VITAL IMAGES INC
Form DEF 14A
March 29, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)
SCHEDULE 14A INFORMATION

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

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	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):

x No fee required.

o 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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VITAL IMAGES, INC.

5850 Opus Parkway, Suite 300

Minnetonka, Minnesota 55343

(952) 487-9500

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 11, 2010

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), will be held on Tuesday, May 11, 2010, at 1:00 p.m. (Minneapolis, Minnesota time), at the Company s headquarters, 5850 Opus Parkway, Suite 300, Minnetonka, Minnesota, for the following purposes:

1. To elect eight Directors of the Company for the coming year;

2. 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, 2010; and

3. 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 15, 2010 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement of the Annual Meeting. If an insufficient number of votes is present for a quorum or is cast 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 via the Internet or a toll-free telephone number. 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

March 29, 2010

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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 BY TELEPHONE OR VIA 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 MAY 11, 2010

This notice, the accompanying proxy statement and the Company s 2009 Annual Report to Shareholders, which includes the Company s Annual Report on Form 10-K for the year ended December 31, 2009, are available at the Company s website at *http://www.vitalimages.com*. Additionally, and in accordance with the 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.

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VITAL IMAGES, INC.

5850 Opus Parkway, Suite 300

Minnetonka, Minnesota 55343

(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 Company s headquarters, 5850 Opus Parkway, Suite 300, Minnetonka, Minnesota, on Tuesday, May 11, 2010, at 1:00 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 March 29, 2010.

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. Proxies 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 March 15, 2010, the record date for the Annual Meeting, are entitled to notice of and to vote at the Annual Meeting. On the record date, 14,435,048 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

The Company is making proxy materials for the Annual Meeting available via the Internet. Therefore, 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 via 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.

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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, and (ii) ***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, 2010. 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 via 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 a 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 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.

Effect of Not Casting Your Vote

If you hold your shares in street name, it is critical that you cast your vote if you want it to count in the election of Directors (Proposal 1 of this Proxy Statement). In the past, if you held your shares in street name and you did not indicate how you wanted your shares voted in the election of Directors, your bank or broker was allowed to vote those shares on your behalf in the election of Directors as they felt appropriate.

Recent changes in regulation eliminated the ability of your bank or broker to vote your uninstructed shares in the election of Directors on a discretionary basis. Therefore, if you hold your shares in street name and you do not instruct your bank or broker how to vote in the election of Directors, no votes will be cast on your behalf. Your bank or broker will, however, continue to have discretion to vote

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any uninstructed shares on the ratification of the appointment of the Company s independent registered public accounting firm (Proposal 2 of this Proxy Statement). If you are a shareholder of record and you do not cast your vote, no votes will be cast on your behalf on any proposals at the Annual Meeting.

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 2011 must set forth such proposal in writing and file it with the Secretary of the Company no later than November 29, 2010, the date that is 120 days before March 29, 2011. Further, pursuant to Rule 14a-4, if a shareholder fails to notify the Company of a proposal before February 12, 2011, the date that is 45 days before March 29, 2011, 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 2009 Annual Report to Shareholders including, but not limited to, the consolidated balance sheets as of December 31, 2009 and 2008 and the related consolidated statements of operations, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2009, accompanies these materials. A copy of the 2009 Annual Report to Shareholders may be obtained without charge upon request to the Company. The 2009 Annual Report to Shareholders can also be accessed on the Company s website at *http://www.vitalimages.com* by selecting Investors, then Financial Information 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, 2009 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.

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BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth, as of February 28, 2010 (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:		
Eagle Asset Management, Inc.	1,223,376(3)	8.50%
T. Rowe Price Associates, Inc.	1,062,216(4)	7.38%
Dimensional Fund Advisors LP	894,380(5)	6.21%
BlackRock, Inc.	820,033(6)	5.70%
JPMorgan Chase & Co.	800,732(7)	5.56%
Capital Research Global Investors	792,000(8)	5.50%
Janus Capital Management LLC	741,225(9)	5.15%
Executive Officers and Directors:		
James B. Hickey, Jr.	71,300(10)	*
Michael H. Carrel	303,257(11)	2.11%
Oran E. Muduroglu		
Gregory J. Peet	52,000(12)	*
Richard W. Perkins	115,000(13)	*
Douglas M. Pihl	74,525(14)	*
Michael W. Vannier, M.D.	75,000(15)	*
Sven A. Wehrwein	71,000(16)	*
Aaron (Erkan) Akyuz	15,000(17)	*
Peter J. Goepfrich	96,309(18)	*
Steven P. Canakes	103,325(19)	*
Vikram Simha	81,904(20)	*
All Directors and executive officers as a group (13 persons)	1,104,295(21)	7.67%

* 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 14,398,042 shares outstanding as of February 28, 2010. Such number does not include 2,420,776 shares of common stock subject to stock options outstanding as of February 28, 2010. 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, 2010 or within 60 days of February 28, 2010 upon the exercise of stock options.

(3) Reflects information as of December 31, 2009 derived from Amendment No. 1 to Schedule 13G filed with the SEC by Eagle Asset Management, Inc. on January 26, 2010. As set forth in the Schedule 13G, as amended, Eagle Asset Management, Inc. has sole voting and dispositive power as to 1,223,376 shares. The principal business address of Eagle Asset Management, Inc. is 880 Carillon Parkway, St. Petersburg, Florida 33716.

(4) Reflects information as of December 31, 2009 from Amendment No. 4 to Schedule 13G filed with the SEC by T. Rowe Price Associates, Inc. on February 12, 2010. As set forth in the Schedule 13G, as amended, T. Rowe

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Price Associates, Inc. has sole voting power as to 127,397 shares and sole dispositive power as to 1,062,216 shares. These securities are owned by various individual and institutional investors for which T. Rowe Price Associates, Inc. (Price Associates) serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities. The principal business address of T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202.

(5) Reflects information as of December 31, 2009 from Amendment No. 1 to Schedule 13G filed with the SEC by Dimensional Fund Advisors LP on February 8, 2010. As set forth in the Schedule 13G, as amended, Dimensional Fund Advisors LP has sole voting power as to 866,656 shares and sole dispositive power as to 894,380 shares. Dimensional Fund Advisors LP (Dimensional), an investment advisor, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the Funds. In its role as investment advisor or manager, Dimensional possesses investment and/or voting power over the securities that are owned by the Funds, and may be deemed to be the beneficial owner securities held by the Funds. All securities reported in the Schedule 13G are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. The principal business address of Dimensional Fund Advisors LP is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas 78746.

(6) Reflects information as of December 31, 2009 derived from Schedule 13G filed with the SEC by BlackRock, Inc. on January 29, 2010. As set forth in the Schedule 13G, BlackRock, Inc. has sole voting and dispositive power as to 820,033 shares. The principal business address of BlackRock, Inc. is 40 East 52nd Street, New York, New York 10022.

(7) Reflects information as of December 31, 2009 derived from Schedule 13G filed with the SEC by JPMorgan Chase & Co. on February 3, 2010. As set forth in the Schedule 13G, JPMorgan Chase & Co. has sole voting power as to 724,360 shares, shared voting power as to 732 shares and sole dispositive power as to 800,732 shares. The principal business address of JPMorgan Chase & Co. is 270 Park Avenue, New York, New York 10017.

(8) Reflects information as of December 31, 2009 derived from Amendment No. 4 to Schedule 13G filed with the SEC by Capital Research Global Investors, a division of Capital Research and Management Company, on February 10, 2010. As set forth in the Schedule 13G, as amended, Capital Research Global Investors has sole voting and dispositive power as to 792,000 shares. The principal business address of Capital Research Global Investors is 333 South Hope Street, Los Angeles, California 90071.

(9) Reflects information as of December 31, 2009 derived from Schedule 13G filed with the SEC by Janus Capital Management LLC (Janus Capital) on February 16, 2010. As set forth in the Schedule 13G, Janus Capital has shared voting and dispositive power as to 741,225 shares and no sole voting or dispositive power as to any shares. Janus Capital has a direct 91.8% ownership stake in INTECH Investment Management (INTECH) and a direct 77.8% ownership stake in Perkins Investment Management LLC (Perkins). Due to the above ownership structure, holdings for Janus Capital, Perkins and INTECH are aggregated for purposes of this filing. Janus Capital, Perkins and INTECH are registered investment advisers, each furnishing investment advice to various investment companies registered under Section 8 of the Investment Company Act of 1940 and to individual and institutional clients (collectively, Managed Portfolios). As a result of its role as investment adviser or sub-adviser to the Managed Portfolios, Perkins may be deemed to be the beneficial owner of 741,225 shares or 5.2% of the shares outstanding of Vital Common Stock held by such Managed Portfolios. However, Perkins does not have the right to receive any dividends from, or the proceeds from the sale of, the securities held in the Managed Portfolios and disclaims any ownership associated with such rights. The principal business address of Janus Capital is 151 Detroit Street, Denver, Colorado 80206.

(10) Includes 39,000 shares that Mr. Hickey has the right to acquire upon the exercise of stock options.

(11) Includes 280,820 shares that Mr. Carrel has the right to purchase upon the exercise of stock options and 1,600 shares subject to a restricted stock award.

(12) Includes 32,000 shares that Mr. Peet has the right to acquire upon the exercise of stock options.

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(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 45,000 shares Mr. Perkins has the right to purchase upon the exercise of stock options. Mr. Perkins disclaims beneficial ownership over 428,389 shares held in client accounts at Perkins Capital Management, Inc. Perkins Capital Management, Inc. has sole investment power over the 428,389 shares and sole voting power over 180,747 shares.

(14) Includes 45,000 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.

(15) Includes 41,000 shares that Dr. Vannier has the right to acquire upon the exercise of stock options.

(16) Includes 45,000 shares that Mr. Wehrwein has the right to acquire upon the exercise of stock options.

(17) Consists of 15,000 shares subject to a restricted stock award.

(18) Includes 94,730 shares that Mr. Goepfrich has the right to acquire upon the exercise of stock options and 800 shares subject to a restricted stock award.

(19) Includes 77,380 shares that Mr. Canakes has the right to acquire upon the exercise of stock options and 1,300 shares subject to restricted stock awards.

(20) Includes 68,130 shares that Mr. Simha has the right to acquire upon the exercise of stock options and 11,250 shares subject to restricted stock awards.

(21) Includes 808,727 shares that all Directors and executive officers as a group have the right to acquire upon the exercise of stock options and 30,750 shares subject to restricted stock awards.

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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 eight 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. Our President and Chief Executive Officer recommended Mr. Muduroglu to our Governance and Nominating Committee as a candidate for membership on our Board. 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
James B. Hickey, Jr.	Chair of the Board	56	May 1998
Michael H. Carrel	Director, President and Chief Executive Officer	39	January 2008
Oran E. Muduroglu	Director	47	February 2010
Gregory J. Peet	Director	56	July 2005
Richard W. Perkins	Director	79	May 1997
Douglas M. Pihl	Director	70	May 1997
Michael W. Vannier, M.D.	Director	61	December 1997
Sven A. Wehrwein	Director	59	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.

James B. Hickey, Jr., has been a Director of the Company since May 1998 and Chair of the Board of Directors since September 2008. Mr. Hickey is currently a private investor. From December 2005 to November 2008, Mr. Hickey was President and Chief Executive Officer and a Director 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. Within the last five years, Mr. Hickey also served as a director of Allied Healthcare Products, Inc. Among the experiences, qualifications, attributes and skills that Mr. Hickey

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brings to the Board are his past positions as a Chief Executive Officer and sales executive for several medical device companies.

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 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. Mr. Carrel is a certified public accountant (inactive). Mr. Carrel brings to the Board his experience and knowledge of our business derived from his current position as Chief Executive Officer and his past positions as Chief Financial Officer and Chief Operating Officer.

Oran E. Muduroglu has been a Director of the Company since February 2010. In January 2010, he became the CEO of Medicalis Corporation. Between January 2006 and June 2008 he was the CEO of the Philips Medical Systems Healthcare Informatics Group of Philips Medical Systems. Between March 2004 and August 2005, he was the CEO of Stentor, Inc., and between November 1998 and March 2004, he was the CEO of Stentor, Inc., which was acquired by Philips Medical Systems in January 2006. Mr. Muduroglu also serves as a director of Median Technologies, Amirsys, Inc., and Medicalis Corporation, all of which are privately-held companies. Among the experiences, qualifications, attributes and skills that Mr. Muduroglu brings to the Board are his past leadership positions at Stentor and Philips Medical Systems, developer of one of the leading picture archiving communications systems (PACS) products, which is a related product to our products, as well as his deep knowledge of our industry.

Gregory J. Peet has been a Director of the Company since July 2005. Since July 2004, his principal 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 PACS vendor, most recently as its President, Chief Executive Officer and Chairman. Mr. Peet also serves as a Director of Vigil Health Solutions, Inc. (Chairman), a public company listed on the Toronto Stock Exchange, and as a Director of Contigo Systems, Inc. (Chairman), Cogent Health Solutions, Inc. , OneMedNet, and OneMedNet Corporation (Chairman), which are privately-held. With the last five years, Mr. Peet also served as director of Angiotech Pharmaceuticals, Inc. 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. Among the experiences, qualifications, attributes and skills that Mr. Peet brings to the Board are his past leadership positions at A.L.I. and McKesson, developer of one of the leading PACS products, which is a related product to our products, as well as his deep knowledge of our industry.

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. Within the last five years, Mr. Perkins also served as a director on the following publicly-traded companies: LifeCore Biomedical, Inc., CNS, Inc., Nortech Systems, Inc., PW Eagle, Inc., and Teledigital, Inc.

Mr. Perkins brings financial expertise to the Board, as a long-time investment manager, an experience that also causes Mr. Perkins to bring a good understanding of shareholder and corporate governance issues.

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Douglas M. Pihl has been a Director of the Company since May 1997. He also served as Chair of its Board of Directors from December 1997 to September 2008, and he was its interim Chief Executive Officer from February 1998 to December 1999. Mr. Pihl has over 45 years of experience in the computer industry, with extensive responsibility in design, product planning and management. Between April 1997 and July 2009, Mr. Pihl served as Chairman, Chief Executive Officer and President of MathStar, Inc. Among the experiences, qualifications, attributes and skills that Mr. Pihl brings to the Board are his past positions as a Chief Executive Officer and technology executive for software and technology 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. Dr. Vannier, as a radiologist on the staff of The University of Chicago Hospitals, who also was an engineer before he received his medical degree, brings a unique customer viewpoint and also brings to the Board valuable insights into technology and product strategy.

Sven A. Wehrwein has been a Director of the Company since May 1997. He has more than 30 years of 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. Within the last five years, Mr. Wehrwein also served as a director of six mutual funds in the Van Wagoner group. 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 (inactive). Given his experiences in investment banking and in financial leadership positions with several companies, Mr. Wehrwein brings capabilities in financial understanding, strategic planning, and auditing expertise. As Chair of the Audit Committee, Mr. Wehrwein keeps the Board abreast of current audit issues and collaborates with our independent auditors and senior management team.

Independent Directors

The Company s Governance and Nominating Committee has determined that each of Dr. Vannier and Messrs. Hickey, Muduroglu, Peet, Perkins, Pihl and Wehrwein are independent, as that term is defined in Rule 5605 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 2009, the Board of Directors met eight times and acted two times by written action. Also during 2009, the Compensation Committee of the Board of Directors met three times and acted three times by written action, the Audit Committee of the Board of Directors met six times, and the Governance and Nominating Committee of the Board of Directors met five times. All Directors attended at least 75% of the aggregate of all meetings of the Board and Committees on which they served during the year ended December 31, 2009.

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. With the exception of Mr. Muduroglu, who was appointed to the Board in February 2010, all Directors being nominated to serve as Directors attended the annual meeting of shareholders held in 2009.

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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 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. As of April 1, 2010, the members of the Compensation Committee are Gregory J. Peet (Chair), Sven A. Wehrwein and Douglas M. Pihl. Mr. Peet and Mr. Pihl were members of the Compensation Committee throughout 2009, as was James B. Hickey, Jr. The Board of Directors has determined that all members of the Compensation Committee are independent, as that term is defined in Rule 5605 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 reviews the internal and external financial reporting of the Company and reviews the scope of the independent audit. The Audit Committee also 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. It also oversees the Company s Policy and Procedures with respect to Related Person Transactions. The current members of the Audit Committee are Sven A. Wehrwein (Chair), James B. Hickey, Jr. and Richard W. Perkins, who were also the members of the Audit Committee throughout 2009. The Company s Board of Directors has determined that all members of the Audit Committee are independent under Rule 5605 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 and Richard W. Perkins are each 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 5605 of NASDAQ s Marketplace Rules and at least annually develops a succession plan for the Company s Chief Executive Officer. The Governance and Nominating Committee also oversees annual review of the performance of the Board of Directors and the individual Directors. As of April 1, 2010, the members of the Governance and Nominating Committee are Richard W. Perkins (Chair), Michael W. Vannier, M.D., and Oran E. Muduroglu. Mr. Perkins, Dr. Vannier and Sven A. Wehrwein were members of the Governance and Nominating Committee throughout 2009.

The Strategy Committee is responsible for overseeing the development and implementation of the Company s long-term strategic plan, its business development activities and how the company s strategic plan is presented to the investment community. The Strategy Committee began operations in February 2010. The current members of the Strategy Committee are James B. Hickey, Jr. (Chair), Michael H. Carrel, Oran E. Muduroglu, Gregory J. Peet, Michael W. Vannier, M.D., and Sven A. Wehrwein.

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

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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 2009, the Board met in executive session five times.

Risk Oversight

Through a series of discussions with management and the Company s Vice President, General Counsel and Secretary, both during Board meetings and in conversations directly between certain members of the Board and the general counsel, the Board of Directors has identified and prioritized various enterprise risks, and each prioritized risk is assigned to a board committee or the full board for oversight. For example, strategic risks are overseen by the newly-formed Strategy Committee; financial risks are overseen by the Audit Committee; compensation risks are overseen by the Compensation Committee; CEO succession planning is overseen by the Governance and Nominating Committee; and compliance risks are typically overseen by the full Board. Management regularly reports on each such risk to the relevant committee or the Board, and material risks identified by a relevant committee are then presented to the full Board. The enterprise risk management program as a whole is reviewed annually at a meeting of the Board. Additional review or reporting on enterprise risks is conducted as needed or as requested by the board or committee. Coordination of management s review of enterprise risks is performed by the Company s Vice President, General Counsel and Secretary, who reports to the CEO and is a member of the Company s leadership.

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 Documents & Charters and then Code of Business Conduct and Ethics. 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 person 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.

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.

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Policy with Respect to Board Service

The Board has adopted a policy that no Director may serve on the board of directors of more than six public companies, including Vital Images.

Board Leadership Structure

For many years, the Company has separated the roles of CEO and Chairman of the Board of Directors. The Company has long felt that such a separation has benefited the Company, by enhancing the opportunities for checks and balances between the Company s strategies and its objectives and ensuring that a wider selection of alternative measures are considered. Our current Chairman, James B. Hickey, Jr., has served in that role since September 2008 and our current CEO, Michael H. Carrel, has served in that role since January 2008.

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, personal integrity in judgment and their willingness to be a prepared and active participant at Board and committee meetings. 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 the economy, as well as to 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.

The Company s Corporate Governance Guidelines describe our director qualifications. The Board seeks members who will contribute to the Company s overall corporate goals, taking into account its responsibility to its shareholders, industry leadership, customer success, positive working environment, and integrity in financial reporting and business conduct. Directors should have experience in positions with a high degree of responsibility and be leaders in the companies or institutions with which they are affiliated; they should be selected based upon their potential contributions to the Board and management and their ability to represent the interests of shareholders. Diversity of a candidate s skills and experiences, as well as demographics, are considered as part of the nomination process.

When considering diversity, the Governance and Nominating Committee and the Board seek directors with a diversity of skills and experiences. To determine whether the board has the appropriate diversity or whether a potential new member could improve the diversity of skills or experiences, the Governance and Nominating Committee and the Board consider issues like the following:

- Skills and experiences presently represented on the Board
- Desired size of the Board
- Biggest needs of the Board

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Among the skills and experiences considered are the following:

- Significant M&A experience;
- Expertise in software, imaging, healthcare or some mix;
- Strategic alliance partner;
- Leadership of a company with significantly greater revenues than the Company; and
- Financial expertise.

For new candidates, the Governance and Nominating Committee and the Board also consider whether the person will provide gender or racial diversity.

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 of Directors the individuals 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 Exchange Act; 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

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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

Compensation for the non-employee directors is set by the Compensation Committee. Key considerations in determining director compensation are for a meaningful portion of director compensation to be in the form of stock options, to align directors long-term interests with those of shareholders, and for the compensation program to be simple and transparent. Effective as of September 1, 2008, the Compensation Committee adjusted the cash component of director compensation, so that compensation paid after that date was solely on a retainer basis, and meeting fees were discontinued.

The following table sets forth information about the compensation paid by the Company to and earned by its non-employee Directors for the year ended December 31, 2009:

DIRECTOR COMPENSATION TABLE 2009

Name	Fees Earned or Paid in Cash (1)	Option Awards (2)	Total Compensation
James B. Hickey, Jr.	$ 68,000	$ 28,291(3)(4)	$ 96,291
Oran Muduroglu (5)			
Gregory J. Peet	44,000	28,291(3)(4)	72,291
Richard W. Perkins	46,000	28,291(3)(4)	74,291
Douglas M. Pihl	32,000	28,291(3)(4)	60,291
Michael W. Vannier, M.D.	28,000	28,291(3)(4)	56,291
Sven A. Wehrwein	52,000	28,291(3)(4)	80,291

(1) Consists of fees earned in 2009.

(2) The value of the stock options is the full grant-date fair value computed in accordance with applicable accounting guidance for share-based payments. 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, 2009 for a discussion of the assumptions used in calculating the fair value. This portion of the Annual Report on Form 10-K is included in our 2009 Annual Report to Shareholders.

(3) On May 15, 2009, under the 2006 Long-Term Incentive Plan, each director received an automatic stock option award consisting of options for 7,600 having a grant-date fair value of $28,291.

(4) As of December 31, 2009, the following non-employee Directors had outstanding options to purchase the following number of shares of the Company s common stock, which had been granted under the Vital Images, Inc. 1997 Director Stock Option Plan and the 2006 Long-Term Incentive Plan: Mr. Hickey (46,600 shares, of which options to purchase 39,000 shares were exercisable), Mr. Peet (39,600 shares, of which options to purchase 32,000 shares were exercisable), Mr. Perkins (52,600 shares, of which options to purchase 45,000 shares were exercisable), Mr. Pihl (52,600 shares, of which options to purchase 45,000 shares were exercisable), Dr. Vannier (48,600 shares, of which options to purchase 41,000 shares were exercisable), and Mr. Wehrwein (52,600 shares, of which options to purchase 45,000 shares were exercisable).

(5) Mr. Muduroglu joined the Board in February 2010 and therefore did not receive any compensation from the Company during 2009.

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Non-employee Director Fees. Non-employee directors receive the following annual retainers for service on the Board and its Committees:

		Member Retainer
Board of Directors	$	24,000
Audit Committee		12,000
Compensation Committee		8,000
Governance and Nominating Committee		4,000
Strategy Committee		8,000

Also, non-employee directors serving as Chairs of the Board or its Committees receive the following additional retainers for such service:

		Additional Chair Retainer
Board of Directors	$	24,000
Audit Committee		12,000
Compensation Committee		12,000
Governance and Nominating Committee		6,000
Strategy Committee		12,000

1997 Director Stock Option Plan. The Vital Images, Inc. 1997 Director Stock Option Plan (the 1997 Director Plan) was adopted by the Board of Directors on March 19, 1997 and approved by the sole shareholder of the Company on May 1, 1997. It automatically terminated on March 19, 2007, although options outstanding under the 1997 Director Plan on that date were not affected by the 1997 Director Plan s termination. The 1997 Director Plan was intended to assist the Company in attracting, motivating and retaining well-qualified individuals to serve as Directors of the Company. The 1997 Director Plan provided for both the automatic and discretionary grant of options. The only individuals eligible to receive options under the 1997 Director Plan were members of the Board of Directors of the Company, and the only individuals eligible to receive automatic grants of options under the 1997 Director Plan were those Directors of the Company who were not employees of the Company. The 1997 Director Plan provided that the total number of shares of the Company s common stock that may be purchased upon the exercise of options could not exceed 500,000 shares, subject to adjustment as provided in the 1997 Director Plan. The 1997 Director Plan was administered by the Board of Directors of the Company.

During the term of the 1997 Director Plan, all grants of stock options under the 1997 Director Plan and the amounts and terms of the options so granted were automatically determined under the 1997 Director Plan, and there were no discretionary grants of options under the 1997 Director Plan. As such, the Board of Directors had no authority to determine the grant or terms of such automatic options. Under the 1997 Director Plan, non-employee Directors of the Company received automatic grants of stock options to purchase 18,000 shares on their initial election or appointment to the Board of Directors and on each third anniversary of their appointment to the Board so long as they were members of the Company s Board. On February 28, 2010, there were options to purchase 180,000 shares outstanding under the 1997 Director Plan, all of which were automatic options.

2006 Long-Term Incentive Plan. On March 9, 2006, the Company s Board of Directors adopted and, on May 4, 2006, the Company s shareholders approved, the Vital Images, Inc. 2006 Long-Term Incentive Plan (the 2006 Plan). Throughout 2006, the provisions of the 2006 Plan providing for the automatic grant of options to non-employee Directors generally were the same as those of the 1997 Director Plan, although no options were granted under the 2006 Plan to non-employee Directors during 2006. The 2006 Plan was amended by the Board of Directors on February 2, 2007 to change certain features of the automatic grants of options to non-employee Directors. As amended on February 2, 2007, the 2006 Plan provides that when a non-employee Director is first elected or appointed to the Board, the Director will automatically receive an option to purchase a number of shares of common stock determined by multiplying 9,000 shares by a fraction, the numerator of which is the expected number of

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months until the next annual meeting of the Company s shareholders and the denominator of which is twelve. As amended on February 2, 2007, the 2006 Plan provides that beginning in 2008, each non-employee Director was to be automatically granted, on the day after the Company s annual meeting of shareholders, an option to purchase 9,000 shares of common stock, with the exception of Michael W. Vannier, M.D., who was to receive an option to purchase 5,000 shares on such date in 2008. In addition, the Compensation Committee and the Board of Directors approved the one-time grant under the 2006 Plan to James B. Hickey, Jr. and Gregory J. Peet on the day after the 2007 annual shareholders meeting of an option to purchase 12,000 shares and 5,000 shares, respectively, as a time cycle adjustment for them. Beginning in 2009, each non-employee Director was to receive an annual automatic grant of an option to purchase 9,000 shares of common stock on the day after the annual shareholders meeting. However, when at the conclusion of the Company s stock repurchase program in early February 2009, the number of outstanding shares of Company common stock had been reduced from approximately 17.2 million shares to approximately 14.5 million shares, or approximately 15.7%, the Compensation Committee elected to eliminate the automatic grant for 2009 of an option to purchase 9,000 shares and instead authorized a grant to each non-employee Director of an option to purchase 7,600 shares, which is approximately 15.7% fewer shares, and for such option to be awarded on the day after the 2009 Annual Meeting. For 2010, because the repurchase program further reduced the number of outstanding shares of Company stock, the Compensation Committee decided to grant to each non-employee Director an option to purchase 7,500 shares, which will be awarded on the day after the 2010 Annual Meeting, instead of the automatic grant of an option to purchase 9,000 shares. All options granted to Directors under the 2006 Plan will vest one year after the date of grant, have a term of five years, and have an exercise price equal to the closing price of the Company s common stock as of the date of grant.

In addition to automatic option grants, the 2006 Plan permits the Compensation Committee to make discretionary grants of stock options to any and all Directors, including non-employee Directors. Upon the discretionary grant of options to the Company s non-employee Directors under the 2006 Plan, the Compensation Committee will fix the number of shares of the Company s common stock that the optionee may purchase upon exercise of the option and the exercise price at which the shares may be purchased. The exercise price of such options cannot be less than the fair market value of the common stock at the time the option is granted. Each option will be exercisable by the optionee only during the term fixed by the Compensation Committee, with such term ending not later than five years after the date of grant.

All options granted to non-employee Directors under the 2006 Plan are non-qualified options not intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended. Payment for shares upon exercise of any automatic or discretionary options granted to non-employee Directors under the 2006 Plan may be made in cash, in shares of Company s common stock that have been owned for more than six months having an aggregate fair market value on the date of exercise which is not less than the exercise price of the shares of common stock being purchased, partly in cash and partly in such shares, or by the delivery of irrevocable instructions to a broker to sell shares of common stock obtained upon the exercise of an option and to deliver to the Company an amount out of the proceeds of such sale equal to the aggregate exercise price of the shares being purchased. On February 28, 2010, non-employee Directors held 120,100 options to purchase shares under the 2006 Plan, all of which were automatically granted options, with the exception of the 2007 grants to Messrs. Hickey and Peet and the 2008 grant to Dr. Vannier.

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Executive Officers

The following discussion sets forth information as of March 29, 2010 about the executive officers of the Company who are not Directors.

Name	Positions with the Company	Age	In Position Since
Peter J. Goepfrich	Chief Financial Officer and Treasurer	37	January 2008
Stephen S. Andersen	Vice President Channels and International	40	March 2010
Steven P. Canakes	Executive Vice President Sales	54	March 2008
Vikram Simha	Chief Technology Officer	43	August 2008
Aaron (Erkan) Akyuz	Executive Vice President Engineering	41	August 2009

Peter J. Goepfrich was named Chief Financial Officer in January 2008. From March 2007 until January 2008, Mr. Goepfrich was Vice President Finance and Accounting. Previously, he was Senior Director of Finance from March 2005 to March 2007 and Controller from August 2004 to March 2005. From September 1997 to August 2004, Mr. Goepfrich served in PricewaterhouseCoopers LLP s Assurance and Business Advisory Services practice with a specialization in the audit of technology companies. Mr. Goepfrich is a certified public accountant (inactive).

Stephen S. Andersen was named Vice President Channels and International in March 2010. He has been employed by Vital Images since May 1999. Between March 2008 and March 2010, he was Vice President Strategic Partnerships; between May 2007 and March 2008, he was Vice President Sales Operations; between January 2006 and May 2007, he was Vice President Europe; and between January 2004 and January 2006, he was Vice President Engineering.

Steven P. Canakes was named Executive Vice President Sales in March 2010. Previously, he was Executive Vice President Sales and International Operations from March 2008 through March 2010, Executive Vice President Global Sales from September 2005 until March 2008, Vice President-Sales from March 2000 until September 2005, Vice President-U.S. Sales from August 1998 to March 2000 and Director of U.S. Sales from March 1998 to August 1998. From July 1996 to March 1998, Mr. Canakes was Vice President of Business Development for MedManagement, LLC in Plymouth, Minnesota. From February 1994 to July 1996, he served as Vice President of Sales for Medintell Systems and Value Health Corporation, a Medintell Systems Division. Before February 1994, Mr. Canakes was a CT Product Sales Manager for Picker International, Inc.

Vikram Simha was named Chief Technology Officer in August 2008 and was also Executive Vice President Engineering from August 2008 to August 2009. From August 2001 until July 2008, Mr. Simha held software engineering and software management positions at TeraRecon Inc., including service as Chief Technology Officer and Senior Vice President, 3D Engineering from December 2007 through July 2008 and as Vice President, 3D Engineering from June 2005 through December 2007. Mr. Simha was a software engineer and principal software engineer at Vital Images from 1994 to 1998.

Aaron (Erkan) Akyuz has been Executive Vice President Engineering since August 2009. Prior to Vital Images, Mr. Akyuz was employed at Agfa Healthcare, where, between January 2002 and June 2009, he served as chief technology officer. Before January 2002, Mr. Akyuz had performed other roles at Agfa Healthcare, including vice president of research and development, director of technology and architecture, and director of process, methodologies and tools.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s Directors, executive officers, and any persons holding more than 10% of the outstanding common stock of the Company to file reports with the Securities and Exchange Commission concerning their initial ownership of common stock

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and any subsequent changes in that ownership. The Company believes the filing requirements for its Directors and Named Executive Officers were satisfied for 2009, with the exception of one Form 4 filing in September 2009 for Douglas M. Pihl, which was filed one day late. In making this disclosure, the Company has relied solely on written representations of its Directors, executive officers and beneficial owners of more than 10% of its common stock and on copies of the reports that they have filed with the Securities and Exchange Commission.

Compensation Discussion and Analysis

Compensation Philosophy and Components

We compete in a competitive market for personnel, both for executives and for non-executive employees. Desirable candidates for employment at Vital Images may also have attractive opportunities from many other employers, such as multi-national medical device companies, venture-backed or fast-growing medical device or technology companies, and academic research institutions. Our long-term success depends on our ability to develop and market innovative solutions that improve the cost, quality and accessibility of healthcare, which is a very competitive market. To achieve our goals, it is critical that we be able to attract, motivate and retain highly talented individuals at all levels of the organization.

The Compensation Committee of our Board of Directors bases its executive compensation programs on the same objectives that guide the Company in establishing all of its compensation programs:

- Compensation should be based on the level of job responsibility, individual performance and Company performance. As employees progress to higher levels in the organization, an increasing proportion of their pay should be linked to Company performance because they are more able to affect its results.

- Compensation should reflect the value of the job in the marketplace. To attract and retain a highly skilled work force, we must remain competitive with the pay of other premier employers who compete with us for talent.

- Compensation should reward performance, and the objectives of pay-for-performance and retention must be balanced.

- To be effective, performance-based compensation programs should measure the achievement of objectives that are critical for driving the success of the Company.

- Although compensation and benefit programs and individual pay levels will reflect differences in job responsibilities, geographies and marketplace considerations, the overall structure of compensation and benefit programs should be broadly similar across the organization.

- Except for benefits and programs that are available to all of our employees or a broad selection of our general employee population, our executives should receive few perquisites, if any. Perquisites for executives should be rare and limited to those that are important to the Company s ability to attract and retain executive leadership or the executive s ability to safely and effectively carry out his or her responsibilities.

The Compensation Committee is responsible for assuring that compensation for our executives is consistent with our compensation philosophy. The Compensation Committee reviews our compensation philosophy and trends in our industry to ensure that our executive compensation program is competitive and attracts and retains talented management, motivates our executives to achieve short- and long-range corporate objectives, and aligns the motivation and interests of the executives with the interests of our shareholders.

The Compensation Committee administers our equity-based compensation and management incentive programs and other compensation initiatives identified by the Board. The Compensation Committee reviews and approves each executive s base salary, bonus, and equity incentives annually, as

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well as our management incentive plan under which the executive officers may receive non-equity incentive compensation.

We view the various components of compensation as related but distinct. Although the Compensation Committee does review and consider total compensation for each executive officer and for all executive officers as a group, we do not believe that significant compensation derived from one component of compensation should necessarily negate or reduce compensation from other components. We determine the appropriate level for each compensation component based in part, but not exclusively, on the following factors:

- internal equity and consistency;
- the executive compensation paid by other companies with which we compete for executive talent;
- individual performance, and
- Company performance.

The Compensation Committee has not adopted any formal or informal policies or guidelines for allocating compensation between long-term and currently paid-out compensation, between cash and non-cash compensation, or among different forms of non-cash compensation.

For 2009, our named executive officers were Michael H. Carrel, President and Chief Executive Officer; Peter J. Goepfrich, Chief Financial Officer; Steven P. Canakes, Executive Vice President Global Sales; Vikram Simha, Chief Technology Officer; and Aaron (Erkan) Akyuz, Executive Vice President Engineering after August 14, 2009 (the Named Executive Officers).

Setting Executive Compensation

At the end of each calendar year, the members of the Compensation Committee hold several conversations to discuss the desired process and data to determine executive compensation for the following year. These meetings continue through approximately the end of February and the President and Chief Executive Officer and the Chief Financial Officer participate in some, but not all, of the conversations. During the 2009 review sessions, however, management and the Compensation Committee decided, based on the Company s results during 2008, to implement a salary freeze for 2009. Therefore, although the Compensation Committee would typically analyze information about market compensation for similar roles, based on comparisons with benchmark companies and various surveys, as well as information obtained by the members of the Compensation Committee while serving on boards of other companies, because the Compensation Committee decided to implement the salary freeze for our Named Executive Officers, a market review was not performed when setting 2009 compensation. In 2010, the Compensation Committee resumed comparisons with executive officers of peer group companies, but decided again not to increase base salaries for the Named Executive Officers.

As in other years, in 2009, the Compensation Committee considered various factors in determining executive compensation, including the following:

- Motivate, attract and retain high-caliber executives who will achieve short- and long-range business objectives;
- Create a direct, meaningful link between business and team success and individual performance and rewards;
- Foster a sense of urgency and a strong pay-for-performance culture that provides market-leading compensation opportunities commensurate with outstanding performance; and
- Reward for superior execution of Company goals which support Company growth and create additional shareholder value.

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Base Salary

Executive officers receive a base salary to compensate them for services rendered during each year. Base salary is determined by assessing the executive s sustained performance against his or her individual job responsibilities, including the impact of such performance on our business results, market data and comparisons to other Company officers.

Salary levels are considered annually as part of our performance review process as well as upon a promotion or other change in job responsibility. Increases in the salary of the President and Chief Executive Officer are determined by the Compensation Committee based on its assessment of his performance and his achievement of goals. For other Named Executive Officers, increases in base salary are determined by reference to each individual s performance review and the recommendation of the President and Chief Executive Officer. Because the Company implemented a salary freeze for 2009, based on the Company s performance in 2008, no merit-based increases were given during 2009 to the CEO or any of the Company s Named Executive Officers.

Bonus

Bonuses to executive officers are determined and paid under the management incentive plan established each year. Payments under the annual management incentive plan are tied to the level of achievement of annual performance targets by our executives. These targets are based on our annual budget as approved by the Board of Directors. An executive s annual incentive opportunity is based upon a percentage of his or her base salary. The management incentive plan under which bonuses are determined and paid consists of two major components that we believe will have the most positive effect on shareholder value corporate performance and personal performance.

For 2009, we based the corporate performance portion of the management bonus upon achievement as measured by one financial performance criteria and two company performance objectives, which are the following:

- income before taxes, interest, depreciation, amortization and equity-based compensation, which we refer to as adjusted EBITDA ;
- achievement of certification for the Company s customer support operations; and
- achievement of customer adoption of our enterprise software products.

Additionally, if the Company s revenue, as determined in accordance with generally accepted accounting principles, consistently applied, or GAAP, exceeded a threshold amount, a bonus accelerator could be earned. Further, all Named Executive Officers, other than Mr. Carrel, were to receive a portion of their bonuses based on achievement of personal goals. However, to earn any bonus in 2009, the Company s adjusted EBITDA needed to exceed a threshold amount.

The targeted bonus for each Named Executive Officer for 2009 was the following percentages of his or her base salary:

Michael H. Carrel	President and Chief Executive Officer	65%
Peter J. Goepfrich	Chief Financial Officer	50%
Steven P. Canakes	Executive Vice President Sales and International Operations	75%
Vikram Simha	Chief Technology Officer (1)	35%
Aaron (Erkan) Akyuz	Executive Vice President Engineering	35%

(1) Mr. Simha also served as Executive Vice President Engineering until Mr. Akyuz was hired on August 14, 2009.

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The bonus target for each executive during 2009 was the same as that executive s 2008 bonus target, with the exception of the bonus target for Mr. Akyuz, who joined the Company on August 14, 2009. The bonus target for Mr. Akyuz was set at the same rate as the target for Mr. Simha and other technology executives. In 2009, the following percentages of potential bonus for each Named Executive Officer was based on achievement of the following goals:

	Chief Executive Officer (Michael H. Carrel)	Executive Vice President Global Sales (Steven P. Canakes)	All Other Named Executive Officers (Peter J. Goepfrich, Vikram Simha, Aaron (Erkan) Akyuz)
Adjusted EBITDA Objective	70%	45%	60%
Customer Support Certification	15%	15%	15%
Enterprise Software Adoption	15%	15%	15%
Personal Objectives	%	25%	10%
Total Target	100%	100%	100%
Bonus Accelerator: Revenue Objective	40%	40%	30%
Total Target with Accelerator	140%	140%	130%

The Compensation Committee chose the financial performance objectives of revenue and adjusted EBITDA because it believed they are objective and well-known measures, and because the Compensation Committee believed that achievement of the objectives would directly benefit the shareholders. The customer support certification objective was chosen because management and the Compensation Committee believed that focus on the quality of service provided by the Company is a strong indicator of customer satisfaction, which, the Company believes, is a good long-term indicator of whether customers will continue to purchase the Company s products and services. The enterprise software adoption objective was selected because management and the Compensation Committee believed that achieving a stretch goal for customer adoption during a difficult economy would provide the business benefits when the economy recovers.

The financial performance objectives have minimum achievement levels and maximum potential bonuses for overachievement. Results below the minimum achievement levels will result in no bonus for that objective. After the minimum is obtained, actual results within an achievement range will be interpolated until the maximum potential bonus is achieved. The objectives for customer support certification and enterprise software adoption were designed to be either achieved or not, as were the personal objectives.

Our 2009 corporate performance measurement amounts for all objectives were the same for all of our Named Executive Officers. For 2009, the Compensation Committee approved targets of 100% bonuses for Named Executive Officers upon the achievement of $4.0 million of adjusted EBITDA and payment of a bonus accelerator under the revenue objective to begin if the Company recorded at least the same amount of revenue that it recorded in 2008. The bonus for customer support certification would be achieved if the Company obtained certification by the Service and Support Professionals Association and the bonus for enterprise software adoption would be achieved if the Company s enterprise software offering were implemented at a stretch number of customers. Overachievement against the adjusted EBITDA target could have earned up to 250% of the bonus amount eligible for award under that objective. Our Named Executive Officers could have achieved greater bonuses for overachievement against the adjusted EBITDA objective than for the other objectives because we felt this objective would more directly reflect the financial performance of the Company in what was expected to be a difficult economy during 2009, but the Compensation Committee also wished to reward the Named Executive Officers if the Company obtained at

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least as much revenue in 2009 as in 2008, because the Compensation Committee believed that achievement of such revenue would result in above-normal benefits to the shareholders.

Our targets for revenue and adjusted EBITDA were chosen to represent growth over our results in 2008, and thus were considered to be difficult to achieve. For example, no bonus was to be earned for the revenue objective unless revenue in 2009 exceeded revenue in 2008, and the bonus target for adjusted EBITDA in 2009 represented growth of more than 100% over the adjusted EBITA obtained by the Company in 2008. The Compensation Committee also felt achievement of these objectives would drive significant value for our shareholders.

The bonus paid to each Named Executive Officer for performance in 2009 and the components of that payment was the following:

Executive	Michael H. Carrel	Peter J. Goepfrich	Steven P. Canakes	Vikram Simha	Aaron (Erkan) Akyuz
Title	President and Chief Executive Officer	Chief Financial Officer	Executive Vice President Sales and International Operations	Chief Technology Officer	Executive Vice President Engineering
Adjusted EBITDA Objective	$ 85,292	$ 38,095	$ 43,510	$ 30,476	$ 12,177
Customer Support Certification	30,225	15,750	23,985	12,600	5,034
Enterprise Software Adoption					
Personal Objectives		8,400	31,980	8,400	4,027
Total Bonus	115,517	62,245	99,475	51,476	21,238
Bonus Accelerator: Revenue Objective					
Total Bonus with Accelerator	$ 115,517	$ 62,245	$ 99,475	$ 51,476	$ 21,238

In 2009, the Company achieved approximately 60% of the adjusted EBITDA objective and did obtain customer support certification, but it did not achieve its enterprise software adoption objective or attain the minimum threshold at which a bonus accelerator would be paid under the revenue objective.

The personal performance portion of the management incentive plan is based on specific objectives set annually for each individual. Individual performance objectives are determined by the executive officer to whom the potential bonus recipient reports or, in the case of the President and Chief Executive Officer, by the Compensation Committee. However, the President and Chief Executive Officer was not eligible to receive a bonus based on achievement of his personal objectives for 2009. Because the personal objectives are based upon achieving identified tasks, under the management incentive plan, an executive officer is generally not eligible to receive more than 100% of the possible bonus for any overachievement of these objectives under the plan, though the Compensation Committee may exercise discretion in awarding bonuses in excess of 100%. The personal objectives for each Named Executive Officer are related to achievements within their specific functions. The President and Chief Executive Officer approves the personal objectives of the other Named Executive Officers and measures their performance. Most of the personal objectives are considered to be difficult to achieve, but attainable. Achievement of the goals was measured both quantitatively and qualitatively by the Compensation Committee and the President and Chief Executive Officer. Following this assessment, the Compensation Committee determined to exercise its discretion in paying out bonuses for achievement of personal objectives at the following levels:
Mr. Goepfrich and Mr. Canakes received payouts equivalent to 80% of the target bonus for which they were eligible upon achievement of personal objectives, Mr. Simha received a bonus equivalent to

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100% of the target bonus for which he was eligible upon achievement of personal objectives, and Mr. Akyuz received a bonus equivalent to 120% of the target bonus for which he was eligible upon achievement of personal objectives. The performance bonus paid to Mr. Akyuz was prorated to his August 14, 2009 start date of employment. The exercise of discretion used in making these bonus payouts was the result of a subjective analysis of the performance of the affected Named Executive Officers during a difficult 2009 and other factors such as a desire to retain these individuals and motivate their future performance.

The management incentive plan is administered by the Board of Directors and Compensation Committee, which have the right, at any time and at their discretion, to amend the plan, increase or decrease individual payout amounts, whether earned or unearned, or terminate the plan, in whole or in part. The Company follows applicable laws and regulations regarding recovery of any bonus or other incentive-based or equity-based compensation, or profits realized from the sale of securities, resulting from misconduct. The Compensation Committee also retains discretion to award special bonuses for outstanding achievement. However, no discretionary bonuses were awarded for 2009 performance.

Equity-Based Compensation Program

Our shareholder-approved equity compensation plan permits a variety of equity awards. Grants of stock options and restricted stock awards are the primary vehicles for offering long-term incentives to executive officers and key employees. The objectives of our equity-based compensation program are to advance the longer-term interests of the Company, complement incentives tied to annual performance, and align the interests of executives more closely with those of our shareholders. We believe that long-term incentives provided by stock options and restricted stock awards are especially significant in motivating our executives and retaining their services. The number of stock options and restricted stock awards granted is based on the executive s position and performance in that position. During 2009, as in prior years, we granted stock options to executives and other senior officers in March 2009 as part of our Company-wide annual grant. With the exception of Mr. Akyuz, who received stock options and restricted stock when he was hired in August 2009, the Named Executive Officers did not receive restricted stock grants during 2009. We will continue to evaluate what types of equity award vehicles achieve the best balance between continuing our successful practice of providing equity-based compensation and creating and maintaining long-term shareholder value.

The Compensation Committee has prescribed standardized target option grants for the Company s executives as a percentage of shares outstanding. Within the prescribed target, the Compensation Committee considers recommendations made by the President and Chief Executive Officer with regard to grants of options and restricted stock awards to executive officers. The Compensation Committee reviews these recommendations and approves grants of options and restricted stock awards based on, among other factors, historical grants, the value of past grants and the Company s performance. In granting stock options and restricted stock awards, the Compensation Committee considers trends in equity-based compensation and whether they are consistent with our compensation philosophy. They also consider our overhang percentage; that is, the number of our shares that are subject to outstanding options and other awards, such as restricted stock, as a percentage of the number of our shares outstanding.

Grants of stock options and awards of restricted stock to executive officers and other key employees are considered at a series of meetings of the Compensation Committee that are held in the first quarter of each year. Grants to newly-hired employees are effective on the employee s first day of employment, and grants to employees who are promoted during the fiscal year are effective on the later of the date of their promotion and the date the Compensation Committee approves the grants. To facilitate the grant of options and restricted stock awards to existing and newly-hired non-executive employees, the Board of Directors and the Compensation Committee authorized Michael H. Carrel and Peter J. Goepfrich to grant individual stock options during 2009 to such employees, subject to the terms of the applicable plan and guidelines approved by the Compensation Committee and the Board. The exercise price of all stock options granted is equal to the closing price of our common stock as reported on the NASDAQ Global Select Market on the date of grant.

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All grants of stock options and awards of restricted stock to Named Executive Officers during 2009 contained vesting provisions. Options granted during 2009 were to vest as to 28% of the amount granted on the first anniversary of the grant date, with an additional 2% of the grant amount to vest each month thereafter until the entire option vests on the fourth anniversary of the date of its grant. However, in order to vest, the holder of the option must be an employee of the Company on the scheduled vesting dates. With the exception of awards of restricted stock granted to Mr. Akyuz in connection with his hiring, no restricted stock was awarded during 2009. Awards of restricted stock granted during 2009 were to vest as to 25% of the amount granted on each anniversary of the grant date while the Named Executive Officer is an employee of the Company, until the entire award vests in full on the fourth anniversary of the date of its grant.

Stock Ownership and Retention Guidelines. In May 2006, the Board of Directors approved stock ownership guidelines that apply to all Directors and executive officers. The guidelines are overseen by our Governance and Nominating Committee. Under these guidelines, ownership targets for executive officers are a multiple of base salary (not including bonuses, such as performance or signing bonuses), varying by management level, and the ownership target for members of the Board is based on the value of our common stock, as follows:

Board members	$100,000
Chief Executive Officer	2.0 times base salary
Chief Operating Officer	1.5 times base salary
Other executive officers	1.0 times base salary

The guidelines provided that ownership was to be measured as of December 31, 2009 for those who were executive officers on that date, with reference to the executive officer s base salary for the year then ended and using the fair market value of our common stock as of December 31, 2009. To the extent that a Board member or executive officer did not already satisfy the applicable ownership and valuation requirements, he or she is expected to meet the target over the later of four years from December 31, 2009 or five years from the date such person became a Board member or assumed his current executive officer position. Ownership for new executive officers and Board members is measured on the last trading date of the year before they became an executive officer or Board member, if such service began in the first half of the year, or the last trading date of the year in which they became an executive officer or Board member, if such service began in the last of the year, with reference to the executive officers annualized base salaries. Shares that count include all shares directly or beneficially owned by the executive officer or Board member, except for shares subject to options and unvested restricted stock awards. Commencing in 2010, the cash value of vested options will also be included in the measurement of whether Directors and executive officers are attaining the targets under the guidelines. As of December 31, 2009, all the Directors and Named Executive Officers either met the guidelines or were making satisfactory progress toward meeting them, in the opinion of the Governance and Nominating Committee.

If a Director or executive officer desires to sell any shares of our stock, we recommend that person adopt a 10b5-1 plan, which provides a safe harbor from liability under the anti-fraud provisions of the Exchange Act for sales complying with such a written plan that includes either the number of shares to be sold and the prices at which they will be sold or a formula under which the number of shares and sales prices are determined. We also encourage all Directors and Named Executive Officers who exercise options to retain and hold at least 10% of the shares obtained upon their exercise. Under our policy prohibiting insider trading, which applies to all Directors and employees, the 10b5-1 plans must be reviewed and approved by the chair of the Compensation Committee and outside securities counsel before they can be adopted.

Role of Executive Officers in Compensation Decisions

As part of the Compensation Committee s meetings to determine executive compensation, our President and Chief Executive Officer presents his recommendations regarding changes in his compensation

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and the compensation for our other executive officers. The Compensation Committee discusses these recommendations and accepts or adjusts them, in whole or in part. The President and Chief Executive Officer is not present during the Compensation Committee s final discussions or determination of his compensation, but he participates in some of the discussions regarding other executive officers compensation. The Chief Financial Officer also may be present for discussions regarding compensation for the vice presidents**.** The other executive officers are not present during the Compensation Committee s discussions of their compensation. The chair of the Compensation Committee presents the Compensation Committee s findings regarding compensation for executive officers to the Board of Directors at one or more meetings typically held before mid-March of each year to obtain the Board s input. The inputs from the President and Chief Executive Officer are considered by the Compensation Committee when it determines executive compensation for that year, including executive salaries, the management incentive plan, and stock options and restricted stock awards.

Benefits

Our executive officers are eligible for all benefits generally available to our full-time permanent employees. Other than contributions to 401(k) retirement savings plans for our U.S. employees and contributions to savings programs for our European employees, we do not provide pension arrangements, post-retirement health coverage, or similar benefits for our executives or employees. Any benefits that are provided only to executive officers are usually directly related to unique features of that executive s position, such as being an expatriate, or when the executive officer undertakes actions at our request, such as relocating. The benefits we provided in 2009 to executive officers are described in the Summary Compensation Table included elsewhere in this proxy statement.

All employees, including the executive officers, are entitled to participate in the Vital Images, Inc. Salary Savings Plan qualified under Section 401(k) of the Internal Revenue Code of 1986, or 401(k) plan. The 401(k) plan has been highlighted as a positive element of compensation in our employee satisfaction survey results. Each employee that is at least 21 years of age may, commencing on the first day of the quarter after which the employee has attained three months of service, elect to contribute to the 401(k) plan through payroll deductions of up to 100% of his or her salary, subject to certain limitations. At the discretion of the Board of Directors, we may make matching contributions equal to a percentage of the salary deduction contributions or other discretionary amounts. The Company paid $372,000 in matching contributions in 2009, $412,000 in 2008 and $410,000 in 2007. Matching contributions to the 401(k) plan on behalf of the Named Executive Officers are described in the Summary Compensation Table.

Perquisites

The Named Executive Officers are eligible for the same health and welfare programs and benefits as the rest of the Company s employees. In addition, Mr. Simha and Mr. Akyuz received reimbursement from the Company during 2009 for the costs of airfare, housing and, in the case of Mr. Simha, automobile rental, as well as related gross-up of the taxes related to these reimbursements. The Company agreed to these perquisites with Mr. Simha and Mr. Akyuz to assist them with the costs of commuting to the Company s headquarters in Minnetonka, Minnesota, while maintaining home residences in other locations. Mr. Simha and Mr. Akyuz are the two leading executives for the Company s research and development activities, and it was determined that providing such perquisites was necessary to recruit and retain them to the Company. The Company s costs for these perquisites are set forth in the Summary Compensation Table.

COMPENSATION COMMITTEE REPORT

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings by reference, including this proxy statement, in whole or in part, the following report of the Compensation

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Committee shall not be deemed to be incorporated by reference into any such filings and shall not otherwise be deemed filed under such acts.

The Compensation Committee has reviewed and discussed the section of this proxy statement entitled Information Concerning Directors, Nominees and Executive Officers Compensation Discussion and Analysis with management. Based on such review and discussions, the Compensation Committee recommended to the Company s Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

By the Compensation Committee:

Gregory J. Peet, Chair

Douglas M. Pihl

Sven A. Wehrwein

Executive Compensation

The following table sets forth information about compensation awarded, earned by or paid to the Company s Named Executive Officers for the years ended December 31, 2009, 2008 and 2007 (as applicable), which Named Executive Officers consist of individuals serving during 2009 as the Company s chief executive officer and chief financial officer and the Company s three most highly compensated executive officers, other than persons who served as chief executive officer and chief financial officer, who were serving as executive officers as of December 31, 2009:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary($)	Bonus($)	Stock Awards($) (1)	Option Awards($) (2)	Non-Equity Incentive Plan Compensation ($) (3)	All Other Compensation	Total($)
Michael H. Carrel	2009	$ 310,000	$	$	$ 171,311	$ 115,517	$ 7,405(5)	$ 604,233
President and Chief	2008	$ 309,290	$	$	$ 953,186	$ 25,090	$ 7,599(5)	$ 1,295,165
Executive Officer (4)	2007	$ 252,500	$	$ 54,992	$ 230,229	$	$ 4,257(5)	$ 541,978
Peter J. Goepfrich	2009	$ 210,000	$	$	$ 58,659	$ 62,245	$ 5,200(7)	$ 336,104
Chief Financial	2008						(7)	
Officer(6)		$ 209,518	$	$	$ 490,592	$ 10,456	$ 4,255	$ 714,821
	2007	$	$	$	$	$	$	$

Steven P. Canakes	2009	$ 213,200	$	$	$ 58,659	$ 99,475	$ 8,676(5)	$ 380,010
Executive Vice	2008						(5)	
President		$ 212,193	$	$	$ 167,991	$ 9,931	$ 10,680	$ 400,795
Global Sales	2007	$ 202,500	$	$ 44,681	$ 187,061	$ 18,991	$ 8,603(5)	$ 461,836
Vikram Simha	2009	$ 240,000	$	$	$ 23,664	$ 51,476	$ 101,580(8)	$ 416,720
Chief Technology	2008		(9)				(10)	
Officer		$ 97,505	$ 30,000	$ 228,600	$ 849,960	$ 3,397	$ 5,173	$ 1,214,635
	2007	$	$	$	$	$	$	$
Aaron (Erkan) Akyuz	2009	$ 100,763	$	$ 180,300	$ 583,387	$ 21,238	$ 118,539(11)	$ 1,004,227
Executive Vice	2008							
President		$	$	$	$	$	$	$
Engineering	2007	$	$	$	$	$	$	$

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(1) Consists of restricted stock awards granted under the Vital Images, Inc. 1997 Stock Option and Incentive Plan and 2006 Long-Term Incentive Plan. The holders of the stock awards have the right to receive any dividends declared on the Company s common stock but not the right to vote the shares of restricted stock. The amounts represent the full grant-date fair value computed pursuant to applicable accounting guidance for share-based payments as reflected in the Company s financial statements, based on the number of restricted

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stock awards granted and the closing price of the common stock as quoted on The NASDAQ Global Select Market on the date of grant. The stock awards for 2008 and 2009 vest as to 25% of the number of shares subject to the awards on each of the first, second, third and fourth anniversary dates of the date of grant of the award so long as the recipient of the award is then an employee of the Company. The stock awards for 2007 were to vest upon achievement of certain Company performance metrics for each of the three years ending December 31, 2009. The performance metrics were not achieved for the three years ended December 31, 2009, and therefore the awards did not vest and were forfeited upon the Company s filing its Form 10-K for the year ended December 31, 2009. 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, 2009 for discussion of the assumptions used in calculating the fair value. This portion of our Annual Report on Form 10-K is included in our 2009 Annual Report to Shareholders.

(2) Consists of the full grant-date fair value of stock options granted under the Vital Images, Inc. 1997 Stock Option and Incentive Plan and 2006 Long-Term Incentive Plan. The options vest and become exercisable as to 28% of the shares one year after the date of grant and as to an additional 2% in each succeeding month, but only if the Named Executive Officer is then an employee of the Company. 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, 2009 for discussion of the assumptions used in calculating the fair value. This portion of our Annual Report on Form 10-K is included in our 2009 Annual Report to Shareholders.

(3) Consists of cash awards earned for 2009 and paid in 2010 under the Company s management incentive plan for 2009, cash awards earned for 2008 and paid in 2009 under the Company s management incentive plan for 2008, and cash awards earned for 2007 and paid in 2008 under the Company s management incentive plan for 2007. The management incentive plans provide that the executive officers of the Company are eligible to earn annual cash awards tied to the level of achievement of annual performance targets. See Information Concerning Directors, Nominees and Executive Officers Compensation Discussion and Analysis Setting Executive Compensation Bonus.

(4) Mr. Carrel was promoted to President and Chief Executive Officer on January 9, 2008. He was previously Chief Operating Officer and Chief Financial Officer during 2007 and 2008.

(5) Consists of amounts paid for attendance by spouse at a sales award trip and related gross-up for income taxes, matching contributions made by the Company under the 401(k) plan, and group term life, long-term disability and accidental death and dismemberment insurance premiums.

(6) Mr. Goepfrich was promoted to Chief Financial Officer on January 9, 2008. He was previously Vice President Finance, in which position he was not a Named Executive Officer. Therefore, his compensation for 2007 is not presented in this table.

(7) Consists of matching contributions made by the Company under the 401(k) plan and group term life, long-term disability and accidental death and dismemberment insurance premiums.

(8) Consists of $55,281 for airfare, auto rental and housing expenses for personal use and $40,527 related gross-up for income taxes, plus matching contributions made by the Company under the 401(k) plan, and group term life, long-term disability and accidental death and

dismemberment insurance premiums.

(9) Consists of a sign-on bonus upon commencement of employment.

(10) Consists of group term life, long-term disability and accidental death and dismemberment insurance premiums.

(11) Consists of $15,149 for airfare and housing expenses for personal use and $10,312 related gross-up for income taxes, $50,000 for relocation expenses, plus payments for medical services outside of the Company-sponsored medical insurance plan, and group term life, long-term disability and accidental death and dismemberment insurance premiums.

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The following table sets forth information regarding the annual performance bonus and long-term incentive awards made to each of the Named Executive Officers during 2009:

GRANTS OF PLAN-BASED AWARDS 2009

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1) Threshold($)	Target($)	Maximum($)	Stock Awards: Number of Shares of Stock (2)	Option Awards: Number of Securities Underlying Options (2)	Exercise or Base Price of Option Awards ($/Share) (3)	Grant-date fair value of Stock and Option Awards (4)
Michael H. Carrel	3/2/09	$	$ 201,500	$ 493,675		51,400(5)	$ 8.79	$ 171,311
Peter J. Goepfrich	3/2/09	$	$ 105,000	$ 231,000		17,600(5)	$ 8.79	$ 58,659
Steven P. Canakes	3/2/09	$	$ 159,900	$ 331,793		17,600(5)	$ 8.79	$ 58,659
Vikram Simha	3/2/09	$	$ 84,000	$ 184,800		7,100(5)	$ 8.79	$ 23,664
Aaron (Erkan) Akyuz	8/17/09	$	$ 33,562	$ 73,836	15,000(6)			$ 180,300
	8/17/09					125,000(5)	$ 12.02	$ 583,387

(1) Consists of cash bonuses under the Company s 2009 management incentive plan. The amounts in these columns reflect the minimum payment level, if an award is achieved, the target payment level and the maximum payment level under our 2009 management incentive plan. For additional information concerning our annual incentive award program, see the section of this proxy statement entitled Information Concerning Directors, Nominees and Executive Officers Compensation Discussion and Analysis.

(2) Consists of restricted stock awards and stock options granted to the Named Executive Officers in 2009 under the Vital Images, Inc. 2006 Long-Term Incentive Plan.

(3) The exercise price of all options was equal to the closing price of the common stock as quoted on The NASDAQ Global Select Market on the date of grant.

(4) Represents the full grant-date fair value determined pursuant to applicable accounting guidance for share-based payments as reflected in the Company s financial statements, based on the numbers of shares subject to options and restricted stock awards granted and the closing price of the common stock as quoted on The NASDAQ Global Select Market on the date of grant.

(5) Consists of stock options, which vest and become exercisable as to 28% of the shares one year after the date of grant and as to an additional 2% in each succeeding month, but only if the Named Executive Officer is then an employee of the Company.

(6) Consists of restricted stock awards, which vest as to 25% of the shares one year from the date of the grant and as to 25% annually thereafter, but only if the Named Executive Officer is then an employee of the Company.

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The following table sets for the information about unexercised options and awards of restricted stock that had not vested and that were held at December 31, 2009 by the Named Executive Officers:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2009

	Option Awards				Stock Awards			
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)(1)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested(#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested($) (1)**
Michael H. Carrel	147,500		$ 16.5700	5/13/2013				
	9,400	600(2)	32.1400	3/09/2011				
	11,520	4,480(3)	32.6400	2/02/2012				
	75,000	75,000(4)	15.2500	1/11/2013				
	6,900	8,100(5)	15.1100	3/11/2013				
		51,400(6)	8.7900	3/02/2014				
							1,600(7)	$ 20,304
Peter J. Goepfrich	3,840		$ 10.3400	8/31/2012				
	630		15.4000	2/15/2013				
	23,500	1,500(8)	32.1400	3/9/2011				
	5,760	2,240(9)	32.6400	2/02/2012				
	4,200	1,800(10)	31.3800	3/2/2012				
	37,500	37,500(11)	15.2500	1/11/2013				
	4,600	5,400(12)	15.1100	3/11/2013				
		17,600(13)	8.7900	3/02/2014				
					125(14)	$ 1,586		
							800(7)	$ 10,152
Steven P. Canakes	25,000		$ 7.2500	3/12/2010				
	20,000		9.6000	2/06/2011				
	12,500		12.5990	2/05/2012				
	3,000		15.4000	2/15/2013				
	9,400	600(15)	32.1400	3/09/2011				
	9,360	3,640(16)	32.6400	2/02/2012				
	13,800	16,200(17)	15.1100	3/11/2013				
		17,600(18)	8.7900	3/02/2014				
					250(19)	$ 3,173		
							1,300(7)	$ 16,497
Vikram Simha	54,000	96,000(20)	$ 15.2400	8/06/2013				
		7,100(21)	8.7900	3/02/2014				
					11,250(22)	$ 142,763		
Aaron (Erkan) Akyuz		125,000(23)	$ 12.0200	8/17/2014				
					15,000(24)	$ 190,350		

(1) The market value is computed by multiplying the closing market price of the stock at December 31, 2009 by the number of shares.

(2) Vests as to 200 shares on January 9, 2010 and on the ninth day of each calendar month thereafter until fully vested.

(3) Vests as to 320 shares on January 2, 2010 and on the second day of each calendar month thereafter until fully vested.

(4) Vests as to 3,000 shares on January 11, 2010 and on the eleventh day of each calendar month thereafter until fully vested.

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(5) Vests as to 300 shares on January 11, 2010 and on the eleventh day of each calendar month thereafter until fully vested.

(6) Vests as to 14,392 shares on March 2, 2010 and an additional 2% of such shares on the second day of each calendar month thereafter until fully vested.

(7) Vests upon the achievement of certain Company performance metrics for each of the three years ending December 31, 2009. The performance metrics were not achieved for the three years ended December 31, 2009, and therefore the awards did not vest and were forfeited upon the Company s filing its Form 10-K for the year ended December 31, 2009.

(8) Vests as to 500 shares on January 9, 2010 and on the ninth day of each calendar month thereafter until fully vested.

(9) Vests as to 160 shares on January 2, 2010 and on the second day of each calendar month thereafter until fully vested.

(10) Vests as to 120 shares on January 2, 2010 and on the second day of each calendar month thereafter until fully vested.

(11) Vests as to 1,500 shares on January 11, 2010 and on the eleventh day of each calendar month thereafter until fully vested.

(12) Vests as to 200 shares on January 11, 2010 and on the eleventh day of each calendar month thereafter until fully vested.

(13) Vests as to 4,928 shares on March 2, 2010 and an additional 2% of such shares on the second day of each calendar month thereafter until fully vested.

(14) Vests as to 125 shares on February 15, 2010.

(15) Vests as to 200 shares on January 9, 2010 and on the ninth day of each calendar month thereafter until fully vested.

(16) Vests as to 260 shares on January 2, 2010 and on the second day of each calendar month thereafter until fully vested.

(17) Vests as to 600 shares on January 11, 2010 and on the eleventh day of each calendar month thereafter until fully vested.

(18) Vests as to 4,928 shares on March 2, 2010 and an additional 2% of such shares on the second day of each calendar month thereafter until fully vested.

(19) Vests as to 250 shares on February 15, 2010.

(20) Vests as to 3,000 shares on January 6, 2010 and on the sixth day of each calendar month thereafter until fully vested.

(21) Vests as to 1,988 shares on March 2, 2010 and an additional 2% of such shares on the second day of each calendar month thereafter until fully vested.

(22) Vests as to 3,750 shares on August 15, 2010 and on August 15 of each year thereafter until fully vested.

(23) Vests as to 35,000 shares on August 17, 2010 and an additional 2% of such shares on the seventeenth day of each calendar month thereafter until fully vested.

(24) Vests as to 3,750 shares on August 17, 2010 and on August 17 of each year thereafter until fully vested.

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The following table sets forth information regarding the exercise of stock options and the vesting of awards of restricted stock during 2009 held by the Named Executive Officers:

OPTION EXERCISES AND STOCK VESTED 2009

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise(#)	Value Realized on Exercise($) (1)	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting($) (2)
Michael H. Carrel		$	7,500	$ 86,400
Peter J. Goepfrich		$	275	$ 3,017
Steven P. Canakes	17,500	$ 109,410	1,750	$ 21,098
Vikram Simha		$	3,750	$ 45,863
Aaron (Erkan) Akyuz		$		$

(1) Consists of the difference between the closing price of the Company s common stock on the date of exercise and the exercise price of the option multiplied by the number of shares acquired upon exercise.

(2) Consists of the closing price of the Company s common stock on the vesting date multiplied by the number of shares acquired upon vesting.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information as of December 31, 2009 with respect to the Company s equity compensation plans:

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders				
• 2006 Long-Term Incentive Plan	1,560,894	$	13.36	894,106
• 1997 Stock Option and Incentive Plan (1)	892,873	$	22.42	
• 1997 Director Stock Option Plan (1)	180,000	$	21.60	
• 1997 Employee Stock Purchase Plan (2)	Not applicable		Not applicable	82,258
Equity compensation plans not approved by security holders				
• Non-Plan options (3)	6,000	$	8.58	Not applicable
Total	2,639,767	$	16.98	976,364

(1) The 1997 Stock Option and Incentive Plan and the 1997 Director Stock Option Plan automatically terminated on March 19, 2007.

(2) Under the 1997 Employee Stock Purchase Plan, shares are acquired at the time of investment by the participating employees at the applicable discount price.

(3) Consists of options granted to certain officers of the Company and third-party consultants.

Compensation Committee Interlocks and Insider Participation

Douglas M. Pihl, a member of our Compensation Committee, previously served as our interim Chief Executive Officer from February 1998 to December 1999. Neither James B. Hickey, Jr. nor Gregory J. Peet, the other members of our Compensation Committee, has ever been an officer of employee of the Company. None of the Compensation Committee members has engaged in a transaction with the Company requiring disclosure as a related person transaction. None of our executive officers has served on the board of directors or compensation committee of any other entity, any officers of which served on either our Board or our Compensation Committee.

Employment and Other Agreements

The Company has entered into employment agreements with each of its Named Executive Officers, which include confidentiality and non-competition provisions and provide for payment of severance compensation if the Company terminates any of these executive officers employment without cause, or if the executive officer resigns for good reason. Severance is equal to 12 months of base salary for Mr. Carrel, nine months of base salary for each of Mr. Simha and Mr. Akyuz, and six months of base salary

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for each of Mr. Goepfrich and Mr. Canakes. For Mr. Carrel, the Company will also continue to pay the same portion of his employee welfare benefits as the Company was paying before his termination for a period of 12 months after his termination. For each of Mr. Simha and Mr. Akyuz, the Company will also continue to pay the same portion of his employee welfare benefits as the Company was paying before his termination for a period of nine months after his termination. For Mr. Goepfrich, the Company will also continue to pay the same portion of his employee welfare benefits as the Company was paying before his termination for a period of six months after his termination.

Change in Control Agreements

The Company has entered into change in control agreements with each of its Named Executive Officers and certain other officers that provide for lump sum cash payments equal to his annual base salary twice in the case of Mr. Carrel and Mr. Canakes in effect on the date of a change in control of the Company, as defined in such agreements, as well as continued payment of the employee welfare benefits then in effect for each Named Executive Officer for a period of 24 months upon a change in control of the Company. Payments under the agreements are to be made if the officer s employment with the Company is terminated for any reason other than death, cause, disability or retirement, or if he or she terminates his or her employment with the Company for good reason, or, in the case of Mr. Carrel, for any reason, and the termination occurs within 12 months following a change in control, or before a change in control if his or her termination was a condition of the change in control.

Post-Employment Compensation

Potential Payments upon Termination of Employment or Change in Control

The tables below reflect the amount of compensation to each of the Named Executive Officers of the Company who were employees as of December 31, 2009 in the event of termination of such executive s employment. The amounts of compensation payable to each such Named Executive Officer upon retirement, termination without cause or resignation for good reason, termination for cause or resignation without good reason, voluntary or involuntary termination following a change in control, and death are shown below. The amounts shown assume that such termination was effective as of December 31, 2009, include amounts earned through such time, and are estimates of the amounts which would be paid out to the Named Executive Officers upon their termination. The actual amounts to be paid out can be determined only at the time of such executive s separation from the Company. In addition, there may be re-negotiation of the payments upon any termination of employment or change in control.

Both of our equity award plans that cover our employees, consisting of the 1997 Stock Option and Incentive Plan and the 2006 Long-Term Incentive Plan, provide that the restrictions on all shares of restricted stock shall lapse immediately, and all outstanding options will become exercisable immediately, if any of the following events occur: (i) the sale, lease, exchange or other transfer of substantially all of the assets of the Company; (ii) the liquidation or dissolution of the Company; (iii) certain mergers or consolidations of the Company which result in a reduction in the voting power of the current shareholders of the Company; (iv) any person becomes the beneficial owner of more than 20% of the Company s common stock without the advance approval of the incumbent Directors or more than 50% of the voting power of the Company s outstanding stock without regard to consent by the incumbent Directors; (v) the incumbent Directors cease for any reason to constitute at least a majority of the Board; or (vi) any other change in control of the Company of a nature that would be required to be reported pursuant to Section 13 or Section 15(d) of the Exchange Act.

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		Cash Severance Payment		Continuation of Medical and Welfare Benefits (1)		Acceleration of Equity Awards (2)		Accrued Vacation Pay		Total
Michael H. Carrel										
Retirement	$		$		$	220,764	$	47,690	$	268,454
Termination without Cause or Resignation for Good Reason		310,000		16,800				47,690		374,490
Termination for Cause or Resignation without Good Reason								47,690		47,690
Voluntary or Involuntary Termination following Change in Control		620,000		33,600		220,764		47,690		922,054
Death		500,000(3)				220,764		47,690		768,454
Peter J. Goepfrich										
Retirement	$		$		$	80,378	$	32,306	$	112,684
Termination without Cause or Resignation for Good Reason		105,000		9,720				32,306		147,026
Termination for Cause or Resignation without Good Reason								32,306		32,306
Termination following Change in Control (other than for Death, Cause, Disability, or Retirement) or with Good Reason		210,000		37,080		80,378		32,306		359,764
Death		447,000(3)				80,378		32,306		559,684
Steven P. Canakes										
Retirement	$		$		$	88,310	$	32,799	$	121,109
Termination without Cause or Resignation for Good Reason		106,600						32,799		139,399
Termination for Cause or Resignation without Good Reason								32,799		32,799
Termination following Change in Control (other than for Death, Cause, Disability, or Retirement) or with Good Reason		426,400		31,896		88,310		32,799		579,405
Death		463,000(3)			$	88,310		32,799		584,109

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	Cash Severance Payment	Continuation of Medical and Welfare Benefits (1)	Acceleration of Equity Awards (2)	Accrued Vacation Pay	Total
Vikram Simha					
Retirement	$	$	$ 170,453	$ 13,024	$ 183,477
Termination without Cause or Resignation for Good Reason	180,000	10,296		13,024	203,320
Termination for Cause or Resignation without Good Reason				13,024	13,024
Termination following Change in Control (other than for Death, Cause, Disability, or Retirement) or with Good Reason	240,000	27,456	170,453	13,024	450,933
Death	480,000(3)		170,453	13,024	663,477
Aaron (Erkan) Akyuz					
Retirement	$	$	$ 274,100	$	$ 274,100
Termination without Cause or Resignation for Good Reason	187,500	13,905			201,405
Termination for Cause or Resignation without Good Reason					
Termination following Change in Control (other than for Death, Cause, Disability, or Retirement) or with Good Reason	250,000	37,080	274,100		561,180
Death	500,000(3)		274,100		774,100

(1) Reflects the estimate of all future premiums which will be paid on behalf of the Named Executive Officer under the Company s health and welfare benefit plans.

(2) For option awards, consists of the difference between the market price of our common stock as reported on The NASDAQ Global Select Market as of December 31, 2009, which was $12.69, less the exercise price of the option multiplied by the number of shares subject to the option that will accelerate and vest upon the occurrence of the event. For restricted stock awards, consists of the closing price of our common stock as reported on The NASDAQ Global Select Market as of December 31, 2009, which was $12.69, multiplied by the number of shares that will accelerate and vest upon the occurrence of the event.

(3) Reflects the proceeds that would have been received by the Named Executive Officer as of December 31, 2009, under the life insurance policies for which the Company pays the premiums.

Other Post-Employment Payments

Other than contributions to 401(k) retirement savings plans for our U.S. employees and contributions to savings programs for our European employees, we do not provide pension arrangements or post-retirement health coverage for executive officers or other employees. We do not provide any nonqualified defined contribution or other deferred compensation plans.

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Compensation Risk Analysis

The process the Company used to analyze its compensation risks began with the Chief Financial Officer and Vice President of Human Resources documenting each of the Company s incentive compensation programs, identifying, for each program, the type of plan, the persons eligible to receive incentive compensation under the program, the activities or results necessary to receive incentive compensation under the program, and the possible risks that may result from an individual s attempts to achieve such incentive compensation. Management also examined risk mitigating factors, such as the balance of incentives created by and within various incentive programs. Then, management and the Compensation Committee reviewed the catalogue and assessed whether any of the programs could create risks that are reasonably likely to have a material adverse effect on the Company. In that discussion, it was determined that none of the Company s incentive compensation programs create risks that are reasonably likely to have a material adverse effect on the Company.

RATIFICATION OF APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP

AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(Proposal 2)

The Audit Committee of the Board of Directors has appointed PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm to audit the Company s consolidated financial statements for the year ending December 31, 2010 and recommends that the shareholders vote for ratification of such appointment.

PricewaterhouseCoopers LLP has audited the Company s financial statements since the year ended December 31, 1997. A representative of PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting, will have the opportunity to make a statement, and is expected to be available to respond to appropriate questions.

Audit and Other Professional Fees

The aggregate fees billed for professional services rendered by PricewaterhouseCoopers LLP for the audit of the Company s annual financial statements for the Company s last two fiscal years and fees billed for other services rendered by PricewaterhouseCoopers LLP related to those years are set forth in the following table:

		2009		2008
Audit fees (1)	$	516,748	$	527,501
Audit-related fees (2)		93,000		
Tax fees (3)		74,650		71,305
All other fees (4)		1,500		1,500
Totals	$	685,898	$	600,306

(1) Audit fees consist of fees related to professional services rendered in connection with the audit of the Company s annual financial statements, the audit of the Company s internal control over financial reporting, the reviews of the interim financial statements included in the Company s quarterly reports on Form 10-Q, and other professional services provided in connection with statutory and regulatory filings or engagements. The audit fees consist of the following:

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		2009		2008
Annual financial statements, the audit of the Company s internal control over financial reporting, the reviews of the interim financial statements included in the Company s quarterly reports on Form 10-Q	$	500,444	$	527,501
Regulatory filings and other general consulting matters		16,304		
Totals	$	516,748	$	527,501

(2) Audit-related fees are fees for assurance and related services performed by PricewaterhouseCoopers LLP that are reasonably related to the performance of the audit or review of the Company s financial statements.

(3) Tax fees are fees for professional services performed by PricewaterhouseCoopers LLP with respect to tax compliance, tax advice and tax planning. This includes preparation of original and amended tax returns for the Company, any refund claims, payment planning, tax advice related to mergers and acquisitions, and tax work stemming from audit-related items.

(4) All other fees are fees for other permissible work performed by PricewaterhouseCoopers LLP that does not meet the above category descriptions.

As provided in the Audit Committee s charter, all engagements for any non-audit services by the Company s independent registered public accounting firm must be approved by the Audit Committee before the commencement of any such services. All such services were pre-approved for the last two fiscal years. The Audit Committee may designate a member or members of the Audit Committee to represent the entire Audit Committee for purposes of approving non-audit services, subject to review by the full Audit Committee at the next regularly scheduled meeting.

The Audit Committee considers the provision of services by PricewaterhouseCoopers LLP to the Company, over and above the external audit fees, to be compatible with PricewaterhouseCoopers LLP s ability to maintain its independence.

Shareholder Approval

The affirmative vote of a majority 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 to ratify the appointment by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the year ending December 31, 2010. If the shareholders do not approve the selection of PricewaterhouseCoopers LLP, the Audit Committee will reconsider its selection.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE *FOR* THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2010 AS SET FORTH IN PROPOSAL

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REPORT OF THE AUDIT COMMITTEE

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings by reference, including this proxy statement, in whole or in part, the following report of the Audit Committee shall not be deemed to be incorporated by reference into any such filings and shall not otherwise be deemed filed under such acts.

The Audit Committee of the Board of Directors is comprised entirely of three directors who meet the independence requirements of the Marketplace Rules of The NASDAQ Stock Market and the Securities and Exchange Commission. The Audit Committee operates under a charter that is available on the Company s website at *http://www.vitalimages.com*. To view the charter, select Investors, then Corporate Governance, then Documents & Charters and then Audit Committee Charter under Committee Charters.

The Audit Committee oversees the Company s financial reporting process on behalf of the Board of Directors. Management is responsible for the preparation, presentation and integrity of the financial statements, including establishing accounting and financial reporting principles and designing systems of internal controls over financial reporting. The Company s independent auditors are responsible for expressing an opinion as to the conformity of the Company s consolidated financial statements with generally accepted accounting principles and auditing the effectiveness of the Company s internal controls over financial reporting.

In performing its responsibilities, the Audit Committee has reviewed and discussed, with management and the independent accountant, the audited consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The Audit Committee has also discussed with the independent accountant auditors matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Committee has received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant s communications with the Audit Committee concerning independence, and has discussed with the independent accountant the independent accountant s independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

By the Audit Committee:

Sven A. Wehrwein, Chair

James B. Hickey, Jr.

Richard W. Perkins

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AVAILABLE INFORMATION

Shareholders of record on March 15, 2010 will receive a proxy statement and the Company s Annual Report to Shareholders which contains detailed financial information concerning the Company. The Annual Report to Shareholders is not incorporated in this Proxy Statement and is not deemed a part hereof.

By Order of the Board of Directors

Michael H. Carrel, *President and Chief Executive Officer*

March 29, 2010

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VITAL IMAGES, INC.

5850 OPUS PARKWAY, SUITE 300

MINNETONKA, MN 55343

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

Electronic Delivery of Future PROXY MATERIALS

If you would like to reduce the costs incurred by Vital Images, Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

VITAL IMAGES, INC.

PROXY SOLICITED BY BOARD OF DIRECTORS

For Annual Meeting of Shareholders

Tuesday, May 11, 2010 - 1:00 p.m. (CDT)

The undersigned, revoking all prior proxies, hereby appoints Michael H. Carrel and Ian L. Nemerov, or either of them, as proxy or proxies, with full power of substitution and revocation, to vote all shares of common stock of VITAL IMAGES, INC. (the Company) of record in the name of the undersigned at the close of business on March 15, 2010 at the Annual Meeting of Shareholders to be held at 1:00 p.m. (CDT) on Tuesday, May 11, 2010 at Vital Images, Inc., 5850 Opus Parkway, Suite 300, Minnetonka, MN 55343, or any adjournment thereof, upon matters listed on the reverse side.

Continued and to be signed on reverse side

From downtown Minneapolis, go west on I-394 for 6.0 miles. Exit at US-169 and go south for 6.0 miles. Exit at Bren Road. Turn right onto Bren Road and continue west for 0.2 miles. Turn left onto Opus Parkway and take the first right turn into the parking lot.

Important Notice Regarding the Availability of Proxy Materials: The Annual Report, Including Notice & Proxy Statement is/are available at www.proxyvote.com.

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TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: x

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

VITAL IMAGES, INC.

The Board of Directors recommends that you vote For the following.

1. Election of Directors	**For All**	**Withhold All**	**For All Except**
Nominees:	o	o	o
01) James B. Hickey, Jr.			
02) Michael H. Carrel			
03) Oran E. Muduroglu			
04) Gregory J. Peet			
05) Richard W. Perkins			
06) Douglas M. Pihl			
07) Michael W. Vannier, M.D.			
08) Sven A. Wehrwein			

To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.

The Board of Directors recommends you vote FOR the following proposal(s).

	For	**Against**	**Abstain**
2. To ratify the appointment by the Audit Committee of the Company s Board	o	o	o

of Directors of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the year ending December 31, 2010

Such other business as may properly come before the meeting or any adjournment thereof.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHINBOX]	Date	Signature (Joint Owners)	Date