RIMAGE CORP
Form 10-Q
August 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **June 30, 2007**; 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: 0-20728

RIMAGE CORPORATION

(Exact name of Registrant as specified in its charter)

Minnesota	**41-1577970**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7725 Washington Avenue South, Edina, MN 55439
(Address of principal executive offices)

952-944-8144
(Registrant s telephone number, including area code)

NA
(Former name, former address, and former fiscal year, if changed since last report.)

Common Stock outstanding at July 31, 2007 10,120,274 shares
of $.01 par value Common Stock.

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** x **No** o

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

Large Accelerated Filer o **Accelerated Filer** x **Non-Accelerated Filer** o

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): **Yes** o **No** x

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FOR THE QUARTER ENDED JUNE 30, 2007

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RIMAGE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(unaudited in thousands, except share data)

Assets	June 30, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	$17,399	$8,500
Marketable securities	38,721	30,266
Receivables, net of allowance for doubtful accounts and sales returns of $579,000 and $878,000, respectively	19,400	21,697
Inventories	7,478	6,072
Prepaid income taxes	1,435	
Prepaid expenses and other current assets	1,125	1,151
Deferred income taxes current	2,430	2,430
Total current assets	87,988	70,116
Marketable securities non-current	30,731	38,594
Property and equipment, net	3,536	3,626
Deferred income taxes non-current	195	23
Total assets	$122,450	$112,359
Liabilities and Stockholders Equity		
Current liabilities:		
Trade accounts payable	$7,774	$7,136
Accrued compensation	2,700	2,882
Other accrued expenses	1,201	1,237
Income taxes payable		1,207
Deferred income and customer deposits	4,817	3,509
Other current liabilities	70	192
Total current liabilities	16,562	16,163
Long-term liabilities:		
Deferred income and customer deposits non-current	1,822	715
Other non-current liabilities		5
Total long-term liabilities	1,822	720
Total liabilities	18,384	16,883
Stockholders equity:		
Preferred stock, $.01 par value, authorized 250,000 shares, no shares issued and outstanding		
Common stock, $.01 par value, authorized 29,750,000 shares, issued and outstanding 10,120,274 and 9,925,430, respectively	101	99
Additional paid-in capital	31,480	27,914
Retained earnings	72,367	67,324
Accumulated other comprehensive income	118	139
Total stockholders equity	104,066	95,476
Total liabilities and stockholders equity	$122,450	$112,359

See accompanying notes to condensed consolidated financial statements

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RIMAGE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(unaudited in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Revenues	$25,486	$25,319	$47,012	$47,956
Cost of revenues	14,088	13,678	25,866	26,641
Gross profit	11,398	11,641	21,146	21,315
Operating expenses:				
Research and development	1,441	1,746	3,031	3,322
Selling, general and administrative	6,284	4,959	12,112	11,083
Total operating expenses	7,725	6,705	15,143	14,405
Operating income	3,673	4,936	6,003	6,910
Other income (expense):				
Interest, net	861	677	1,664	1,286
Loss on currency exchange	(95)	(39)	(89)	(27)
Other, net	(7)	(1)	13	(1)
Total other income, net	759	637	1,588	1,258
Income before income taxes	4,432	5,573	7,591	8,168
Income tax expense	1,511	2,189	2,548	3,150
Net income	$2,921	$3,384	$5,043	$5,018
Net income per basic share	$0.29	$0.35	$0.50	$0.51
Net income per diluted share	$0.28	$0.33	$0.48	$0.49
Basic weighted average shares outstanding	10,105	9,808	10,042	9,747
Diluted weighted average shares outstanding	10,585	10,298	10,550	10,317

See accompanying notes to condensed consolidated financial statements

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RIMAGE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(unaudited in thousands)

	Six months ended June 30, 2007	2006
Cash flows from operating activities:		
Net income	$ 5,043	$ 5,018
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	787	650
Deferred income tax benefit	(173)	(115)
Loss on sale of property and equipment	101	7
Stock-based compensation	549	560
Excess tax benefits from stock-based compensation	(963)	(763)
Changes in operating assets and liabilities:		
Receivables	2,297	(749)
Inventories	(1,406)	(299)
Prepaid income taxes / income taxes payable	(1,438)	(589)
Prepaid expenses and other current assets	27	316
Trade accounts payable	666	120
Accrued compensation	(181)	(838)
Other accrued expenses and other current liabilities	(158)	106
Deferred income and customer deposits	2,414	739
Net cash provided by operating activities	7,565	4,163
Cash flows from investing activities:		
Purchases of marketable securities	(21,426)	(59,474)
Maturities of marketable securities	20,721	53,437
Purchases of property and equipment	(826)	(1,137)
Proceeds from sale of property and equipment		4
Other non-current items	74	75
Net cash used in investing activities	(1,457)	(7,095)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(5)	(8)
Excess tax benefits from stock-based compensation	963	763
Proceeds from stock option exercises	1,813	988
Net cash provided by financing activities	2,771	1,743
Effect of exchange rate changes on cash	20	72
Net increase (decrease) in cash and cash equivalents	8,899	(1,117)
Cash and cash equivalents, beginning of period	8,500	12,693

Cash and cash equivalents, end of period	$ 17,399	$ 11,576
Supplemental disclosures of net cash paid during the period for:		
Income taxes	$ 4,163	$ 3,824
Non-cash investing and financing activities:		
Income tax reductions relating to exercise of stock options	$ 241	$ 169
Unrealized net losses from available-for-sale securities	$ (115)	$ (25)
Capital lease obligations	$	$ 30

See accompanying notes to condensed consolidated financial statements

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RIMAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(1) Basis of Presentation and Nature of Business

Rimage Corporation (the Company) develops, manufactures and distributes high performance CD-Recordable (CD-R) and DVD-Recordable (DVD-R) publishing and duplication systems from its operations in the United States, Germany and Japan. The Company also distributes related consumables for use with its systems, consisting of media kits, ribbons, ink cartridges and blank CD-R and DVD-R media.

The accompanying condensed consolidated financial statements of Rimage Corporation are unaudited and have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position and results of operations and cash flows of the interim periods presented. Operating results for these interim periods are not necessarily indicative of results to be expected for the entire year, due to seasonal, operating and other factors. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Stock-Based Compensation

In May 2007, the Company s shareholders approved the 2007 Stock Incentive Plan (the 2007 Plan). The 2007 Plan provides for the grant of stock incentive awards in the form of incentive and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock, performance units and other awards in stock and/or cash to certain key employees, non-employee directors and service providers. The 2007 Plan permits the issuance of up to 730,320 shares of the Company s common stock. At June 30, 2007, a total of 487,753 shares were available for future grant under the 2007 Plan. Effective with the approval of the 2007 Plan in May 2007, the Company may not issue any new awards or options under its Amended and Restated 1992 Stock Option Plan. The exercise price of stock options granted under the 2007 Plan is equal to the market value on the date of grant. Options issued to employees through March 31, 2006 under the 1992 Plan generally become exercisable over a two-year period and terminate ten years from the date of grant. Options issued to employees after March 31, 2006 under both the 1992 Plan and the 2007 Plan generally become exercisable over a four-year period and terminate ten years from the date of grant. Stock options granted to non-employee directors vest six months from the date of grant and terminate ten years from the date of grant. Restricted shares issued to non-employee

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RIMAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

directors under the 2007 Plan vest immediately and restrictions lapse one year from the date of grant. Performance shares granted to employees under the 1992 Plan provide a right to receive shares of the Company s common stock contingent on the Company s achievement of revenue and operating income performance goals for the calendar year which follows two years after the grant date. Shares of the Company s common stock are issued to employees for the performance shares only if the Company achieves the performance goals during the applicable performance period. If the performance goals are not achieved at the end of the performance period, all performance shares will be canceled and the employees will receive no common stock for the canceled performance shares.

Stock-based compensation expense is determined based on the grant-date fair value and is recognized on a straight-line basis over the vesting period for each stock-based award granted on or after January 1, 2006, and for previously granted awards not yet vested as of January 1, 2006. The Company recognized stock-based compensation costs of $338,000 and $550,000 for the three and six months ended June 30, 2007, respectively, compared to $357,000 and $560,000 for the comparable periods in 2006.

The fair value of each option award is estimated at the date of grant using the Black-Scholes option pricing model. The following key assumptions were utilized in valuing option awards issued during the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30,	
	2007	**2006**
Expected life of options in years	6.0	5.0 - 6.0
Risk-free interest rate	4.5 - 4.8%	4.3 -5.0%
Expected volatility	39 - 40%	38 -50%
Expected dividend yield	0.0%	0.0%

In accordance with Statement of Financial Accounting Standard (SFAS) No. 123R, Share-Based Payment, the Company reviews these assumptions at the time of each new option award and adjusts them as necessary to ensure proper option valuation. The expected life represents the period that the stock option awards are expected to be outstanding and is determined based on an analysis of historical exercise behavior and anticipated future exercise patterns, giving consideration to the contractual terms of unexercised stock option awards. The risk-free interest rate is based on the yield of constant maturity U.S. treasury bonds with a remaining term equal to the expected life of the awards. The Company estimated the stock price volatility using historical weekly price observations over the expected life of the awards. The expected dividend yield is zero, as the Company has not paid or declared any cash dividends on its common stock, and does not currently have plans to pay dividends.

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RIMAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Other information pertaining to options is as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
	(in thousands, except per share data)			
Number of options granted	235	260	245	265
Fair value of options granted	$ 2,881	$ 3,065	$ 3,002	$ 3,132
Per share weighted average fair value of options granted	$ 12.25	$ 11.79	$ 12.25	$ 11.82
Total fair value of stock options vested	$ 461	$ 67	$ 783	$ 574
Total intrinsic value of stock options exercised	$ 255	$ 48	$ 3,476	$ 3,188

Cash received from the exercise of stock options was $1,813,000 and $988,000 for the six months ended June 30, 2007 and 2006, respectively. The income tax benefit realized from the exercise of stock options and recorded as an increase to additional paid-in capital was $1,204,000 and $932,000 for the six months ended June 30, 2007 and 2006, respectively.

(3) Accounting for Uncertainty in Income Taxes

The Company implemented the provisions of FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, effective January 1, 2007. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of January 1, 2007, the Company had approximately $266,000 of total unrecognized tax benefits. Nearly all of this amount would favorably impact the effective income tax rate in any future period, if recognized. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. Included in the total amount of unrecognized tax benefits as of January 1, 2007 was accrued interest and penalties of $68,000. The Company believes that it is reasonably possible that the amount of unrecognized tax benefits as of January 1, 2007 relating to filing positions with certain state taxing authorities may decrease by up to $175,000 by December 31, 2007 to the extent agreements are reached on such filing positions with the applicable state taxing authorities.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of January 1, 2007, the Company was no longer subject to income tax examinations for taxable years before 2005 in the case of U.S. federal and German taxing authorities, and taxable years before 2002 in the case of various state taxing authorities.

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RIMAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The impact of adopting FIN 48 on the Company s financial statements was insignificant. As part of its assessment of tax positions under this pronouncement, the Company reduced its tax contingency reserve in the first quarter of 2007 by $36,000 for exposure items included in prior years tax reserves.

(4) Marketable Securities

Marketable securities consist primarily of municipal securities, U.S. government agency and money market securities and corporate securities with long-term credit ratings of AAA and short-term credit ratings of A-1. Marketable securities are classified as short-term or long-term in the balance sheet based on their effective maturity date. All marketable securities, except for variable rate demand notes, have maturities ranging from three to 36 months. Variable rate demand notes may be liquidated in less than three months from the date of purchase, but have legal maturities of greater than three months and are required to be classified as marketable securities. Marketable securities are classified as available-for-sale. Available-for-sale securities are recorded at fair value and any unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) until realized.

(5) Prior Period Revisions

Certain prior period amounts in the Condensed Consolidated Statements of Cash Flows have been revised to conform to the current period presentation. These revisions decreased cash flows from investing activities by $14.1 million and decreased net cash provided by operating activities by $266,000 in the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2006. The revisions resulted from certain corrections to properly classify variable rate demand notes of $19.7 million and $5.6 million as current marketable securities rather than cash and cash equivalents as of June 30, 2006 and December 31, 2005, respectively. The corrections to current marketable securities were made to adjust the prior misclassifications based on the current interpretation of cash equivalents pursuant to Statement of Financial Accounting Standard (SFAS) No. 95, Statement of Cash Flows. Additionally, the Company reduced cash and cash equivalents and increased receivables by $463,000 and $197,000 as of June 30, 2006 and December 31, 2005, respectively, to correct an error in the classification of interest receivable in each period.

(6) Inventories

Inventories consisted of the following (in thousands):

	June 30, 2007	December 31, 2006
Finished goods and demonstration equipment	$ 3,252	$ 1,958
Purchased parts and subassemblies	4,226	4,114
	$ 7,478	$ 6,072

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RIMAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(7) Comprehensive Income

Comprehensive income consists of the Company s net income, foreign currency translation adjustments and unrealized holding gains (losses) from available for sale investments. The components of and changes in other comprehensive income (loss) are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Net income	$2,921	$3,384	$5,043	$5,018
Other comprehensive income (loss):				
Net changes in:				
Foreign currency translation adjustment	70	99	94	146
Net unrealized losses on securities	(116)	(21)	(115)	(25)
Total other comprehensive income	$2,875	$3,462	$5,022	$5,139

(8) Foreign Currency Contracts

The Company enters into forward foreign exchange contracts to hedge intercompany receivables denominated in Euros arising from sales to its subsidiary in Germany. Gains or losses on forward foreign exchange contracts are calculated at each period end and are recognized in net income in the period in which they arose. The fair value of forward foreign exchange contracts is recorded in other current assets or other current liabilities depending on whether the net amount is a gain or a loss.

As of June 30, 2007, the Company had 20 outstanding foreign currency contracts totaling $3,948,000. These contracts mature during 2007 and bear exchange rates ranging from 1.3174 to 1.3656 U.S. Dollars per Euro. As of June 30, 2007, the fair value of foreign currency contracts resulted in a net loss position of $50,000, which is recorded in other current liabilities.

As of December 31, 2006, the Company had 27 outstanding foreign currency contracts totaling $5,617,000, all maturing during 2007 at exchange rates ranging from 1.2532 to 1.3336 U.S. Dollars per Euro. As of December 31, 2006, the fair value of foreign currency contracts resulted in a net loss position of $164,000, which is recorded in other current liabilities.

(9) Recently Issued Accounting Standards

In May 2007, the FASB issued FASB Staff Position (FSP) FIN 48-1, Definition of Settlement in FASB Interpretation No. 48. This FSP amends FIN 48, Accounting for Uncertainty in Income Taxes, to provide guidance about how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Under the FSP, a tax position is considered to be effectively settled if the taxing authority completed its examination, the company does not plan to appeal, and it is remote that the taxing authority would reexamine the tax position in the future. FSP FIN 48-1 was effective for the Company on January 1, 2007, the date of adoption of FIN 48. The adoption of FSP FIN 48-1 did not have a significant impact on the Company s consolidated financial statements for periods in 2007.

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RIMAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair-value measurements. This Statement applies only to fair-value measurements that are already required or permitted by other accounting standards, except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value. This Statement is expected to increase the consistency of fair value measurements, but imposes no requirements for additional fair-value measures in financial statements. The provisions under SFAS No. 157 are effective for the Company beginning January 1, 2008, and are expected to be applied prospectively. The Company is currently evaluating the impact of adopting this pronouncement on its consolidated financial statements and related disclosures.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value on a contract-by-contract basis. A business entity is required to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 includes financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. The objective of this Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for the Company beginning January 1, 2008. The Company is currently evaluating the impact of adopting this pronouncement on its consolidated financial statements and related disclosures.

(10) Computation of Net Income Per Share of Common Stock

Basic net income per common share is determined by dividing net income by the weighted average number of shares of common stock outstanding. Diluted net income per common share includes the potentially dilutive effect of common shares issued in connection with outstanding stock options using the treasury stock method. Options to acquire 306,000 and 255,000 weighted average common shares for the three and six months ended June 30, 2007, and 163,000 and 92,000 weighted average common shares for the three and six months ended June 30, 2006, have been excluded from the computation of diluted weighted average shares outstanding for each respective period as their effect is anti-dilutive. The following is a summary of the weighted average common shares outstanding and diluted potential common shares (in thousands, except for per share data):

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RIMAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	Three Months Ended		**Six Months Ended**	
	June 30, 2007	**2006**	**June 30, 2007**	**2006**
Shares outstanding at end of period	10,120	9,811	10,120	9,811
Weighted average shares of common stock outstanding	10,105	9,808	10,042	9,747
Weighted average assumed conversion shares	480	490	508	570
Weighted average shares of common stock and assumed conversion shares	10,585	10,298	10,550	10,317
Net income	$ 2,921	$ 3,384	$ 5,043	$ 5,018
Basic net income per common share	$ 0.29	$ 0.35	$ 0.50	$ 0.51
Diluted net income per common share	$ 0.28	$ 0.33	$ 0.48	$ 0.49

(11) Contingencies

The Company is exposed to a number of asserted and unasserted claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Company s financial position or results of operations.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following table sets forth, for the periods indicated, selected items from the Company s condensed consolidated statements of income.

	Percentage (%) of Revenues Three Months Ended June 30,		Percentage (%) Increase/(Decrease) Between Periods	Percentage (%) of Revenues Six Months Ended June 30,		Percentage (%) Increase/(Decrease) Between Periods
	2007	**2006**	**2007 vs. 2006**	**2007**	**2006**	**2007 vs. 2006**
Revenues	**100**	100	1	**100**	100	(2)
Cost of revenues	**(55)**	(54)	3	**(55)**	(56)	3
Gross profit	**45**	46	(2)	**45**	44	(1)
Operating expenses:						
Research and development	**(6)**	(7)	(18)	**(6)**	(7)	(9)
Selling, general and admin	**(25)**	(20)	27	**(26)**	(23)	9
Operating income	**14**	19	(26)	**13**	14	(13)
Other income, net	**3**	3	19	**3**	3	26
Income before income taxes	**17**	22	(20)	**16**	17	(7)
Income tax expense	**(6)**	(9)	(31)	**(5)**	(7)	(19)
Net income	**11**	13	(14)	**11**	10	

Overview

Rimage develops, manufactures and distributes CD-Recordable (CD-R) and DVD-Recordable (DVD-R) publishing and duplication systems from its operations in the United States, Germany and Japan. These systems allow customers to benefit from cost savings by reducing their manual labor efforts in industries such as digital photography, medical imaging, banking and finance, government and business services. Rimage anticipates increased sales and marketing expenditures in 2007 as a result of increased resources focused on developing these markets. As Rimage s sales within North America and Europe have averaged 94% of total sales over the past three years, the strength of the economies in each of these regions plays an important role in determining the success of Rimage.

Rimage earns revenues through the sale of equipment, consumables (ribbons, ink cartridges, Rimage-branded blank CD-R and DVD-R media), maintenance contracts, parts and repair services. Rimage s recurring revenues (consumables, maintenance contracts, parts and service) comprised 49% and 46% of consolidated revenues during the six months ended June 30, 2007 and 2006, respectively. Exclusive of a small amount of capital lease obligations, Rimage has no long-term debt

and does not require significant capital investments as all fabrication of its products is outsourced to vendors.

Results of Operations

Revenues. Revenues increased 1% to $25.5 million and decreased 2% to $47.0 million for the three and six months ended June 30, 2007, respectively, from $25.3 million and $48.0 million for the respective prior-year periods. Revenues for both the quarterly and year-to-date periods were favorably impacted by a $0.6 million and $0.9 million respective increase in the volume of recurring revenues, consisting of sales of printer ribbons, ink cartridges, media kits, blank CD-R and DVD-R

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

media, parts and maintenance contracts. Revenues for the quarterly and year-to-date periods were unfavorably impacted by a decrease in the volume of equipment sales, offsetting the impact of higher recurring revenues in the year-to-date period. Producer product line equipment sales decreased $0.6 million and $1 million, for the quarterly and year-to-date periods, respectively, while sales of Desktop product line equipment increased $0.1 million and decreased $0.8 million for the same respective periods. Producer product line equipment sales benefited from deliveries against significant orders from the retail business segment, but were offset primarily by reduced sales in the Company s U.S. distribution channel. The growth in recurring revenues was primarily due to the continued expansion of the Company s worldwide installed base of CD-R and DVD-R publishing systems, and the Company s increased emphasis on promoting this portion of its business. Recurring revenues comprised 47% and 49% of total revenues for the three and six months ended June 30, 2007, respectively, compared to 45% and 46% in the same prior year periods. Sales of Producer product line equipment comprised 44% and 41% of total revenues for three and six months ended June 30, 2007, respectively, compared to 46% and 42% for the same periods in the prior year. Sales of desktop product line equipment represented 9% of revenues for the second quarters of both 2007 and 2006, and 10% and 11% of revenues for the year-to-date periods in 2007 and 2006, respectively.

International sales rose 2% in both the three and six months ended June 30, 2007 over the same prior year periods, and comprised 34% and 37% of total sales, compared to 34% and 36% for the same periods in the prior year. The European market continued to generate the majority of international sales. Sales in Asian markets, however, generated most of the increase in international sales during the quarter and year-to-date periods, increasing 27% and 30%, respectively, from the same prior year periods. The increase in sales in Asian markets reflects increased sales efforts in this region by a Rimage subsidiary operation established in Japan in 2005. Currency fluctuations affecting the Company s European and Japanese operations increased reported consolidated revenues by 2% for the three and six months ended June 30, 2007, compared to the same periods in the prior year.

As of and for the six months ended June 30, 2007, foreign revenues from unaffiliated customers generated by the Company s German and Japanese operations and the operating income and net identifiable assets of such operations were $14.9 million, $0.1 million and $8.4 million, respectively. These amounts primarily related to the Company s German operations, as the establishment of subsidiary operations in Japan occurred in June 2005. Comparable amounts for the Company s German and Japanese operations as of and for the six months ended June 30, 2006 were revenues of $14.7 million, operating income of $0.2 million and net identifiable assets of $7.4 million. The growth in revenues and assets is due to increasing penetration in foreign markets of sales of CD-R and DVD-R products.

The Company is estimating that third quarter 2007 consolidated revenues will range between $29.0 million and $31.0 million.

Gross profit. Gross profit as a percentage of revenues was 45% for the both the three and six months ended June 30, 2007, compared to 46% and 44% for the respective prior year periods. Gross profit as a percentage of revenues for the current year periods was unfavorably impacted by charges to cost of sales of $0.5 million in the second quarter for an increase in inventory reserves and an

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Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

impairment in the carrying value of manufacturing tooling, both driven by slow sales of the Rimage 360i desktop product line. Such charges reduced gross profit as a percentage of revenues by two percentage points in the second quarter and one percentage point in the year-to-date period. Gross profit as a percentage of revenues benefited in both the quarterly and year-to-date periods from a reduced volume and concentration of lower margin products. Producer product line equipment sales generally carry higher gross margins than desktop product line equipment or recurring revenues. While the aggregate volume and concentration of Producer product line equipment sales decreased in the current year periods, sales of desktop product line equipment, media and media kits, which generally carry the lowest gross margins of all product offerings, comprised in the aggregate a smaller proportion of total revenues, at 20% and 22% for the three and six months ended June 30, 2007, compared to 24% and 27% in the same prior year periods. Additionally, equipment gross margins in the current year-to-date period benefited from higher average selling prices and reduced product costs on some high-end equipment configurations. Stock-based compensation expense included in cost of revenue had a minimal impact on gross profit as a percentage of revenues, and amounted to $24,000 and $52,000 for the three and six months ended June 30, 2007, compared to $16,000 and $32,000 for the same periods in 2006.

Future gross profit margins will continue to be affected by many factors, including product mix, the timing of new product introductions, changes in material costs, manufacturing volume, the rate of growth of service related revenues relative to associated service support costs and foreign currency exchange rate fluctuations.

Operating expenses. Research and development expenses totaled $1.4 million and $3.0 million for the three and six months ended June 30, 2007, respectively, representing 6% of revenues for both periods. Expenses for the same prior year periods totaled $1.7 million and $3.3 million, representing 7% of revenues for both periods. The 17% and 9% respective reductions in expenses for the three and six months ended June 30, 2007 were primarily due to the timing of completion of new product development projects. Research and development expenses for the three and six months ended June 30, 2007 were minimally impacted by stock-based compensation expenses of $7,000 and $46,000, respectively, compared to $37,000 and $81,000 for the same periods in 2006. Rimage anticipates continued expenditures in research and development in 2007 to support new product development initiatives and to improve existing products.

Selling, general and administrative expenses for the three and six months ended June 30, 2007 were 25% and 26% of revenues at $6.3 million and $12.1 million, respectively, compared to expenses in the same prior year periods at 20% and 23% of revenues, or $5.0 million and $11.1 million, respectively. The increases in selling, general and administrative expenses of $1.3 million and $1.0 for the three and six months ended June 30, 2007, respectively, primarily resulted from further strengthening of the Company s sales, marketing and administrative organizations and increased expenditures for marketing and promotional programs. Contributing to the increase in expenses in both periods was an increase in average selling, general and administrative headcount of 10% from June 30, 2006 to June 30, 2007. Partially offsetting the increase in expenses in the year-to-date period was the impact of $1.2 million of consulting expenses incurred in the prior year s first quarter for the completion of a strategic analysis of the Company s operations. Stock-based compensation expenses included in selling, general and administrative expenses amounted to $0.3 million and $0.45 million for the three and six months ended June 30, 2007 and 2006, respectively.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Other income, net. The Company recognized net interest income on cash and marketable securities of $0.9 million and $1.7 million for the three and six months ended June 30, 2007, compared to $0.7 million and $1.3 million for the same prior year periods. The increase in the quarterly and year-to-date periods was primarily due to a $17 million and $16 million respective increase in average cash equivalent and marketable securities balances. Other income in each period was negatively impacted by net losses on foreign currency transactions, amounting to $95,000 and $89,000 for the three and six months ended June 30, 2007, respectively, compared to net losses of $39,000 and $27,000 for the respective prior year periods.

Income taxes. The provision for income taxes represents federal, state and foreign income taxes on income. Income tax expense for the three and six months ended June 30, 2007 amounted to $1.5 million and $2.5 million, or 34.1% and 33.6% of income before taxes, respectively. Income tax expense for the three and six months ended June 30, 2006 was $2.2 million and $3.2 million, or 39.3% and 38.6% of income before taxes, respectively. The decrease in the effective tax rate in the current periods primarily reflects the benefit of increased tax-exempt interest income and the timing of reinstatement of the research credit. The Company did not recognize a benefit for the research credit for the three and six months ended June 30, 2006, as the credit was reinstated effective December 31, 2006.

The Company implemented the provisions of FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, effective January 1, 2007. As part of its assessment of tax positions under FIN 48, the Company reduced its tax contingency reserve by $36,000 in the first quarter of 2007.

The Company anticipates its effective tax rate will range between 34% and 35% for the full year 2007.

Net income / net income per share. Resulting net income for the three and six months ended June 30, 2007 was $2.9 million and $5.0 million, respectively, or 11% of revenues for both periods. Comparable amounts for the three and six months ended June 30, 2006 were $3.4 million, or 13% of revenues, and $5.0 million, or 10% of revenues, respectively. Related net income per diluted share amounts for the three and six months ended June 30, 2007 were $0.28 and $0.48, respectively, compared to $0.33 and $0.49 per diluted share for the respective prior year periods. The Company expects third quarter 2007 net income to range from $0.35 to $0.40 per diluted share.

Liquidity and Capital Resources

The Company expects it will be able to maintain current operations, including anticipated capital expenditure requirements, through its internally generated funds and, if required, from Rimage s existing credit agreement. This credit agreement allows for advances under an unsecured revolving loan up to a maximum advance of $10 million. At June 30, 2007, no amounts were outstanding under the credit agreement.

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

At June 30, 2007, the Company had working capital of $71.4 million, an increase of $17.5 million from working capital at December 31, 2006. The increase was primarily the result of year-to-date net income of $5.0 million, proceeds from employee stock plans of $1.8 million and the non-cash impact of a change in classification of $7.9 million of marketable securities from non-current as of December 31, 2006 to current as of June 30, 2007 as the remaining term to maturity for these securities is twelve months or less as of June 30, 2007.

On July 25, 2007, the Company s Board of Directors authorized the repurchase of up to 500,000 shares of its common stock. Shares will be purchased at prevailing market prices in the open market or in private transactions, subject to market conditions, share price, trading volume and other factors, and the repurchase program may be discontinued at any time. The Company will finance the purchase of the shares using cash on hand. The program adopted by the Company s Board of Directors in July 2007 replaces the repurchase program adopted in May 1999. The Company also intends on utilizing its current assets for its continued organic growth. Additionally, the Company may use its available cash for potential future strategic initiatives or alliances.

Net cash provided by operating activities totaled $7.6 million for the six months ended June 30, 2007, compared to $4.2 million in the same prior year period. The $3.4 million increase in cash generated from operations resulted primarily from a $3.4 million increase in cash from changes in operating assets and liabilities. The change in operating assets and liabilities compared to the prior year s period was primarily due to a $3.0 million variation in the change in receivables, a $1.7 million larger increase in deferred income and customer deposits and a $0.9 larger net increase in aggregate trade accounts payable, accrued compensation and other accrued expenses. These changes were partially offset by a $1.1 million larger increase in inventories and a $1.1 million larger increase in prepaid income taxes and other prepaid expenses. The variation in receivables resulted from a $2.3 million reduction in receivables in the current period, compared to a $0.7 million increase in the prior year s period. The change in receivables was largely impacted by a $3.0 million reduction in revenue in June 2007 compared to December 2006 (last month of each quarter), compared to a $2.2 million increase in revenue between the comparable prior year periods. The larger increase in deferred income and customer deposits resulted from the sale of maintenance contracts on a growing base of installed CD-R and DVD-R publishing systems. The larger increase in the aggregate amount of payables and accrued expenses as well as prepaid income taxes was primarily impacted by the timing of payments. The larger increase in inventories in the current year s period was due to a build-up of finished goods inventory in support of customer order backlog and parts and assemblies associated with new product introductions.

Investing activities resulted in a net use of cash of $1.5 million for the six months ended June 30, 2007, compared to a net use of cash of $7.1 million for the same prior year period. The smaller use of cash in investing activities in the current period was primarily the result of $0.7

million in purchases of marketable securities, net of related maturities, during the six months ended June 30, 2007, compared to $6.0 million in the same prior year period. Also contributing to the smaller use of cash was a $0.3 million reduction in capital expenditures. Capital expenditures for the six months ended June 30, 2007 totaled $0.8 million, and consisted primarily of costs capitalized as part of the implementation of an enterprise resource planning system and purchases of manufacturing tooling. Costs capitalized during the six months ended June 30, 2007 for the enterprise resource planning system amounted to $0.2 million, and consisted primarily of software development costs incurred in the first quarter.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Net cash provided by financing activities totaled $2.8 million and $1.7 million for the six months ended June 30, 2007 and 2006, respectively. Financing activities in each period included proceeds from employee stock plans of $1.8 million and $1.0 million, respectively. Additionally, each period includes excess tax benefits recognized as an addition to the APIC (additional paid-in capital) pool of $1.0 million and $0.8 million, respectively. Such amounts are required to be reported as an addition to financing activities and a reduction in operating activities in the Statements of Cash Flows under the provisions of SFAS 123R.

Critical Accounting Policies.

Management utilizes its technical knowledge, cumulative business experience, judgment and other factors in the selection and application of the Company s accounting policies. The accounting policies described below are considered by management to be the most critical to the presentation of the consolidated financial statements because they require the most difficult, subjective and complex judgments. Management made no changes to the Company s critical accounting policies during the six months ended June 30, 2007.

In applying the critical accounting policies described below, management reassesses its estimates each reporting period based on available information. Changes in such estimates in 2007 primarily involved the Company s assessment of required inventory reserves and its analysis of potential asset impairment. The impact of these changes on earnings for the three and six months ended June 30, 2007 is discussed below.

Revenue Recognition. Revenue for product sales (including hardware and consumables), which do not include any requirement for installation or training, is recognized on shipment, at which point the following criteria of SEC Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, Topic 13(A)(1) have been satisfied:

Persuasive evidence of an arrangement exists. Orders are received for all sales and sales invoices are mailed on shipment.
Delivery has occurred. Product has been transferred to the customer or the customer s designated delivery agent, at which time title and risk of loss transfers.
The vendor s price is fixed or determinable. All sales prices are fixed at the time of the sale (shipment).
Collectibility is probable. All sales are made on the basis that collection is expected in line with the Company s standard payment terms, which are consistent with industry practice in the geographies in which the Company markets its products.

A standard product sale by the Company does not require a commitment on the Company s part to provide installation, set-up or training. When such services are requested, value-added resellers generally arrange and perform the service directly with the customer, with no financial interest or obligation on the part of the Company. In the limited situations in which the Company does provide installation or training services for customers, the Company charges separately for the service based upon its published list prices, and recognizes the associated service revenue upon the successful completion of the service.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The Company records a reserve for sales returns from its customers. The amount of the reserve is based upon historical trends, timing of new product introductions and other factors. A return policy is in place with the Company s distributors to restrict the volume of returned products, and the Company reviews the distributor s inventory to insure compliance with the return policy.

Revenue for maintenance agreements is recognized on a straight-line basis over the life of the contracts, in accordance with FASB Technical Bulletin No. 90-1, Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts.

Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables provides revenue recognition guidance for arrangements with multiple deliverables, and the criteria to determine if items in a multiple deliverable agreement should be accounted for separately. The elements of the Company s sales transactions are clearly and separately stated and sufficient evidence of their fair value exists to separately account for the elements.

Allowance for Doubtful Accounts and Sales Returns. The Company records a reserve for accounts receivable that are potentially uncollectible. The reserve is established based on a specific assessment of accounts with known collection exposure, based upon a review of the age of the receivable, the customer s payment history, the customer s financial condition and industry and general economic conditions, as well as a general assessment of collection exposure in the remaining receivable population based upon bad debt history. Actual bad debt exposure could differ significantly from management s estimates if economic conditions worsened for the Company s customers. As described above under Revenue Recognition, the Company also records a reserve for sales returns from its customers. The amount of the reserve is based upon historical trends, timing of new product introductions and other factors.

Inventory Reserves. The Company records reserves for inventory shrinkage and for potential excess, obsolete and slow moving inventory. The amounts of these reserves are based upon usage, historical loss trends, inventory levels, expected product lives and forecasted sales demand. Results could be materially different if demand for the Company s products decreased because of economic or competitive conditions, or if products became obsolete because of technical advancements in the industry or by the Company.

In the second quarter of 2007, the Company recorded additional reserves of $0.4 million for the estimated value of excess raw material inventory and to adjust the carrying value of finished goods inventory to net realizable value, both related to the Rimage 360i desktop product line. The second quarter increase to the inventory reserve was driven by slow sales of the 360i product line.

Deferred Tax Assets. The Company recognizes deferred tax assets for the expected future tax impact of temporary differences between book and taxable income. A valuation allowance and income tax charge are recorded when, in management s judgment, realization of a specific deferred tax asset is uncertain. Income tax expense could be materially different from actual results because of changes in management s expectations regarding future taxable income, the relationship between book and taxable income and tax planning strategies employed by the Company.

Warranty Reserves. The Company s non-consumable products are warranted to the end-user to ensure end-user confidence in design, workmanship and overall quality. Warranty lengths vary by

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Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

product type, ranging from periods of six to twelve months. Warranty covers parts, labor and other associated expenses. The Company performs the majority of warranty work, while authorized distributors and dealers also perform some warranty work. The Company records a liability for estimated future warranty claims during the warranty period. The amount of the liability is based on an analysis of historical claims experience, which includes labor, parts and freight costs and consideration of the proportion of parts that can be re-used. Also considered are the anticipated impact of product improvements, releases of new products and other factors. Claims experience could be materially different from actual results because of the introduction of new, more complex products; a change in the Company s warranty policy in response to industry trends, competition or other external forces; or manufacturing changes that could impact product quality.

Stock-Based Compensation. The Company implemented the fair value recognition provisions of SFAS No. 123R effective January 1, 2006 using the modified prospective method. Under this method, the Company recognizes compensation expense on a straight-line basis over the vesting period for all stock-based awards granted on or after January 1, 2006, and for previously granted awards not yet vested as of January 1, 2006. The Company recognized stock-based compensation costs of approximately $0.5 million and $0.6 million for the six months ended June 30, 2007 and 2006, respectively.

The Company utilizes a Black-Scholes option pricing model to estimate the fair value of each award on the date of grant. The Black-Scholes model requires the input of certain assumptions that involve management judgment. Key assumptions that affect the calculation of fair value include the expected life of stock-based awards and the Company s stock price volatility. Additionally, the Company is required to estimate the expected forfeiture rate of unvested awards and recognize expense for only those shares expected to vest. The assumptions used in calculating the fair value of stock-based awards and the forfeiture rate of such awards reflect management s best estimates. However, circumstances may change and additional data may become available over time, which could result in changes to these assumptions that materially impact the fair value determination of future awards or their estimated rate of forfeiture. If factors change and the Company uses different assumptions in the application of SFAS 123R in future periods, the compensation expense recorded under SFAS 123R may differ significantly from the expense recorded in the current period. See Note 2 under the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for additional information on stock-based compensation.

Impairment of Long-lived Assets. Long-lived assets at June 30, 2007 consisted of property and equipment. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, the Company reviews the carrying amount of its long-lived assets when events or changes in circumstances such as market value, asset utilization, physical change, legal factors or other matters indicate that the carrying amount of the assets may not be recoverable. When this review indicates the carrying amount of an asset or asset group exceeds the sum of the future undiscounted cash flows expected to be generated by the assets, the Company recognizes an asset impairment charge against operations for the amount by which the carrying amount of the impaired asset exceeds its fair value. Considerable judgment is required in the evaluation of whether certain events or circumstances lead to an indication of impairment, and in the assumptions used in determining the amount and period over which future revenues are expected to be earned, related costs, terminal values and discount rates.

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Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

In the second quarter of 2007, the Company recorded a charge to cost of revenues of $60,000 for an impairment in the carrying value of manufacturing tooling associated with the assembly of the Rimage 360i product line. The impairment charge was triggered by slow sales of the Rimage 360i product and represented the remaining net book value of the tooling.

Recently Issued Accounting Standards

In May 2007, the FASB issued FASB Staff Position (FSP) FIN 48-1, Definition of Settlement in FASB Interpretation No. 48. This FSP amends FIN 48, Accounting for Uncertainty in Income Taxes, to provide guidance about how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Under the FSP, a tax position is considered to be effectively settled if the taxing authority completed its examination, the company does not plan to appeal, and it is remote that the taxing authority would reexamine the tax position in the future. FSP FIN 48-1 was effective for the Company on January 1, 2007, the date of adoption of FIN 48. The adoption of FSP FIN 48-1 did not have a significant impact on the Company s consolidated financial statements for periods in 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair-value measurements. This Statement applies only to fair-value measurements that are already required or permitted by other accounting standards, except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value. This Statement is expected to increase the consistency of fair value measurements, but imposes no requirements for additional fair-value measures in financial statements. The provisions under SFAS No. 157 are effective for the Company beginning January 1, 2008, and are expected to be applied prospectively. The Company is currently evaluating the impact of adopting this pronouncement on its consolidated financial statements and related disclosures.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain warranty and insurance contracts at fair value on a contract-by-contract basis. A business entity is required to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 includes financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. The objective of this Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for the Company beginning January 1, 2008. The Company is currently evaluating the impact of adopting this pronouncement on its consolidated financial statements and related disclosures.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. For this purpose, any statements contained in this report that are not statements of historical fact may be

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

deemed to be forward-looking statements. Without limiting the foregoing, words such as may, will, expect, believe, anticipate, estimate o continue or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties. The Company s actual results could differ significantly from those discussed in the forward-looking statements.

Factors that could cause or contribute to such differences include, but are not limited to, the following, as well as other factors not now identified: the Company s ability to keep pace with changes in technology in the computer and storage media industries as well as technology changes in the retail, medical, banking, government and business services markets; increasing competition and the ability of the Company s products to successfully compete with products of competitors and newly developed media storage products; the ability of the Company s newly developed products to gain acceptance and compete against products in their markets, the significance of the Company s international operations and the risks associated with international operations including currency fluctuations, local economic health and management of these operations over long distances; the Company s ability to protect its intellectual property and to defend claims of others relating to its intellectual property; the Company s dependence upon the selling efforts of the Company s key channel partners; the Company s ability to maintain adequate inventory of products; the Company s reliance on single source suppliers; the ability of the Company s products to operate effectively with the computer products developed and to be developed by other manufacturers; the negative effect upon the Company s business from manufacturing or design defects; the effect of U.S. and international regulation; fluctuations in the Company s operating results; the Company s dependence upon its key personnel; the volatility of the price of the Company s common stock; provisions governing the Company relating to a change of control, compliance with corporate governance and securities disclosures rules and other risks, including those set forth in the Company s reports filed with the Securities and Exchange Commission, including Item 1A of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2006. These forward-looking statements are made as of the date of this report and the Company assumes no obligation to update such forward-looking statements, or to update the reasons why actual results could differ materially from those anticipated in such forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk from foreign exchange rate fluctuations of the European Euro and Japanese Yen to the U.S. dollar as the financial position and operating results of the Company s German and Japanese subsidiaries, Rimage Europe GmbH and Rimage Japan Co., Ltd., respectively, are translated into U.S. dollars for consolidation. Resulting translation adjustments are recorded as a separate component of stockholders equity.

The Company enters into forward exchange contracts principally to hedge inter-company receivables denominated in Euros arising from sales to its subsidiary in Germany. Gains or losses on forward exchange contracts are calculated at each period end and are recognized in net income in the period in which they arose. The Company records the fair value of its open forward foreign exchange contracts in other current assets or other current liabilities depending on whether the net amount is a gain or a loss. The Company does not utilize financial instruments for trading or other speculative purposes.

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company s Chief Executive Officer, Bernard P. Aldrich, and the Company s Chief Financial Officer, Robert M. Wolf, have evaluated the Company s disclosure controls and procedures as of the end of the period covered by this report. Based upon such evaluation, they have concluded that these disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting**.**

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 1A. Risk Factors

Not Applicable.

Item 2. Changes in Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Submission of Matters to a Vote of Security Holders

The Company s Annual Meeting of Shareholders was held on May 15, 2007. Of the 10,098,001 shares outstanding and entitled to vote at the meeting, 9,276,361 shares were present, either in person or by proxy. The following describes the matters considered by the Company s shareholders at the Annual Meeting, as well as the results of the votes cast at the meeting:

A. To elect seven (7) directors of the Company to serve until the next Annual Meeting of Shareholders or until their respective successors have been elected and qualified.

Nominee	In Favor	Withheld
Bernard P. Aldrich	9,031,418	244,943
Lawrence M. Benveniste	9,032,543	243,818

Philip D. Hotchkiss	9,032,206	244,155
Thomas F. Madison	9,026,590	249,771
Steven M. Quist	9,033,043	243,318
James L. Reissner	9,031,168	245,193
David J. Suden	9,031,818	244,543

B. To approve the adoption of the Rimage Corporation 2007 Stock Incentive Plan.

FOR	AGAINST	ABSTAIN	BROKER NON-VOTE
5,418,059	812,703	15,818	3,029,781

C. To ratify and approve the appointment of KPMG LLP as independent auditors for the Company for the fiscal year ending December 31, 2007.

FOR	AGAINST	ABSTAIN	BROKER NON-VOTE
9,077,613	187,905	10,843	0

Item 5. Other Information

Not Applicable

Item 6. Exhibits

(a) The following exhibits are included herein:

31.1 Certificate of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act.
31.2 Certificate of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act.
32 Certifications pursuant to 18 U.S.C. §1350.

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SIGNATURES

In accordance with the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

RIMAGE CORPORATION
Registrant

Date: August 9, 2007	By:	/s/ Bernard P. Aldrich Bernard P. Aldrich Director, Chief Executive Officer, and President (Principal Executive Officer)
Date: August 9, 2007	By:	/s/ Robert M. Wolf Robert M. Wolf Chief Financial Officer (Principal Financial Officer) (Principal Accounting Officer)