

VITAL IMAGES INC  
Form PRE 14A  
April 10, 2007  
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

**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.
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**VITAL IMAGES, INC.**

5850 Opus Parkway, Suite 300

Minnetonka, Minnesota 55343

(952) 487-9500

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD \_\_\_\_\_, 2007

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**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 \_\_\_\_\_, 2007, at \_\_\_\_\_m. (Minneapolis, Minnesota time), at \_\_\_\_\_, Minnesota, for the following purposes:

1. \_\_\_\_\_ To elect seven directors of the Company for the coming year.
2. \_\_\_\_\_ To approve a proposed amendment to the Company's Articles of Incorporation increasing the number of authorized shares of common stock.
3. \_\_\_\_\_ 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, 2007.
4. \_\_\_\_\_ 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 March 23, 2007 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 in person, please mark, date and sign the enclosed proxy, and mail it promptly. A return envelope is enclosed for your convenience.

**By Order of the Board of Directors**

Michael H. Carrel, *Secretary*

, 2007

**WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING,**

**PLEASE SIGN THE PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE OR VOTE BY TELEPHONE OR THROUGH  
THE INTERNET AS INSTRUCTED ON THE PROXY CARD.**

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**PROXY STATEMENT**

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**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 \_\_\_\_\_, \_\_\_\_\_, Minnesota, on \_\_\_\_\_, 2007, at \_\_\_\_\_ .m. (Minneapolis, Minnesota time), and any adjournment of the Annual Meeting. This Proxy Statement and the accompanying form of proxy are being mailed to shareholders on or about \_\_\_\_\_, 2007.

The expense of the solicitation of proxies for the Annual Meeting, including the cost of mailing, has been or will be paid by the Company. The Company has retained \_\_\_\_\_ to aid in the solicitation of proxies, for which the estimated cost is \$ \_\_\_\_\_, plus reasonable out-of-pocket expenses. The Company will arrange with brokerage houses and other custodian nominees and fiduciaries to send proxies and proxy materials to their principals, and it will reimburse them for their expense in so doing. Proxies also may be solicited by telephone, facsimile or personally.

**VOTING AND REVOCATION OF PROXY**

Only holders of record of the Company's common stock at the close of business on March 23, 2007, the record date for the Annual Meeting, are entitled to notice of and to vote at the Annual Meeting. On the record date, 17,036,052 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.

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 proposed amendment to the Company's Articles of Incorporation increasing the number of authorized shares of common stock, and (iii) *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, 2007. 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 by telephone or through the Internet using the control number and instructions on the proxy card. Telephone and 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 by telephone or via the Internet after your prior telephone or 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 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 meeting for purposes of determining a quorum but will not be considered to be represented at the meeting for purposes of calculating the vote with respect to such matter.

### **PROPOSALS OF SHAREHOLDERS**

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 2008 must set forth such proposal in writing and file it with the Secretary of the Company no later than \_\_\_\_\_, 2007, the date that is 120 days before \_\_\_\_\_, 2008. Further, pursuant to Rule 14a-4, if a shareholder fails to notify the Company of a proposal before \_\_\_\_\_, 2008, the date that is 45 days before \_\_\_\_\_, 2008, 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 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 2006 Annual Report to Shareholders including, but not limited to, the balance sheets as of December 31, 2006 and 2005 and the related statements of operations, stockholders' equity and other comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006, accompanies these materials. A copy of the 2006 Annual Report to Shareholders may be obtained without charge upon request to the Company. 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, 2006 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 28, 2007, 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)
<b>5% Beneficial Owners:</b>		
Waddell & Reed Financial, Inc. Waddell & Reed Financial Services, Inc. Waddell & Reed, Inc. Waddell & Reed Investment Management Company Ivy Investment Management Company	1,324,900	(3) 7.80 %
FMR Corp. 82 Devonshire Street Boston, MA 02109	1,244,287	(4) 7.33 %
Kairos Partners III Limited Partnership 600 Longwater Drive, Suite 204 Norwell, MA 02061	1,147,200	(5) 6.76 %
<b>Executive Officers and Directors:</b>		
Douglas M. Pihl	94,625	(6) *
Jay D. Miller	344,737	(7) 2.03 %
James B. Hickey, Jr.	57,500	(8) *
Richard W. Perkins	94,000	(9) *
Michael W. Vannier, M.D.	63,000	(10)*
Sven A. Wehrwein	50,000	(11)*
Gregory J. Peet	12,000	(12)*
Michael H. Carrel	111,306	(13)*
Steven P. Canakes	84,703	(14)*
Philip I. Smith	57,837	(15)*
Susan A. Wood, Ph.D.	74,161	(16)*
All directors and executive officers as a group (13 persons, including those named above)	1,100,023	(17)6.48 %

\* 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 16,975,038 shares outstanding as of February 28, 2007. Such number does not include 1,882,663 shares of common stock subject to stock options outstanding as of February 28, 2007. 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 28, 2007 or within 60 days of February 28, 2007 upon the exercise of stock options.

(3) Reflects information as of December 31, 2006 from a Schedule 13G filed with the Securities Exchange Commission ( SEC ) on February 9, 2007. As set forth in the Schedule 13G, the following entities have the sole direct or indirect voting power as to the following numbers of shares: Waddell & Reed Financial, Inc. ( WDR ), 1,324,900 shares (indirect); Waddell & Reed Financial Services, Inc. ( WRFSI ), 1,095,900 shares (indirect); Waddell & Reed, Inc. ( WRI ), 1,095,900 (indirect); Waddell & Reed Investment Management Company ( WRIMCO ), 1,095,900 (direct); and Ivy Investment Management Company ( IICO ), 229,000 (direct). According to the Schedule 13G, the following entities have the sole direct or indirect dispositive power as to the following numbers of shares: WDR, 1,324,900 (indirect); WRFSI, 1,095,900 (indirect); WRI, 1,095,900 (indirect); WRIMCO, 1,095,900 (direct); and IICO, 229,000 (direct).

(4) Reflects information from a Schedule 13G filed by FMR Corp. with the SEC on February 14, 2007. As set forth in the Schedule 13G, FMR Corp. has sole voting power as to 70,600 shares, and each of FMR Corp., through its control of Fidelity Management & Research Company, and Edward C. Johnson 3d each has sole dispositive power as to 1,244,287 shares. According to the Schedule 13G, Pyramis Global Advisors Trust Company, an indirect wholly-owned subsidiary of FMR Corp., is the beneficial owner of 92,200 shares of common stock.

(5) Reflects information as of December 31, 2005 derived from Amendment No. 1 to Schedule 13G filed on February 8, 2006 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 1,147,200 shares, Kairos Partners III Limited Partnership has shared voting power and shared dispositive power as to 688,200 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 1,147,200 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.

(6) Includes 42,000 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.

(7) Includes 312,000 shares that Mr. Miller has the right to acquire upon the exercise of stock options and 6,100 shares subject to a restricted stock award.

(8) Includes 38,500 shares that Mr. Hickey has the right to acquire upon the exercise of stock options.

(9) 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 24,000 shares Mr. Perkins has the right to purchase upon the exercise of stock options. Excludes 416,299 shares of stock beneficially owned by Perkins Capital Management, Inc., as to which Mr. Perkins disclaims beneficial ownership.

(10) Includes 42,000 shares that Dr. Vannier has the right to acquire upon the exercise of stock options.

(11) Includes 44,500 shares that Mr. Wehrwein has the right to acquire upon the exercise of stock options.

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

(13) Includes 87,000 shares that Mr. Carrel has the right to purchase upon the exercise of stock options and 16,600 shares subject to a restricted stock award.

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- (14) Includes 77,180 shares that Mr. Canakes has the right to acquire upon the exercise of stock options and 6,300 shares subject to restricted stock awards.
- (15) Includes 37,000 shares that Mr. Smith has the right to acquire upon the exercise of stock options and 12,175 shares subject to restricted stock awards.
- (16) Includes 59,300 shares that Dr. Wood has the right to purchase upon the exercise of stock options and 12,550 shares subject to restricted stock awards.
- (17) Includes 819,730 shares that all directors and executive officers as a group have the right to acquire upon the exercise of stock options and 57,575 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	67	May 1997
Jay D. Miller	President, Chief Executive Officer and Director	47	February 2002
James B. Hickey, Jr.	Director	53	May 1998
Gregory J. Peet	Director	53	July 2005
Richard W. Perkins	Director	76	May 1997
Michael W. Vannier, M.D.	Director	58	December 1997
Sven A. Wehrwein	Director	56	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 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. 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. Mr. Pihl has over 43 years of experience in the computer industry, with extensive responsibility in design, product planning and management. In 1996, Mr. Pihl co-founded RocketCHIPS, Inc., and he served as its Chairman and Chief Financial Officer until it was sold to Xilinx, Inc. in November 2000. From May 1992 to August 1996, Mr. Pihl was President, Chief Executive Officer and a director of NetStar, Inc., a publicly-held company that was acquired by Ascend Communications, Inc. in 1996. From February 1989 to December 1990, Mr. Pihl was Senior Vice President, Development for Apertus Technologies, Inc. (formerly Lee Data Corporation). From April 1979 until December 1987, Mr. Pihl was Senior Vice President-Development of Lee Data Corporation, which he co-founded in 1979. Apertus changed its name to Carleton Corporation and now is part of Oracle Corporation. From December 1987 until February 1989, Mr. Pihl also was an independent consultant. Mr. Pihl also is a board member of Plain Sight Systems, Inc., a privately-held data extraction solutions provider. Since January 1997, Mr. Pihl has been a director of Astrocom Corporation. Astrocom was a publicly-held company that voluntarily filed for bankruptcy protection in July 2004 under Chapter 11 of the United States Bankruptcy Code. Astrocom emerged from bankruptcy protection in September 2004, and it became a non-reporting privately-held company in November 2004.

*Jay D. Miller* was named President, Chief Executive Officer and a director of the Company in February 2002. He served as General Manager and Vice President-Business Development of Vital Images from August 1998 until February 2002. Mr. Miller was Vice President-Marketing and Business Development for Vital Images from February 1997 to August 1998. From 1989 until his employment by Vital Images, Mr. Miller was employed by GE Medical Systems, Inc. in positions of increasing responsibility in the marketing area, including serving as product manager of MRI imaging products and marketing manager for the cardiology market segment. Before 1989, Mr. Miller was employed by Siemens Medical Systems in technical marketing.

*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 cardiology 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. Mr. Hickey served as President and Chief Executive Officer of Angeion Corporation, a publicly-held medical device manufacturer, from July 1998 until December 1999. He also was President and Chief Executive Officer of Aequitron Medical, Inc., a publicly-held manufacturer of portable respiratory devices, from 1993 to 1997. In his earlier career, Mr. Hickey spent 15 years with Baxter Healthcare/American Hospital Supply Corporation, where he was President of the Respiratory Anesthesia Systems Division from 1989 to 1993 and, before that, President of the Hospitex Division.

*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., TIR Systems Inc., Vigil Health Solutions, Inc. (Chairman) and Optimal Geomatics Inc., all of which are public

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companies, and Guardian Mobile Monitoring Systems, Inc., which is privately-held (Chairman). 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. Mr. Perkins has served as President, Chief Executive Officer and a director of Perkins Capital Management, Inc., an investment management firm, since 1984. He also serves on the board of directors of the following public companies: Synovis Life Technologies, Inc. ( Synovis ), LifeCore Biomedical, Inc. ( LifeCore ) and Nortech Systems, Inc. ( Nortech ). He also serves on the compensation committees of the boards of Synovis, LifeCore and Nortech. 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. From 1982 to 1997, Dr. Vannier was a staff radiologist at Barnes Jewish Hospital and St. Louis Children's Hospital in St. Louis, Missouri. Dr. Vannier was also the Georgia Eminent Scholar in Medical Imaging at the Emory University School of Medicine in Atlanta, Georgia from 1994 to 1996, and he served as Vice-Chairman for Research at the Mallinckrodt Institute of Radiology in St. Louis, Missouri from 1992 to 1994. Dr. Vannier served as a Professor of Radiology at the Mallinckrodt Institute of Radiology from 1989 to 1997, as an Assistant Professor of Radiology and Surgery at the Washington University School of Medicine in St. Louis, Missouri from 1983 to 1997, and as an Affiliate Professor of System Science and Mathematics at the Washington University College of Engineering in St. Louis, Missouri from 1984 to 1997.

*Sven A. Wehrwein* has been a director of the Company since May 1997. Mr. Wehrwein has been an independent financial consultant to emerging companies since 1999. Earlier in his 30-year financial career, he worked as an investment banker, chief financial officer and Certified Public Accountant. Mr. Wehrwein is also a director of Image Sensing Systems, Inc., Synovis Life Technologies, Inc. and Uroplasty, Inc., which are publicly-held companies.

#### **Independent Directors**