RIMAGE CORP
Form 10-Q
August 08, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **June 30, 2011**; OR

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: 000-20728

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)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** **No**

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

Large Accelerated Filer **Accelerated Filer** **Non-Accelerated Filer** **Smaller Reporting Company**

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

Common Stock outstanding at July 31, 2011 -- 9,470,226 shares of $.01 par value Common Stock.

RIMAGE CORPORATION

FORM 10-Q

TABLE OF CONTENTS

FOR THE QUARTER ENDED JUNE 30, 2011

2

Table of Contents

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

RIMAGE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(unaudited - in thousands, except share data)

Assets	June 30, 2011	December 31, 2010
Current assets:		
Cash and cash equivalents	$112,491	$107,982
Marketable securities	6,590	8,790
Receivables, net of allowance for doubtful accounts and sales returns of $278 and $286, respectively	13,798	13,764
Inventories	5,817	4,502
Prepaid income taxes	125	—
Prepaid expenses and other current assets	1,295	1,069
Deferred income taxes - current	457	425
Total current assets	140,573	136,532
Property and equipment, net of accumulated depreciation and amortization of $11,195 and $10,471, respectively	6,656	7,528
Deferred income taxes - non-current	2,711	2,509
Other assets - non-current	3,894	1,475
Total assets	$153,834	$148,044
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$5,520	$6,045
Accrued compensation	3,122	3,821
Other accrued expenses	650	663
Dividends payable	959	—
Income taxes payable	—	139
Deferred income and customer deposits	7,427	5,615
Other current liabilities	27	20
Total current liabilities	17,705	16,303

Long-term liabilities:		
Deferred income - non-current	4,501	2,225
Income taxes payable - non-current	247	215
Other non-current liabilities	366	664
Total long-term liabilities	5,114	3,104
Total liabilities	22,819	19,407
Stockholders’ equity:		
Rimage 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 9,588,712 and 9,479,272 respectively	96	95
Additional paid-in capital	44,215	43,062
Retained earnings	85,453	84,657
Accumulated other comprehensive income	809	317
Total Rimage stockholders’ equity	130,573	128,131
Noncontrolling interest	442	506
Total stockholders’ equity	131,015	128,637
Total liabilities and stockholders’ equity	$153,834	$148,044

See accompanying notes to condensed consolidated financial statements.

Table of Contents

RIMAGE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(unaudited - in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues:				
Product	$17,235	$19,808	$36,016	$35,653
Service	2,959	2,495	5,634	5,020
Total revenues	20,194	22,303	41,650	40,673
Cost of revenues:				
Product	8,709	9,858	17,918	17,613
Service	1,606	1,810	3,069	3,773
Total cost of revenues	10,315	11,668	20,987	21,386
Gross profit	9,879	10,635	20,663	19,287
Operating expenses:				
Research and development	1,516	1,417	3,068	2,858
Selling, general and administrative	6,543	6,030	13,449	12,297
Total operating expenses	8,059	7,447	16,517	15,155
Operating income	1,820	3,188	4,146	4,132
Other income (expense):				
Interest, net	52	128	119	296
Gain (loss) on currency exchange	3	(5)	(30)	(32)
Other, net	—	—	—	4
Total other income, net	55	123	89	268
Income before income taxes	1,875	3,311	4,235	4,400
Income tax expense	728	1,258	1,605	1,652
Net income	1,147	2,053	2,630	2,748
Net loss attributable to the noncontrolling interest	59	—	74	—
Net income attributable to Rimage	$1,206	$2,053	$2,704	$2,748
Net income per basic share	$0.12	$0.22	$0.28	$0.29
Net income per diluted share	$0.12	$0.22	$0.28	$0.29

Basic weighted average shares outstanding	9,559	9,531	9,526	9,504
Diluted weighted average shares outstanding	9,589	9,608	9,565	9,588

See accompanying notes to condensed consolidated financial statements.

Table of Contents

RIMAGE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(unaudited - in thousands)

	Six Months Ended June 30, 2011			2010		
Cash flows from operating activities:						
Net income	$	2,630		$	2,748	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		1,255			917	
Deferred income tax benefit		(353	)		(72	)
Loss on disposal of property and equipment		30			1	
Stock-based compensation		967			1,002	
Excess tax benefits from stock-based compensation		(11	)		(22	)
Changes in operating assets and liabilities:						
Receivables		131			(716	)
Inventories		(1,145	)		(2,886	)
Prepaid income taxes/income taxes payable		(97	)		196	
Prepaid expenses and other current assets		3			(319	)
Trade accounts payable		(576	)		2,658	
Accrued compensation		(778	)		(1,183	)
Other accrued expenses and other		(3	)		(77	)

current liabilities				
Deferred income and customer deposits		4,008		(1,086)
Net cash provided by operating activities		6,061		1,161
Cash flows from investing activities:				
Purchase of stock in software company		(2,000)		—
Maturities and sales of marketable securities		2,100		19,954
Issuance of note receivable		(500)		—
Purchases of property and equipment		(639)		(3,361)
Net cash provided by (used in) investing activities		(1,039)		16,593
Cash flows from financing activities:				
Payment of dividends		(950)		—
Principal payments on capital lease obligations		(10)		(9)
Excess tax benefits from stock-based compensation		11		22
Proceeds from stock option exercises		204		536
Net cash provided by (used in) financing activities		(745)		549
Effect of exchange rate changes on cash		232		(201)
Net increase in cash and cash equivalents		4,509		18,102
Cash and cash equivalents, beginning of period		107,982		72,507
Cash and cash equivalents, end of	$	112,491	$	90,609

period

Supplemental disclosures of net cash paid during the period for:				
Income taxes	$	2,057	$	1,520

See accompanying notes to condensed consolidated financial statements.

5

Table of Contents

RIMAGE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

(1) Basis of Presentation and Nature of Business

Rimage Corporation ("the Company" or "Rimage") develops, manufactures and markets workflow-integrated digital publishing solutions that are used by businesses to produce CD, DVD and Blu-ray Discs™ with customized content and durable disc labeling. Rimage distributes its publishing systems from its operations in the United States, Germany, Japan and its joint venture operation in China. The Company also distributes related consumables for use with its systems, consisting of media kits, ribbons, ink cartridges and Rimage-branded blank CD-R, DVD-R and Blu-ray media.

The accompanying condensed consolidated financial statements 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 as of and for the year ended December 31, 2010.

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 estimates on items such as allowance for doubtful accounts and sales returns, inventory provisions, asset impairment charges, deferred tax asset valuation allowances, accruals for uncertain tax positions and warranty accruals. These estimates and assumptions are based on management's best judgment. Management evaluates estimates and assumptions on an ongoing basis using its technical knowledge, historical experience and other factors, including consideration of the impact of the current economic environment. Management believes its assumptions are reasonable and adjusts such estimates and assumptions when facts and circumstances change. Illiquid credit markets, volatile equity, foreign currency and energy markets, and declines in business and consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Any required changes in those estimates will be reflected in the financial statements in future periods.

(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. In May 2011, the Company's shareholders approved amendments to the 2007 Plan, including an increase in the number of shares authorized for issuance by 500,000 shares to a total of 1,730,320 shares. At June 30, 2011, a total of 780,260 shares were available for future grant under the 2007 Plan, as amended. 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 "1992 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. Options issued to employees through May 13, 2008 under the 1992 Plan and the 2007 Plan terminate ten years from the date of grant, while options issued effective May 14, 2008 under the 2007 Plan terminate seven 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 stock and restricted stock unit awards issued to employees and non-employee directors under the 2007 Plan are subject to the risk of forfeiture and transfer restrictions that lapse in varying time periods from the date of grant.

Table of Contents

In addition to awards granted under the 2007 Plan and 1992 Plan, the Company granted a non-qualified option to purchase 200,000 shares of its common stock to a newly hired executive officer on April 1, 2009. The option was granted outside of any shareholder-approved plan as an inducement to accept employment with the Company. The option has an exercise price equal to the closing price of the Company's common stock as reported by the Nasdaq Stock Market on the first day of employment of April 1, 2009, vests in four equal installments on each of the first four anniversaries of the date of grant and has a term of seven years. In other respects, the option was structured to mirror the terms of options granted under the 2007 Plan and is subject to a stock option agreement between the Company and the executive officer.

Under the guidance of the Stock Compensation Topic of the Codification, 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 recognizes stock-based compensation net of an estimated forfeiture rate, resulting in the recognition of compensation cost for only those shares expected to vest. Compensation cost is recognized for all awards over the vesting period to the extent the employees or directors meet the requisite service requirements, whether or not an option is ultimately exercised. Conversely, when an employee or director does not meet the requisite service requirements and forfeits the award prior to vesting, any compensation expense previously recognized for the award is reversed.

The Company recognized stock-based compensation costs of $497,000 and $967,000 for the three and six months ended June 30, 2011, respectively, compared to $536,000 and $1,002,000 for the comparable periods in 2010. Cash received from the exercise of stock options was $204,000 and $536,000 for the six months ended June 30, 2011 and 2010, respectively. The aggregate impact of the exercise of stock options, expirations of vested stock options and lapse of restrictions on restricted stock generated a net tax impact of $17,000 and $45,000 during the six months ended June 30, 2011 and 2010, respectively, recorded as a reduction of additional paid-in capital in both periods.

Stock Options

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, 2011 and 2010:

	Six Months Ended June 30,	
	2011	2010
Expected life of options in years	4.75	4.75

Risk-free interest rate	1.60% - 2.05%	1.88% - 2.65%
Expected volatility	46.2% - 48.1%	49.2% - 49.6%
Expected dividend yield	2.7% - 3.0%	0.0%

Table of Contents

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. Effective April 2008, the Company's Board of Directors approved a change in the contractual term of stock options granted to employees from ten to seven years. Given the reduction in the contractual term of its employee stock option awards, the Company determined it was unable to rely on its historical exercise data as a basis for estimating the expected life of stock options granted to employees subsequent to this change. As such, the Company used the "simplified" method for determining the expected life of stock options granted to employees in 2010 and 2011, as specified by Staff Accounting Bulletin ("SAB") No. 107, "Valuation of Share-Based Payment Arrangements for Public Companies," which bases the expected life calculation on the average of the vesting term and the contractual term of the 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 weekly price observations over the most recent historical period equal to the expected life of the awards. The expected dividend yield for 2010 grants was zero as the Company had not paid or declared any cash dividends to date on its common stock, and did not have plans at that time to pay dividends. With the approval by the Company's Board of Directors effective February 23, 2011 of a quarterly dividend policy, the Company has computed an expected dividend rate for grants awarded in the first half of 2011 based on the relationship of the expected dividend to the stock price on the date of grant.

Other information pertaining to stock options is as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Number of options granted	88	142	103	217
Fair value of options granted	$421	$1,093	$498	$1,650
Per share weighted average fair value of options granted	$4.80	$7.71	$4.85	$7.61
Total fair value of stock options vested	$1,001	$1,116	$1,140	$1,116
Total intrinsic value of stock options exercised	$66	$462	$204	$528
Total intrinsic value of stock options outstanding	$177	$1,341	$177	$1,341
Compensation expense recognized for stock options	$366	$420	$734	$781

Restricted Stock

Restricted stock and restricted stock units are valued based on the market value of the Company's shares on the date of grant, which was equal to the intrinsic value of the shares on that date. These awards vest and the restrictions lapse over varying periods from the date of grant. The Company recognizes compensation expense for the intrinsic value of the restricted awards ratably over the vesting period. Information pertaining to restricted stock and restricted stock units is as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Number of restricted stock and restricted stock units granted	92	18	92	23
Fair value of restricted stock and restricted stock units granted	$1,337	$307	$1,337	$383
Per share weighted average fair value of restricted stock and restricted stock units granted	$14.61	$17.57	$14.61	$17.03
Total fair value of restricted stock and restricted stock units vested	$258	$303	$276	$476
Compensation expense recognized for restricted stock and restricted stock units	$131	$116	$233	$221

Table of Contents

(3) Accounting for Uncertainty in Income Taxes

As of June 30, 2011 and December 31, 2010, the Company's liability for gross unrecognized tax benefits totaled $384,000 and $360,000, respectively (excluding interest and penalties). Total accrued interest and penalties relating to unrecognized tax benefits amounted to $50,000 and $43,000 on a gross basis at June 30, 2011 and December 31, 2010, respectively. The Company does not currently expect significant changes in the amount of unrecognized tax benefits during the next twelve months.

(4) Marketable Securities

Marketable securities consist primarily of municipal securities and corporate securities with long-term credit ratings of AAA and short-term credit ratings of A-1. Marketable securities are classified as either short-term or long-term in the condensed consolidated balance sheet based on their effective maturity date. All marketable securities as of June 30, 2011 and December 31, 2010 have original maturities ranging from three to 12 months. 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 until realized. See Note 8, "Fair Value Measurements," for a discussion of inputs used to measure the fair value of the Company's available-for-sale securities. The Company's marketable securities at June 30, 2011 did not include any auction-rate securities, "high-yield" sub-prime backed paper or other affected securities which are subject to significant market value declines or liquidity issues.

(5) Inventories

Inventories consisted of the following (in thousands):

	June 30, 2011	December 31, 2010
Finished goods and demonstration equipment	$2,020	$ 1,521
Purchased parts and subassemblies	3,797	2,981
	$5,817	$ 4,502

(6) Comprehensive Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	$1,147	$2,053	$2,630	$2,748
Other comprehensive income:				
Net changes in:				
Foreign currency translation adjustments	177	(486)	552	(834)
Change in net unrealized gain on marketable securities, net of taxes	(25)	(45)	(50)	(100)
Total comprehensive income	1,299	1,522	3,132	1,814
Net loss attributable to the noncontrolling interest	59	—	74	—
Foreign currency translation adjustment attributable to the noncontrolling interest	(7)	—	(10)	—
Comprehensive loss attributable to the noncontrolling interest	52	—	64	—
Comprehensive income attributable to Rimage	$1,351	$1,522	$3,196	$1,814

Table of Contents

(7) Derivatives

The Company enters into forward foreign exchange contracts principally to hedge intercompany receivables denominated in Euros arising from sales to its subsidiary in Germany. The Company's foreign exchange contracts do not qualify for hedge accounting under the Derivatives and Hedging Topic of the Codification. As a result, gains or losses related to mark-to-market adjustments on forward foreign exchange contracts are recognized as other income or expense in the income statement during the period in which the instruments are outstanding. The fair value of forward foreign exchange contracts represents the amount the Company would receive or pay to terminate the forward exchange contracts at the reporting date and is recorded 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.

As of June 30, 2011, the Company had four outstanding foreign exchange contracts with a notional amount totaling approximately $593,000. These contracts mature during July 2011 and bear exchange rates ranging from 1.4103 to 1.4479 U.S. Dollars per Euro. As of June 30, 2011, the fair value of foreign exchange contracts resulted in a net loss position of approximately $8,000, which is recorded in other current liabilities.

As of December 31, 2010, the Company had five outstanding foreign exchange contracts with a notional amount totaling approximately $695,000, all maturing during the first quarter of 2011 at exchange rates ranging from 1.3025 to 1.3539 U.S. Dollars per Euro. As of December 31, 2010, the fair value of foreign exchange contracts resulted in a net loss position of approximately $2,000, which is recorded in other current liabilities.

Realized and unrealized gains or losses on derivative instruments related to foreign currency exchange contracts and their location on the Company's condensed consolidated statements of income are as follows (in thousands):

		Six Months Ended June 30,	
Derivative Instrument	Location	2011	2010
Foreign Exchange Contracts	Loss on currency exchange	$14	$101

The net gains or losses from foreign exchange contracts reflected above were largely offset by the underlying transaction net gains and losses arising from the foreign currency exposures to which these contracts relate.

The gross fair market value of derivative instruments related to foreign currency exchange contracts and their location on the Company's condensed consolidated balance sheets are as follows as of June 30, 2011 (in thousands):

	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Location	June 30, 2011	Location	June 30, 2011
Foreign Exchange Contracts	Other current assets [1]	$ —	Other current liabilities[1]	$ 8

(1) As the Company's foreign exchange agreement is subject to a master netting arrangement, the Company's policy is to record the fair value of outstanding foreign exchange contracts as other current assets or other current liabilities, based on whether outstanding contracts are in a net gain or loss position, respectively. See Note 8, "Fair Value Measurements," for additional information regarding the fair value measurements of derivative instruments related to foreign currency exchange contracts.

The Company enters into its foreign exchange contracts with a single counterparty, a financial institution. The Company manages its concentration of counterparty risk associated with foreign exchange contracts by periodically assessing relevant information such as the counterparty's current financial statements, credit agency reports and/or credit references. To further mitigate credit risk, the Company's Foreign Exchange Agreement with its counterparty includes a master netting arrangement, which allows netting of asset and liability positions of outstanding foreign exchange contracts if settlement were required.

Table of Contents

(8) Fair Value Measurements

A hierarchy for inputs used in measuring fair value is in place that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity.

The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available. Three levels within the hierarchy may be used to measure fair value:

- Level 1: Inputs are unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2: Inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs are generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect an entity's own estimates of assumptions that market participants would use in pricing the asset or liability.

The Company's assets and liabilities measured at fair value on a recurring basis and the fair value hierarchy utilized to determine such fair values is as follows:

		Fair Value Measurements Using		
(in thousands)	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011:				
Assets				
Available-for-sale securities	$6,590	$—	$ 6,590	$ —
Liabilities				
Foreign currency forward exchange contracts	$8	$—	$ 8	$ —
December 31, 2010:				
Assets				

Available-for-sale securities	$8,790	$—	$ 8,790	$ —
Liabilities				
Foreign currency forward exchange contracts	$2	$—	$ 2	$ —

Available-for-sale securities in the preceding table are classified as current marketable securities in the accompanying condensed consolidated balance sheets. Available-for-sale securities are carried at fair value based on significant observable inputs other than quoted market prices. Such inputs may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and other reference data. Foreign currency forward exchange contracts are also carried at fair value based on significant other observable market inputs, in this case, quoted foreign currency exchange rates. Such valuation represents the amount the Company would receive or pay to terminate the forward exchange contracts at the reporting date.

Table of Contents

(9) Common Stock

Effective October 2010, the Company’s Board of Directors approved the continuation of common stock repurchases under Board authorizations originally providing for the repurchase of up to 1,000,000 shares of the Company’s common stock. Shares may 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. The repurchase program may be discontinued at any time. The Company repurchased 117,377 shares of its common stock during the fourth quarter of 2010 and did not repurchase any shares of its common stock during the six months ended June 30, 2011. The repurchase program has been funded to date using cash on hand. As of June 30, 2011, 305,540 shares were available for repurchase under the authorizations. The Company resumed repurchases under the program in July 2011, and purchased an additional 118,486 shares through July 31, 2011 at an average price of $15.12 per share. On July 26, 2011, the Board authorized the repurchase of an additional 500,000 shares under the program. As of July 31, 2011, 687,054 shares were available for repurchase under the authorizations.

On February 23, 2011, the Company’s Board of Directors approved the initiation of a quarterly dividend policy and authorized the first dividend of $0.10 per share payable April 15 to shareholders of record as of March 31, resulting in the payment of $950,000 in the second quarter. On June 15, 2011, the Board approved a dividend of $0.10 per share to shareholders of record as of June 30 payable July 15. The condensed consolidated balance sheet as of June 30, 2011 reflects an associated current liability of $959,000 in dividends payable with an offsetting charge to retained earnings. On July 26, 2011, the Board declared a third dividend of $0.10 per share to shareholders of record on September 1 payable on September 15, 2011.

(10) Recently Issued Accounting Standards

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements” (“ASU 2010-06”), which requires new disclosures about recurring and nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 of the fair value hierarchy. The ASU also requires additional information in the roll-forward of Level 3 assets and liabilities including the presentation of purchases, sales, issuances and settlements on a gross basis. Further clarification for existing disclosure requirements provides for the disaggregation of assets and liabilities presented, and the enhancement of disclosures around inputs and valuation techniques. This ASU impacts disclosures only. The Company adopted the disclosure provisions of this ASU in the first quarter of 2010, with the exception of the additional required information in the roll-forward of Level 3 assets and liabilities, which was adopted in the first quarter of 2011. No transfers of assets or liabilities into or out of Levels 1, 2 or 3 of the fair value hierarchy occurred or were required during the six months ended June 30, 2011. The Company’s adoption of this guidance did not have an impact on the Company’s condensed consolidated financial statements and related disclosures.

In June 2011, the FASB issued amendments to the FASB Accounting Standards Codification relating to the financial statement presentation of comprehensive income. The amendments eliminate the option to report other comprehensive income and its components in the statement of changes in stockholders' equity, and require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements of income and comprehensive income. Under either method, the statement would need to be presented with equal prominence as the other primary financial statements. This new guidance is to be applied retrospectively beginning with the first quarter of 2012. These amendments will not have an impact on the Company's consolidated financial position, results of operations or cash flows, but will impact the presentation of its consolidated financial statements.

Table of Contents

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

Basic net income per common share is determined by dividing net income by the basic 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 and the dilutive impact of restricted stock units. Stock options to acquire weighted average common shares of 1,191,000 and 1,138,000 for the three and six months ended June 30, 2011, respectively, and weighted average common shares of 1,100,000 and 1,088,000 for the three and six months ended June 30, 2010, respectively, have been excluded from the computation of diluted weighted average shares outstanding for each respective period as their effect is anti-dilutive. The following table identifies the components of net income per basic and diluted share (in thousands, except for per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Shares outstanding at end of period	9,589	9,551	9,589	9,551
Basic weighted average shares outstanding	9,559	9,531	9,526	9,504
Dilutive effect of stock options/restricted stock units	30	77	39	84
Total diluted weighted average shares outstanding	9,589	9,608	9,565	9,588
Net income attributable to Rimage	$1,206	$2,053	$2,704	$2,748
Basic net income per common share	$0.12	$0.22	$0.28	$0.29
Diluted net income per common share	$0.12	$0.22	$0.28	$0.29

(12) 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.

(13) Consolidation of Joint Venture Entity and Noncontrolling Interest

The Company holds a 51% controlling interest in a joint venture established in mid August 2010 in China, Rimage Information Technology (Shanghai) Co., Ltd. (“RIT”). Taiwan Electronic Data Processing (“TEDPC”), a Taiwanese software provider in the healthcare solutions market, holds the remaining 49% interest. RIT purchases digital publishing systems from Rimage, and integrates medical disc system software purchased from TEDPC with Rimage’s digital publishing systems to allow deployment of a complete digital publishing solution for medical imaging in hospitals in China.

RIT has a commitment to pay TEDPC a minimum of $1,000,000 over the first three years of operations for the purchase of the software source code and associated intellectual property, which was acquired by RIT from TEDPC in December 2010. To the extent RIT’s sales over the initial three-year period exceed established thresholds, RIT has agreed to pay TEDPC an incremental fee based on unit sales volumes. The Company capitalized the $1,000,000 purchase price for the software source code in other non-current assets and recorded the associated liability in current accounts payable ($400,000) and other non-current liabilities ($600,000) in the accompanying condensed consolidated balance sheets as of December 31, 2010. RIT paid the first installment payment of $400,000 for the purchase of the software source code to TEDPC during the first quarter of 2011, and the remaining liability is included in current accounts payable ($300,000) and other non-current liabilities ($300,000) as of June 30, 2011. The software source code is being amortized over its expected useful life of five years. Amortization expense recognized during the three and six months ended June 30, 2011, was approximately $50,000 and $100,000, respectively. Accumulated amortization was approximately $175,000 and $75,000 as of June 30, 2011, and December 31, 2010, respectively.

Table of Contents

The Company includes the financial statements of RIT in its condensed consolidated financial statements, with the equity and loss attributed to the noncontrolling interest identified separately in the accompanying condensed consolidated balance sheets and statements of income. During the six months ended June 30, 2011, RIT earned revenues of $292,000 and incurred a net loss of $151,000, of which $74,000 was attributed to the noncontrolling interest. Consolidated stockholders' equity included $442,000 and $506,000 attributable to the noncontrolling interest as of June 30, 2011, and December 31, 2010, respectively.

(14) Investment in Software Company

At December 31, 2010, the Company held a $290,000 convertible note receivable with BriefCam, Ltd., a privately-held Israeli company that develops video synopsis technology to augment security and surveillance systems to facilitate review of surveillance video. In February 2011, the Company participated in the funding of BriefCam's preferred stock issuance with a cash investment of $2.0 million, and concurrently converted its note receivable into the same series of convertible preferred stock, achieving a minority ownership interest of less than 20%. Rimage intends to integrate this technology into its digital surveillance solutions.

Because Rimage's ownership interest is less than 20% and it has no other rights or privileges that enable it to exercise significant influence over the operating and financial policies of BriefCam, Rimage accounts for this equity investment using the cost method. Management believes it is not practicable to estimate the fair value of its investment because of the early stage of BriefCam's business and low volume of BriefCam's equity transactions. Through its seat on BriefCam's board of directors, Rimage monitors BriefCam's results of operations and business plan, and is not aware of any events or circumstances that would indicate a decline in the carrying value of its investment, which amounted to $2.29 million at June 30, 2011 and is included in other noncurrent assets in the condensed consolidated balance sheets.

(15) Notes Receivable

In mid 2010, the Company entered into a software license and development agreement with a third party software developer to develop to Rimage's specifications certain elements of a new virtual publishing solution currently under development. The agreement required the Company to pay software development fees to the software company based on achievement of established development milestones and license fees based on 25% of fees collected by the Company from future sales of the virtual publishing solution. In May 2011, the Company and the software company executed an amendment to the software license and development agreement under which the software company agreed to release the Company from the requirement to pay a license fee based on future sales, and in exchange, the Company agreed to extend a $500,000 loan to the software company bearing interest at a rate of 4.75% per annum. Under the amended agreement, Rimage will forgive repayment of the loan and accrued interest upon successful commercialization of the virtual publishing solution. In the event that the Company does not commercialize the virtual publishing solution before March 30, 2013, the loan must be repaid by the software company in six installments payable every three months beginning March 30, 2013. This note is included in other noncurrent assets in the condensed consolidated balance sheets as of June 30, 2011. Upon successful commercialization of the virtual publishing solution, the loan will be forgiven and the balance will be reclassified to a prepaid license fee and amortized to cost of revenues over a period of future sales of the virtual publishing solution. As the Company currently expects to commercialize the virtual publishing solution and forgive the note balance and associated accrued interest prior to March 30, 2013, management is not accruing interest receivable on the note at this time.

During the second quarter of 2011, the Company accepted a $334,000 note receivable from a distributor as an extension of payment terms on an open trade accounts receivable balance with the distributor. The note calls for interest at an annual rate of 0.55% and monthly payments of $7,500 through March 2013, at which time all remaining principal and interest become due and payable. As a condition of the note agreement, the distributor must keep its trade receivable account current during the term of the note. The balance of the note at June 30, 2011, was $306,000, of which $88,000 was included in current receivables and $218,000 was included in other noncurrent assets in the condensed consolidated balance sheets.

Table of Contents

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 (%) Inc/(Dec) Between Periods**	**Percentage (%) of Revenues Six Months Ended June 30,**		**Percentage (%) Inc/(Dec) Between Periods**
	2011	2010	2011 vs. 2010	2011	2010	2011 vs. 2010
Revenues	100.0	100.0	(9.5)	100.0	100.0	2.4
Cost of revenues	(51.1)	(52.3)	(11.6)	(50.4)	(52.6)	(1.9)
Gross profit	48.9	47.7	(7.1)	49.6	47.4	7.1
Operating expenses:						
Research and development	(7.5)	(6.4)	7.0	(7.4)	(7.0)	7.3
Selling, general and administrative	(32.4)	(27.0)	8.5	(32.2)	(30.2)	9.4
Operating income	9.0	14.3	(42.9)	10.0	10.2	0.3
Other income, net	0.3	0.5	(55.3)	0.2	0.6	(66.8)
Income before income taxes	9.3	14.8	(43.4)	10.2	10.8	(3.8)
Income tax expense	(3.6)	(5.6)	(42.1)	(3.9)	(4.0)	(2.8)
Net income	5.7	9.2	(44.1)	6.3	6.8	(4.3)
Loss attributable to noncontrolling interest	0.3	—	—	0.2	—	—
Net income attributable to Rimage	6.0	9.2	(41.3)	6.5	6.8	(1.6)

Overview

Rimage develops, manufactures and markets workflow-integrated digital publishing solutions that are used by businesses to produce recordable CD, DVD and Blu-ray discs with customized digital content and durable disc labeling on an on-demand basis. Rimage distributes its publishing systems from its operations in the United States, Germany, Japan and its joint venture operation in China. The Company also distributes related consumables for use with its systems, consisting of ribbons, ink cartridges, Rimage-branded blank CD-R, DVD-R and Blu-ray media, or media kits, which combine these items for the customer's convenience. These systems allow customers to benefit from cost savings by eliminating their manual labor efforts in markets and applications such as digital photography, medical imaging, business services, video workflows and law enforcement, including surveillance and evidence management. As Rimage's sales within North America and Europe have averaged 91% of total sales over the past three years, the strength of the economies in these regions plays an important role in determining the success of Rimage.

Rimage earns revenues through the sale of equipment, consumables and parts (included in Product revenues in the accompanying condensed consolidated statements of income), as well as maintenance contracts, repair and installation services (included in Service revenues in the condensed consolidated statements of income). Rimage's recurring revenues (consumables, parts, maintenance contracts and service) comprised 65% and 58% of its consolidated revenues during the six months ended June 30, 2011 and 2010, respectively.

As part of its plan to improve the efficiency of its sales channels, effective April 1, 2010, Rimage discontinued its distributor relationships with distributors in the United States, Germany, and the United Kingdom, and now sells products in these regions to end-user customers primarily through value-added resellers or other strategic partners, and also directly to select accounts through its own sales force.

Table of Contents

In August 2010, the Company received approval of its registration of a majority-owned joint venture in China, Rimage Information Technology (Shanghai) Co., Ltd. (“RIT”), and was issued a business license which allowed initiation of operations. The Chinese healthcare system’s transition from medical film to optical disc for distribution of patient imaging related information is expected to drive growth in the digital medical imaging market in China. As part of the Company’s strategy to participate in this growth opportunity, RIT will deploy a complete digital publishing solution for medical imaging in hospitals in China. The Company includes the financial statements of RIT in its condensed consolidated financial statements, with the equity and loss attributed to the noncontrolling interest identified separately in the accompanying condensed consolidated balance sheets and statements of income. During the six months ended June 30, 2011, RIT earned revenues of $292,000 and incurred a net loss of $151,000, of which $74,000 was attributed to the noncontrolling interest. Consolidated stockholders’ equity included $442,000 and $506,000 attributable to the noncontrolling interest as of June 30, 2011, and December 31, 2010, respectively.

In February 2011, the Company made a $2.0 million minority equity investment in BriefCam, Ltd., a surveillance software company, and concurrently converted to equity its $0.3 million convertible note receivable with Briefcam initiated in December 2010. Rimage will utilize Briefcam’s video synopsis software to enhance its video surveillance solution with analytical capabilities.

Results of Operations

Revenues. Total revenues decreased 9% to $20.2 million and increased 2% to $41.7 million for the three and six months ended June 30, 2011, from $22.3 million and $40.7 million for the respective prior-year periods. The decrease in total revenues between the second quarter periods reflects a $2.6 million decrease in product revenues, resulting from a $3.4 million decrease in equipment sales, partially offset by a $0.8 million increase in consumables and parts sales. The increase in total revenues between the year-to-date periods reflects a $0.4 million increase in product revenues, resulting from a $2.7 million increase in consumables and parts sales, partially offset by a $2.3 million decrease in equipment sales. Revenues for the current quarter and year-to-date periods reflect an increase in service-related revenues of $0.5 million and a $0.6 million, respectively, over the corresponding prior-year periods.

The decrease in equipment revenues for the three and six months ended June 30, 2011 was the result of a decrease in the volume of Professional Series product sales of $4.3 million and $3.1 million, respectively, as well as a decrease in the volume of Desktop product sales of $0.2 million and $0.4 million, respectively, partially offset by an increase in sales of Producer Series products of $1.1 million and $1.2 million compared to the respective prior-year periods. The reduction in sales of Professional Series equipment was largely driven by a $3.9 million and $3.3 million decline in sales of these products in the U.S. retail market segment for the current quarter and year-to-date periods, respectively, due primarily to the completion in the first quarter of 2011 of a multi-system sales agreement with a retail customer obtained in the second quarter of 2010. The increase in sales of Producer Series products in the current-year periods was primarily impacted by sales in the second quarter to a U.S. retail customer and increased sales to European channel partners. The shift in the distribution of sales in the current-year periods from Professional to Producer Series equipment resulted in an aggregate increase in average selling prices, which partially offset the impact of decreased sales volumes.

The increase in sales of consumable products in the current quarter was primarily due to a higher volume of sales of ribbons and ink cartridges to U.S. channel partners. The growth in sales of consumable products during the current year-to-date period was driven by a $3.1 million increase in sales of media and media kits, partially offset by a $0.4 million decrease in sales of ribbons and ink cartridges. Sales of media and media kits during the year-to-date period were primarily impacted by increased sales of $2.8 million to a retail customer and generally increased sales to channel partners in the U.S., Europe and Asia. The increase in channel partner sales was impacted by the Company's sales model change in 2010, which caused key distributors in the U.S. to reduce purchases and sell through remaining media kit inventories in the first quarter of 2010, pending termination of the distributor agreements effective March 31, 2010. The sales model change in 2010 also drove the partially offsetting decline in sales of ribbons and ink cartridges in the current year-to-date period, as U.S. distributors took advantage of favorable pricing and increased their purchases of these products during the three months ended March 31, 2010 to allow continued sales to their resellers after the termination of the distributor relationships with Rimage.

Table of Contents

The increase in service-related revenues in the current-year periods was driven by a significant increase in the installed base of systems covered by a maintenance contract, driven largely by the multi-system sales to a retail customer starting in the second quarter of 2010 and continuing through the first quarter of 2011. Partially offsetting the increase in maintenance contract revenues was a decline in sales of installation and repair services during the current-year periods.

Recurring revenues comprised 63% and 65% of total revenues for the three and six months ended June 30, 2011, respectively, compared to 51% and 58% for the respective prior-year periods. Sales of Producer Series product line equipment comprised 21% and 17% of total revenues for the three and six months ended June 30, 2011, respectively, compared to 14% of total revenues in each of the respective prior-year periods. Sales of Professional Series product line equipment comprised 13% and 15% of total revenues in the current year's second quarter and year-to-date periods, respectively, compared to 31% and 24%, respectively, in the comparable periods of the prior year. Remaining revenues in each period were generated by sales of Desktop product line equipment, representing 3% of revenues in each of the current quarter and year-to-date periods, compared to 4% in each of the respective prior-year periods.

International sales increased $0.4 million and $0.3 million, or 5% and 2% during the three and six months ended June 30, 2011, respectively, compared to the same periods last year, and comprised 40% and 39% of total sales, compared to 34% and 39% in the respective prior-year periods. The increase in international sales was driven by a 37% and 17% increase in sales in the Company's Asian and Latin American markets for the three and six month periods ended June 30, 2011, respectively, partially offset by decreases in the Company's European markets of 6% and 4% compared to the respective prior-year periods. In the aggregate, currency fluctuations, generated primarily by the Company's European operations, increased reported consolidated revenues for the three and six months ended June 30, 2011 by 3.7% and 2.0%, respectively.

Future revenues will be dependent upon many factors, including the effectiveness of changes that occurred effective April 1, 2010 to improve the efficiency of the Company's sales channels, described in the "Overview" section above, the success of the Company's deployment of a complete digital publishing solution for medical imaging in hospitals in China and the rate of adoption of other new solutions-based products introduced by the Company. Other factors that will influence future revenues include the Company's ability to successfully commercialize its virtual publishing solution currently under development, the timing of other new product introductions, the rate of adoption of other new applications for the Company's products in its targeted markets, the performance of the Company's channel partners, the timing of customer orders and related product deliveries, the Company's ability to maintain continuous supply of its products and components, the impact of changes in economic conditions and the impact of foreign currency exchange rate fluctuations.

Gross profit. Gross profit as a percentage of total revenues was 48.9% and 49.6% for the three and six months ended June 30, 2011, respectively, compared to 47.7% and 47.4% for the same periods in 2010. Contributing to the higher margins in the current-year periods were improvements in service-related margins, stemming from an increase in maintenance contract revenues coupled with reductions in support costs as a result of changes initiated in 2010 in the Company's global service model. The service cost reductions included lower compensation from a reduction in personnel, a reduced requirement for replacement parts under maintenance contracts, and the sale of lower cost on-site maintenance contracts. Also favorably impacting gross profit as a percentage of revenue in the current-year periods was the impact of a shift in the mix of equipment sales to higher margin products, due primarily to the decrease in sales of Professional Series products relative to Producer Series products, driven primarily by decreased sales in the U.S. retail market segment. The improvement in equipment margins occurred as Professional Series products generally carry lower selling prices and gross margins than Producer Series products, and sales in the retail market generally carry lower selling prices than other markets. Gross profit as a percentage of revenues for the current year-to-date period also benefitted from increased selling prices primarily for consumable products in the Company's U.S. and major European markets, reflecting the impact of removing distributors from these markets effective April 1, 2010.

Table of Contents

Gross profit as a percentage of total revenue in the current year's second quarter and year-to-date periods was unfavorably impacted by higher media prices and air freight costs to secure alternative supply sources and to expedite shipments stemming from supply disruptions caused by the March 11, 2011 earthquake and tsunami in Japan, reducing gross margins by 1.4 and 0.7 percentage points, respectively. The Company believes the unfavorable impact of this event is primarily confined to the second quarter of 2011, as its suppliers have now restored their operations and the transportation network has recovered. Gross margins were also unfavorably impacted in the current year-to-date period by an increased volume and concentration of sales of media and media kits, which have lower margins than sales of ribbons and ink cartridges, and comprised 25% of sales in the current year-to-date period compared to 18% in the comparable prior-year period.

Future gross profit margins will continue to be affected by many factors, including the impact of the changes in the Company's sales distribution model described above, product mix, the timing of new product introductions, the timing of customer orders and related product deliveries, changes in material costs and supply sources, manufacturing volume, the growth rate of service-related revenues relative to associated service support costs and foreign currency exchange rate fluctuations.

Operating expenses. Research and development expenses totaled $1.5 million and $3.1 million for the three and six months ended June 30, 2011, respectively, representing 8% and 7% of revenues in the respective periods. Expenses for the same prior-year periods totaled $1.4 million and $2.9 million, representing 6% and 7% of revenues, respectively. The increased expense levels in the current-year periods resulted from a higher level of compensation costs associated with personnel additions as well as other costs to support the development of an online virtual publishing solution and other new products in the Company's disc publishing business. The Company also incurred personnel and infrastructure costs of approximately $37,000 and $93,000 for the three and six months ended June 30, 2011, respectively, to support operations for a newly established development center in India. Rimage anticipates expenditures in research and development in the third quarter 2011 will increase approximately 10% from that of the second quarter.

Selling, general and administrative expenses for the three and six months ended June 30, 2011 amounted to $6.5 million and $13.4 million, respectively, or 32% of revenues in each period, compared to expenses in the same prior-year periods of $6.0 million and $12.3 million, or 27% and 30% of revenues, respectively. The rise in expenses in the current-year periods primarily reflects the impact of continued investments made to strengthen the Company's core business and implement its growth strategy. Such costs included investments in the Company's sales and marketing organization to support solutions-based sales, increased compensation-related costs stemming from personnel additions, including costs to restructure the European sales organization, increased consulting costs, and expenses incurred by the Company's majority-owned Chinese joint venture as it continued to establish its employee base and support infrastructure. Increased legal expenses associated with the acquisition of a minority equity interest in BriefCam further impacted the current year-to-date period. Also contributing to the increase in expenses was the impact of currency fluctuations primarily affecting the Company's European operations, which increased expense $0.2 million in each of the current-year periods. Partially offsetting these increases were decreases in expenses for promotional programs and recruiting activities. Rimage anticipates expenditures for selling, general and administrative activities in the third quarter to increase approximately 5% from second quarter 2011 expense levels.

Table of Contents

Other income, net. The Company recognized net interest income on cash and marketable securities of $52,000 and $119,000 for the three and six months ended June 30, 2011, respectively, compared to $128,000 and $296,000 for the comparable periods in 2010. The reduction in interest income in the current-year periods was the result of a decline in average effective yields relative to the same prior-year periods due to a shift in investments to lower yield money market and U.S. Treasury securities. Partially offsetting the impact of the reduction in effective yields were increases of $10.5 million and $8.5 million in average cash equivalent and marketable securities balances for the three and six months ended June 30, 2011, respectively, compared to the same periods in the prior year. Other income for the three and six months ended June 30, 2011 also includes a net gain of $3,000 and a net loss of $30,000, respectively, on foreign currency transactions, compared to net losses of $5,000 and $32,000 for the same periods in the prior year.

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, 2011 amounted to $0.7 million and $1.6 million, respectively, or 38.8% and 37.9% of income before taxes for the respective periods. Income tax expense for the three and six months ended June 30, 2010 amounted to $1.3 million and $1.7 million, respectively, or 38.0% and 37.5% of income before taxes for each respective period. The effective tax rate for the current-year periods was unfavorably impacted as a result of not recording a tax benefit on a projected increase in foreign operating losses related to the operations of the Company's joint venture in China. Also unfavorably impacting the effective tax rate for the current periods was the impact of a significantly reduced amount of projected tax-exempt interest income comprising a smaller percentage of pre-tax income. Favorable impacts to the effective tax rate in the current-year periods included the reinstatement of the federal research credit, for which no benefit was available in the same periods last year, and a projected increase in the relative benefit from the Section 199 deduction.

Net income / net income per share. Resulting net income attributable to Rimage for the three and six months ended June 30, 2011 was $1.2 million and $2.7 million, respectively, or 6% of revenues in both periods, compared to $2.1 million and $2.7 million, respectively, or 9% and 7% of revenues, for the same prior-year periods. Related net income per diluted share was $0.12 and $0.28 for the three and six months ended June 30, 2011, compared to $0.22 and $0.29 per diluted share for the respective prior-year periods.

Liquidity and Capital Resources

The Company expects it will be able to maintain current operations and anticipated capital expenditure requirements for the foreseeable future through its internally generated funds and cash reserves. At June 30, 2011, the Company had working capital of $122.9 million, up $2.7 million from working capital reported at December 31, 2010. The increase was primarily the result of the generation of net income adjusted for non-cash items of $4.5 million, a $2.3 million increase in non-current deferred income from sales of maintenance contracts and proceeds of $0.2 million from stock option exercises, partially offset by the use of cash to purchase a $2.0 million minority equity interest in BriefCam, payment of $1.0 million in dividends, the recognition of $1.0 million of dividends payable at June 30, 2011, purchases of property and equipment of $0.6 million, and the issuance of a $0.5 million note receivable. Exclusive of a small amount of capital lease obligations, Rimage has no long-term debt and does not require significant capital investment for its ongoing operations as all fabrication of tooling-intensive parts is outsourced to vendors.

Table of Contents

Effective October 2010, the Company's Board of Directors approved the continuation of common stock repurchases under original Board authorizations providing for the repurchase of up to 1,000,000 shares of the Company's common stock. Shares may 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. The repurchase program may be discontinued at any time. The Company repurchased 117,377 shares of its common stock during the fourth quarter of 2010 and did not repurchase any shares of its common stock during the six months ended June 30, 2011. The repurchase program has been funded to date using cash on hand. As of June 30, 2011, 305,540 shares were available for repurchase under the authorizations. The Company resumed repurchases under the program in July 2011, and purchased an additional 118,486 shares through July 31, 2011 at an average price of $15.12 per share. On July 26, 2011, the Board authorized the repurchase of an additional 500,000 shares under the program. As of July 31, 2011, 687,054 shares were available for repurchase under the authorizations.

On February 23, 2011, the Company's Board of Directors approved the initiation of a quarterly dividend policy and authorized the first dividend of $0.10 per share payable April 15 to shareholders of record as of March 31, resulting in the payment of $950,000 in the second quarter. On June 15, 2011, the Board declared a dividend of $0.10 per share to shareholders of record on June 30 payable on July 15, resulting in the recognition of $959,000 in dividends payable at June 30, 2011. On July 26, 2011, the Board declared a third dividend of $0.10 per share to shareholders of record on September 1 payable on September 15, 2011. The timing of this dividend will result in two cash payments during the third quarter, after which the Company expects future quarterly payments of approximately $1 million.

The Company also intends on utilizing its cash primarily for its continued organic growth and potential future strategic initiatives, alliances or acquisitions.

Net cash provided by operating activities totaled $6.1 million for the six months ended June 30, 2011, compared to $1.2 million in the same prior-year period. The $4.9 million increase in cash provided by operating activities resulted from a $5.0 million increase in cash provided by changes in operating assets and liabilities, partially offset by a $0.1 million decrease in net income adjusted for non-cash items. Primarily contributing to the change in operating assets and liabilities compared to the prior-year period were favorable changes of $5.1 million in deferred income, $1.7 million in inventories, $0.8 million in receivables and $0.5 million in accrued compensation and other accrued expenses, partially offset by an unfavorable change in trade accounts payable of $3.2 million. The change in deferred income was impacted primarily by a $3.5 million sale of new maintenance contracts to a retail customer in the current year's first quarter under a multi-system sales agreement obtained in the second quarter of 2010, followed by a significant volume of retail contract renewals in the second quarter. The favorable change in inventories was the result of a larger volume of inventory additions in the prior period's second quarter impacted by the Company's preparation for expected sales orders under the retail sales agreement completed in the second quarter 2010 and also a change in the Company's sales model effective April 1, 2010 under which it began selling products to end-user customers through value-added resellers instead of through distributors in major markets, requiring increased inventory levels. The unfavorable change in trade accounts payable in the current period was primarily the result of a higher level of inventory purchases remaining in accounts payable at the end of the comparable prior-year period and the timing of other payments for trade payables.

Investing activities used net cash of $1.0 million for the six months ended June 30, 2011, compared to net cash provided by investing activities of $16.6 million for the same prior-year period. The fluctuations in investing activities were primarily the result of $20 million in maturities of marketable securities during the six months ended June 30, 2010, compared to $2.1 million of maturities in the current period, a $2 million equity investment in BriefCam and the issuance of a $0.5 million note receivable to a software developer in the current period. Purchases of property and equipment during the six months ended June 30, 2011 and 2010 amounted to $0.6 million and $3.4 million, respectively. Capital expenditures in the current-year period consisted primarily of the first installment payment of $0.4 million for software source code, acquired and capitalized by the Company's Chinese joint venture in late 2010. Capital expenditures in the prior-year period included $2.4 million of production tooling capitalized by the Company in late 2009 associated with a new product line launched during the first quarter of 2010. Remaining capital expenditures in the prior-year period consisted primarily of costs to support the Company's information technology related requirements.

Financing activities used net cash of $0.7 million for the six months ended June 30, 2011, and generated net cash of $0.5 million for the prior-year period. The primary financing use of cash in the current period consisted of $1.0 million in dividend payments, and the primary sources of cash in both periods were proceeds from stock option exercises.

Table of Contents

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 considered by management to be the most critical to the presentation of the condensed consolidated financial statements because they require the most difficult, subjective and complex judgments include revenue recognition, allowance for doubtful accounts, inventory provisions, deferred tax asset valuation allowances, accruals for uncertain tax positions, stock-based compensation and impairment of long-lived assets. These accounting policies are discussed in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2010. Management made no significant changes to the Company’s critical accounting policies during the six months ended June 30, 2011.

In applying its critical accounting policies, management reassesses its estimates each reporting period based on available information. Changes in such estimates did not have a significant impact on the Company’s condensed consolidated financial statements for the three and six month periods ended June 30, 2011.

Recently Issued Accounting Standards

In June 2011, the FASB issued amendments to the FASB Accounting Standards Codification relating to the financial statement presentation of comprehensive income. The amendments eliminate the option to report other comprehensive income and its components in the statement of changes in stockholders’ equity, and require that all nonowner changes in stockholders’ equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements of income and comprehensive income. Under either method, the statement would need to be presented with equal prominence as the other primary financial statements. This new guidance is to be applied retrospectively beginning with the first quarter of 2012. These amendments will not have an impact on the Company’s consolidated financial position, results of operations or cash flows, but will impact the presentation of its consolidated financial statements.

In May 2011, the FASB issued amendments to the FASB Accounting Standards Codification relating to fair value measurements. The amendments clarify the application of existing fair value measurement requirements and result in common measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”). The Company will apply these amendments prospectively beginning in the first quarter of 2012. The Company does not believe the application of these amendments will have a significant impact 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 deemed to be forward-looking statements. Without limiting the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “estimate” or “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 economic health of the markets from which Rimage derives its sales and, in particular, the strength of the economies within North America and Europe where the Company has averaged 91% of total sales over the past three years; 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 Company’s targeted 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 Company’s ability to successfully commercialize its virtual publishing solution currently under development; 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 ability to effectively market its products and serve customers through its value-added resellers, distributors, strategic partners and its own sales force; the Company’s ability to maintain adequate inventory of products; the Company’s ability to secure alternative sources of supply given its reliance on single source suppliers for certain key products; 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, 2010. 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.

Table of Contents

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, Japanese Yen and Chinese Yuan to the U.S. dollar as the financial position and operating results of the Company's German subsidiary, Rimage Europe GmbH, its Japanese subsidiary, Rimage Japan Co., Ltd. and its majority-owned Chinese joint venture, Rimage Information Technology (Shanghai) Co., Ltd. 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 intercompany 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.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer, Sherman L. Black, and the Company's Chief Financial Officer, James R. Stewart, have evaluated the Company's disclosure controls and procedures as of June 30, 2011. Based upon such evaluation, they have concluded that these disclosure controls and procedures are effective. The Company's Chief Executive Officer and Chief Financial Officer used the definition of "disclosure controls and procedures" as set forth in Rule 13a-15(e) under the Exchange Act in making their conclusion as to the effectiveness of such controls and procedures.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls over financial reporting that occurred during the second quarter ended June 30, 2011 that have materially affected, or are reasonable 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. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. [Removed and Reserved]

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

(a) The following exhibits are included herein:

31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act.
31.2	Certification 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.

Table of Contents

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 8, 2011	By:	/s/ Sherman L. Black Sherman L. Black Chief Executive Officer (Principal Executive Officer)
Date:	August 8, 2011	By:	/s/ James R. Stewart James R. Stewart Chief Financial Officer (Principal Financial Officer) (Principal Accounting Officer)