

VITAL IMAGES INC
Form DEF 14A
April 22, 2008

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

SCHEDULE 14A

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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

Vital Images, Inc

(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:
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 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:
-

VITAL IMAGES, INC.

5850 Opus Parkway, Suite 300

Minnetonka, Minnesota 55343

(952) 487-9500

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD JUNE 3, 2008

To the Shareholders of Vital Images, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Vital Images, Inc., a Minnesota corporation (the Company), which will be held on Tuesday, June 3, 2008, at 3:30 p.m. (Minneapolis, Minnesota time), at The Marquette Hotel, 710 Marquette Avenue, Minneapolis, Minnesota, for the following purposes:

1. To elect seven Directors of the Company for the coming year.
2. To act upon a proposal to amend the Vital Images, Inc. 2006 Long-Term Incentive Plan.
3. To act upon a proposal to amend the Vital Images, Inc. 1997 Employee Stock Purchase Plan.
4. To ratify the appointment by the Audit Committee of the Company's Board of Directors of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the year ending

December 31, 2008.

5. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.

Only holders of record of the Company's common stock at the close of business on April 10, 2008 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement of the Annual Meeting. If there is an insufficient number of votes for a quorum or to approve or ratify any of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be adjourned or postponed to allow further solicitation of proxies by the Company.

Each of you is invited to attend the Annual Meeting in person, if possible. Whether or not you plan to attend the Annual Meeting, the Company urges you to vote as soon as possible. Shareholders may vote their shares over the Internet. If a shareholder received a paper copy of a proxy card or voting instruction card by mail, that shareholder may submit the shareholder's proxy or voting instruction card by completing, signing, dating and returning the proxy card or voting instruction card in the pre-addressed envelope provided. If a shareholder attends the Annual Meeting, that shareholder will have the right to revoke the proxy and vote the shareholder's shares in person. For specific instruction on how to vote shares, please refer to the section heading "Voting and Revocation of Proxy" in the accompanying proxy statement.

By Order of the Board of Directors

Michael H. Carrel, President and Chief Executive Officer

April 21, 2008

**WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING,
PLEASE SIGN THE PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE, IF YOU RECEIVED
A PAPER COPY OF THE PROXY CARD, OR VOTE THROUGH THE
INTERNET AS INSTRUCTED ON THE PROXY CARD.**

**IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS
FOR THE VITAL IMAGES, INC.
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 3, 2008**

This notice, the accompanying proxy statement and the Company's 2007 Annual Report to Shareholders, which includes the Company's Annual Report on Form 10-K for the year ended December 31, 2007, are available at the Company's website at <http://www.vitalimages.com>. Additionally, and in accordance with the new rules of the Securities and Exchange Commission, shareholders may access these materials at the cookies-free website indicated in the Important Notice Regarding the Availability of Proxy Materials that you receive in connection with this notice and the accompanying proxy statement.

TABLE OF CONTENTS

<u>SOLICITATION OF PROXIES</u>	1
<u>VOTING AND REVOCATION OF PROXY</u>	1
<u>Shareholders Entitled to Vote; Record Date</u>	1
<u>Notice of Internet Availability of Proxy Materials</u>	1
<u>Voting Shares and Revoking Proxy</u>	2
<u>PROPOSALS OF SHAREHOLDERS</u>	2
<u>OTHER BUSINESS</u>	3
<u>FINANCIAL INFORMATION</u>	3
<u>BENEFICIAL OWNERSHIP OF COMMON STOCK</u>	4
<u>ELECTION OF DIRECTORS (Proposal 1)</u>	7
<u>INFORMATION CONCERNING DIRECTORS, NOMINEES AND EXECUTIVE OFFICERS</u>	7
<u>Directors and Nominees</u>	7
<u>Independent Directors</u>	8
<u>Board and Committee Meetings; Attendance of Board Members at Annual Meeting of Shareholders</u>	9
<u>Board Committees</u>	9
<u>Executive Sessions of the Board</u>	10
<u>Code of Business Conduct and Ethics</u>	10
<u>Policy and Procedures with Respect to Related Person Transactions</u>	10
<u>Qualifications of Candidates for Election to the Board</u>	11
<u>Process for Identifying and Evaluating Candidates for Election to the Board</u>	11
<u>Shareholder Nominations</u>	11
<u>Communications with the Board</u>	12
<u>Director Compensation</u>	12
<u>Executive Officers</u>	14
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	15
<u>Compensation Discussion and Analysis</u>	15
<u>Executive Compensation</u>	21
<u>Securities Authorized for Issuance Under Equity Compensation Plans</u>	27
<u>Compensation Committee Interlocks and Insider Participation</u>	27
<u>Employment and Other Agreements</u>	27
<u>Change in Control Agreements</u>	28
<u>Post-Employment Compensation</u>	29
<u>COMPENSATION COMMITTEE REPORT</u>	32
<u>APPROVAL OF AMENDMENT TO THE 2006 LONG-TERM INCENTIVE PLAN TO INCREASE THE SHARE RESERVE BY 1,800,000 SHARES (Proposal 2)</u>	33
<u>General</u>	33
<u>Summary of the 2006 Plan</u>	34
<u>Federal Income Tax Consequences</u>	37
<u>Effect of Certain Corporate Events</u>	39
<u>Awards Granted to Certain Persons</u>	39

<u>Duration, Amendment and Termination</u>	39
<u>Other Information</u>	39
<u>Required Vote and Board Recommendation</u>	40
<u>APPROVAL OF AMENDMENT TO THE 1997 EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE SHARE RESERVE BY 150,000 SHARES (Proposal 3)</u>	41
<u>General</u>	41
<u>Summary of the ESPP</u>	41
<u>New Plan Benefits</u>	44
<u>U.S. Federal Income Tax Consequences</u>	44
<u>1997 Employee Stock Purchase Plan Table</u>	45
<u>Required Vote and Board Recommendation</u>	45
<u>RATIFICATION OF APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Proposal 4)</u>	47
<u>Audit and Other Professional Fees</u>	47
<u>Shareholder Approval</u>	48
<u>REPORT OF THE AUDIT COMMITTEE</u>	49
<u>AVAILABLE INFORMATION</u>	50

VITAL IMAGES, INC.

5850 Opus Parkway, Suite 300

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(952) 487-9500

PROXY STATEMENT

SOLICITATION OF PROXIES

The enclosed proxy is solicited by and on behalf of the Board of Directors of Vital Images, Inc., a Minnesota corporation ("Vital Images" or the "Company"), for use at the Annual Meeting of Shareholders (the "Annual Meeting") to be held at The Marquette Hotel, 710 Marquette Avenue, Minneapolis, Minnesota, on Tuesday, June 3, 2008, at 3:30 p.m. (Minneapolis, Minnesota time), and any adjournment of the Annual Meeting. This Proxy Statement and the accompanying form of proxy are being made available to shareholders on the Internet or are being mailed to shareholders beginning on or about April 21, 2008.

The Company will bear all costs and expenses of preparing, assembling and mailing the proxy materials and soliciting proxies for the Annual Meeting, will arrange with brokerage houses and other custodian nominees and fiduciaries to send proxies and proxy materials to their principals, and will reimburse them for their expense in so doing. The Company has retained The Altman Group to assist it in soliciting proxies, for which the estimated cost is \$6,500, plus reasonable out-of-pocket expenses. Proxies also may be solicited by telephone, facsimile or personally.

VOTING AND REVOCATION OF PROXY

Shareholders Entitled to Vote; Record Date

Only holders of record of the Company's common stock at the close of business on April 10, 2008, the record date for the Annual Meeting, are entitled to notice of and to vote at the Annual Meeting. On the record date, 17,181,526 shares of the Company's common stock were outstanding. Each share of common stock entitles the holder of the share to one vote upon each matter to be presented at the Annual Meeting.

Notice of Internet Availability of Proxy Materials

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This year, the Company is pleased to be using the new U.S. Securities and Exchange Commission (SEC) rules that allow companies to furnish their proxy materials over the Internet. As a result, the Company is mailing to the majority of its shareholders a notice about the Internet availability of the proxy materials instead of a paper copy of the proxy materials. The notice is entitled Important Notice Regarding the Availability of Proxy Materials. All shareholders receiving the notice will have the ability to access the proxy materials over the Internet and request to receive a paper copy of the proxy materials by mail. Instructions on how to access the proxy materials over the Internet or to request a paper copy may be found on the notice. The Company's proxy materials may also be accessed on the Company's website at <http://www.vitalimages.com> by selecting Investors and then Proxy Materials. The Company is providing some of its shareholders, including shareholders who have previously requested to receive paper copies of the proxy materials, with paper copies of the proxy materials instead of a notice about the Internet availability of the proxy materials.

Voting Shares and Revoking Proxy

Each proxy returned to the Company will be voted according to the instructions on the proxy. If no instructions are indicated, the shares will be voted (i) *for* the election of the nominees for the Board of Directors named in this Proxy Statement, (ii) *for* the approval of the amendment to our 2006 Long-Term Incentive Plan to increase the shares reserved under the plan by 1,800,000 shares, (iii) *for* the approval of the amendment to our 1997 Employee Stock Purchase Plan to increase the shares reserved under the plan by 150,000 shares, and (iv) *for* the ratification of the appointment by the Audit Committee of the Company's Board of Directors of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the year ending December 31, 2008. Although the Board of Directors knows of no other matters to be presented at the Annual Meeting or any adjournment or postponement of the Annual Meeting, all proxies returned to the Company will be voted on any such matter according to the judgment of the proxy holders.

Instead of submitting a signed proxy card, shareholders may submit their proxies through the Internet using the control number and instructions on the proxy card. Internet proxies must be used in compliance with, and will be subject to, the information and terms contained on the proxy card. These procedures may not be available to shareholders who hold their shares through a broker, nominee, fiduciary or other custodian.

Any proxy for the Annual Meeting may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by:

- giving written notice of such revocation to the Secretary of the Company,
- submitting another written proxy bearing a later date,
- attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not in and of itself revoke a proxy), or
- voting via the Internet after your prior Internet vote.

A quorum, consisting of a majority of the shares of common stock entitled to vote at the Annual Meeting, must be present in person or by proxy before action may be taken at the Annual Meeting. In general, for matters other than the election of Directors, the shareholders of the Company may take action by the affirmative vote of the holders of the greater of a majority of the voting power of the shares present and entitled to vote on a particular item of business, or a majority of the voting power of the minimum number of shares entitled to vote that would constitute a quorum. However, Directors are elected by a plurality vote of the voting power of the shares present and entitled to vote. If an executed proxy is returned and the shareholder has abstained from voting on any matter, the shares represented by such proxy will be considered present at the Annual Meeting for purposes of determining a quorum and for purposes of calculating the vote, but they will not be considered to have been voted in favor of such matter. If a signed proxy is returned by a broker holding shares in street name, and it indicates that the broker does not have discretionary authority to vote certain shares on one or more matters, such shares will be considered present at the Annual Meeting for purposes of determining a quorum but will not be considered to be represented at the Annual Meeting for purposes of calculating the vote with respect to such matter.

PROPOSALS OF SHAREHOLDERS

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Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, any shareholder wishing to have a proposal considered for inclusion in the Company's proxy solicitation material for the Annual Meeting of Shareholders to be held in 2009 must set forth such proposal in writing and file it with the Secretary of the Company no later than December 22, 2008, the date that is 120 days before April 22, 2009. Further, pursuant to Rule 14a-4, if a shareholder fails to notify the Company of a proposal before March 8, 2009, the date that is 45 days before April 22, 2009, such notice will be considered untimely, and management proxies may use their discretionary voting authority to vote on any such proposal.

OTHER BUSINESS

At the date of this Proxy Statement, management knows of no other business that may properly come before the Annual Meeting. However, if any other matters properly come before the Annual Meeting, the individuals named in the enclosed form of proxy will vote the proxies received in response to this solicitation in accordance with their best judgment on such matters.

FINANCIAL INFORMATION

The Company's 2007 Annual Report to Shareholders including, but not limited to, the consolidated balance sheets as of December 31, 2007 and 2006 and the related consolidated income statements, statements of stockholders' equity and comprehensive income, and statements of cash flows for each of the three years in the period ended December 31, 2007, accompanies these materials. A copy of the 2007 Annual Report to Shareholders may be obtained without charge upon request to the Company. The 2007 Annual Report to Shareholders can also be accessed on the Company's website at <http://www.vitalimages.com> by selecting Investors, then Financial Info & Filings and then Annual Reports. In addition, the Company will provide without charge to any shareholder, upon the shareholder's written request, a copy of its Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission. Requests should be directed to Investor Relations, Vital Images, Inc., 5850 Opus Parkway, Suite 300, Minnetonka, Minnesota 55343.

BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth, as of February 29, 2008 (except as otherwise expressly indicated), certain information regarding the beneficial ownership of shares of common stock of the Company by (i) each person or entity who is known by the Company to own more than 5% of the Company's common stock, (ii) each Director or nominee for Director of the Company, (iii) each person listed in the Summary Compensation Table and (iv) all Directors, nominees and executive officers of the Company as a group.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent of Outstanding Shares (2)
5% Beneficial Owners:		
T. Rowe Price Associates, Inc.	2,178,900(3)	12.71%
Capital Research Global Investors	1,777,000(4)	10.36%
Royce & Associates, LLC	1,735,000(5)	10.12%
Morgan Stanley FrontPoint Partners LLC	1,258,326(6)	7.34%
Kairos Partners III Limited Partnership	1,062,204(7)	6.19%
Lord, Abnett & Co. LLC	1,009,910(8)	5.89%
FMR LLC	862,387(9)	5.03%
Executive Officers and Directors:		
Douglas M. Pihl	100,525(10)	*
Michael H. Carrel	148,999(11)	*
James B. Hickey, Jr.	57,500(12)	*
Richard W. Perkins	100,000(13)	*
Michael W. Vannier, M.D.	69,000(14)	*
Sven A. Wehrwein	56,000(15)	*
Gregory J. Peet	18,000(16)	*
Jay D. Miller	354,073(17)	2.06%
Peter J. Goepfrich	22,563(18)	*
Steven P. Canakes	96,396(19)	*
Philip I. Smith	51,294(20)	*
Susan A. Wood, Ph.D.	99,895(21)	*
All Directors and executive officers as a group (12 persons, consisting of those named above)	1,174,245(22)	6.85%

* Less than one percent.

(1) Each person has sole voting and sole dispositive power with respect to all outstanding shares, except as noted. The individuals holding shares subject to restricted stock awards have the power to vote but not the power to dispose of such shares.

(2) Based on 17,148,768 shares outstanding as of February 29, 2008. Such number does not include 2,210,583 shares of common stock subject to stock options outstanding as of February 29, 2008. Each figure showing

the percentage of outstanding shares owned beneficially has been calculated by treating as outstanding and owned the shares which could be purchased by the indicated person(s) on February 29, 2008 or within 60 days of February 29, 2008 upon the exercise of stock options.

(3) Reflects information as of December 31, 2007 from Amendment No. 1 to Schedule 13G filed with the Securities Exchange Commission (SEC) by T. Rowe Price Associates, Inc. on February 12, 2008. As set forth in the Schedule 13G, as amended, T. Rowe Price Associates, Inc. has sole voting power as to 216,800 shares and sole dispositive power as to 2,178,900 shares. The principal business address of T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202.

(4) Reflects information as of February 29, 2008 derived from Amendment No. 1 to Schedule 13G filed with the SEC by Capital Research Global Investors, a division of Capital Research and Management Company, on March 10, 2008. As set forth in the Schedule 13G, as amended, Capital Research Global Investors has sole voting and dispositive power as to 1,777,000 shares. The principal business address of Capital Research Global Investors is 333 South Hope Street, Los Angeles, California 90071.

(5) Reflects information as of December 31, 2007 derived from a Schedule 13G filed with the SEC by Royce & Associates, LLC on January 3, 2008. As set forth in the Schedule 13G, Royce & Associates, LLC has sole voting and dispositive power as to 1,735,000 shares. The principal business address of Royce & Associates, LLC is 1414 Avenue of the Americas, New York, New York 10019.

(6) Reflects information as of December 31, 2007 derived from Amendment No. 1 to Schedule 13G filed with the SEC by Morgan Stanley and FrontPoint Partners LLC on February 14, 2008. As set forth in the Schedule 13G, as amended, Morgan Stanley and FrontPoint Partners LLC each has sole voting and dispositive power as to 1,258,326 shares. FrontPoint Partners LLC is a wholly-owned subsidiary of Morgan Stanley. The principal business address of Morgan Stanley is 1585 Broadway, New York, New York 10036. The principal business address of FrontPoint Partners LLC is Two Greenwich Plaza, Greenwich, Connecticut 06830.

(7) Reflects information as of December 31, 2007 derived from Amendment No. 3 to Schedule 13G filed with the SEC on February 12, 2008 by Kairos Partners III Limited Partnership, John F. White, James F. Rice, Kenneth L. Wolfe and Foster L. Aborn. As set forth in the Schedule 13G, as amended, of these 1,062,204 shares, Kairos Partners III Limited Partnership has shared voting power and shared dispositive power as to 688,000 shares and each of John F. White, James F. Rice, Kenneth L. Wolfe and Foster L. Aborn has shared voting power and shared dispositive power as to 1,062,204 shares. Shares reported in the Schedule 13G, as amended, represent shares held by Kairos Partners II Limited Partnership and Kairos Partners III Limited Partnership (collectively, the Partnerships). Each of the individual Reporting Persons is a member of the investment committee of each of the Partnerships. Such committee has voting and investment power over the shares reported herein. The principal business address of the entities associated with Kairos Partners III Limited Partnership is 600 Longwater Drive, Suite 204, Norwell, Massachusetts 02061.

(8) Reflects information as of December 31, 2007 derived from a Schedule 13G filed with the SEC by Lord, Abnett & Co. LLC on February 14, 2008. As set forth in the Schedule 13G, Lord, Abnett & Co. LLC has sole voting power as to 854,184 shares and sole dispositive power as to 1,009,910 shares. The principal business address of Lord, Abnett & Co. LLC is 90 Hudson Street, Jersey City, New Jersey 07302.

(9) Reflects information as of December 31, 2007 derived from a Schedule 13G filed with the SEC by FMR LLC on February 14, 2008. As set forth in the Schedule 13G, Fidelity Management & Research Company (Fidelity), a wholly-owned subsidiary of FMR LLC, is the beneficial owner of 766,987 shares. FMR LLC, through its control of Fidelity, and Edward C. Johnson 3d each has sole dispositive power as to 766,987 shares. Neither FMR LLC nor Edward C. Johnson 3d, Chairman of FMR LLC, has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds, which power resides with the Funds Board of Trustees. The principal business address of Fidelity is 82 Devonshire Street, Boston, Massachusetts 02109. According to the Schedule 13G, Pyramis Global Advisors Trust Company (Pyramis), an indirect

wholly-owned subsidiary of FMR LLC, is the beneficial owner of 95,400 shares of common stock. FMR LLC, through its control of Pyramis, and Edward C. Johnson 3d each has sole voting power as to 73,800 shares and sole dispositive power as to 95,400 shares. The principal business address of Pyramis is 53 State Street, Boston, Massachusetts 02109.

(10) Includes 48,000 shares that Mr. Pihl has the right to acquire upon the exercise of stock options. Excludes shares held by Mr. Pihl's spouse, as to which Mr. Pihl disclaims beneficial ownership.

(11) Includes 126,520 shares that Mr. Carrel has the right to purchase upon the exercise of stock options and 9,100 shares subject to a restricted stock award.

(12) Includes 36,000 shares that Mr. Hickey has the right to acquire upon the exercise of stock options.

(13) Includes 5,000 shares held by the Perkins Foundation, 7,500 shares held by the Perkins Capital Management, Inc. Profit Sharing Plan and 57,500 shares held by various trusts of which Mr. Perkins is the sole trustee. Also includes 30,000 shares Mr. Perkins has the right to purchase upon the exercise of stock options. Excludes 396,239 shares of stock beneficially owned by Perkins Capital Management, Inc., as to which Mr. Perkins disclaims beneficial ownership.

(14) Includes 48,000 shares that Dr. Vannier has the right to acquire upon the exercise of stock options.

(15) Includes 48,000 shares that Mr. Wehrwein has the right to acquire upon the exercise of stock options.

(16) Consists of shares that Mr. Peet has the right to purchase upon the exercise of stock options.

(17) Includes 317,520 shares that Mr. Miller has the right to acquire upon the exercise of stock options and 4,850 shares subject to a restricted stock award.

(18) Includes 20,830 shares that Mr. Goepfrich has the right to acquire upon the exercise of stock options and 1,200 shares subject to a restricted stock award.

(19) Includes 86,960 shares that Mr. Canakes has the right to acquire upon the exercise of stock options and 4,550 shares subject to restricted stock awards.

(20) Includes 40,360 shares that Mr. Smith has the right to acquire upon the exercise of stock options and 8,425 shares subject to restricted stock awards.

(21) Includes 86,260 shares that Dr. Wood has the right to purchase upon the exercise of stock options and 8,800 shares subject to restricted stock awards.

(22) Includes 906,450 shares that all Directors and executive officers as a group have the right to acquire upon the exercise of stock options and 36,925 shares subject to restricted stock awards.

ELECTION OF DIRECTORS**(Proposal 1)**

The business and affairs of the Company are managed under the direction of its Board of Directors. Directors of the Company are elected annually to serve until the next annual meeting of shareholders until their successors are duly elected and qualify or until their earlier resignation, death or removal. The Board has nominated the seven individuals named below to serve as Directors of the Company, and the shareholders will be asked at the Annual Meeting to elect such individuals as Board members. Unless authority is withheld, all proxies received in response to this solicitation will be voted *for* the election of the nominees named below. Each of the nominees named below is now a Director of the Company and has served continuously as a Director since the month and year indicated. All nominees have indicated a willingness to serve if elected. If any nominee becomes unable to serve before the Annual Meeting, the proxies received in response to this solicitation will be voted for a replacement nominee selected in accordance with the best judgment of the proxy holders named in the proxy.

Name	Positions with the Company	Age	Director Since
Douglas M. Pihl	Chair of the Board	68	May 1997
Michael H. Carrel	Director, President and Chief Executive Officer	37	January 2008
James B. Hickey, Jr.	Director	54	May 1998
Gregory J. Peet	Director	54	July 2005
Richard W. Perkins	Director	77	May 1997
Michael W. Vannier, M.D.	Director	59	December 1997
Sven A. Wehrwein	Director	57	May 1997

Shareholder Approval

The affirmative vote of a plurality of the shares of common stock of the Company represented at the Annual Meeting either in person or by proxy, assuming a quorum is present, is required for the election of Directors.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE *FOR* THE ELECTION OF THE NOMINEES FOR THE BOARD OF DIRECTORS AS SET FORTH ABOVE.

**INFORMATION CONCERNING DIRECTORS,
NOMINEES AND EXECUTIVE OFFICERS**

Directors and Nominees

The following discussion sets forth certain information concerning the individuals nominated by the Board of Directors to serve as Directors of the Company.

Douglas M. Pihl has been a Director of the Company since May 1997 and its Chair of the Board since December 1997, and he was its interim Chief Executive Officer from February 1998 to December 1999. Mr. Pihl has over 44 years of experience in the computer industry, with extensive responsibility in design, product planning and management. Since April 1997, Mr. Pihl has served as Chairman, Chief Executive Officer and President of MathStar, Inc., a publicly-held company that designs, develops and markets a new class of semiconductor integrated circuit, or chip, called field programmable object arrays.

Michael H. Carrel has been President and Chief Executive Officer and a Director of Vital Images since January 2008. He served as Chief Operating Officer and Chief Financial Officer from May 2005 until January 2008. Mr. Carrel was part-time Interim Chief Financial Officer of Vital Images from January 2005 until May 2005. From January 1, 2005 until May 2005, he was employed as Senior Vice President of Strategy and Business Development of Technology Solutions Company (TSC), a publicly-held technology consulting company.

Mr. Carrel was President and Chief Executive Officer of Zamba Corporation (Zamba), a publicly-held customer relationship management company, from July 1, 2004 until December 31, 2004, when Zamba was acquired by TSC. Mr. Carrel served as Executive Vice President of Zamba from October 2000 until July 1, 2004, its Vice President from October 1998 to October 2000, and its Chief Financial Officer from October 1998 until December 31, 2004. He also served as Chief Financial Officer of NextNet Wireless, Inc., a privately-held provider of non-line-of-sight plug and play broadband wireless access systems, from October 1, 2003 through March 31, 2004, when it was sold to Clearwire Corporation.

James B. Hickey, Jr., has been a Director of the Company since May 1998. Since December 2005, Mr. Hickey has been President and Chief Executive Officer of Myocor, Inc., a clinical-stage medical device company whose products are focused in the cardiac surgery and interventional cardiac markets. From October 2001 through July 2005, he was President, Chief Executive Officer and a Director of Pulmonetic Systems, Inc., a privately-held manufacturer of medical devices in the respiratory/pulmonary markets.

Gregory J. Peet has been a Director of the Company since August 2005. Since July 2004, his occupation has been independent corporate director. From July 2002 until June 2004, he was Vice President and General Manager of the McKesson Medical Imaging Group of McKesson Corporation. From 1993 until its acquisition by McKesson Corporation in 2002, he served with A.L.I. Technologies Inc., a leading medical image management solutions provider and picture archiving communications systems (PACS) vendor, most recently as its President, Chief Executive Officer and Chairman. Mr. Peet also serves as a Director of Angiotech Pharmaceutical, Inc. and Vigil Health Solutions, Inc. (Chairman), both of which are public companies, and also with Contigo Systems, Inc. (Chairman), Cogent Health Solutions, Inc. and Conasys Consumer Assurance Systems Inc., which are privately-held. In December 2005, Mr. Peet was appointed as the Co-Chair of the Premier's Technology Council, which was established in August 2001 to advise the government on issues related to the advancement and application of technology in British Columbia.

Richard W. Perkins has been a Director of the Company since May 1997. He has served as President, Chief Executive Officer and a Director of Perkins Capital Management, Inc., an investment management firm, since 1984. Mr. Perkins also serves on the Board of Directors of the following public companies: China Nuvo Solar Energy, Inc., Nortech Systems, Inc. and Synovis Life Technologies, Inc. In addition, Mr. Perkins serves as a Director of several privately-held companies.

Michael W. Vannier, M.D. has been a Director of the Company since December 1997. Dr. Vannier has been a Professor of Radiology at the University of Chicago since May 2004. He was the Head of the Department of Radiology at the University of Iowa from June 1996 to November 2000, and professor of radiology there from 1996 until April 2004. Dr. Vannier was a special assistant to the Director of the National Cancer Institute from 2001 to 2003.

Sven A. Wehrwein has been a Director of the Company since May 1997. He has over 30 years experience in corporate finance and investment banking. Since 1999, he has provided financial-consulting services to emerging growth companies. Mr. Wehrwein also serves on the Board of Directors of the following public companies: Compellent Technologies, Inc., Image Sensing Systems, Inc., Synovis Life Technologies, Inc. and Uroplasty, Inc. He received his

master s of science in management from the Sloan School at the Massachusetts Institute of Technology and is a certified public accountant.

Independent Directors

The Company s Governance and Nominating Committee has determined that each of Messrs. Pihl, Hickey, Perkins, Wehrwein and Peet and Dr. Vannier are independent, as that term is defined in Rule 4200(a)(15) of the Marketplace Rules of The NASDAQ Stock Market, Inc. (NASDAQ). Accordingly, the Board is composed of a majority of independent Directors as required by the NASDAQ Marketplace Rules.

Board and Committee Meetings; Attendance of Board Members at Annual Meeting of Shareholders

During 2007, the Board of Directors met eleven times and acted twice by written action. Also during 2007, the Board of Directors had six standing Committees – a Compensation Committee, which met seven times during 2007, an Audit Committee, which met eight times during 2007, a Governance and Nominating Committee, which met four times during 2007, a Strategy Committee, which met five times during 2007, an Investment Committee, which met twice during 2007, and an Independent Committee, which met five times during 2007. All Directors attended at least 75% of all meetings of the Board of Directors and 75% of all meetings of the Committees on which they served during the year ended December 31, 2007, except for Dr. Vannier, who attended 57% of the Compensation Committee meetings, and Mr. Wehrwein, who attended 50% of the Investment Committee meetings.

It is the policy of the Board that each member of the Board should attend the Company's annual meeting of shareholders whenever practical, and that at least one member of the Board must attend each annual meeting of shareholders. The Company regularly schedules a Board meeting on the same day as the annual meeting of shareholders. All seven of the Directors being nominated to serve as Directors attended the annual meeting of shareholders held in 2007. In addition, Jay D. Miller, who is a Director of the Company until May 15, 2008, attended that annual meeting.

Board Committees

The Compensation Committee, with input from the Board of Directors, reviews and approves salaries, compensation and benefits of executive officers and senior management of the Company and administers the Company's 1997 Director Stock Option Plan, 1997 Stock Option and Incentive Plan and 2006 Long-Term Incentive Plan. In addition to the meetings and actions of the Compensation Committee described above, the entire Board of Directors discussed and reviewed compensation issues throughout the year at its regular meetings. The current members of the Compensation Committee who served as such throughout 2007 are James B. Hickey, Jr. (Chair), Gregory J. Peet, Michael W. Vannier, M.D. and Sven A. Wehrwein. The Governance and Nominating Committee has determined that all members of the Compensation Committee are independent, as that term is defined in Rule 4200(a)(15) of NASDAQ's Marketplace Rules.

The Audit Committee oversees the accounting and financial reporting processes and audits of the financial statements of the Company and is responsible for selecting, evaluating and, when it deems it to be appropriate, replacing the Company's independent registered public accounting firm. The Audit Committee assists the Board in fulfilling its oversight responsibilities for the quality and integrity of the Company's financial reports, the Company's compliance with legal and regulatory requirements and the independent registered public accounting firm's qualifications and independence, as well as accounting and reporting processes. The Audit Committee also reviews the internal and external financial reporting of the Company and reviews the scope of the independent audit. It also oversees the Company's Policy and Procedures with respect to Related Person Transactions. The current members of the Audit Committee who served as such throughout 2007 are Sven A. Wehrwein (Chair), James B. Hickey, Jr. and Richard W. Perkins. The Company's Board of Directors has determined that all members of the Audit Committee are independent under Rule 4200(a)(15) of NASDAQ's Marketplace Rules and Rule 10A-3 under the Securities Exchange Act of 1934 (Exchange Act). The Board has determined that Sven A. Wehrwein is qualified as an audit committee financial expert, as that term is defined in Item 401(h)(2)(i) of Regulation S-K.

The Governance and Nominating Committee is responsible for making recommendations to the full Board of Directors regarding candidates for election to the Board and for overseeing the Company's Code of Business Conduct and Ethics. It determines the independence of all Directors under Rule 4200(a)(15) of NASDAQ's Marketplace Rules. The current members of the Governance and Nominating Committee who served as such throughout 2007 are Richard W. Perkins (Chair), James B. Hickey, Jr. and Douglas M. Pihl.

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The Strategy Committee is responsible for evaluating the Company's long-term strategy and ensuring consistent alignment with business objectives. The Strategy Committee also evaluates market conditions and researches potential competitive advantages and how those opportunities can be maximized as it relates to acquisitions, product development and other business activities. During 2007, the Strategy Committee consisted of

Gregory J. Peet (Chair), Douglas M. Pihl, Michael W. Vannier, M.D. and Jay D. Miller. The Strategy Committee has no formal charter.

The Investment Committee reviews the activity in the Company's investment portfolio, monitors compliance with the Company's investment policy and assists management with the development of investment strategies. The current members of the Investment Committee who served as such throughout 2007 are Richard W. Perkins (Chair) and Sven A. Wehrwein. The Investment Committee has no formal charter.

The Independent Committee is directed to review matters for which the Board of Directors desires the review and guidance of members of the Board of Directors that are not otherwise affiliated with the Company. The members of the Independent Committee during 2007 were Gregory J. Peet (Chair), James B. Hickey, Jr. and Sven A. Wehrwein. The Independent Committee has no formal charter.

The charters for the Compensation Committee, Audit Committee and Governance and Nominating Committee can be accessed on the Company's website at <http://www.vitalimages.com> by selecting Investors, then Corporate Governance, then Governance Documents and then the charters under Committee Charters.

Executive Sessions of the Board

The Board has formally adopted a policy of meeting in executive session, with only independent Directors being present, on a regular basis and at least two times each year. During 2007, the Board met in executive session five times.

Code of Business Conduct and Ethics

The Company has a Code of Business Conduct and Ethics that applies to all Directors, officers and employees of the Company, and it can be found on the Company's website at <http://www.vitalimages.com> by selecting Investors, then Corporate Governance, then Governance Documents and then Code of Business Conduct and Ethics under Governance Documents. The Governance and Nominating Committee of the Board is responsible for overseeing the code. In accordance with NASDAQ's Marketplace Rules, any waivers of the code for Directors and executive officers must be approved by the Company's Board of Directors.

Policy and Procedures with Respect to Related Person Transactions

On March 7, 2007, the Company's Board of Directors adopted the Company's written Policy and Procedures with Respect to Related Person Transactions, which the Audit Committee oversees. Under the policy, a related party transaction is a transaction, arrangement or relationship in which the Company was, is or will be a participant and the amount involved exceeds \$50,000, and in which any related person had, has or will have a direct or indirect material interest. The policy generally defines a related person as a Director, executive officer or beneficial owner of more than 5% of any class of the Company's voting securities and any immediate family member of any of the foregoing persons.

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Under the policy, the related person; the Director, executive officer or beneficial owner who is an immediate family member of the related person; or the head of the business unit that is responsible for a potential related person transaction must notify the Company's general counsel of facts and circumstances involved in the potential related person transaction. If the general counsel determines that the transaction is a related person transaction, he must submit it to the Audit Committee or the Chair of the Audit Committee for review and, if appropriate, approval. The policy provides that, on an annual basis, the Audit Committee shall review any previously approved related person transaction that is ongoing. The policy also provides that proposed charitable contributions or pledges of charitable contributions by the Company in the amount of at least \$10,000 that would otherwise qualify as a related person transaction are subject to prior review by the Audit Committee or the Chair of the Audit Committee.

Qualifications of Candidates for Election to the Board

The Company's Directors take a critical role in guiding the Company's strategic direction, and they oversee the management of the Company. Many of the Directors have served as Directors since or soon after the Company became a publicly-held company in May 1997. See Election of Directors. When Board candidates are considered, they are evaluated based upon various criteria, such as their broad-based business and professional skills and experiences, experience serving as management or on the Board of Directors of other companies, concern for the long-term interests of the shareholders, financial literacy and personal integrity in judgment. The Governance and Nominating Committee and the Board seek to attract and attain highly qualified Directors who have sufficient time to attend to their duties and responsibilities to the Company. Recent developments in corporate governance and financial reporting have resulted in an increased demand for such highly-qualified and productive public company Directors.

The Governance and Nominating Committee and the Board have established the following minimum requirements for Director candidates: being able to read and understand fundamental financial statements; having at least 10 years of relevant business experience; having no identified conflicts of interest as a prospective Director of the Company; having not been convicted in a criminal proceeding other than traffic violations; and being willing to comply with the Company's Code of Business Conduct and Ethics. The Governance and Nominating Committee retains the right to modify these minimum qualifications from time to time. Exceptional candidates who do not meet all of these criteria still may be considered.

Process for Identifying and Evaluating Candidates for Election to the Board

The Governance and Nominating Committee reviews the qualifications and backgrounds of the Directors, as well as the overall composition of the Board of Directors, and recommends to the full Board the Directors to be nominated for election at each annual meeting of shareholders of the Company. In the case of incumbent Directors, the Governance and Nominating Committee reviews such Directors' overall service to the Company, including the number of meetings attended, level of participation, quality of performance, and whether the Director continues to meet the applicable independence standards. For any new Director candidates, the questions of independence and financial expertise are important to determine what roles can be performed by the candidate, and the Governance and Nominating Committee determines whether the candidate meets the applicable independence standards and the level of the candidate's financial expertise. Any new candidates will be interviewed by the Governance and Nominating Committee. The full Board will approve the final nominations. The Chair of the Board, acting on behalf of the full Board, will extend the formal invitation to become a nominee of the Board of Directors.

Shareholder Nominations

Shareholders may nominate Director candidates for consideration by the Governance and Nominating Committee by writing to Mr. Ian L. Nemerov, the Company's Secretary, and providing to the Secretary the candidate's name, biographical data and qualifications, including five-year employment history with employer names, a description of the employer's business, and all other information relating to such nominee that is required to be disclosed by Schedule 14A under the Securities Exchange Act of 1934; other Board memberships (if any); and such other information as is reasonably available and sufficient to enable the Governance and Nominating Committee to evaluate the minimum qualifications stated above under the section of this proxy statement entitled Information Concerning Directors, Nominees and Executive Officers Qualifications of Candidates for Election to the Board. The submission must be accompanied by a written consent of the individual being named in the proxy statement to be a nominee and to serve as a Director if elected by the shareholders. The submission must also include the name, address and number of shares of the Company's common stock owned by each shareholder submitting the nomination. Written notice must be given at least 120 days before the date of the next annual meeting of shareholders. If a shareholder nominee is eligible, and if the nomination is proper, the Governance and Nominating Committee then will deliberate and make its recommendation to the Board of Directors.

The Governance and Nominating Committee will not change the manner in which it evaluates candidates, including the applicable minimum criteria set forth above, based on whether the candidate was recommended by a shareholder.

Communications with the Board

Shareholders can communicate directly with the Board, or with any Committee of the Board, by writing to Mr. Ian L. Nemerov at the Company's address, by calling Mr. Nemerov at (952) 487-9500 or by contacting him via e-mail at boardofdirectors@vitalimages.com. All communications will be reviewed by management and then forwarded to the appropriate Director or Directors or to the full Board, as appropriate.

Director Compensation

The following table sets forth information about the compensation paid by the Company to and earned by its Directors for the year ended December 31, 2007:

DIRECTOR COMPENSATION TABLE 2007

Name (1)	Fees Earned or Paid in Cash (2)	Option Awards (3)	Total Compensation
Douglas M. Pihl	\$ 39,750	\$ 75,700(5)	\$ 115,450
James B. Hickey, Jr.	55,750	88,363(4)(5)	144,113
Gregory J. Peet	47,750	76,440(4)(5)	124,190
Richard W. Perkins	50,000	75,700(5)	125,700
Michael W. Vannier, M.D.	35,250	94,409(5)	129,659
Sven A. Wehrwein	57,500	75,700(5)	133,200

(1) As an employee of the Company, Jay D. Miller, who resigned as the Company's President and Chief Executive Officer on January 9, 2008, received no Director fees from the Company during 2007 and thus is not included in the table.

(2) Consists of fees earned in 2007 and paid in either 2007 or 2008.

(3) The value of the stock options is the amount of the options that the Company recognizes for financial reporting purposes under Statement of Financial Accounting Standard (SFAS) No. 123(R). Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical accounting policies and estimates - Equity-based compensation in our Annual Report on Form 10-K for the year ended December 31, 2007 for discussion of the assumptions used in calculating the expense under SFAS No. 123(R). This portion of the Annual Report on Form 10-K is included in our 2007 Annual Report to Shareholders.

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(4) On May 23, 2007, Mr. Hickey received a stock option award with a grant date fair value of \$145,680 (12,000 shares). On May 23, 2007, Mr. Peet received a stock option award with a grant date fair value of \$60,700 (5,000 shares). The grant date fair values were computed in accordance with SFAS No. 123(R).

(5) As of December 31, 2007, the following non-employee Directors had outstanding options to purchase the following number of shares of the Company's common stock, all of which had been granted under the Vital Images, Inc. 1997 Director Stock Option Plan: Mr. Pihl (54,000 shares, of which options to purchase 48,000 shares were exercisable), Mr. Hickey (48,000 shares, of which options to purchase 36,000 shares were exercisable), Mr. Peet (23,000 shares, of which options to purchase 18,000 shares were exercisable), Mr. Perkins (36,000 shares, of which options to purchase 30,000 shares were exercisable), Dr. Vannier (54,000 shares, of which options to purchase 48,000 shares were exercisable) and Mr. Wehrwein (54,000 shares, of which options to purchase 48,000 shares were exercisable).