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 SEPTEMBER 30, 2001; 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: 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 October 31, 2001 - 8,666,242 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 ___

RIMAGE CORPORATION
FORM 10-Q
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RIMAGE CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2001 and December 31, 2000
(Unaudited)

<TABLE>
<CAPTION>

Assets	September 30, 2001	December 31, 2000
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 17,490,177	$ 21,225,452
Marketable securities	6,640,340	--
Trade accounts receivable, net of allowance for doubtful accounts and sales returns of $466,000 and $539,000, respectively	6,004,117	9,013,207
Inventories	3,684,333	2,936,119
Prepaid expenses and other current assets	208,209	212,566
Prepaid income taxes	502,094	1,418,498
Deferred income taxes-current	938,592	938,592
Total current assets	35,467,862	35,744,434
Marketable securities	3,100,810	--
Property and equipment, net	1,694,241	651,569
Deferred income taxes-noncurrent	145,935	145,935
Other noncurrent assets	6,834	13,526
Total assets	$ 40,415,682	$ 36,555,464
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 2,483,019	$ 2,288,789
Accrued compensation	1,395,934	1,446,127
Accrued other	1,360,614	852,652
Deferred income and customer deposits	957,425	1,006,957
Other current liabilities	29,717	--
Total current liabilities	6,226,709	5,594,525
Long-term liabilities	137,500	--
Total liabilities	$ 6,364,209	$ 5,594,525
Stockholders' equity:		
Common stock, $.01 par value, authorized 30,000,000 shares, issued and outstanding 8,665,881 and 8,653,285, respectively	86,659	86,533
Additional paid-in capital	16,002,001	16,319,613
Retained earnings	18,238,177	14,861,224
Accumulated other comprehensive loss	(275,364)	(306,431)
Total stockholders' equity	34,051,473	30,960,939
Commitments and contingencies		
Total liabilities and stockholders' equity	$ 40,415,682	$ 36,555,464

</TABLE>

See accompanying condensed notes to consolidated financial statements

RIMAGE CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(unaudited)

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Revenues	$ 10,296,163	$ 9,989,096	$ 29,496,278	$ 36,522,782
Cost of revenues	5,373,514	4,776,887	14,765,140	16,981,152
Gross profit	4,922,649	5,212,209	14,731,138	19,541,630
Operating expenses:				
Research and development	741,288	1,050,554	3,090,469	2,549,175
Selling, general and administrative	2,421,806	2,399,857	7,078,926	7,541,319
Merger	--	--	--	541,396
Total operating expenses	3,163,094	3,450,411	10,169,395	10,631,890
Operating income	1,759,555	1,761,798	4,561,743	8,909,740
Other income (expense):				
Interest, net	253,384	303,634	876,913	753,674
Gain (loss) on currency exchange	197,113	(161,654)	(76,429)	(289,190)
Other, net	4,404	23,480	(1,984)	28,168
Total other income, net	454,901	165,460	798,500	492,652
Income before income taxes	2,214,456	1,927,258	5,360,243	9,402,392
Income taxes	819,349	732,358	1,983,290	3,572,909
Net income	$ 1,395,107	$ 1,194,900	$ 3,376,953	$ 5,829,483
Income per basic share	$ 0.16	$ 0.14	$ 0.39	$ 0.70
Income per diluted share	$ 0.15	$ 0.12	$ 0.35	$ 0.60
Basic weighted average shares outstanding	8,734,692	8,510,224	8,720,018	8,338,555
Diluted weighted average shares and assumed conversion shares	9,478,563	9,741,237	9,535,091	9,679,197

See accompanying condensed notes to the consolidated financial statements

RIMAGE CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(unaudited)

	Nine months ended September 30, 2001	Nine months ended September 30, 2000

<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 3,376,953	$ 5,829,483
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	417,256	550,515
Change in reserve for excess and obsolete inventories	103,111	12,113
Change in reserve for allowance for doubtful accounts	(73,071)	67,131
Loss on sale of property, plant, and equipment	22,434	6,494
Changes in operating assets and liabilities:		
Trade accounts receivable	3,082,161	(182,943)
Inventories	(851,325)	(1,284,564)
Prepaid income taxes	916,404	(573,372)
Prepaid expenses and other current assets	4,357	21,015
Trade accounts payable	194,230	(297,385)
Accrued compensation	(50,193)	311,155
Accrued other	507,962	81,629
Income taxes payable	--	(312,154)
Other current liabilities	29,717	--
Deferred income and customer deposits	(49,532)	175,085
Net cash provided by operating activities	7,630,464	4,404,202
Cash flows from investing activities:		
Purchases of marketable securities	(9,741,150)	--
Purchase of property, plant, and equipment	(1,438,709)	(247,374)
Other noncurrent assets	49,180	74,915
Net cash used in investing activities	(11,130,679)	(172,459)
Cash flows from financing activities:		
Proceeds from stock option and warrant exercises	198,338	1,587,106
Cash payments for stock buyback	(552,785)	--
Other noncurrent liabilities	137,500	--
Net cash provided by (used in) financing activities	(216,947)	1,587,106
Effect of exchange rate changes on cash	(18,113)	(25,343)
Net increase/(decrease) in cash and cash equivalents	(3,735,275)	5,793,506
Cash and cash equivalents, beginning of period	21,225,452	13,664,151

Cash and cash equivalents, end of period	$ 17,490,177	$ 19,457,657
Supplemental disclosures of net cash paid during the period for- Income taxes	$ 1,003,690	$ 3,903,559

</TABLE>

See accompanying condensed notes to the consolidated financial statements

(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, and continues to support its long-term involvement in diskette duplication and publishing equipment.

The accompanying unaudited consolidated financial statements of the Company have been prepared pursuant to the rules of the Securities and Exchange Commission. These financial statements should be read in conjunction with the more detailed financial statements and notes thereto included in the Company's most recent annual report on Form 10-K.

The Company extends unsecured credit to its customers as well as credit to a limited number of authorized distributor wholesalers, who in turn provide warehousing, distribution, and credit to a network of authorized value added resellers. These distributors and value added resellers sell and service a variety of hardware and software products.

In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations and cash flows of the Company for the periods presented. Certain previously reported amounts have been reclassified to conform with the current presentation.

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) ACQUISITION

On March 1, 2000, the Company issued 497,496 shares of its common stock in exchange for all outstanding stock of Cedar Technologies, Inc. ("Cedar"), a manufacturer of CD-R desktop publishing and duplication equipment. The Company also assumed the obligations to issue 224,064 shares of its common stock upon exercise of outstanding options of Cedar and 177,894 shares of its common stock upon exercise of outstanding warrants of Cedar. The business combination was accounted for as a pooling-of-interests, and accordingly, the consolidated financial statements for periods prior to the combination have been restated to include the accounts and results of operations of Cedar.

(Continued)

(3) MARKETABLE SECURITIES

Marketable securities generally consist of U.S. Government or U.S.

Government-backed obligations with long-term credit ratings of AAA. Marketable securities are classified as short-term or long-term in the balance sheet based on their maturity date. All marketable securities have maturities of fifteen months or less and 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 other comprehensive income until realized. As of September 30, 2001, the amortized cost of all marketable securities is $9,677,359 and the net unrealized holding gain is $63,791.

(4) INVENTORIES

Inventories consist of the following as of:

	September 30, 2001	December 31, 2000
Finished goods and demonstration equipment	$ 1,363,115	$ 1,239,034
Work-in-process	309,252	323,785
Purchased parts and subassemblies	2,011,966	1,373,300
	$ 3,684,333	$ 2,936,119

(5) COMPREHENSIVE INCOME

The Company's other comprehensive income relates to foreign currency translation adjustments and unrealized holding gains from available-for-sale investments, and is presented separately on the balance sheet as required. If presented on the statement of operations for the nine months ended September 30, 2001 and 2000, comprehensive income would be $31,067 and $15,777 more than reported net income, respectively, due to these adjustments.

(Continued)

(6) FOREIGN CURRENCY CONTRACTS

The Company enters into forward foreign exchange contracts to hedge inter-company receivables denominated in Euros arising from sales to its subsidiary in Germany. Gains or losses on forward foreign exchange contracts are recognized in net earnings on a current basis over the term of the contracts.

As of September 30, 2001, the Company had seventeen outstanding foreign currency contracts totaling $1,964,000. These contracts mature in 2001 and 2002 and bear rates between .8690 and .9224 U.S. dollars per Euro.

(7) EMPLOYEE STOCK PURCHASE PLAN

In February 2001, the Company's board of directors adopted, and our shareholders approved in May 2001, the Employee Stock Purchase Plan (ESPP). A total of 300,000 common shares were reserved for issuance under the ESPP. The ESPP allows employees to elect, at one year intervals, to contribute between 1 and 10% of their compensation, subject to certain limitations, to purchase shares of common stock at the lower of 85% of the fair market value on the first day or last day of each one year period. At September 30, 2001, no shares have been issued under this plan.

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 consolidated statements of operations.

<TABLE>
<CAPTION>

	Percent (%) of Revenues Three Months Ended	Percent (%) Incr/(Decr) Between	Percent (%) of Revenues Nine Months Ended	Percent (%) Incr/(Decr) Between

	September 30,		Periods	September 30,		Periods
	2001	2000	2001 vs. 2000	2001	2000	2001 vs. 2000
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	100.0	100.0	3.1	100.0	100.0	(19.2)
Cost of revenues	(52.2)	(47.8)	12.5	(50.0)	(46.5)	(13.0)
Gross profit	47.8	52.2	(5.6)	50.0	53.5	(24.6)
Operating expenses:						
Research and development	(7.2)	(10.5)	(29.4)	(10.5)	(7.0)	21.2
Selling, general and admin	(23.5)	(24.0)	0.9	(24.0)	(20.6)	(6.1)
Merger	-	-	N/A	-	(1.5)	N/A
Operating income	17.1	17.7	(0.1)	15.5	24.4	(48.8)
Other income, net	4.4	1.6	174.9	2.7	1.3	62.1
Income before income taxes	21.5	19.3	14.9	18.2	25.7	(43.0)
Income tax expense	(8.0)	(7.3)	11.9	(6.7)	(9.8)	(44.5)
Net income	13.5	12.0	16.8	11.5	15.9	(42.1)

</TABLE>

RESULTS OF OPERATIONS

REVENUES. Revenues increased 3.1% to $10.3 million for the three-month period ended September 30, 2001 from $10.0 million for the same prior-year period. The increase in revenues was due to the introduction of the Company's new Producer II line of products, strong European sales and an increased demand for DVD-R publishing systems. Revenues decreased 19.2% to $29.5 million for the nine-month period ended September 30, 2001 from $36.5 million for the same prior-year period. The decrease in revenues was primarily due to the absence of sales within the music fulfillment industry and the negative impact of a strengthened U.S. dollar on our European operations. Sales during the three- and nine-month periods ended September 30, 2001 were both negatively impacted by a noticeable slowdown in capital spending activities as a result of a weakened economy.

As of and for the nine months ended September 30, 2001, foreign revenues from unaffiliated customers, operating income, and net identifiable assets were $9,218,000, $6,000 and $3,633,000, respectively. As of and for the nine months ended September 30, 2000, foreign revenues from unaffiliated customers, operating earnings, and net identifiable assets were $8,517,000, $290,000 and $3,137,000, respectively. The growth is due to increasing penetration in the European markets of sales of CD-R products.

GROSS PROFIT. Gross profit as a percent of revenues was 47.8% and 50.0% for the three- and nine- month periods ended September 30, 2001, respectively, compared to 52.2% and 53.5% for the same prior-year periods. The decrease during the three-month period ended September 30, 2001 was primarily due to increased European sales outside Germany. These sales carry a lower margin associated with selling through a distribution network. The decrease in gross profit as a percent of revenues during the nine-month period ended September 30, 2001 was primarily due to the lower sales volume partially offset by cost control measures taken in our manufacturing process.

OPERATING EXPENSES. Operating expenses during the three- and nine-month periods ended September 30, 2001 were $3.2 million or 30.7% of revenues and $10.2 million or 34.5% of revenues, respectively compared to $3.5 million or 34.5% of revenues and $10.6 million or 29.1% of revenues during the same prior year periods. The decrease during the three-month period ended September 30, 2001 was primarily a result of a decrease in research and development expenses due to completion of the Everest printer development initiative. The increase in percent during the nine-month period ended September 30, 2001 was primarily a result of the reduced sales volume and higher research and development expenses associated with the Everest project. Research and development expense during the three- and nine-month periods ended September 30, 2001 were $741,000 or 7.2% of revenues and $3.1 million or 10.5% of revenues, respectively compared to $1.1

million or 10.5% of revenues and $2.5 million or 7.0% of revenues during the same periods of 2000. The increase in operating expenses as a percent of revenues was offset by $240,000 of gain recognized due to the termination of operating leases during the second quarter of 2001 and by $541,000 of merger expenses incurred during the first quarter of 2000 from the acquisition of Cedar Technologies, Inc.

OTHER INCOME/(EXPENSE). The Company recognized net interest income on cash investments of $253,000 and $877,000 during the three- and nine-month periods ended September 30, 2001 compared to $304,000 and $754,000 during the same prior year periods. Also included in other income, the Company recognized a gain/(loss) on currency exchange of $197,000 and $(76,000) during the three- and nine-month periods ended September 30, 2001 compared to $(162,000) and $(289,000) during the same prior year periods.

INCOME BEFORE INCOME TAXES. Income before income taxes during the three- and nine-month periods ended September 30, 2001 were $2.2 million or 21.5% of revenues and $5.4 million or 18.2% of revenues, respectively compared to $1.9 million or 19.3% of revenues and $9.4 million or 25.7% of revenues during the same prior year periods. The increase during the three-month period ended September 30, 2001 was primarily due to strong market acceptance of our new Producer II line of products combined with a return to normal research and development expense levels. The decrease during the nine-month period ended September 30, 2001 is the result of the absence of CD-R related product sales into the music-on-demand audio segment combined with higher than normal research and development expenditures.

INCOME TAXES. The provision for income taxes represents federal, state, and foreign income taxes on earnings before income taxes. Income tax expense for the three- and nine-month periods ended September 30, 2001 amounted to $819,000 and $2.0 million, respectively or 37% of income before income taxes. The Company anticipates an effective tax rate of 37% for the remainder of 2001. Income tax expense for the three- and nine-month periods ended September 30, 2000 amounted to $732,000 and $3.6 million, respectively or 38% of income before income taxes.

LIQUIDITY AND CAPITAL RESOURCES

The Company expects to fund its anticipated cash requirements (including the anticipated cash requirements of its capital expenditures) with internally generated funds and, if required, from the Company's existing credit agreement.

Current assets are $35.5 million as of September 30, 2001 compared to $35.7 million as of December 31, 2000. The allowance for doubtful accounts as a percentage of receivables was 7% and 6% as of September 30, 2001 and December 31, 2000, respectively. This increase is due to the perceived greater risk of collecting on accounts receivables in light of the current slowing economy. Current liabilities are $6.2 million as of September 30, 2001 compared to $5.6 million as of December 31, 2000. This increase primarily reflects amounts payable for tooling costs relating to the Everest printer.

Net cash provided by operating activities was $7.6 million and $4.3 million for the nine months ended September 30, 2001 and 2000, respectively. This increase was primarily the result of timing of collection of trade accounts receivables. Net cash used in investing activities was $11.1 million and $172,000 for the nine months ended September 30, 2001 and 2000, respectively. This increase was primarily due to purchases of marketable securities during the third quarter 2001 combined with payments made for tooling associated with new products introduced during 2001. At September 30, 2001, the Company had commitments to purchase additional capital equipment totaling $232,000 and $343,750 during calendar years 2001 and 2002, respectively. Net cash used in financing activities during the nine months ended September 30, 2001 was $217,000. This amount primarily reflected payments to purchase treasury stock, partially offset by proceeds from stock option and warrant exercises. Net cash provided by financing activities during the nine months ended September 30, 2000 was $1.6 million. This amount reflected proceeds from stock option and warrant exercises.

The Company believes that inflation has not had a material impact on its operations or liquidity to date.

NEW ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board issued FASB Statement No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS (Statement 144), which supersedes both FASB Statement No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF (Statement 121) and the accounting and reporting provisions of APB Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS--REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). Statement 144 retains the fundamental provisions in Statement 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with Statement 121. Statement 144 also retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike Statement 121, an impairment assessment under Statement 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under Statement No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS.The Company is required to adopt Statement 144 no later than the year beginning after December 15, 2001, and plans to adopt its provisions for the quarter ending March 31, 2002. Management does not expect the adoption of Statement 144 to have a material impact on the Company's financial statements because the impairment assessment under Statement 144 is largely unchanged from Statement 121.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations," and SFAS No. 142 "Goodwill and Other Intangible Assets," which change the accounting for business combinations and goodwill. SFAS No. 141 requires that the purchase method of accounting be used for business combinations initiated after June 30, 2001. Use of the pooling-of-interests method will be prohibited. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. The Company is currently evaluating SFAS No. 141 and SFAS No. 142, but does not expect that they will have a material impact on the Company's financial position or results of operations.

NEW EUROPEAN CURRENCY

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their existing currencies and the euro, a new European currency, and adopted the euro as their common legal currency (the "Euro Conversion"). Either the euro or a participating country's present currency will be accepted as legal tender from January 1, 1999 to January 1, 2002, from which date forward only the euro will be accepted.
The Company has customers located in European Union countries participating in the Euro Conversion. Such customers will likely have to upgrade or modify their computer systems and software to comply with the euro requirements. The amount of money the Company anticipates spending in connection with product development related to the Euro Conversion is not expected to have a material adverse effect on the Company's results of operations or financial condition. The Euro Conversion may also have competitive implications for the Company's pricing and marketing strategies, which could be material in nature; however, any such impact is not known at this time.
The Company has also modified its internal systems (such as payroll, accounting and financial reporting) to deal with the Euro Conversion. There is no assurance, however, that all problems related to the Euro Conversion will be foreseen and corrected, or that no material disruptions of the Company's business will occur.

MARKET RISK DISCLOSURE

The Company has a policy of using forward exchange contracts to hedge net exposures related to its foreign currency-denominated monetary assets and liabilities. The primary objective of these hedging activities is to maintain an approximately balanced position in foreign currencies so that exchange gains and losses resulting from exchange rate changes, net of related tax effects, are minimized.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that involve risks and uncertainties. For this purpose, any statements contained in 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, changes in media or method used for distribution of software, technological changes in products offered by the Company or its competitors and changes in general conditions in the computer market, as well as other factors not now identified. 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.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 2. Changes in Securities

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit No. 11.1 Calculation of Earnings Per Share.

(b) Reports on Form 8-K:

Not applicable.

SIGNATURES

In accordance with the Exchange Act, this report has been signed below by following persons on behalf of the registrant and on the dates indicated.

RIMAGE CORPORATION
Registrant

Date: November 9, 2001

By: /s/ Bernard P. Aldrich

Bernard P. Aldrich
Director,
Chief Executive Officer,
and President
(Principal Executive Officer)
(Principal Financial Officer)

Date: November 9, 2001

By: /s/ Robert M. Wolf

Robert M. Wolf
Treasurer
(Principal Accounting Officer)

EXHIBIT 11.1

RIMAGE CORPORATION
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 is determined by dividing net income by the weighted average number of shares of common stock and common share equivalents outstanding, unless the result is anti-dilutive. The following is a summary of the weighted average common shares outstanding and assumed conversion shares:

	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Shares outstanding at end of period	8,665,881	8,653,285	8,665,881	8,653,285
Weighted average shares of common stock outstanding	8,734,692	8,510,224	8,720,018	8,338,555
Weighted average shares of assumed conversion shares	743,871	1,231,013	815,073	1,340,642
Weighted average shares of common stock and assumed conversion shares	9,478,563	9,741,237	9,535,091	9,679,197
Net income	$1,395,107	$1,194,900	$3,376,953	$5,829,483
Basic net income per common share	$ 0.16	$ 0.14	$ 0.39	$ 0.70
Diluted net income per common share	$ 0.15	$ 0.12	$ 0.35	$ 0.60