

VITAL IMAGES INC  
Form 10-Q/A  
August 09, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q/A**  
(Amendment No. 1)

**ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2005**

**OR**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from      to**

**Commission File Number 0-22229**

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**VITAL IMAGES, INC.**

(Exact name of registrant as specified in its charter)

Minnesota

42-1321776

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(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

**5850 Opus Parkway, Suite 300**  
**Minnetonka, Minnesota**  
(Address of principal  
executive offices)

**55343-4414**  
(Zip Code)

**(952) 487-9500**

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

On May 2, 2005, there were 12,266,597 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

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**Explanatory Note**

This Amendment No. 1 on Form 10-Q/A (the Amendment ) to the Quarterly Report on Form 10-Q for the period ended March 31, 2005, which was originally filed with the Securities and Exchange Commission on May 10, 2005 (the Original Filing ), is being filed to amend the Original Filing as follows:

To clarify disclosure about our changes in internal control over financial reporting during the quarter ended March 31, 2005, as required by Item 4 of the Quarterly Report on Form 10-Q and Item 308(c) of Regulation S-K; and

Currently dated certifications from our Chief Executive Officer and Chief Financial Officer as required by Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934 are included as exhibits.

Except for the amendments described above, this Amendment does not modify or update other disclosures in, or exhibits to, the Original Filing.

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#### **Item 4. Controls and Procedures**

##### **Evaluation of disclosure controls and procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended ( Exchange Act ) are recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

The Company's management, under the supervision of and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures were ineffective, as a result of the material weaknesses discussed in the Company's Form 10-K/A filed on May 2, 2005. The Company performed additional analysis and other post-closing procedures to ensure that the interim consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the interim consolidated financial statements fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

##### **Limitations on the effectiveness of controls**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with established policies or procedures may deteriorate.

##### **Changes in internal control over financial reporting**

As disclosed in the Company's Amendment No. 3 on Form 10-K/A filed on August 9, 2005, in connection with the material weaknesses in internal control over financial reporting described in Management's Report on Internal Control Over Financial Reporting as of December 31, 2004, the Company has implemented, or is in the process of implementing, the following remediation steps to address the material weaknesses discussed in the Company's Amendment No. 3 on Form 10-K/A:

The process of recognizing revenue related to maintenance and services has been redesigned to ensure more timely receipt of information from operational areas to ensure revenue is recognized in the appropriate period.

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New procedures have been established to address the tagging and tracking of fixed assets to ensure that property and equipment can be adequately accounted for.

Controls related to the quarterly financial reporting process are being closely monitored to ensure they are operating as designed. This material weakness was related to the third quarter of 2004. Although the controls related to the review and approval of fourth quarter results did operate as designed, the controls have not operated for a sufficient period of time to demonstrate that they operate effectively.

In addition, the Company has added a number of additional personnel to its finance and accounting staff to ensure that all of the material weaknesses described above are appropriately remediated in a timely manner. The additional personnel include a new Senior Director of Finance, a new Controller, a new Manager of Financial Reporting and a new Senior Staff Accountant, all of whom have strong public accounting and public company experience. The Company believes that these remediation steps will correct the material weaknesses.

The changes in our internal control over financial reporting during our first fiscal quarter ended March 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting are described above.

**Part II. Other Information**

**Item 6. Exhibits**

The following exhibits are filed with this Quarterly Report on Form 10-Q/A:

- 31.1 Certification of Chief Executive Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934 (filed herewith electronically).
- 31.2 Certification of Chief Financial Officer Pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934 (filed herewith electronically).

**Signatures**

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

August 9, 2005

VITAL IMAGES, INC.

/s/ Michael H. Carrel  
Michael H. Carrel  
Chief Operating Officer and  
Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)