

MERGE HEALTHCARE INC

Form DEF 14A

July 24, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Merge Healthcare Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**Merge Healthcare Incorporated  
6737 West Washington Street  
Milwaukee, Wisconsin 53214 5650  
(414) 977 4000**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

To the Shareholders of Merge Healthcare Incorporated:

We invite you to attend our 2008 Annual Meeting of Shareholders on August 19, 2008, at 9:00 a.m., Central Time, at the Company's headquarters located at 6737 West Washington Street, Suite 2250, Milwaukee, Wisconsin 53214. At the Annual Meeting, as we describe in the accompanying Proxy Statement, we will ask you to vote on the following matters:

1. the election of seven (7) directors;
2. an amendment to the Merge Healthcare Incorporated 2005 Equity Incentive Plan to increase the shares of common stock authorized for issuance thereunder by 3,000,000 shares;
3. an amendment to our Amended and Restated Articles of Incorporation (or the Certificate of Incorporation of the Surviving Corporation of the Merger described below) allowing our board of directors, in its discretion at any time prior to August 19, 2009, to effect a reverse stock split of our outstanding common stock with an exchange ratio of either two-for-three or one-for-two in an attempt to maintain compliance with the listing requirements of The NASDAQ Global Market;
4. the change in our state of incorporation from Wisconsin to Delaware by approving and adopting an Agreement and Plan of Merger providing for our merger into our wholly-owned subsidiary incorporated in Delaware;
5. the ratification of our appointment of the firm of BDO Seidman, LLP as our independent registered public accounting firm for 2008; and
6. such other business as may properly come before the Annual Meeting, or any adjournment or postponement thereof.

You are entitled to vote at the Annual Meeting only if you were a Shareholder of record at the close of business on July 11, 2008. A Proxy Statement and proxy card are enclosed. Whether or not you expect to attend the Annual Meeting, it is important that you promptly complete, sign, date and mail the proxy card in the enclosed envelope so that you may vote your shares.

By order of the Board of Directors:

Justin C. Dearborn  
Chief Executive Officer

Milwaukee, Wisconsin  
July 23, 2008

Our 2007 Summary Annual Report (including our Company's Annual Report on Form 10-K) is enclosed with this Notice and Proxy Statement.



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**PROXY STATEMENT  
FOR THE  
2008 ANNUAL MEETING OF SHAREHOLDERS OF  
MERGE HEALTHCARE INCORPORATED  
AUGUST 19, 2008**

*Unless the context otherwise requires, all references in this Proxy Statement to we, our, us, or the Company are to Merge Healthcare Incorporated and its subsidiaries.*

***Why have I received this Proxy Statement?***

We are furnishing this Proxy Statement to the holders of shares of our Common Stock (whom we refer to as you or our Shareholders), in connection with the solicitation of proxies by our Board of Directors (which we refer to as our Board) for use at the 2008 Annual Meeting of Shareholders to be held on August 19, 2008, or any adjournment or postponement thereof (which we refer to as the Annual Meeting). We first sent this Proxy Statement, the enclosed Notice and proxy card to Shareholders on or about July 23, 2008.

***When will the Annual Meeting be held?***

The Annual Meeting will be convened at approximately 9:00 a.m. Central Time on August 19, 2008. Any adjournment or postponement thereof will be announced at the Annual Meeting.

***Who is entitled to vote at the Annual Meeting?***

You are entitled to vote at the Annual Meeting only if you were a Shareholder of record at the close of business on July 11, 2008. In addition, shares of our Common Stock represented by properly executed proxies in the accompanying form received by our Board prior to the Annual Meeting and our Preferred Series 3 Special Voting Share will be voted at the Annual Meeting. A complete list of Shareholders eligible to vote will be available for inspection at our offices beginning two (2) business days after the date of this Notice and Proxy Statement.

***How many shares will be entitled to vote at the Annual Meeting?***

At the close of business on July 11, 2008, there were 56,830,998 shares of our Common Stock outstanding that have voting rights, including: (i) 55,145,458 shares of our Common Stock, and (ii) one Preferred Series 3 Special Voting Share, which entitles the holder of record of such share to voting rights equal to 1,685,540 shares of our Common Stock. The Preferred Series 3 Special Voting Share was issued by us in connection with our business combination with Cedara Software Corp. (which we refer to as Cedara) to provide voting rights to holders of Merge Cedara ExchangeCo Limited Exchangeable Shares (which we refer to as Exchangeable Shares), which shares are exchangeable into shares of our Common Stock. The Preferred Series 3 Special Voting Share will be treated as Common Stock having 1,685,540 votes at the Annual Meeting. Our current directors and Executive Officers beneficially own 27,528,894 shares of our Common Stock, or approximately 48.44% of our total outstanding Common Stock, which they intend to vote in favor of the proposals.

***How many shares are required to be present at the Annual Meeting?***

A quorum of Shareholders is necessary to hold a valid meeting. The presence in person or representation by proxy at any meeting of our Shareholders of a majority of the outstanding shares of our Common Stock entitled to vote at the meeting constitutes a quorum. If a quorum is not present, then the Annual Meeting may be postponed or adjourned, without notice other than announcement at the Annual Meeting, until a quorum is present or represented. At any subsequent reconvening of the Annual Meeting, all proxies will be voted in the same manner as the proxies would have been voted at the original convening of the Annual Meeting, except for any proxies that have been effectively revoked or withdrawn prior to the subsequent meeting.

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Broker non votes are counted for purposes of determining whether a quorum is present at the Annual Meeting, but are not counted for purposes of determining whether a proposal has been approved. A broker non vote occurs on an item when a broker does not have discretionary voting authority to vote on a proposal and has not received instructions from the beneficial owner of the shares as to how to vote on the proposal.

***How will my vote be counted?***

If you specify a choice with respect to any matter to be acted upon in the enclosed proxy and return it to our Board, the shares of our Common Stock represented by that proxy will be voted as specified. If you do not specify a choice in an otherwise properly executed proxy with respect to any proposal referred to therein, the shares of our Common Stock represented by that proxy will be voted with respect to that proposal in accordance with the recommendations of our Board described herein. Votes cast by proxy or in person at the Annual Meeting will be counted by an inspector of election appointed for the Annual Meeting, who will also determine whether or not a quorum is present.

***May I change my vote after returning this proxy?***

If you sign and return a proxy in the accompanying form, you may revoke it by: (i) giving written notice of revocation to us before the proxy is voted at the Annual Meeting; (ii) executing and delivering a later dated proxy before the proxy is voted at the Annual Meeting; or (iii) attending the Annual Meeting and voting your shares of Common Stock in person.

***What vote is required to approve the proposals?***

The seven (7) nominees receiving the highest vote totals of the eligible shares of our Common Stock will be elected as our directors. With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect. For approval of the proposed amendment to our 2005 Equity Incentive Plan, the affirmative vote of holders of a majority of the shares of our Common Stock that are cast at the Annual Meeting is required. The proposed change in our state of incorporation by means of an Agreement and Plan of Merger will be approved if it receives the affirmative vote of a majority of the shares of our Common Stock entitled to vote on the matter and present or represented by proxy at the meeting, provided a quorum is present. The proposed amendment to our Amended and Restated Articles of Incorporation, the ratification of our appointment of the firm of BDO Seidman, LLP as our independent registered public accounting firm for 2008, as well as any other matter that is properly brought before the Annual Meeting, will be approved if the votes cast in favor of the proposal exceed the votes cast against it and there is a quorum.

***Are there any dissenters or appraisal rights for those who vote against any of the proposals?***

No. None of the matters to be presented and acted upon at the Annual Meeting will entitle any Shareholder to appraisal or dissenters rights pursuant to Wisconsin law.

***Who will pay solicitation costs associated with this Proxy Statement?***

We will make arrangements with brokerage houses, banks and other custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of the shares of our Common Stock held of record by those persons. We may reimburse these custodians, nominees and fiduciaries for their reasonable out of pocket expenses incurred in forwarding proxy materials to these beneficial owners. We will bear the cost of soliciting proxies, although we currently do not intend to solicit proxies. In addition to the use of the mail, proxies may be solicited by our directors, officers or employees, who will not be specifically compensated for these services, by means of personal calls upon, or telephonic, telegraphic or facsimile communications with, Shareholders or their representatives.

The mailing address of our principal executive offices is 6737 West Washington Street, Suite 2250, Milwaukee, Wisconsin 53214 5650. Our Shareholder email address is [shareholderinfo@mergehealthcare.com](mailto:shareholderinfo@mergehealthcare.com) and our web site is located at [www.mergehealthcare.com](http://www.mergehealthcare.com). The shares of our Common Stock are included for quotation on The Nasdaq Global Market under the symbol MRGE.

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WE INTEND TO BEGIN MAILING THIS PROXY STATEMENT ON OR ABOUT JULY 23, 2008.

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Seven (7) individuals will be elected at the Annual Meeting to serve as directors until our next annual meeting of Shareholders or otherwise as provided in our Amended and Restated By-laws adopted on September 6, 2006 (which we refer to as our By-laws ). The individuals named as proxy voters in the accompanying proxy, or their substitutes, will vote for the following nominees with respect to all proxies we receive unless instructions to the contrary are provided. If any nominee becomes unavailable for any reason, the votes will be cast for a substitute nominee designated by our Board. Our directors have no reason to believe that any of the nominees named below will be unable to serve if elected.

As a result of the transaction with Merrick RIS, LLC (which we refer to as Merrick ) that we describe below under Corporate Governance Related Person Transactions, Merrick had the continuing right under the agreement governing the transaction to designate five (5) persons to be nominated to our Board, subject to reduction upon a decrease in Merrick s ownership percentage in our Company. As previously announced, effective upon the election of directors at the Annual Meeting, four (4) of our directors will resign and our Board will consist of the seven (7) nominees listed below. In connection with this reduction of the size of our Board, on July 1, 2008, Merrick and us amended such agreement, effective upon adoption of Proposal No. 1 set forth in this Proxy Statement, pursuant to which (i) Merrick will give up its contractual right to nominate persons to our Board and (ii) Merrick will no longer be obligated to vote for the slate of directors nominated by the Company.

The following table lists the names of the seven (7) of our current directors who are candidates for reelection, and their respective ages and positions with us, followed by a brief biography of each individual, including their business experience during the past five years.

Dennis Brown	60	Director
Justin C. Dearborn	38	Director and Chief Executive Officer
Michael W. Ferro, Jr.	41	Chairman of Board
Robert T. Geras	70	Director
Gregg G. Hartemayer	55	Director
Richard A. Reck	58	Director
Neele E. Stearns, Jr.	72	Director

**Dennis Brown** served as vice president of finance, chief financial officer and treasurer of Apogent Technologies Inc. (which we refer to as Apogent ), a New York Stock Exchange company from January 2003 to December 2004. Fisher Scientific International Inc. acquired Apogent in August 2004, and after completion of a transition period, Mr. Brown retired from Apogent in December 2004. From December 2000 through January 2003, Mr. Brown served as a financial consultant to Apogent. Mr. Brown also served as vice president of finance, chief financial officer and treasurer of Apogent s predecessor, Sybron International Corporation (which we refer to as Sybron ), a publicly traded company formerly headquartered in Milwaukee, Wisconsin, from January 1993 through December 2000, at which time Sybron s life sciences group was relocated to Portsmouth, New Hampshire, and Sybron was renamed Apogent. Mr. Brown is a Fellow of the Chartered Institute of Management Accountants (England). Mr. Brown has served on our Board since May 2003 and previously served on our Board from the date of our initial public offering in February 1998 until May 2000.

**Justin C. Dearborn** served as Managing Director and General Counsel of Merrick Ventures, LLC (which we refer to as Merrick Ventures ) from January 2007 until his appointment as Chief Executive Officer of the Company on June 4, 2008. Mr. Dearborn has diverse experience in operational, financial and legal roles. Prior to joining Merrick Ventures, Mr. Dearborn worked over nine years for Click Commerce, Inc. (which we refer to as Click Commerce ), a publicly traded software and services company that was acquired by Illinois Tool Works Inc. in October 2006. From May 2003 until May, 2005, Mr. Dearborn served as Vice President of Corporate Legal Affairs and Human Resources at Click Commerce. Mr. Dearborn was appointed Corporate Secretary of Click Commerce on May 2, 2003. Prior to Click Commerce, Mr. Dearborn worked at Motorola, Inc. where he specialized in intellectual property transactions and also held management positions in Motorola s Semiconductor and Corporate Groups. Mr. Dearborn is a C.P.A. and a member of the Illinois Bar Association and holds a B.A. from Illinois State University and a J.D. from DePaul

University.

**Michael W. Ferro, Jr.**, has served as a director and chairman of our Board since June 4, 2008. Since May 2007, Mr. Ferro has served as Chairman and Chief Executive Officer of Merrick Ventures, a private investment firm. From June 1996 until October 2006, Mr. Ferro served as Chief Executive Officer and Chairman of the Board

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of Click Commerce. Mr. Ferro is currently a member of the Board of Trustees of the Chicago Museum of Science and Industry, the Field Museum, the Joffrey Ballet, Northwestern University and the Lyric Opera of Chicago. He also serves on the boards of directors of the Chicago Community Trust, Children's Memorial Hospital, Northwestern Memorial Foundation, Big Shoulders Foundation, and AfterSchool Matters. Mr. Ferro holds a B.A. from the University of Illinois.

**Robert T. Geras** has been a shareholder since May 1989 and a director since prior to our initial public offering in 1998. Since January 2004, Mr. Geras has been a director of Capital Growth Systems, Inc., a public reporting holding company and for Nexvu Technologies LLC, an application performance management software company. Mr. Geras has been a private venture investor for more than 26 years and has participated as a director of, investor in, and/or advisor to numerous small businesses in fields ranging from medical equipment, computer software, banking, telecommunications, industrial distribution and the internet. He has also assisted in corporate planning, capital formation and management for his various investments. Mr. Geras holds a B.S.B.A. from Northwestern University.

**Gregg G. Hartemayer** has served as a director since June 4, 2008 and is a member of our Nominating and Corporate Governance Committee and our Compensation Committee. Since May 2007, Mr. Hartemayer has served as a special advisor to Merrick Ventures. Prior to his association with Merrick Ventures, he served in various capacities at Arthur Anderson LLP, and its then affiliate, Accenture, for 28 years. Mr. Hartemayer retired from Accenture in February 2004 where he was Chief Executive for Global Technology, Outsourcing and Global Delivery. Mr. Hartemayer holds an M.B.A. and a B.A. in Mathematics from the University of Michigan.

**Richard A. Reck** is the president of Business Strategy Advisors LLC, a business strategy consulting firm, and has served in such capacity since August 2002. Mr. Reck joined the certified public accounting firm of KPMG LLP in June 1973 and remained employed there until his retirement as a partner in July 2002. He currently serves on the boards of Interactive Intelligence, Inc., a publicly held software company, and Advanced Life Sciences Holdings Inc., a publicly held biopharmaceutical company, as well as the boards of several private and not for profit entities. Mr. Reck is a certified public accountant and holds a B.A. in Mathematics from DePauw University and an M.B.A. in Accounting from the University of Michigan. Mr. Reck has been a director of our Company since April 2003.

**Neele E. Stearns, Jr.**, has served as a director since June 4, 2008 and is chairman of our Audit Committee. Since February 2001, Mr. Stearns has served as Chairman of Financial Investments Corporation, a private equity investment firm. From July 2004 to April 2007, he also served as the interim Chief Executive Officer for Boulevard Healthcare, LLC, an owner and operator of nursing homes. From September 15, 2003 to January 15, 2004, Mr. Stearns took a leave of absence from Financial Investments Corporation to serve as Interim Chairman and CEO of Footstar, Inc. In March 2004, Footstar filed for protection under Chapter 11 of the Bankruptcy Code. Previously, Mr. Stearns was Chairman of the Board of Wallace Computer Services, Inc., then a provider of printed products and print management services, from January 2000 through November 2000. Prior to 1995, he was President and Chief Executive Officer of CC Industries, Inc., a diversified holding company. Mr. Stearns holds an M.B.A. from Harvard Business School and a B.A. in Economics from Carleton College.

The four (4) current directors whose biographies follow below are not candidates for reelection; they will resign effective upon the election of directors at the Annual Meeting.

**Anna Marie Hajek** has been president and chief executive officer of Clarity Group, Inc., a healthcare risk and quality management company specializing in patient safety solutions and the management of professional liability insurance operations since she co-founded the firm in 2000. From 1995 to 2000, Ms. Hajek served as executive vice president and president of the Healthcare Risk Services Group operating division of MMI Companies, Inc., a New York Stock Exchange company specializing in risk management and liability insurance to the healthcare industry. Ms. Hajek has worked in hospital and academic medical center settings in her capacity as a medical technologist and educator. She received her B.A. with honors from the College of St. Teresa, Winona, Minnesota, and her Masters Degree in Health Professions Education from the University of Illinois at Chicago. She holds an active Medical Technologist Certification from the American Society of Clinical Pathologists. Ms. Hajek joined our Board in May 2001.

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*Nancy J. Koenig* has served as a director and as President Merge Fusion since June 4, 2008. Prior to her appointment as an officer of our Company, Ms. Koenig served as a Vice President of Merrick Ventures and Chief Executive Officer of Merrick Healthcare Solutions, a portfolio company of Merrick Ventures. Prior to joining Merrick Ventures in the fall of 2007, Ms. Koenig was the President of Click Commerce during its integration as a subsidiary of Illinois Tool Works Inc. Ms. Koenig joined Click Commerce in 1999 as the Director of Business Consulting and held various positions, including serving as the head of European Operations, its Vice President of Product Operations and Marketing and its Executive Vice President Operations. Ms. Koenig was appointed President of Click Commerce in 2006.

*Kevin E. Moley* most recently served as U. S. Ambassador representing the United States of America to the United Nations and other international organizations in Geneva from September 2001 to April 2006. Prior to this position, Ambassador Moley was a private investor and served on the board of several public and private companies. Additionally, he served as president and chief executive officer of Integrated Medical Systems Inc., then one of the largest physician networking services, from 1996 to 1998, and was a senior vice president of PCS Health Systems, Inc. from 1993 to 1996. From 1992 to 1993 Ambassador Moley served as Deputy Secretary of the U. S. Department of Health and Human Services. He began his government career at Health and Human Services in 1984. Ambassador Moley previously served on our Company's Board from 1998 to 2001, and currently serves on the board of directors of Cephalon, a NASDAQ Global Market international biopharmaceutical company. Ambassador Moley was appointed to our Board in September 2006.

*Kevin G. Quinn* has been, since 1999, president of Wye River Group, Inc., a private investment and advisory company specializing in corporate and public finance. From 1994 to 1999, Mr. Quinn was managing director and head of investment banking at H.C. Wainwright & Co., which served as one of the underwriters of our Company's initial public offering. Mr. Quinn's previous positions include Alex. Brown & Sons, where Mr. Quinn served as a managing director and manager of public finance from 1982 to 1994. He currently serves on the boards of directors of several public and private companies, including CareFirst, Inc., one of the largest health care insurers in the mid Atlantic region, as well as Securities Finance Trust Company and Old Mutual Asset Management Trust Company. Mr. Quinn was appointed to the Board in September 2006. Mr. Quinn earned J.D. and M.B.A. degrees from the University of Maryland and a B.A. from Loyola College.

We strongly encourage our directors to attend the Annual Meeting of Shareholders. At the 2007 Annual Meeting of Shareholders, all but one of the directors then serving attended.

**RECOMMENDATION OF THE BOARD: The Board recommends and nominates Messrs. Brown, Dearborn, Ferro, Geras, Hartemayer, Reck and Stearns for election as directors of our Company by the Shareholders at the Annual Meeting to serve until the next Annual Meeting of Shareholders or as otherwise provided in the By-laws.**

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**CORPORATE GOVERNANCE**

**Board of Directors    General**

Our Board is required to meet at least once per year, either in person or by telephonic conference. Our Board met fourteen (14) times during 2007, including one (1) occasion that included only the non-employee directors. All of the directors attended at least eighty-five percent (85%) of the meetings of the Board, and at least ninety-three percent (93%) of the meetings of all committees on which they served.

Our Board has determined that each of Messrs. Brown, Geras, Hartemayer, Reck and Stearns is independent under listing standards of the NASDAQ Global Market (which we refer to as Nasdaq). Our Board generally uses the director independence standards set forth by Nasdaq as its subjective independence criteria for directors, and then makes an affirmative determination as to each director's independence by taking into account other objective criteria as applicable.

**Board Committees**

Our Board has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Governance Committee.

*Audit Committee.* Our Audit Committee adopted an amended and restated charter in August 2007, to replace the charter which had previously been in effect. The charter is available on our web site at [www.mergehealthcare.com](http://www.mergehealthcare.com). Our Audit Committee recommends engagement of our Company's independent accountants, approves services performed by these accountants, and reviews and evaluates our Company's accounting system and its system of internal accounting controls. The Audit Committee met thirteen (13) times in 2007. The directors who currently serve on the Audit Committee are Mr. Stearns, as chair, and Messrs. Brown and Reck. Mr. Brown is the designated financial expert. All of the members of the Audit Committee are independent, as defined in Marketplace Rule 4200 of Nasdaq (which we refer to as Rule 4200).

*Compensation Committee.* Our Compensation Committee adopted a charter May 2007, and the charter is available on our web site at [www.mergehealthcare.com](http://www.mergehealthcare.com). Our Compensation Committee is responsible for reviewing, monitoring, administering and establishing the compensation of our executive officers. This committee also reviews and administers stock option and other equity grants under our stock option plans. The directors who currently serve on our Compensation Committee are Ms. Hajek, as chair, and Messrs. Hartemayer and Geras. Following the Annual Meeting, we expect that Mr. Brown will replace Ms. Hajek as a member on and as chair of the Compensation Committee. All of the members of the Compensation Committee are currently independent, as defined in Rule 4200. Our Compensation Committee met twelve (12) times in 2007.

We utilized the services of a compensation consultant during 2007 in determining the appropriate amount and type of equity incentive compensation for our executive officers and board members and also the amount of cash compensation for attendance and participation in board of directors and committee meetings during 2007. We provide more information about the compensation consultant's engagement under the heading Compensation Discussion and Analysis Role of the Compensation Committee below.

*Nominating and Governance Committee.* Our Nominating and Governance Committee has a formal written charter, which is available on our web site at [www.mergehealthcare.com](http://www.mergehealthcare.com). Our Nominating and Governance Committee nominates candidates for our Board and will consider nominees recommended by Shareholders. The Nominating and Governance Committee also is responsible for developing, reviewing and recommending corporate governance guidelines and otherwise taking a leadership role in shaping the corporate governance of the Company. The Nominating and Governance Committee met four (4) times in 2007. The directors who currently serve on our Nominating and Governance Committee are Mr. Geras, as chair, Ms. Hajek and Mr. Hartemayer, each of whom is independent, as defined in Rule 4200. Following the Annual Meeting, we expect that the Mr. Brown will replace Ms. Hajek on the Nominating and Governance Committee.

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**Nominating and Governance Committee Composition and Procedures**

The Nominating and Governance Committee will consider for nomination as a director candidates recommended by Shareholders, directors, officers, third party search firms and other sources. In evaluating candidates, the Nominating and Governance Committee considers the attributes of the candidate (including public company experience, healthcare and information technology background, integrity, strategic contribution and ability to devote requisite time) and the needs of the Board, and will review all candidates in the same manner, regardless of the source of the recommendation. The Nominating and Governance Committee will consider individuals recommended by Shareholders for nomination as a director in accordance with the procedures described in our By laws. Shareholders submitted no candidates for nomination for election as a director to our Nominating and Governance Committee in connection with the Annual Meeting. According to our By laws, a Shareholder must give advance notice and furnish certain information in order to submit a nomination for election as a director. Any Shareholder who wishes to present a candidate for consideration by our Nominating and Governance Committee should send a timely notice identifying the name of the candidate and summary of the candidate's qualifications, along with other supporting documentation, in each case as described in Section 2.13 of our By laws, to the Nominating and Governance Committee.

**Policies and Procedures Governing Related Person Transactions**

In March 2007, our Board adopted written policies and procedures regarding related person transactions. For purposes of these policies and procedures:

a related person means any of our directors, executive officers, nominees for director, holder of five percent (5%) or more of our Common Stock or any of their immediate family members; and

a related person transaction generally is a transaction (including any indebtedness or a guarantee of indebtedness) in which we were or are to be a participant and the amount involved exceeds \$50,000, and in which a related person had or will have a direct or indirect material interest.

Each of our executive officers, directors or nominees for director is required to disclose to our Audit Committee certain information relating to related person transactions for review, approval or ratification by our Audit Committee. Disclosure to our Audit Committee should occur before, if possible, or as soon as practicable after the related person transaction is effected, but in any event as soon as practicable after the executive officer, director or nominee for director becomes aware of the related person transaction. Our Audit Committee's decision whether or not to approve or ratify a related person transaction is to be made in light of our Audit Committee's determination that consummation of the transaction is not or was not contrary to our best interests. Any related person transaction must be disclosed to our full Board.

Because the policies and procedures do not apply to directors or executive officers prior to their becoming directors or executive officers, the policies and procedures did not require review, approval or ratification of the relationship described below under Related Person Transactions.

**Related Person Transactions**

On June 4, 2008, we consummated the transactions contemplated by a Securities Purchase Agreement (which we refer to as the Purchase Agreement), dated May 21, 2008, that we had previously entered into with certain of our subsidiaries and Merrick, an affiliate of Merrick Ventures. In connection with the closing of the transactions, we issued (i) a \$15 million senior secured Term Note (which we refer to as the Term Note), (ii) 6,800,000 shares of our Common Stock as partial consideration for the Term Note and (iii) an additional 14,285,715 shares of our Common Stock at a price per share of \$0.35 to Merrick. We refer to the shares issued in the transaction collectively as the

Shares. Merrick obtained the funds to purchase the Term Note and the Shares through equity contributions made by its members. The Shares represent approximately 38% of our outstanding voting securities after the consummation of the transactions contemplated by the Purchase Agreement (which we refer to as the Closing). Prior to the Closing, no person beneficially owned more than 15% of our voting securities.

At the Closing, we issued the Term Note to Merrick. The Term Note bears interest at 13.0% per annum, payable quarterly, and becomes payable in a single installment on the second anniversary date of the closing of the

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transaction. The Term Note is secured by a first priority lien on all of the assets of our and our subsidiaries U.S. and Canadian operations.

Also at the Closing, we entered into a Registration Rights Agreement (which we refer to as the Registration Rights Agreement ) with Merrick. The Registration Rights Agreement requires us, upon Merrick's request, to file and maintain the effectiveness of a registration statement covering the Shares. If we do not fulfill certain of our obligations under the Registration Rights Agreement with respect to registering the Shares, we will be required to pay additional interest on the outstanding principal of the Term Note as liquidated damages for our breach under the Registration Rights Agreement.

Pursuant to the terms of the Purchase Agreement, Merrick had the continuing right to designate five (5) persons to be nominated to our Board in the future, subject to reduction upon a decrease in Merrick's ownership percentage in our Company. On July 1, 2008, the Company and Merrick amended the Purchase Agreement, effective upon adoption of Proposal No. 1 set forth in this Proxy Statement, pursuant to which (i) Merrick will give up its contractual right to nominate persons to our Board and (ii) Merrick will no longer be obligated to vote for the slate of directors nominated by the Company.

As discussed above, upon consummation of the transactions contemplated by the Purchase Agreement, Merrick acquired the Term Note with a principal amount of \$15 million and bearing interest at 13% per annum, payable quarterly and acquired 21,085,715 shares of our Common Stock with a value of approximately \$14.5 million on the date of the Closing. Michael W. Ferro, Jr. and trusts for the benefit of Mr. Ferro's family members beneficially own the outstanding equity interests in Merrick. Mr. Ferro also serves as the chairman and chief executive officer of Merrick. In addition, Mr. Ferro is the chairman and chief executive officer of Merrick Ventures, as well as the beneficial owner of a majority of the equity interests in Merrick Ventures. Accordingly, as of the date of the Closing, Mr. Ferro indirectly owns or controls the Term Note and all of the Shares.

Mr. Hartemayer, Mr. Dearborn and Ms. Koenig own immaterial economic interests in Merrick Ventures. Until their appointments as officers of our Company, Mr. Dearborn served as the general counsel and a managing director of Merrick Ventures, and Ms. Koenig served as the CEO of Merrick Healthcare, LLC, a portfolio company of Merrick Ventures. Mr. Dearborn and Ms. Koenig resigned from all of their positions with Merrick Ventures and its affiliates (other than our Company and our subsidiaries) upon joining our Company.

In addition to the transactions described above, Merrick has established a written plan pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (which we refer to as the Exchange Act ). The plan provides for Merrick's purchase of up to 1,000,000 shares of our Common Stock at predetermined times and conditions. As of July 15, 2008, Merrick had purchased approximately an additional 427,700 shares of our Common Stock pursuant to the plan.

### **Code of Ethics and Whistleblower Policy**

We have adopted a Code of Ethics that applies to all of our directors, employees and officers, including our principal executive officer, our principal financial officer, our controller and persons performing similar functions. Our Code of Ethics and the related Whistleblower Policy are available on our web site at [www.mergehealthcare.com](http://www.mergehealthcare.com). Future material amendments or waivers relating to the Code of Ethics and/or the corresponding Whistleblower Policy will be disclosed on our web site referenced in this paragraph within four (4) business days following the date of such amendment or waiver.

**Table of Contents****MANAGEMENT****Directors**

For the names of and biographical information regarding each of the directors and a discussion of Board committees, see the discussions under the headings Proposal One: Election of Directors and Corporate Governance.

**Executive Officers**

The names of our current executive officers, and their respective ages and positions with our Company, are as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Justin C. Dearborn	38	Chief Executive Officer, Director
Steven M. Oreskovich	36	Chief Financial Officer
Nancy J. Koenig	43	President Merge Fusion, Director
Antonia Wells	49	President Merge OEM

Mr. Dearborn's and Ms. Koenig's biographies appear above under the heading Proposal One: Election of Directors.

**Steven M. Oreskovich** was appointed Chief Financial Officer in June 2008. Prior to his appointment as Chief Financial Officer, Mr. Oreskovich served as our Vice President of Internal Audit since January 2007, as our Chief Accounting Officer and interim Treasurer and interim Secretary from July 2006 to January 2007 and as our Vice President and Corporate Controller from April 2004 to July 2006. Prior to joining our Company, Mr. Oreskovich served as Vice President of Finance and Operations at Truis, Inc., a company that provided customer intelligence solutions for business-to-business enterprises, from April 2000 to January 2003, and had previously also worked as an auditor at PriceWaterhouseCoopers LLP from September 1994 to April 2000. Mr. Oreskovich holds a B.S. degree in Accounting from Marquette University and is a C.P.A.

**Antonia Wells** was appointed President Merge OEM in June 2008. Prior to her appointment as President Merge OEM, Ms. Wells served as Merge OEM Vice President of Customer Operations since June 2005. Since joining our Company in 1999, Ms. Wells has been responsible for Merge OEM's contract management, quality/regulatory affairs, manufacturing, order management, professional services and internal infrastructure. Ms. Wells has over 25 years of business management experience, including leadership roles in IT, enterprise system implementation, process re-engineering, and human resources.

**Table of Contents****COMPENSATION DISCUSSION AND ANALYSIS**

The following discussion and analysis relates to the compensation awarded, earned, or paid in 2007 by the executives listed below, whom we refer to as our Named Executive Officers. As a result of the recent transaction involving Merrick Ventures, which is described above under the heading Corporate Governance Related Person Transactions, significant changes in our senior executive team have occurred since the end of 2007. Due to these actions, a number of persons are deemed to be Named Executive Officers who are no longer our employees. Under the rules of the Securities and Exchange Commission (which we refer to as the Commission), however, we are required to discuss and analyze the compensation earned for 2007 by all of the Named Executive Officers. The only Named Executive Officer who is a current member of our senior management team is Mr. Oreskovich.

<b>Named Executive Officers</b>	<b>Title</b>
Kenneth D. Rardin	President and Chief Executive Officer from September 2006 to June 2008
Steven R. Norton	Executive Vice President, Chief Financial Officer and Treasurer from January 2007 until June 2008
Gary D. Bowers	Senior Vice President, Strategic Business Initiatives from November 2006 until February 2007; President, Merge Healthcare North America from February 2007 until June 2008
Jacques F. Cornet	President of Merge Healthcare EMEA from November 2006 until March 31, 2008
Loris Sartor	Senior Vice President, Cedara President from November 2006 until June 2008
Steven M. Oreskovich	Chief Accounting Officer, Interim Treasurer and Principal Financial Officer from July 2006 to January 2007; Vice President of Internal Audit from January 2007 to June 2008; Chief Financial Officer since June 2008

**Compensation Philosophy**

The primary objectives of our executive compensation policies are as follows:

to attract and retain talented executives by providing compensation that is competitive with the compensation provided to executives at companies of comparable size and growth trajectory in the health care information technology industry, while maintaining compensation within levels that are consistent with our annual budget, financial objectives and operating performance;

to provide appropriate incentives for executives to work toward the achievement of our annual financial performance and business goals based on our annual budget;

to more closely align the interests of the executive officers with those of our Shareholders and the long-term interests of our Company; and

to achieve internal parity in compensation across our multi-national organization.

Our incentive compensation programs are designed to reward executive contributions to the success of our organization. Specifically, they are designed to reward achievement of our annual financial performance and business goals based on our annual budget and creation of shareholder value.

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**Compensation Mix**

Historically, we have used a mix of short-term compensation (base salaries and annual cash incentive bonuses) and long-term compensation (stock option grants and restricted stock awards) to meet the objectives of our compensation programs. We do not have a fixed policy for allocating between long-term and short-term compensation or between cash and non-cash compensation. We determined the exact mix of compensation structures on a case-by-case basis, basing our determination on competitive market data provided by a compensation consultant or gathered in informal internal market studies, the experience and judgment of our Compensation Committee, and the recommendation of our Chief Executive Officer (except with respect to his own compensation). As a result, the mix may have differed for each individual. Because we believe that it is important to align the interests of our executives with those of our Shareholders, equity incentive compensation has made up a significant portion of each executive's overall compensation package, and our Named Executive Officers have received minimal perquisites.

In the future, we plan to continue to use a varied mix of short-term and long-term compensation, which we will continue to implement on a case-by-case basis. To enhance the alignment of our executives' interests with the interests of our Shareholders, however, we currently intend to provide an increasingly large portion of executive compensation in the form of long-term, equity-based awards.

**Compensation Committee**

Our Compensation Committee adopted a charter in May 2007, and the charter is available on our web site at [www.mergehealthcare.com](http://www.mergehealthcare.com). Our Compensation Committee is responsible for reviewing, monitoring, administering and establishing the compensation of our executive officers. This committee also reviews and administers stock option and other equity grants under our stock option plans. The directors who currently serve on our Compensation Committee are Ms. Hajek, as chair, and Messrs. Hartemayer and Geras. Prior to June 4, 2008, the members of the Compensation Committee were Ms. Hajek, as chair, and Messrs. Barish, Lennox and Reck. All of the current members of the Compensation Committee are independent, as defined in Rule 4200. Our Compensation Committee met twelve (12) times in 2007. Following the Annual Meeting, we expect that Mr. Brown will replace Ms. Hajek on the Compensation Committee and will serve as the Committee's chair.

We utilized the services of a compensation consultant during 2007 in determining the appropriate amount and type of equity incentive compensation for our executive officers and directors and also the amount of cash compensation for attendance and participation in board of directors and committee meetings during 2007. We have also had discussions with a compensation consultant in 2008 in connection with changes we are considering with respect to our director compensation programs, described below under "Changes to Compensation in 2008."

**Role of the Compensation Committee**

The Compensation Committee of our Board is responsible for administering our compensation practices and ensuring they are competitive and designed to drive corporate performance. Our Compensation Committee reviews compensation policies affecting our executive officers annually, taking into consideration our financial performance, our annual budget, our position within the health care information technology industry, the executive compensation policies of similar companies in similar industries and, when reviewing individual compensation levels, certain individual factors, including the executive's level of experience and responsibility and the personal contribution that the individual has made to our success.

During 2007, our Compensation Committee engaged Compensation Resources, Inc., an independent compensation consultant, to perform a benchmarking study of executive compensation among certain companies in the healthcare software and services industry. The companies included in the study were the following:

Amicas, Inc.

Emageon Inc.

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Nighthawk Radiology Holdings, Inc.

Virtual Radiologic Corp.

Vital Images, Inc.

WebMD Corp.

Compensation Resources was asked to provide information to the Committee regarding:

the types of equity vehicles used by other companies as part of their long term incentive plans after the adoption of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (which we refer to as FAS 123R );

how other companies determine the number of shares granted and how such companies address the issue of parity among staff;

the percentage of outstanding stock that is generally deemed appropriate for public companies to allocate for management, staff and directors; and

issues to consider when granting restricted stock versus stock options and other equity awards as part of a long term incentive plan.

The Compensation Committee also used information on compensation paid by peer companies in the healthcare information technology industry provided by the international executive search firm hired to perform our chief financial officer search.

**Elements of Compensation<sup>1</sup>**

The compensation that we pay our Named Executive Officers consists of the following elements: base salary, cash incentive compensation, equity incentive compensation, post-employment benefits, and, in limited circumstances, perquisites and other benefits. The following discussion explains the reason we pay each element of compensation, how the amount of each element is determined, and how each element fits into our overall compensation philosophy and affects decisions regarding other elements.

*Base Salary*

We seek to pay executives a base salary competitive with salaries of executives at companies of comparable position in the healthcare information technology industry. We have not historically attempted to make base salary a certain percentage of total compensation.

Our Compensation Committee reviews the base salaries of all executive officers annually and may adjust these salaries to ensure external competitiveness and to reflect adequately on the executive's individual position and performance, as well as the performance of our Company. In addition to these factors, our Compensation Committee considers the recommendations of our Chief Executive Officer when adjusting base salaries of our Named Executive Officers other than himself. We may also make base salary adjustments during the year if the scope of an executive officer's responsibility changes relative to the other executives.

Historically, our Compensation Committee has approved, in connection with our Company's business planning and budgeting process, a target salary increase of between three percent (3%) and five percent

<sup>1</sup> All Canadian dollar amounts included herein were converted to US dollars using the exchange rate in effect at

December 31,  
2007 of \$1.012  
US dollars per  
Canadian dollar.

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(5%) across our Company as a whole, with a portion of this pool to be allocated to executive officer base salaries and the remainder to be allocated to other employees. The Compensation Committee has not used any formula or specific criteria to determine how much of this pool to allocate to the executive officers, but has instead taken into consideration a variety of corporate and individual performance factors and its views on whether the base salaries for executive officers within the general industry were increasing.

The annual base salaries of our Named Executive Officers were not adjusted during 2007 since we adjusted the annual base salaries of certain of our Named Executive Officers during late 2006 as shown below. In addition, the salaries for Mr. Rardin and Mr. Bowers had just recently been established in connection with the commencement of their employment on September 5, 2006. As noted, the adjustments reflect promotions to a current position, significant personal achievements and our need to continue to provide a competitive and attractive compensation package in light of the distressed nature of our organization, as applicable. The amounts of salary paid to our Named Executive Officers in 2007 are shown in the Salary column of the Summary Compensation Table.

On November 15, 2006, we increased Mr. Bowers' salary from \$215,000 to \$235,000 due to increased responsibilities with respect to the development and implementation of an offshore software development and customer support center in India. In February 2007, we entered into an employment agreement with Mr. Bowers to, among other things, reflect his promotion to President, Merge Healthcare North America. We did not change Mr. Bowers' compensation at that time since it was already consistent with the salaries of our other division presidents.

On November 15, 2006, we increased Mr. Cornet's salary from CDN\$240,000 (In US Dollars \$210,729 at November 15, 2006) to CDN\$267,650 (In US Dollars \$235,000 at November 15, 2006 and \$270,862 at December 31, 2007) due to his promotion to President, Merge Healthcare EMEA. In determining the increase, we reviewed compensation information from our peer group, as discussed earlier, and determined what we deemed to be a fair increase. We also determined to pay each of our division presidents the same salary.

On November 15, 2006, we increased Mr. Sartor's salary from CDN\$150,000 (In US Dollars \$131,706 at November 15, 2006) to CDN\$267,650 (In US Dollars \$235,000 at November 15, 2006 and \$270,862 at December 31, 2007) due to his promotion to President of Cedara and to reflect that he would no longer be a participant in a Company-sponsored sales commission plan. In determining the increase, we reviewed compensation information from peer companies in the industry and determined what we deemed to be a fair increase. We also determined to pay each of our division presidents the same salary.

In establishing the base salary of Mr. Norton in January 2007 (\$300,000 per year) pursuant to the arm's length negotiations that preceded his becoming our Executive Vice President and Chief Financial Officer, our Board and Compensation Committee relied heavily on benchmarking data provided by an international executive search firm, the Compensation Committee's experience, compensation information related to the peer group discussed earlier and historical compensation data gathered during the interview processes. The committee set Mr. Norton's base salary at market consensus based upon the benchmarking data provided by the committee's consultant.

*Cash Incentive Compensation*

Year Ended December 31, 2007. For 2007, we implemented a performance-based cash bonus plan for our Named Executive Officers and senior management team. The goals of the plan included the following:

provide an incentive to achieve the goals and objectives of the organization as set by our Chief Executive Officer and Board; and

enable us to attract and retain key executive talent.

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Under the plan, the members of our senior management team were eligible for a bonus based on Company-wide or a combination of Company-wide and business unit performance, as measured against predetermined revenue and EBITDA targets. The Committee determined to use revenue and EBITDA targets because they are good indicators of overall Company financial performance. We define EBITDA as operating income excluding depreciation and amortization, interest, income taxes, FAS 123R expense, and other expenses that are not typically incurred in the normal operations of our Company. For 2007, the revenue and EBITDA targets were high relative to the conservative forecast and would have required us to meet an aggressive forecast for payout of the bonuses.

Each of our Named Executive Officers' employment agreements include a target bonus amount, expressed as a percentage of his base salary. Half of the bonus amount was based on achievement of the revenue target under the plan, and the other half was based on achievement of the EBITDA target under the plan. If the targets were exceeded, the bonus amounts could increase, up to one hundred fifty percent (150%) of the target amount. The revenue and EBITDA targets were determined by the Committee after considering historical Company performance and forecasted revenue and EBITDA amounts and were set at a level to require an exceptional performance on the part of our Company to meet maximum bonus payouts.

For our Named Executive Officers, target and maximum bonus percentages of base salary for 2007 were as follows:

Name	Target (as % of Base Salary)	Maximum (as % of Base Salary)
Mr. Rardin	70%	105%
Mr. Norton	60%	90%
Mr. Bowers	40%	60%
Mr. Cornet	40%	60%
Mr. Sartor	40%	60%
Mr. Oreskovich	25%	37.5%

Half of the bonus amounts would be earned and paid based on quarterly performance, and half would be earned and paid based on annual performance.

Mr. Rardin's employment agreement provided that he was eligible for an annual performance bonus with a target of seventy percent (70%) of his base salary. The Board, at its discretion, could award additional bonus above the seventy percent (70%). As discussed above and in accordance with our bonus program, Mr. Rardin, like the other executive officers, was eligible to receive up to 150% of his target bonus depending on our revenue and EBITDA results during the year. In the first twelve months of the employment agreement (through September 6, 2007), fifty percent (50%) of the bonus target was guaranteed to Mr. Rardin, while the remaining fifty percent (50%) was dependent on achievement of Company performance targets of revenue and EBITDA discussed previously.

During 2007, our Named Executive Officers earned and received the following amounts under the Company's performance-based cash bonus plan.

	2007 Target Bonus Amount	2007 Bonus Earned	2007 Bonus Paid in 2007	2007 Bonus Paid in 2008
Mr. Rardin <sup>2</sup>	\$ 297,500	\$99,167	\$99,167	\$ 0
Mr. Norton	180,000	20,750	20,750	0
Mr. Bowers	94,000	11,750	11,750	0
Mr. Cornet	108,345	25,326	13,137	12,189
Mr. Sartor	108,345	6,569	6,569	0
Mr. Oreskovich	43,750	5,469	5,469	0

<sup>2</sup> The bonus that Mr. Rardin earned and received in 2007 of \$99,167 was guaranteed under Mr. Rardin's employment agreement.

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During 2007, we also paid to Mr. Oreskovich a \$25,000 bonus in connection with the timely filing of our 2006 annual report on Form 10-K. The Compensation Committee determined such bonus amount using its discretion to reward Mr. Oreskovich for his extraordinary efforts in helping to complete the Form 10-K.

Due to the difficulties that we faced in 2006, including the restatement of the previously issued 2003 and 2004 financial statements and the first two quarters of 2005 financial statements, we were unable to establish a corporate business plan for 2006 or to determine corporate financial targets for 2006 that would serve as appropriate targets under a short-term cash incentive bonus program. Accordingly, we did not utilize a company performance-based cash bonus plan in 2006. The Compensation Committee instead created a one-time retention bonus for certain key employees, including some of our Named Executive Officers, to retain the services of employees with the skills and experience to make a significant contribution to our Company during the transition period. The amounts of the retention bonuses were set in the Compensation Committee's discretion. The following retention bonus amounts were paid to the Named Executive Officers in 2007 and reflected in the 2007 amounts of the Summary Compensation Table:

<b>Name</b>	<b>Amount</b>
Mr. Oreskovich	\$105,000
Mr. Cornet	121,440
Mr. Sartor	75,900

Year Ending December 31, 2008. For 2008, we implemented a performance-based cash bonus plan for our Named Executive Officers and senior management team substantially consistent with the 2007 bonus plan. The goals of the plan are identical to those identified for the 2007 bonus plan. Under the 2008 plan, the members of our senior management team are eligible for a bonus based on a number of factors, including:

company-wide or company-wide and business unit revenues for the year;

the level of new orders received or contracts signed during the year;

customer retention rates;

results of a customer satisfaction survey;

cash flow from operations; and

cash balance at the end of the year

If only certain predetermined targets are met, the bonus amount will be prorated. If the targets are exceeded, the bonus amounts may increase, up to one hundred fifty percent (150%) of the target amount.

Target and maximum bonus amounts for our Named Executive Officers for 2008 are the same as for 2007. Due to Mr. Cornet's resignation on March 31, 2008, he is not a participant in the 2008 performance-based bonus plan. Due to their resignations on June 4, 2008, none of Messrs. Rardin, Norton, Bower or Sartor are participants in the 2008 performance-based bonus plan. Our Compensation Committee is currently considering implementing a new cash incentive compensation program for our current executive officers.

We also may, from time to time, at our discretion, award bonuses to executives based on such other terms and conditions as our Compensation Committee and Chief Executive Officer may determine appropriate in specific situations.

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*Equity Incentive Compensation*

We provide long-term incentive compensation through equity awards under our 2005 Equity Incentive Plan, which authorizes the grant of stock, restricted stock, options to purchase stock, stock units, performance units and stock appreciation rights from time to time to our officers, employees, directors and consultants. We provide long-term incentive compensation to focus our executive officers' attention on the long-term performance of our Company and the future prospects of its business and to align the interests of our executives more closely with the interests of our Shareholders.

We believe that long-term stock-based incentive compensation should be structured so as to closely align the interests of our executive officers with the interests of our Shareholders and, in particular, to provide only limited value (if any) in the event that our stock price fails to increase over time. We have, as a result, relied on stock option grants as the principal vehicle for payment of long-term incentive compensation. Under our 2005 Equity Incentive Plan, the Compensation Committee is responsible for approving awards of stock option grants to executive officers, taking into account the relative contributions of each executive, competitive conditions in the industry, negotiations with the executive in connection with his or her initial employment or promotion, as well as the recommendations of the Chief Executive Officer with respect to the other executive officers. We grant stock options, in part, to reward executive officers for their long-term strategic management of our Company and to motivate the executive officers to improve Shareholder value by increasing this component of their compensation package, and accomplish our Compensation Committee's objective to provide a greater portion of compensation for executive officers in the form of long-term equity based awards.

In January 2007, in connection with his appointment as our Chief Financial Officer, we granted Mr. Norton 225,000 stock options that were to have vested on a monthly basis in equal increments over the 48 months following the announcement of his appointment. The options are subject to the terms of our 2005 Equity Incentive Plan and were granted with an exercise price equal to the closing price of our Common Stock on the date of the grant. The Compensation Committee determined the size of the stock option grant to Mr. Norton based partially on the executive compensation policies of similar companies in similar industries provided by the international executive search firm that conducted the officer search. Of the options granted in January 2007 to Mr. Norton, 150,007 that were not vested at the time of his resignation on June 4, 2008 were forfeited pursuant to the terms of our 2005 Equity Incentive Plan and Mr. Norton agreed to forfeit his vested options.

In addition, in April 2007, as part of our broader grant of stock options to the Merge Healthcare employees, we granted 35,000 stock options to Mr. Cornet, 60,000 stock options to Mr. Oreskovich, and 45,000 stock options to Mr. Sartor in consideration of the fact that many of their currently issued and outstanding options had exercise prices that were significantly higher than the current market price of our Common Stock and did not continue to provide th