2,793,355	2

OPERATING LOSS	(1,126,807)	(34.0)	(1,787,329)	(1
OTHER INCOME (EXPENSE)				
Interest income	36	----	2,010	
Interest expense	(12,839)	(0.4)	(19,665)	
	(12,803)	(0.4)	(17,655)	
NET LOSS	$ (1,139,610)	(34.4)	$ (1,804,984)	(1

RIS LOGIC, INC.
Statements of Changes in Stockholder's Equity

	Common Stock 1,000,000 shares authorized		
	Numbers of Shares	No Par Value	Additional Paid in Capital
Issued common shares upon merger into a corporation from a limited liability company on January 1, 2001	275,116	$ ----	$ 166,387
Sale of common stock	395,275	----	1,979,437
Net loss			
BALANCE, DECEMBER 31, 2001	670,391	----	2,145,824
Sale of common stock	31,081		115,000
Net loss			
BALANCE, DECEMBER 31, 2002	701,472	$ ----	$ 2,260,824

RIS LOGIC, INC.

Statements of Cash Flows

Increase (Decrease in Cash)

	FOR THE YEARS ENDED DECEMBER 31, 2002	FOR THE YEARS ENDED DECEMBER 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,139,610)	$ (1,804,984)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	76,431	46,014
Increase in allowance for doubtful accounts	----	15,000
(Increase) decrease in:		
Accounts receivable - trade	(1,128,627)	(583,126)
Advance - related party	22,500	3,486
Prepaid expenses	2,231	(18,234)
Deposits	----	(10,562)
Increase (decrease) in:		
Accounts payable - trade	75,935	83,099
Accrued expenses	365,806	(80,292)
Customer deposits	(78,000)	67,000
Unearned revenue	1,431,132	774,675
NET CASH USED IN OPERATING ACTIVITIES	(372,202)	(1,507,924)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(74,759)	(232,191)
Increase in purchased and developed software	(147,162)	(20,000)
NET CASH USED IN INVESTING ACTIVITIES	(221,921)	(252,191)

RIS LOGIC, INC.
Statements of Cash Flows

Increase (Decrease in Cash)

	FOR THE YEARS ENDED DECEMBER 31, 2002	FOR THE YEARS ENDED DECEMBER 31, 2001

CASH FLOWS FROM FINANCING ACTIVITIES

Net borrowings (repayments) under line of credit	$ 474,000	$ (175,000)
Net repayments of amounts due to stockholder(s)	----	(15,000)
Sale of common stock	115,000	1,979,437
NET CASH PROVIDED BY FINANCING ACTIVITIES	589,000	1,789,437
NET (DECREASE) INCREASE IN CASH	(5,123)	29,322
CASH, beginning of year	33,153	3,831
CASH, end of year	$ 28,030	$ 33,153

SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash paid during the year for:		
Interest	$ 12,839	$ 19,665

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

On January 1, 2001, Binnacle, LLC (the Predecessor Company), an Ohio limited liability company, merged with and into RIS Logic, Inc. (the Company), an Ohio corporation. Upon the merger, each issued and outstanding membership unit of the Predecessor Company was exchanged for shares of common stock of the Company.

The Company provides software products, services and resources that enhance the practice and business of radiology with a comprehensive radiology information system (RIS) software tool for imaging centers and hospitals. The Company is engaged as a licensor of software. The Company's products are installed by the Company directly on its customer's servers and therefore the Company maintains no inventories.

Allowance for doubtful accounts

The Company reports trade receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against an existing allowance account or against earnings.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed by the straight-line method based on the estimated useful lives of the related assets. Renewals and replacements of a routine nature are expensed as incurred, while those that improve or extend the life of existing properties are capitalized.

Purchased and developed software

The Company capitalizes software development costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed," under which certain software development costs incurred subsequent to the establishment of technological feasibility may be capitalized and amortized over the estimated lives of the related products. The Company determines technological feasibility to be established upon the internal release of a working model or a detailed program design as specified by SFAS 86. Upon the general release of the product to customers, development costs for that product are amortized over periods not exceeding four years, based on the estimated economic life of the products.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purchased and developed software

SFAS 86 also requires that the unamortized capitalized costs of a computer software product be compared to the net realizable value of such product at each reporting date. To the extent the unamoritized capitalized costs exceeds the net realizable value of a software product based upon its estimated future gross revenues reduced by estimated future costs of completing and disposing of the product, the excess is written off. If the estimated future gross revenue associated with certain software products were to be reduced, write-offs of capitalized software costs might be required.

Revenue recognition

Revenue is recognized upon delivery of the software. For multiple element license arrangements, the license fee is allocated to the various elements based on evidence of fair value. If evidence of fair value does not exist, no revenue is recognized until all elements of the license agreement are delivered. When a multiple element arrangement includes rights to post-sale maintenance and support of the software, the portion of the license fee allocated to such support, generally separately designated as a maintenance fee, is recognized ratably over the term of the arrangement.

Income taxes

Deferred income taxes are provided for timing differences between taxable income for financial statement and income tax reporting purposes.

Advertising costs

Advertising costs, which are included in marketing expenses, are expensed as incurred. Advertising expense was $49,570 and $9,538 for the years ended December 31, 2002 and 2001, respectively.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain amounts for the year ended December 31, 2001 have been reclassified for comparative purposes to conform with the presentation in the financial statements for the year ended December 31, 2002.

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash. The Company places its cash with high credit, quality financial institutions, and although during the year the Company had deposited amounts in excess of federal insurance limits, management does not feel that the Company is exposed to any substantial credit risk. As of December 31, 2002 and 2001, the Company had no other significant concentrations of credit risk.

NOTE B - CAPITALIZATION

Common Stock

The maximum number of shares which the Company is authorized to have outstanding is 1,000,000 shares, of which 50,000 will be voting common stock, without par value, and 950,000 will be nonvoting common shares, without par value. Voting common shares and nonvoting common shares have the same rights and privileges except that nonvoting shares have no voting rights unless otherwise provided by law. Issued and outstanding at December 31, 2002 and 2001 were 34,433 and 32,879 shares of voting common stock and 667,039 and 637,512 shares of nonvoting common stock, respectively.

NOTE C - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2002	2001
Computer hardware	$ 200,797	$ 130,363
Furniture and fixtures	95,090	90,764
Leasehold improvements	11,064	11,064
	306,951	232,191
Accumulated depreciation and amortization	(79,033)	(29,444)

$ 227,918	$ 202,747

Depreciation and amortization expense for property and equipment was $49,589 and $29,444 for the years ended December 31, 2002 and 2001, respectively.

NOTE D - PURCHASED AND DEVELOPED SOFTWARE

Purchased and developed software consists of the following at December 31:

	2002	2001
Purchased and developed software	$ 208,537	$ 61,375
Accumulated amortization	(65,249)	(38,406)
	$ 143,288	$ 22,969

Amortization expense for purchased and developed software was $26,843 and $38,406 for the years ended December 31, 2002 and 2001, respectively.

NOTE E - LEASE COMMITMENTS

The Company leases office facilities and computer equipment under net operating leases.

Future minimum lease payments for the noncancellable operating leases having an initial or remaining term in excess of one year at December 31, 2002 are as follows:

2003	$ 182,629
2004	180,003
2005	180,003
2006	15,000
	$ 557,635

Total rent expense was $134,509 and $103,511 for the years ended December 31, 2002 and 2001, respectively.

NOTE F - RELATED PARTIES

A law firm, which is a stockholder, provides legal services to the Company. Total expenses for services provided by the law firm were $48,326 and $133,380 for the years ended December 31, 2002 and 2001, respectively. As of December 31, 2002 and 2001, included in accrued expenses was $24,809 and $20,890, respectively, of legal services provided by the law firm. During 2001, the Company negotiated a settlement with the law firm under which approximately $68,000 of accrued legal fees was forgiven and $35,000 was converted into 9,459 shares of common stock. One of the Company's stockholders who is also an officer and board member is a stockholder of this law firm.

A stockholder of the Company is also an employee of the financial institution the Company uses for the line of credit. (See Note G)

NOTE G - DEBT

The Company has available a $500,000 line of credit from a financial institution. The line of credit bears interest at the bank's prime lending rate (4.25% at December 31, 2002 and 4.75% at December 31, 2001). The line of credit is guaranteed by certain stockholders of the Company. Outstanding borrowings against the line at December 31, 2002 and 2001 were $499,000 and $25,000, respectively.

NOTE H - EMPLOYEE BENEFITS

The Company has a defined contribution plan, which allows eligible employees, who meet minimum age and service requirements to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. Participants may contribute a percentage of their salary not to exceed limits set by law. The Company may make discretionary matching contributions as determined each year. Employees vest immediately in their contribution and in the Company's matching contribution after five years of credited service. The Company did not make a matching contribution for the years ended December 31, 2002 and 2001.

NOTE I - MAJOR CUSTOMERS

For the year ended December 31, 2002 the Company did not have any customers comprising ten percent or more of total revenues. The Company received approximately 45% of its total revenues for the year ended December 31, 2001 from four customers. At December 31, 2001 amounts due from the four customers were approximately 2% of accounts receivable.

NOTE J - RESEARCH AND DEVELOPMENT

Research and development costs are charged to operations when incurred and are included in development expenses. Research and development costs of $277,017 and $347,828 were incurred in 2002 and 2001, respectively.

NOTE K - INCOME TAXES

Income taxes are summarized as follows for the year ended December 31:

	2002	2001
Federal		
Current	$ ----	$ ----
Deferred	(344,000)	(665,000)
	(344,000)	(665,000)
Valuation allowance	344,000	665,000
	$ ----	$ ----

NOTE K - INCOME TAXES

The Company's total deferred tax assets and liabilities and presentation in the financial statements are as follows at December 31:

	2002	2001
Current		
Deferred tax asset	$ 10,000	$ 8,000
Valuation allowance	(10,000)	(8,000)
	$ ----	$ ----

	2002	2001
Non-Current		
Deferred tax asset	$ 1,101,000	$ 661,000
Deferred tax liability	(21,000)	(4,000)
	1,080,000	657,000
Valuation allowance	(1,080,000)	(657,000)
	$ ----	$ ----

The current deferred tax asset results from certain expenses that are recognized in different periods for financial reporting and for income tax reporting purposes. The non-current deferred tax asset results primarily from net operating loss and research and development tax credit carryforwards. The non-current tax liability results from the use of accelerated methods of depreciation of equipment for tax purposes. Due to the operating losses, the realization of the deferred tax asset is uncertain. The Company has, therefore, provided a full valuation allowance against the deferred tax asset.

The Company has a net operating loss carryforward of approximately $2,944,000, and a research and development tax credit carryforward of approximately $59,000 at December 31, 2002 that may be offset against future taxable income. The carryforwards expire in 2022.

Losses incurred prior to January 2001 by the Predecessor Company are included in the retained deficit on the financial statements.

Pursuant to the Tax Reform Act of 1986, the utilization, for tax purposes, of net operating loss carryforwards may be subject to an annual limitation as a result of a cumulative change in ownership of more than 50% over a three year period.

NOTE L - STOCK OPTIONS

The Company has a stock option plan that provides for the granting of options to key employees. A maximum of 146,728 shares of common stock were available to be issued under the plan at December 31, 2002. The number of options issued and grant dates are determined at the discretion of the Company's Board of Directors. The option price on all currently outstanding options is either $3.70 or $18.18.

Grantees vest in the options beginning one year from the option grant date based on time limitations, as outlined in the stock option agreements. After one year from the date of grant, the option may be exercised for not more than one-fourth of the shares originally subject to the option. After two years from the date of grant, the option may be exercised for not more than one-half of the shares originally subject to the option. After three years from the grant date, the option may be exercised for not more than three-fourths of the shares originally subject to the options. After four years from the date of grant, the option may be exercised for any part or all of the shares originally subject to the options. Options granted under the plan are exercisable for a period not to exceed ten years. During 2001, 56,434 options were granted to certain shareholders at 100% vesting.

The Company has elected to account for the stock option plan under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. Accordingly, since the exercise price equals the approximate fair market value of the stock at the grant date, no compensation expense has been recognized for the stock options in these financial statements.

Had compensation expense for the stock option plan been determined based on the fair value of the options at the grant date consistent with the methodology prescribed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", compensation costs would have increased and the Company's net loss would have increased by $15,016 and $90,154 in the years ended December 31, 2002 and 2001, respectively. The fair value of each option granted was estimated using the minimum value method for privately held companies using the following assumptions.

	2002	2001
Discount interest rate	4.97% to 6.04%	5.44% to 5.86%
Expected life (years)	10	10
Expected volatility	0.00%	0.00%
Expected dividends	None	None

NOTE L - STOCK OPTIONS

A summary of options transactions during the years ended December 31, 2002 and 2001 is shown below:

	Number Of Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2001	----	
Granted	126,384	$ 3.70
Canceled	(3,250)	$ 3.70
Exercised	----	$ ----
Outstanding at December 31, 2001	123,134	$ 3.70
Granted	22,750	$ 11.50
Canceled	(8,000)	$ 4.61
Exercised	----	$ ----

Outstanding at December 31, 2002	137,884	$ 4.93
Exercisable at December 31, 2002	71,984	$ 3.70
Available for issuance at December 31, 2002	8,844	

A summary of options outstanding as of December 31, 2002 is shown below:

Exercise Price	Number of Shares Outstanding	Weighted - Average Remaining Contractual Life of Shares Outstanding	Number of Shares Exercisable
$ 3.70	126,134	8.23 Years	71,984
$ 18.18	11,750	9.64 Years	----

NOTE M - STOCK WARRANTS

At December 31, 2002 and 2001, the Company has outstanding warrants to purchase 135,135 shares and 67,567 shares, respectively, of the Company's nonvoting common stock at $3.70 per share. The warrants are exercisable upon issue and expire seven years from the issue date.

NOTE N - WARRANTIES

The Company has conditional limited warranties within customer contracts. The warranties generally provide that the customer will be entitled to a refund of any software license fees if the software fails to perform substantially as described in the documentation during a limited period of time after installation. No provision has been included in these financial statements for estimated warranty claims due to the absence of any claims made by any customer to date.

NOTE O - FUNDING OF FUTURE OPERATIONS

Since inception, the Company has incurred significant losses, and as of December 31, 2002 had accumulated losses of approximately $2.6 million. The Company intends to continue to invest heavily in marketing and promotion, strategic alliances, website development and technology, and development of its organization.

The Company anticipates future profitability and that cash flows from operations will be sufficient to fund the ongoing operations of the business. In addition, management believes that additional funding, if required, can be obtained from existing stockholders and other sources of capital.

NOTE P - RESTATEMENT AND SUBSEQUENT EVENTS

Restatement

The Company's financial statements for the year ended December 31, 2002 have been restated. The effect of the restatement is to decrease revenue and increase deferred revenue by $776,900 and to increase sales expense and accrued expenses by $93,321. Income tax loss carryforwards have been adjusted as a result of the restatement.

Subsequent event

On July 9, 2003 the shareholders of the Company entered into an agreement with Merge Technologies Incorporated (Merge) to sell all of their shares to Merge for a combination of cash and shares of Merge.

RIS LOGIC, INC.
BALANCE SHEET

	June 30, 2003 (Unaudited)
ASSETS	
Current assets:	
Cash	$ 169,887
Accounts receivable - trade, net of allowance for doubtful accounts of $15,000	2,120,452
Other current assets	26,870
Total current assets	2,317,209
Property and equipment, net	288,209
Other assets:	
Purchased and developed software, net	362,571
Other	10,562
Total assets	$ 2,978,551
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Line of credit	$ 499,000
Notes payable to stockholders'	518,092
Accounts payable - trade	295,758
Accrued expenses	416,462
Unearned revenue	3,135,205
Total current liabilities	4,864,517

Stockholders' equity	
Common stock , no par value and additional paid in capital, 1,000,000 shares authorized, 701,472 shares issued and outstanding	2,260,824
Retained deficit	(4,146,790)
Total stockholders' deficit	(1,885,966)
Total liabilities and stockholders' equity	$ 2,978,551

See accompanying notes to unaudited financial statements.

RIS LOGIC, INC.
STATEMENTS OF INCOME
(Unaudited)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Revenues	$ 1,968,028	$ 1,027,497
Operating expenses:		
Sales expenses	763,138	402,623
Development expenses	250,396	355,169
Professional services expenses	265,040	258,990
General and administrative expenses	402,606	247,087
Marketing expenses	191,861	162,091
Software component expenses	508,920	95,665
Quality assurance expenses	162,512	103,105
Technical support expenses	111,573	87,146
Product management expenses	5,416	2,774
Total operating expenses	2,661,462	1,714,650
Operating loss	(693,434)	(687,153)
Other income (expense)	(17,144)	(4,048)
Net loss	$ (710,578)	$ (691,201)

See accompanying notes to unaudited financial statements.

RIS LOGIC, INC.
STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Cash flows from operating activities:		
Net loss	$ (710,578)	$ (691,201)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	55,530	33,660
(Increase) decrease in:		
Accounts receivable - trade	(423,699)	(399,742)
Other	(10,867)	(36,797)
(Increase) decrease in:		
Accounts payable - trade	136,723	89,968
Accrued expenses	(17,639)	77,255
Unearned revenues	929,398	700,079
Net cash used in operating activities	$ (41,132)	$ (226,778)
Cash flows from investing activities:		
Purchases of property and equipment	(94,091)	(39,199)
Increase in purchased and developed software	(241,012)	(78,172)
Net cash used in investing activities	$ (335,103)	$ (117,371)
Cash flows from financing activities:		
Net borrowings under line of credit	----	225,000
Net borrowings from stockholder(s)	518,092	20,000
Sale of common stock	----	115,000
Net cash provided by financing activities	$ 518,092	$ 360,000
Net increase in cash	141,857	15,851
Cash, beginning of period	28,030	33,153
Cash, end of period	$ 169,887	$ 49,004
Supplemental Cash Flow Disclosures:		
Cash paid for interest	$ 10,731	$ ----

See accompanying notes to unaudited financial statements.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

During the second quarter of 2003, the Company issued promissory notes, at various points of time, to three stockholders in the amount of $518,092 to provide additional funding to support the ongoing operations of the business, with a 4.25% interest rate. The principal and accrued interest was paid subsequent to June 30, 2003 as a condition of closing in the merger with RL Acquisition Corp, dated July 9, 2003.

(b) PRO FORMA FINANCIAL INFORMATION

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On July 17, 2003, RL Acquisition Corp., a wholly owned subsidiary of Merge Technologies Incorporated ("we", "our", "us"), acquired 100% of the outstanding shares of RIS Logic, Incorporated ("RIS Logic") for a purchase price of $14,157,000. The purchase price consisted of 771,804 shares of our common stock with an estimated fair value of $12.94 per share, cash of $2,717,000, the issuance of 127,697 options, with an estimated aggregate fair value of $1,277,000, to replace existing fully vested options previously issued to RIS Logic employees from the Merge Technologies Incorporated 2003 Stock Option Plan, and $176,000 in acquisition related costs. As a condition of closing of the sale we also paid $1,594,000 of RIS Logic's liabilities. The acquisition was accounted for using the purchase method.

On June 28, 2002, we acquired all of the outstanding stock of eFilm Medical Inc. ("eFilm"). The purchase price of $8,397,000 consisted of 1,000,000 exchangeable share rights with an estimated fair value of $7.737 per share, $437,000 in costs related to vested options granted to eFilm employees, and $223,000 in acquisition related costs. The acquisition was accounted for using the purchase method.

On May 22, 2002, Signal Stream, Inc., a wholly owned subsidiary of ours acquired selected assets of Aurora Technology, Inc. ("Aurora"). The purchase price of $917,000 consisted of $100,000 in cash and 93,901 common shares with an estimated fair value of $8.43 per share and $25,000 in acquisition related costs. The acquisition was accounted for using the purchase method.

The following unaudited pro forma balance sheet has been presented assuming the RIS Logic acquisition occurred on June 30, 2003. The following unaudited pro forma statements of operations present the results of operations for the year ended December 31, 2002, and the six months ended June 30, 2003, assuming the acquisitions had occurred as of January 1, 2002. The purchase price and amounts allocated to goodwill, amortizable intangibles and in-process research and development are subject to revision upon finalization of the allocation of purchase price to the fair value of the net assets acquired. Certain reclassifications to the historical results of eFilm, Aurora and RIS Logic have been made to conform to our historical presentation. Material non-recurring charges directly attributable to these transactions were not considered in the pro forma condensed combined statements of operations. We believe that the assumptions used in the preparation of this unaudited pro forma information provide a reasonable basis for presenting the significant effects directly attributable to the transactions discussed above. These amounts are based upon certain assumptions and estimates and do not necessarily represent results that would have occurred if the acquisitions had taken place on the basis assumed above, nor are they indicative of the results of future combined operations.

MERGE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
June 30, 2003

	Merge	RIS Logic	Pro forma Adjustments	Pro forma Combined
		(in thousands)		
Current assets:				
Cash................................	$ 9,150	$ 170	$ (4,311)a	$ 5,009
Accounts receivable, net............	5,572	2,120	----	7,692
Inventory...........................	828	----	----	828
Other current assets................	783	27	----	810
Total current assets................	16,333	2,317	(4,311)	14,339
Property and equipment, net.........	1,091	288	----	1,379
Purchased and developed software, net..............................	6,144	363	1,213 d	7,720
Goodwill............................	7,377	----	14,021 f	21,398
Other...............................	947	11	809 e	1,767
Total assets........................	$ 31,892	$ 2,979	$ 11,732	$ 46,603
Current liabilities.................	$ 4,814	$ 4,865	$ (1,418)b	8,261
Long-term liabilities...............	535	----	----	535
Total shareholders' equity..........	26,543	(1,886)	13,150 c	37,807
Total liabilities and shareholders' equity............................	$ 31,892	$ 2,979	$ 11,732	$ 46,603

Notes to pro forma condensed combined balance sheets

a)	(2,717,000)	Represents cash paid for the RIS Logic acquisition
	(1,594,000)	Represents cash paid for RIS Logic's liabilities as part of the merger agreement
	(4,311,000)	Total pro forma adjustment

b)	(1,594,000)	Represents cash paid for RIS Logic's liabilities as part of the merger agreement
	176,000	Represents accrual of estimated acquisition costs

	(1,418,000)	Total pro forma adjustment
c)	11,264,000	Represents estimated fair value of stock issued and options granted for RIS Logic acquisition
	1,886,000	Elimination of RIS Logic's shareholders' deficit

	13,150,000	Total pro forma adjustment
d)	1,576,000	Estimated fair value of developed software intangible asset acquired
	(363,000)	Less RIS Logic's existing capitalized development costs
	----------	
	1,213,000	Total pro forma adjustment
e)	809,000	Estimated fair value of service contracts intangible asset acquired

f) Represents the allocation of the purchase price in excess of the fair value of the assets acquired as follows:

2,717,000	Cash paid
11,264,000	Estimated fair value of stock issued and options granted
176,000	Estimated acquisition costs

14,157,000	Total purchase price
1,886,000	Elimination of RIS Logic's shareholders' deficit
(1,213,000)	Less increase to estimated fair value of developed software intangible asset acquired
(809,000)	Less estimated fair value of service contracts intangible asset acquired
----------	
14,021,000	Goodwill

MERGE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2002
(in thousands, except for share data)

	Merge	Aurora (1)	eFilm (2)	RIS Logic	Pro For Adjustme
Net sales..............	$ 20,786	$ 314	$ 1,353	$ 3,318	$ --
Cost of sales..........	7,998	32	607	1,238	3
Gross profit (loss)....	12,788	282	746	2,080	(3
Operating expenses.....	9,144	368	973	3,207	(1
Other income (expense).	64	(29)	----	(13)	

Income taxes..........	79	----	(45)	----	
Net income (loss)......	$ 3,629	$ (115)	$ (182)	$ (1,140)	$ (1
Net income (loss) available to common shareholders - basic..	$ 3,392	$ (115)	$ (182)	$ (1,140)	$ (1
Net income per share - basic.................	$ 0.38	----	----	----	--
Weighted average number of common shares outstanding - basic...	8,840,059	----	----	----	1,295,7
Net income (loss) available to common shareholders-diluted..	$ 3,412	$ (115)	$ (182)	$ (1,140)	$ (1
Net income per share - diluted............	$ 0.33	----	----	----	--
Weighted average number of common shares outstanding - diluted.	10,383,651	----	----	----	1,359,3

(1) Historical results for Aurora cover the period from January 1 to May 22, 2002, the date of ac

(2) Historical results for eFilm cover the period from January 1 to June 28, 2002, the date of ac

See accompanying notes to unaudited pro forma condensed combined financial statements.

MERGE TECHNOLOGIES INCORPORATED AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED June 30, 2003
(in thousands, except for share data)

	Merge	RIS Logic	Pro forma Adjustments	Pro forma Combined
	(in thousands)			
Net sales............................	$ 12,552	$ 1,968	$ ----	$ 14,5
Cost of sales........................	3,680	934	191 g	4,8
Gross profit (loss)..................	8,872	1,034	(191)	9,7
Operating expenses...................	5,448	1,727	----	7,1
Other income (expenses)..............	(219)	(17)	17 h	(2
Income taxes.........................	489	----	----	4
Net income (loss)....................	$ 2,716	$ (710)	$ (174)	$ 1,8
Net income (loss) available to common shareholders - basic................	$ 2,635	$ (710)	$ (174)	$ 1,7

Net income per share - basic..........	$ 0.25	----	----	$ 0.
Weighted average number of common shares outstanding - basic...........	10,612,970	----	771,804 i	11,384,7
Net income (loss) available to common shareholders - diluted..............	$ 2,635	$ (710)	$ (174)	$ 1,7
Net income per share - diluted........	$ 0.23	----	----	$ 0.
Weighted average number of common shares outstanding - diluted.........	11,479,134	----	854,389 j	12,333,5

See accompanying notes to unaudited pro forma condensed combined financial statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

a) To reflect the following cost of sales adjustments:

477,000	To reflect 12 months amortization of the $1,576,000 developed software intangible asset and the $809,000 purchased service contracts intangible asset acquired in the RIS Logic acquisition over the estimated useful lives of 5 years
(27,000)	To eliminate software amortization revalued in the purchase accounting originally capitalized by RIS Logic
12,000	To reflect 5 months amortization of the $84,000 in intangible assets acquired in Aurora asset acquisition over an estimated useful life of 3 years
216,000	To reflect 6 months amortization of the $1,193,000 developed software intangible asset and the $966,000 purchased customer contracts intangible asset acquired in eFilm acquisition over the estimated useful lives of 5 years
(14,000)	To eliminate cost of product sold to Aurora by Merge
(364,000)	To eliminate annual software amortization revalued in the purchase accounting originally capitalized by eFilm
--------	
(300,000)	Total pro forma adjustment

b) To reflect the following operating expense adjustments:

(3,000)	To reflect the elimination of bad debt expense recorded to write-off Aurora accounts receivable by Merge
(4,000)	To reflect the elimination of amortization of Aurora capitalized software development with no allocated value
(5,000)	To reflect a decrease in depreciation expense due to the change in carrying value of acquired assets and exclusion of certain assets not acquired in the Aurora acquisition
(148,000)	To reflect the elimination of impact of write-off in process research & development in the eFilm acquisition

	(160,000)	Total pro forma adjustment
c)	29,000	To reflect the elimination of interest expense related to Aurora's notes payable
	13,000	To reflect the elimination of interest expense related to RIS Logic's notes payable
	42,000	Total pro forma adjustment

d) To remove eFilm income taxes

e) Assumes shares were outstanding for the entire period

771,804	Assumes shares issued for RIS Logic acquisition were outstanding for the entire period
487,672	1,000,000 exchangeable shares issued for the eFilm acquisition prorated to assume they were outstanding for the entire period
36,274	93,901 shares issued for the Aurora asset acquisition prorated to assume they were outstanding for the entire period
1,295,750	Total pro forma adjustment

f) Assumes shares were outstanding for the entire period

835,435	Assumes shares issued and options granted for RIS Logic acquisition were outstanding for the entire period
487,672	1,000,000 exchangeable shares issued for the eFilm acquisition prorated to assume they were outstanding for the entire period
36,274	93,901 shares issued for the Aurora asset acquisition prorated to assume they were outstanding for the entire period
1,359,381	Total pro forma adjustment

g)	239,000	To reflect 6 months amortization of the $1,576,000 developed software intangible asset and the $809,000 purchased service contracts intangible asset acquired in the RIS Logic acquisition over an estimated useful life of 5 years
	(48,000)	To eliminate software amortization revalued in the purchase accounting originally capitalized by RIS Logic
	191,000	Total pro forma adjustment
h)	17,000	To reflect the elimination of interest expense related to RIS Logic's notes payable

i)	771,804	Assumes shares issued for RIS Logic acquisition were outstanding for the entire period
j)	854,389	Assumes shares issued and options granted for RIS Logic acquisition were outstanding for the entire period

(c) EXHIBITS

2.1 Merger Agreement by and among Merge Technologies Incorporated, RL Acquisition Corp, RIS Logic Incorporated, and the Principal Shareholders of RIS Logic Incorporated dated July 9, 2003. (1)

23.1 Consent of Saltz, Shamis & Goldfarb

(1) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 29, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MERGE TECHNOLOGIES INCORPORATED

Dated: September 29, 2003

By: /s/ Richard A. Linden

Richard A. Linden,
President and Chief Executive Officer

MERGE TECHNOLOGIES INCORPORATED

Dated: September 29, 2003

By: /s/ Scott T. Veech

Scott T. Veech,
Chief Financial Officer, Treasurer
and Secretary

EXHIBIT 23.1

CONSENT OF SALTZ, SHAMIS & GOLDFARB

We consent to the incorporation by reference in this form 8-K/A and in the registration statements on Form S-3 (Nos. 333-93965, 333-75900 and 333-100103) and on Form S-8 (Nos. 333-34884, 333-40832, 333-40882, 333-100104, 333-107991 and 333-107997) of Merge Technologies Incorporated of our report dated January 21, 2003, except Note P as to which the date is September 4, 2003, relating to the balance sheets of RIS Logic, Inc. as of December 31, 2002 and 2001, and the related statements of income and changes in stockholders' equity and statements of cash flows for each of the years in the two-year period ended December 31, 2002.

Cleveland, Ohio
September 29, 2003