

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 MARCH 31, 2002; 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 May 1, 2002 -
8,671,611 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 No

RIMAGE CORPORATION
FORM 10-Q
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FOR THE QUARTER ENDED MARCH 31, 2002

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RIMAGE CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
March 31, 2002 and December 31, 2001
(Unaudited)

<TABLE>
<CAPTION>

Assets	March 31, 2002	December 31, 2001
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 5,115,420	\$ 4,978,871
Marketable securities	24,184,316	23,131,393
Trade accounts receivable, net of allowance for doubtful accounts and sales returns of \$713,000 and \$715,000, respectively	5,940,553	5,008,176
Inventories	3,125,643	3,624,701
Prepaid expenses and other current assets	303,425	211,941
Prepaid income taxes	335,414	764,523
Deferred income taxes-current	1,063,108	1,063,108
Total current assets	40,067,879	38,782,713
Property and equipment, net	1,463,545	1,608,197
Deferred income taxes-noncurrent	57,468	57,468
Other noncurrent assets	5,173	6,004
Total assets	\$ 41,594,065	\$ 40,454,382
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 2,311,152	\$ 2,102,178
Accrued compensation	907,615	1,095,554
Accrued other	926,652	921,397
Deferred income and customer deposits	1,090,400	1,031,862
Total current liabilities	5,235,819	5,150,991
Long-term liabilities	--	68,750
Total liabilities	\$ 5,235,819	\$ 5,219,741
Stockholders' equity:		
Common stock, \$.01 par value, authorized 30,000,000 shares, issued and outstanding 8,653,799 and 8,635,537, respectively	86,538	86,355
Additional paid-in capital	15,829,588	15,779,533
Retained earnings	20,804,574	19,670,369
Accumulated other comprehensive loss	(362,454)	(301,616)
Total stockholders' equity	36,358,246	35,234,641
Commitments and contingencies		
Total liabilities and stockholders' equity	\$ 41,594,065	\$ 40,454,382

</TABLE>

See accompanying condensed notes to consolidated financial statements

RIMAGE CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2002	2001

Revenues	\$ 9,886,371	\$ 10,196,132
Cost of revenues	5,139,298	4,858,784

Gross profit	4,747,073	5,337,348

Operating expenses:		
Research and development	877,724	1,273,089
Selling, general and administrative	2,298,023	2,464,878

Total operating expenses	3,175,747	3,737,967

Operating income	1,571,326	1,599,381

Other income (expense):		
Interest	212,475	330,314
Loss on currency exchange	151	(221,423)
Other, net	2,197	(13,291)

Total other income, net	214,823	95,600

Income before income taxes	1,786,149	1,694,981
Income tax expense	651,944	644,093

Net income	1,134,205	1,050,888
=====		
Net income per basic share	\$ 0.13	\$ 0.12
=====		
Net income per diluted share	\$ 0.12	\$ 0.11
=====		
Basic weighted average shares outstanding	8,646,243	8,698,469
=====		
Diluted weighted average shares and assumed conversion shares	9,454,027	9,575,619
=====		

See accompanying condensed notes to the consolidated financial statements

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

<TABLE>
<CAPTION>

	Three months ended March 31,	
	2002	2001

<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 1,134,205	\$
1,050,888		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	177,631	
93,885		
Change in reserve for excess and obsolete inventories	(56,593)	
(101)		
Provision for allowance for doubtful accounts and sales returns	(2,064)	

--	Loss on sale of property and equipment	--	
22,434			
	Changes in operating assets and liabilities:		
	Trade accounts receivable	(930,313)	
2,278,152			
	Inventories	555,651	
(876,306)			
	Prepaid expenses and other current assets	(91,484)	
(528)			
	Prepaid income taxes	429,109	
461,749			
	Trade accounts payable	208,974	
(119,101)			
	Accrued compensation	(187,939)	
(450,159)			
	Accrued other	5,255	
91,970			
	Deferred income and customer deposits	58,538	
(47,958)			

	Net cash provided by operating activities	1,300,970	
2,504,925			

	Cash flows from investing activities:		
	Purchase of marketable securities	(1,052,923)	
--			
	Purchase of property and equipment	(32,148)	
(128,945)			
	Other noncurrent assets	(51,464)	
(20,667)			

	Net cash used in investing activities	(1,136,535)	
(149,612)			

	Cash flows from financing activities-		
	Proceeds from stock option/warrant exercise	50,238	
120,592			
	Other noncurrent liabilities	(68,750)	
--			

	Net cash (used in) provided by financing activities	(18,512)	
120,592			

	Effect of exchange rate changes on cash	(9,374)	
(30,907)			

	Net increase in cash and cash equivalents	136,549	
2,444,998			
	Cash and cash equivalents, beginning of period	4,978,871	
21,100,604			

	Cash and cash equivalents, end of period	\$ 5,115,420	\$
23,545,602			
=====			
	Supplemental disclosures of net cash paid during the period for:		
	Income taxes	\$ 209,743	\$
135,413			
</TABLE>			

See accompanying condensed notes to the consolidated financial statements

RIMAGE CORPORATION AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) BASIS OF PRESENTATION AND NATURE OF BUSINESS

Rimage Corporation (the Company) develops, manufactures and distributes high performance CD-Recordable (CD-R) and DVD-Recordable (DVD-R) publishing and duplication systems, 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.

(Continued)

RIMAGE CORPORATION AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(2) INVENTORIES

Inventories consist of the following as of:

	March 31, 2002	December 31, 2001

Finished goods and demonstration equipment	\$1,060,054	\$1,179,963
Work-in-process	494,923	379,215
Purchased parts and subassemblies	1,570,666	2,065,523

	\$3,125,643	\$3,624,701
=====		

(3) 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 in the statement of operations for the three months ended March 31, 2002 and 2001, comprehensive income would be \$60,838 and \$51,573 less than reported net income, respectively, due to these adjustments.

(4) 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 March 31, 2002, the Company had twenty-seven outstanding foreign currency contracts totaling \$2,966,000. These contracts mature in 2002 and bear rates between .8560 and .9145 U.S. Dollars per Euro. As of March 31, 2002, the fair value of foreign currency contracts is \$39,000 and is recorded in other current assets.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

	Percentage (%) of Revenues Three Months Ended March 31,		Percentage (%) Increase/ (Decrease) Between Periods
	2002	2001	2002 vs. 2001
Revenues	100.0	100.0	(3.0)
Cost of revenues	(52.0)	(47.6)	5.8
Gross profit	48.0	52.4	(11.1)
Operating expenses:			
Research and development	(8.9)	(12.5)	(31.1)
Selling, general and administrative	(23.2)	(24.2)	(6.8)
Operating income	15.9	15.7	(1.8)
Other income, net	2.2	0.9	124.7
Income before income taxes	18.1	16.6	5.4
Income tax expense	(6.6)	(6.3)	1.2
Net income	11.5	10.3	7.9

RESULTS OF OPERATIONS

REVENUES. Revenues decreased 3.0% from \$10.2 million during the first quarter of 2001 to \$9.9 million during the first quarter of 2002. During the first quarter of 2002, sales of systems equipped with DVD capabilities more than tripled from the year earlier level. This increase was offset by the negative impact of the continued strengthening of the U.S. dollar on our European operations combined with a noticeable slowdown in capital spending activities as a result of a weakened economy.

As of and for the three months ended March 31, 2002, foreign revenues from unaffiliated customers, operating income, and net identifiable assets were \$3,161,000, \$105,000 and \$3,566,000, respectively. As of and for the three months ended March 31, 2001, foreign revenues from unaffiliated customers, operating income, and net identifiable assets were \$3,282,000, \$112,000 and \$4,016,000, respectively. The revenue decline is primarily due to the negative impact of the continued strengthening of the U.S. dollar on our European operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

GROSS PROFIT. Gross profit as a percent of revenues was 48.0% during the first quarter of 2002 compared to 52.4% of revenues during the same period of 2001. The decrease was primarily due to increased volume of sales generated in European markets outside Germany. Sales in these markets are handled primarily by distribution, which involve additional costs in comparison to direct sales. The decrease was also due to increased depreciation during the first quarter of 2002 related to tooling for the Everest color printer.

OPERATING EXPENSES. Operating expenses during the first quarter of 2002 were \$3.2 million or 32.1% of revenues compared to \$3.7 million or 36.7% of revenues during the same prior year period. The decrease was primarily a result of lower research and development expenses due to the completion of the initial round of development on the Everest color

printer. Research and development expense during the first quarter of 2002 was \$878,000, or 8.9% of revenues, compared to \$1.3 million, or 12.5% of revenues, during the first quarter of 2001.

OTHER INCOME. The Company recognized net interest income on cash investments of \$212,000 during the first quarter of 2002 compared to \$330,000 during the first quarter of 2001. Also included in other income, the Company recognized an almost zero impact on currency exchange during the first quarter of 2002 compared to a loss of \$221,000 during the first quarter of 2001.

INCOME BEFORE INCOME TAXES. Income before income taxes increased 5.4% to \$1.8 million for the first quarter of 2002 from \$1.7 million for the same prior year period. This increase is the result of the return to more normal levels of research and development expenditures during the first quarter of 2002.

INCOME TAXES. The provision for income taxes represents federal, state, and foreign income taxes on income before income taxes. Income tax expense for the first quarter of 2002 and 2001 amounted to \$652,000 and \$644,000, respectively or 36.5% and 38%, respectively of income before income taxes. The decrease in percentage is primarily due to increased research and development and foreign tax credits. The Company anticipates an effective tax rate of 36.5% for the remainder of 2002.

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 that would allow borrowings up to \$5 million. At March 31, 2002 there were no amounts outstanding under the credit agreement.

Current assets are \$40.1 million as of March 31, 2002 as compared to \$38.8 million as of December 31, 2001. The allowance for doubtful accounts and sales returns as a percentage of receivables remained relatively stable at 11% as of March 31, 2002 as compared to 12% as of December 31, 2001. Current liabilities remained constant at \$5.2 million as of March 31, 2002 as compared to December 31, 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Net cash provided by operating activities was \$1.3 million and \$2.5 million for the three months ended March 31, 2002 and 2001, respectively. This decrease was primarily the result of timing of collection of trade accounts receivables. Net cash used in investing activities was \$1.1 million and \$150,000 for the three months ended March 31, 2002 and 2001, respectively. This increase was primarily due to purchases of marketable securities during the first quarter 2002. Net cash (used in) provided by financing activities was \$(19,000) and \$121,000 during the three months ended March 31, 2002 and 2001, respectively. The net cash used in financing activities for the three months ended March 31, 2002 was primarily for long term debt repayment on tooling for the Everest printer offset by proceeds from stock option and warrant exercises. The net cash provided by financing activities for the three months ended March 31, 2001 was primarily provided by the 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.

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.

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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

In connection with the Company's Annual Meeting to be held May 21, 2002, the Company filed a Proxy Statement containing a table showing the security ownership of certain beneficial owners and management which overstated the beneficial ownership of Messrs. Bernard Aldrich and Kenneth Klinck. The Company hereby corrects the overstatement as follows: As of April 8, 2002, Mr. Aldrich beneficially owned 270,326 shares of Rimage Corporation Common Stock, including 223,126 shares acquirable within 60 days of April 8, 2002. This represents 3% of the 8,653,799 shares of Common Stock outstanding as of April 8, 2002. As of April 8, 2002, Mr. Klinck beneficially owned 97,101 shares of Rimage Corporation Common Stock, including 81,251 shares acquirable within 60 days of April 8, 2002, representing 1.1% of the shares of Common Stock then outstanding. As a result, the beneficial ownership of all officers and directors as a group (9 persons) as of April 8, 2002, is 2,309,399 shares of Common Stock which includes 989,242 shares acquirable within 60 days of April 8, 2002 and represents 23.9% of the shares of Common Stock then outstanding.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

EXHIBIT NO.	DESCRIPTION
3.1	1992 Restated Articles of Incorporation of Rimage Corporation, as amended.
10.4	Lease dated September 1, 1998, between Rimage Corporation and 7725 Washington Avenue Corporation.
11.1	Calculation of Income 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: May 15, 2002

By: /s/ Bernard P. Aldrich

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

Date: May 15, 2002

By: /s/ Robert M. Wolf

Robert M. Wolf
Treasurer
(Principal Accounting Officer)

1992 RESTATED ARTICLES OF INCORPORATION

OF

RIMAGE CORPORATION

ARTICLE 1.

NAME

The name of the Corporation is Rimage Corporation.

ARTICLE 2.

REGISTERED OFFICE

The address of the registered office of the Corporation is 7725 Washington Avenue South, Edina, Minnesota, 55439.

ARTICLE 3.

PURPOSES AND TERM

The Corporation shall have general business purposes, and shall have perpetual existence.

ARTICLE 4.

SHARES

The shares of capital stock of the Corporation shall be subject to the following:

(01) The corporation is authorized to issue thirty million (30,000,000) shares of capital stock, \$.01 par value.

(02) Unless otherwise established by the Board of Directors, all shares of the Corporation are common shares entitled to vote and shall be of one class and one series having equal rights and preferenced in all matters. Unless otherwise provided in these Articles, or in the Bylaws of the Corporation, or in the terms of the shares, a common shareholder has one (1) vote for each share held.

(03) The Board of Directors shall have the power to establish more than one class or series of shares and to fix the relative rights and preferences of any such different classes or series.

(04) The shareholders of the Corporation shall not have preemptive rights, unless with respect to some or all of the authorized and unissued shares, the Board of Directors grants preemptive rights.

(05) Cumulative voting for directors is not permitted.

ARTICLE 5.

DIRECTOR'S ACTION

Any action of the Board of Directors, other than an action requiring shareholder approval, may be taken by written action signed by the number of directors that would be required to take the action at a meeting at which all directors were present.

ARTICLE 6.

AMENDMENT OF ARTICLES

The shareholder vote required for adoption of an amendment to these Articles of Incorporation shall be the affirmative Vote of the holders of a majority of the voting power of the shares present and entitled to vote at a shareholder's meeting.

ARTICLE 7.

FUNDAMENTAL CHANGES

In any of the following types of actions or transactions with respect to which the law requires a vote of the outstanding shares of the Corporation, the affirmative vote of a majority of the shares entitled to vote shall be sufficient to authorize the action or transaction:

(01) A merger with any other corporation or corporations;

(02) An exchange of one or more classes or series of the shares of the Corporation for the shares of one or more classes or series of one or more other corporations;

(03) The sale, lease, transfer, or other disposition of all, or substantially all, of the Corporation's property and assets, including its goodwill, not in the usual and regular courses of business;

(04) The voluntary dissolution of the Corporation.

ARTICLE 8.
DIRECTOR LIABILITY

A director of the Corporation shall not be personally liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability (a) for any breach of the director's duty or loyalty to the corporation or its shareholders, (b) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (c) under section 302A.559 of the Minnesota Business Corporation Act or section

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80A.23 of the Minnesota Securities Act, or (d) for any transaction from which the director derived an improper personal benefit. If the Minnesota Business Corporation Act is amended after approval by the shareholders of this article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Minnesota Business Corporation Act, as so amended. Any repeal or modification of the foregoing paragraph by the shareholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

* As amended through the Rimage Corporation 2001 Annual Meeting of Shareholders.

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LEASE

BUILDING NAME:

- - - - -

7725 Washington Avenue Building

- - - - -

BUILDING ADDRESS:

- - - - -

7725 Washington Avenue South

- - - - -

Edina, MN 55439

TENANT:

- - - - -

Rimage Systems, Inc.

- - - - -

CONTACT:

- - - - -

Bernie Aldrich

TELEPHONE:

- - - - -

(612) 944-8144

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FLOOR PLAN	EXHIBIT A
LEGAL DESCRIPTION	EXHIBIT B
WORK LETTER	EXHIBIT C
ADDITIONAL LEASE PROVISIONS	EXHIBIT D

LEASE

7725 Washington Ave. Corp.
 - - - - -
 (Owner/Landlord)

Sept. 1, 1998
 - - - - -
 (Lease Date)

\$ See Exhibit D
 - - - - -
 (Monthly Base Rent)

Rimage Systems. Inc. ----- (Tenant)	43,000 SF ----- (Unit)	\$ None ----- (Security Deposit)
Washington Avenue Building ----- (Project)	5 years + 2 months ----- (Term)	\$ 0 ----- (First Months Rent)
7725 Washington Ave. So. ----- (Address)	Sept. 1, 1998 ----- (Beginning)	\$ 0 ----- (Improvements)
Edina, MN 55439 ----- (City, State, Zip)	Dec. 31, 2003 ----- (Ending)	\$ 0 ----- (Receipt By)

THIS LEASE is made and entered into this 1st day of September, 1998 between 7725 Washington Avenue Corp. with its principal place of business at 7808 CreekrIDGE Circle, Suite 200, Minneapolis, MN 55439 (herein called "Landlord"), and Rimage Systems, Inc. a (corporation) organized under the laws of the State of Minnesota with its principal business at 7725 Washington Avenue South, Edina, MN 55439 (herein called "Tenant", whether one or more).

WITNESSETH:

1. PREMISES.

In consideration of the obligation of Tenant to pay rent as herein provided, and in consideration of the other terms, provisions and covenants hereof, Landlord hereby leases to Tenant, and Tenant hereby takes from Landlord, certain Premises (herein called the "Premises") situated in the County of Hennepin, State of Minnesota, consisting of approximately 43,000 square feet of gross rentable area outlined in red on the floor plan attached hereto Exhibit A and made a part hereof in the building commonly known as Washington Avenue Building (herein called the "Building") located at

7725 Washington Avenue South, Edina, MN 55439

which building is situated upon the real property described on Exhibit B attached hereto and hereby made a part hereof (the Building and said real property are herein called the "Project"), together with the right to use in common with Landlord and other Tenants in the Project, and their employees, agents, representatives and invitees, any common areas and facilities of the Project and together with the right to use any parking area (herein called the "Shared Parking area") located outside of the Project which is designated by Landlord, by written notice from Landlord to Tenant, as a parking area which Tenant may use in common with other parties designated by Landlord.

2. TERM.

This Lease shall be for a term of five (5) years and two (2) months, commencing on September 1, 1998 and expiring on December 31, 2003 with option for additional five (5) years per attached Schedule D.

3. WORK LETTER.

Landlord, at its sole cost and expense, shall construct any leasehold improvements required to be by Landlord constructed pursuant to the Work Letter (herein called the "Work Letter") attached hereto as Exhibit C and made a part hereof.

4. RENT.

Tenant shall pay Landlord, without deduction or setoff, an annual minimum rental (herein sometimes called "Base Rent of:

See Exhibit D

and /100 Dollars (\$-) payable, in advance, without demand, on or before the first day of each and every month during the term hereof; provided, however, that if the term hereof shall commence upon a day other than the first day of a calendar month or expire upon a day other than the last day of the calendar month. Base Rent for the partial calendar month shall be prorated on a per diem basis and shall be paid by Tenant on the commencement date of the term hereof (in the case of an initial partial month) or on the first day of the month in which the term hereof expires (in the case of a terminal partial month).

5. SECURITY DEPOSIT.

Tenant agrees to deposit with Landlord on the date hereof the sum of NONE and - --/100Dollars (\$ -) which sum shall be held by Landlord, without obligation for interest, as security for the performance of Tenant's covenants and obligations under this Lease, it being expressly understood and agreed that such deposit is not an advance rental deposit or a measure of Landlord's damages in case of

Tenant's default. Upon the occurrence of any event of default by Tenant, Landlord may, from time to time without prejudice to any other remedy provided herein or provided by law, use such fund to the extent necessary to make good any areas of rent and any other damage, injury, expense or liability caused by such event of default, and Tenant shall pay to Landlord on demand the amount so applied in order to restore the security deposit to its original amount. If Tenant is not then in default hereunder, any remaining balance of such deposit shall be returned by Landlord to Tenant upon termination of this Lease.

6. USE

Subject to the following provisions of this Paragraph 6, the Premises may be used for any lawful purpose. Tenant shall comply with all governmental laws, ordinances and regulations applicable to the use of the I Premises and shall promptly comply with all governmental orders and directives for the correction, prevention and abatement of nuisances in, upon or connected with the Premises, all at Tenant's sole expenses. Tenant shall not receive, store or otherwise handle any product, material or merchandise which is explosive or highly inflammable and will not permit the Premises to be used for any purpose which would render the insurance thereon void or the insurance risk more hazardous, or increase the premiums therefore, and in the event of any such increase by reason of any activity conducted by Tenant in, on or about the Premises, Tenant shall be liable for such increase and shall reimburse Landlord therefor. Tenant shall not store any material or merchandise outside the Premises.

7. OPERATING COSTS.

Prior to the commencement of the term of this Lease and prior to March 1 of each calendar year thereafter, or as soon thereafter as practicable. Landlord shall furnish Tenant with a written statement of the estimated operating costs per square foot of gross rentable area of the Building for such calendar year. During the remainder of such calendar year, Tenant shall pay Landlord at the times that the monthly Base Rent is due and payable hereunder an amount equal to one-twelfth (1/12) of the product of the number of gross square feet in the Premises times such estimate. If Tenant's monthly payment of estimated operating costs is greater than the monthly amount of operating expenses Tenant paid for the then elapsed calendar months of such calendar year, then, within ten (10) days after such written estimate is given. Tenant shall also pay to a Landlord the deficiency for said elapsed calendar months. After the expiration of each calendar year falling in whole or in part within the term hereof. Landlord shall furnish Tenant with a written statement of the actual operating costs of the Project (and, if applicable, the Shared Parking Area) for the preceding calendar year, and if such actual operating costs for such preceding calendar year are more or less than the estimate, an appropriate adjustment shall be made within ten (10) days after such written statement is furnished.

For the purposes hereof, operating costs shall be deemed to mean all taxes (both general and special and whether now or hereafter enacted), assessments or governmental charges levied or assessed against the Project (and, if applicable, the Shared Parking Area) or any part thereof, and all costs which, for federal tax purposes, may be expensed rather than capitalized, and which Landlord will or does incur, pay or become obligated to pay in owning, maintaining, operating and leasing the Project (and, if applicable the Shared Parking Area) and appurtenances thereto, exclusive of interest and depreciation. Without limiting the generality of the foregoing operating costs shall include personal property taxes, fees or permits or licenses, a management fee or fees not to exceed five percent (5%) of the Base Rent, landscaping and gardening cleaning, painting, decorating, paving, lighting, security guards, leasing and maintenance of music and intercom system; If any, removal of snow, trash, garbage and other refuse, heating, ventilating and air-conditioning, costs and expenses in connection with meeting federal state, or local environmental energy standards, fire protection, water and sewage and other utility charges not separately metered and charged to particular Tenants, the cost of all types of insurance carried or paid for by Landlord, accounting costs, all costs of maintaining, repairing and replacing paving, curb, sidewalks, roadways, landscaping, drainage, lighting and utility systems, the cost of maintaining and repairing the walls, roof and other portions of the Building, the cost of maintaining and repairing all heating, ventilating and air-conditioning equipment and depreciation thereof, rental changes for machinery and equipment used in maintaining and operating the Project (and, if applicable, the Shared Parking Area), salaries and compensation of personnel connected with such operation and maintenance and deductible amounts payable under insurance policies. Landlord, in its reasonable discretion, shall from time to time determine the method of computing

and operating costs, the allocation of operating costs to various types of space within the Building, and the extent of the appurtenances to the Project, and Tenant shall be bound thereby.

Tenant's failure to pay Tenant's share of operating costs in the manner herein provided shall be treated hereunder in the same manner as a default in the payment of Base Rent.

8. LANDLORD'S REPAIRS.

Landlord shall at its expense maintain only the roof, foundation and the

structural soundness of the exterior walls of the Building in good repair reasonable wear and tear excepted. Tenant shall reimburse Landlord upon demand, however, for any maintenance or repairs necessitated by the act or negligence of Tenant for Tenant's employees, agents, representatives or invitees, or caused by Tenant's default hereunder. The term "walls" as used herein shall not include windows, glass or plate glass or doors. Tenant shall immediately give Landlord written notice of defect or need for repairs, after which Landlord shall have reasonable opportunity to repair same or cure such defect. Landlord's liability hereunder shall be limited to the cost of such repairs or curing such defect.

9. TENANT'S REPAIRS.

Tenant shall at its own cost and expense maintain all other parts of the Premises in good repair, reasonable wear and tear excepted and shall take good care of the Premises and its fixtures and suffer no waste. Tenant will keep the whole of the Premises in clean, sanitary and safe condition, and will at the expiration or earlier termination of this Lease surrender the same to Landlord, broom clean, and in the same order and condition as they were in at the commencement of this Lease, reasonable wear and tear excepted.

10. ALTERATIONS.

Tenant shall not make structural additions or alterations to the Building or the Premises or install any equipment which defaces the Building interior or exterior or bolt or otherwise physically attach machinery or equipment to the floors or walls of the Premises. Except for alterations which do not violate the provisions of the preceding sentence and the aggregate cost of which does not exceed three (3) months Base Rent during any twelve (12) month period. Tenant shall not make any alterations of, or additions to, the Premises without the prior written consent of Landlord. Tenant will not permit any mechanics', laborers' or materialmen's liens to stand against the Premises or the Project for any labor or material furnished to, or for the account of, Tenant or claimed to have been so furnished in connection with any work performed or claimed to have been performed in, or about the Premises.

At the expiration or earlier termination of this Lease, Tenant shall, if the Landlord so elects, remove all alterations and additions erected by Tenant and restore the Premises to their original condition; otherwise such improvements shall be delivered up to the Landlord with the Premises. All movable office furnishings and trade fixtures installed by Tenant may be removed by Tenant at the termination of this Lease if Tenant so elects, and shall be removed if required by Landlord. All such removals and restoration shall be accomplished in a good and workmanlike manner so as not to damage the primary structure or structural qualities of the Premises. Personal property remaining in the Premises at the expiration or earlier termination of the term of this Lease shall be deemed abandoned, and Landlord may dispose of the same as Landlord deems expedient.

11. SIGNS.

Tenant shall not erect any exterior signs, advertising media or lettering without the prior written consent of Landlord. Any such items consented to by Landlord and installed by Tenant shall comply with any applicable governmental laws, ordinances, regulations and other requirements. Tenant shall remove all such signs at the termination of this Lease. Such installations and removals shall be made in such manner as to avoid injury or defacement of the Premises.

12. INSPECTION.

Upon reasonable notice to Tenant, Landlord and Landlord's agents and representatives shall have the right to enter the Premises for the purpose of ascertaining the condition thereof or in order to make such repairs as may be required to be made by Landlord hereunder or as Landlord may deem necessary or for the purpose of showing the Premises and shall have the right to erect on the Premises a suitable sign indicating that the Premises are available for sale for rent. Any such entry by Landlord shall never be deemed an eviction or disturbance of Tenant's possession of the Premises, or render Landlord liable to Tenant for damages, or relieve Tenant from performance of Tenant's obligations under this Lease.

13. UTILITIES.

Tenant shall pay for all heating, air conditioning, ventilation, electricity, gas, water, sewer, telephone, waste removal and other services and utilities used in the Premises commencing on the date Tenant has access thereto for the purpose of installing leasehold improvements and continuing throughout the term hereof. All utilities, except water, will be separately metered and Tenant shall contract for the same in its own name and shall promptly and directly pay all charges for such utilities consumed in the Premises. If, in Landlord's opinion, Tenant's use of water service is greater than the average use of water service by other Tenants in the Project, Landlord may require Tenant to install a separate meter for water and, in such an event, Tenant shall pay the cost of purchasing, installing and maintaining such a metering device. In the event that Tenant fails to install such a separate metering device within thirty (30) days of notice of Landlord's requirement that such a device be installed, Landlord may, but shall not be obligated to, install such a device and all sums and incidental costs and expenses paid by Landlord in connection with the purchase and installation of such device shall be payable by Tenant to Landlord on demand.

Landlord does not warrant that any of the utilities and service referred to in this paragraph, whether furnished by Landlord or by Landlord or by any other supplier of any utility or other service will be free from interruption. Interruption of service shall never be deemed an eviction or disturbance of Tenants; use and possession of the Premises or any part thereof, or render Landlord liable to Tenant from performance of Tenant's obligations under this Leases.

14. ASSIGNMENT AND SUBLETTING.

Tenant shall not have the right to assign this Lease, by operation of law or otherwise, or to sublet the whole or any part of the Premises without the prior written consent of Landlord. Consent by Landlord to one or more assignment or subletting shall not operate as a waiver of Landlord's rights under this paragraph as to any subsequent assignment or subletting. Notwithstanding any permitted assignment or subletting, Tenant shall at all times remain fully responsible and liable for the payment of the rent herein and for compliance worth all of its other obligations under the terms, provisions and covenants of this Lease. If Tenant is a corporation or partnership or other entity, any change in the control of Tenant shall be deemed to be an assignment which shall require Landlord's consent as set forth above. Landlord shall have the right to assign any of its rights under this Lease, and upon any such assignment, and provided that the assignee assumes all of the Landlord's obligations hereunder, Landlord shall be relieved of any and all such obligations.

15. FIRE OR OTHER CASUALTY DAMAGE.

A. If the Project or any part thereof is damaged or destroyed by fire or other casualty. Landlord shall have the right to terminate this Lease, provided it gives written notice thereof to Tenant within ninety (90) days after such damage or destruction. If a portion of the Premises is damaged by fire or other casualty and this Lease is not thereby terminated. Landlord shall, at its expense, restore the Premises, exclusive of any improvements or other changes made to the Premises by Tenant, to as near the condition which existed immediately prior to such damage or destruction as reasonably possible, and rent shall abate during such period of times as the Premises are untenable in the proportion that the untenable portion of the Premises bears to the entire Premises. Landlord shall not be responsible to Tenant for damage to, or destruction of, any furniture, equipment, improvements or other changes made by Tenant in, or about the Premises regardless of the cause of the damage or destruction.

B. Landlord and Tenant each hereby release the other from any and all liability or responsibility to the other or anyone claiming through or under them by way of subrogation or otherwise for any loss or damage to property caused by fire or any of the extended coverage casualties covered by the insurance maintained hereunder, even if such fire or other casualty shall have been caused by the fault or negligence of the other party or anyone for whom such party may be responsible; provided, however, that this release shall be applicable and in force and effect only with respect to loss or damage occurring during such times as the releasor's policies shall contain a clause or endorsement to the effect that any release shall not adversely affect or impair said policies or prejudice the right of the releasor to recover thereunder. Landlord and Tenant each agree that it will require its insurance carriers to include in its policies such a clause or endorsement.

C. Landlord covenants and agrees to maintain standard fire and extended coverage insurance covering the Building in an amount not less than eighty percent (80%) of the replacement cost thereof. Tenant covenants and agrees to maintain standard fire and extended coverage insurance covering its property located in, on or about the Premises in an amount not less than eighty percent (80%) of the replacement cost thereof. Tenant agrees that said property is kept in the Premises Tenant's sole risk.

Tenant assumes full responsibility for protection the Premises from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Premises closed and secured after normal business hours.

16. LIABILITY.

Tenant agrees to indemnify and save Landlord harmless against any and all claims, demands, damages, costs and expenses, including reasonable attorney's fees for the defense thereof, arising from the conduct or management of the business conducted by Tenant in the Premises or from any breach or default on the part of Tenant in the performances of any covenant or agreement on the part of Tenant to be performed pursuant to the terms of this Lease, or from any act or negligence of Tenant, its agents, contractors, servants, employees, subleases, concessionaires, licenses or invitees, or any other person entering upon the Premises under express or implied invitation of Tenant. In case of any action or proceeding brought against Landlord by reason of any such claim upon notice from Landlord, Tenant covenants to defend such action of proceeding by counsel satisfactory to Landlord. Landlord shall not be liable and Tenant waives all claims for damage to person or property sustained by Tenant or Tenant's agents, contractors, servants, employees, subleases, concessionaires licensees

or invitees resulting from the Building or the Premises or any equipment or appurtenances thereunto appertaining becoming out of repair, or resulting from any accident in or about the Premises, the Project or resulting directly or indirectly from any act or neglect of any other Tenant in the Project. This shall, apply expressly, but not exclusively, to the flooding of the Premises, and to damage caused by refrigerators, sprinkling devices air-conditioning apparatus, water, snow, frost, steam, excessive heat or cold, falling plaster, broken glass, sewage, gas, odors and noise, or the bursting or leaking of pipes or plumbing fixtures. Tenant, at its sole cost and expense, shall procure and maintain throughout the term hereof a policy or policies of insurance. Insuring both Landlord and Tenant against all claims, demands or actions arising out of or in connection with Tenant's use or occupancy of the Premises, or by the condition of the Premises, the limits of such policy or policies to be in an amount not less than \$1,000,000.00 combined single limits of liability, and to be written by insurance companies satisfactory to Landlord and qualified to do business in the state in which the Premises are located. Such policies or duly executed certificates of insurance shall be promptly delivered to Landlord and renewals thereof as required shall be delivered to Landlord at least ten (10) days prior to the expiration of the respective policy terms, shall contain an agreement by the insurer that the same may not be canceled or materially without at least ten (10) days' prior written notice to Landlord.

17. CONDEMNATION

A. If the entire Project is taken by eminent domain, this Lease shall automatically terminate as of the date of taking. If a portion of the Project is taken by eminent domain, Landlord shall have the right to terminate this Lease by giving written notice thereof to Tenant within ninety (90) days after the date of taking. *If a portion of the Premises is taken by eminent domain and this Lease is not thereby terminated, Landlord shall, at its expense, restore the Premises, exclusive of any improvements or other changes made to the Premises by Tenant, to as near the condition which existed immediately prior to the date of taking as reasonable possible, and rent shall abate during such period of time as the Premises are untenable in the proportion that the untenable portion of the Premises bears to the entire Premises.

B. Any compensation or award paid or payable on account of any such taking shall belong to, and be the sole property of, Landlord or the then owner or owners of the Project

18. SURRENDER OF POSSESSIONS. HOLDING OVER

At the expiration or earlier termination of the term of this Lease, Tenant shall return all keys to the Premises to landlord and shall surrender the Premises in good condition and repair except for reasonable wear and tear, any repairs specifically required herein to be performed by Landlord and loss by fire or other causes covered by Landlord's insurance. Should Tenant, or any of its successors in interest, holdover the Premises or any part thereof, after the expiration of the term of this Lease, without Landlord's written consent, such holding over shall, at the Landlord's option, constitute and be construed as a tenancy from month to month only, at a rental equal to twice the rental payable for the last month of the term of this Lease. The inclusion of the preceding sentence shall not be construed as Landlord's permission for Tenant to hold over.

19. QUIET ENJOYMENT

Landlord represents and warrants that it has full right and authority to enter into this Lease and that Tenant, upon paying the rental herein set forth and performing its other covenants and agreements herein set forth, shall peaceably and quietly have, hold and enjoy the Premises for the term hereof without hindrance or molestation from Landlord, subject to the terms and provisions of this Lease.

20. EVENTS OF DEFAULT

Anyone or more of the following events shall constitute an event of default under this Lease: A. If Tenant fails to pay, when due, any installment of Base Rent or Tenant's share of operating costs or any other payment required to be by Tenant paid hereunder.

B. If Tenant fails to perform or comply with any of the other terms, conditions and obligations of this Lease;

C. If a writ of execution, attachment or other process of law shall cause levy on or against the property of Tenant or a receiver or trustees shall be appointed for all or substantially all of the assets of Tenant;

D. If Tenant shall become insolvent, or shall make a transfer in fraud of creditors, shall admit in writing its inability to pay its debts as they become due, or shall commence any proceeding or file a petition under the provisions of the Federal Bankruptcy Code for liquidation, reorganization or adjustment of debts, or under any insolvency law or other statute or law providing for the modification or adjustment of the rights of creditors, or shall file an answer admitting to or not contesting the material allegations of a petition filed against it in any such proceeding, or an order for relief shall be entered by a

federal Bankruptcy Court in any such proceeding or Tenant shall not, within sixty (60) days after the commencement of any such proceeding or the filing of any such petition without its consent have the same dismissed or vacated, or shall consent to the appointment of a custodian (as that term is defined in the Federal Bankruptcy Code) for, or assignment to a custodian of, the whole or any substantial part of its properties, or shall not within sixty (60) days after such an appointment or assignment without its consent or acquiescence, have such appointment or assignment vacated or set aside;

E. If Tenant shall vacate or abandon the Premises or the Premises shall become vacant; or

F. If Tenant shall have been notified by Landlord of a default by Tenant under this Lease more than three (3) times in any calendar year.

21. REMEDIES.

Upon the occurrence of any of such events of default described in Paragraph 20 hereof, Landlord shall have the option of pursue anyone or more of the following remedies without any notice or demand whatsoever:

A. Terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails so to do, Landlord may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the Premises and expel or removal Tenant and any other person who may be occupying the Premises or any part thereof, by force if necessary, without being liable for prosecution or any claim for damages therefor, and Tenant agrees to pay to Landlord on demand the amount of all loss and damage which Landlord may suffer by reason of such termination. In the event of termination of this Lease as aforesaid, Landlord may elect to recover from Tenant, as and for liquidated damages for loss of the bargain and not as a penalty, an amount equal to the difference between (1) the Base Rent, Tenant's share of operating costs and other charges reserved hereunder for the period which otherwise should have been the balance of the term hereof; and

B. Enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof, by force if necessary, without being liable for prosecution or any claim for damages therefore, all without terminating this Lease or any of Tenant's obligations hereunder. In such event, Landlord may make alterations and repairs and redecorate the Premises to the extent deemed by Landlord necessary or desirable, and may rent the Premises, or any part thereof, for the account of Tenant, to any person, firm or corporation, other than Tenant, for such rent, for such time and upon such terms as Landlord, in Landlord's sole discretion, shall determine. In so doing, Landlord shall not be required to accept any tenant offered by Tenant or to observe any instruction given by Tenant concerning such reletting. Any rent and other amounts received by Landlord upon such reletting shall be applied first to the costs and expenses of Landlord in regaining possession of the Premises, storing property removed from the Premises, making alterations or repairs, redecorating the Premises and reletting the Premises including, without limitation, brokerage and attorneys' fees and then such rent and other amounts shall be applied to the Base Rent, operating costs and other obligations of Tenant under this Lease, and Tenant agrees to pay to Landlord on demand any deficiency that may arise by reason of such reletting.

C. Enter upon the Premises, by force if necessary, without being liable for prosecution or any claim for damages therefor, and do whatever Tenant is obligated to do under the terms of this Lease, and Tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this Lease, with interest as provided in Paragraph 26F hereof, and Tenant further agrees that Landlord shall not be liable for any damages resulting to Tenant from such action, whether caused by the negligence of Landlord or otherwise.

Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies herein provided or any other remedies provided by law. Landlord may at any time elect to terminate this Lease as described in A above despite a prior election to exercise its remedies under B or C above. Pursuit of any remedy herein provided shall not constitute a forfeiture or waiver of any rent due to Landlord hereunder or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants herein contained. No waiver by Landlord of any violation or breach of

any of the terms, provisions and covenants herein contained shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions and covenants herein contained. Landlord's acceptance of the payment of rental or other payments hereunder after the occurrence of an event of default shall not be construed as a waiver of such default unless Landlord so notifies Tenant in writing. Forbearance by Landlord to enforce one or more of the remedies herein provided upon an event of default shall not be deemed or construed to constitute a waiver of such default. If, on account of any breach or default by Tenant in Tenant's obligations under the terms and conditions of this Lease, it shall become necessary or appropriate for Landlord to employ or

consult with an attorney concerning or to enforce or defend any of Landlord's rights or remedies hereunder, Tenant agrees to pay any reasonable attorneys' fees and a management fee in the amount of Three Hundred and no/100 Dollars (\$300.00). No act or thing done by the Landlord or its agents during the term hereby granted shall be deemed an acceptance of the surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless in writing signed by Landlord.

22. LANDLORD'S RIGHT TO CURE

If Tenant defaults in the making of any payment or the doing of any act required to, make such payment or do such act, and the costs incurred by Landlord in doing so, with interest thereon as provided in paragraph 26F hereof, shall be paid by Tenant to Landlord upon demand. The making of such payment or the doing of such act by Landlord shall not operate to cure such default by Tenant or to prevent or stop Landlord from enforcing or pursuing any rights and remedies which Landlord would otherwise have.

23. MORTGAGES

Tenant accepts this Lease subject and subordinate to any mortgage(s) and/or deed(s) of trust and/or ground lease(s) or other underlying leases(s) now or at any time hereafter consulting a lien or charge upon the Premises, and Tenant shall at any time hereafter on demand execute any instruments, releases or other documents which may require by any mortgagee, trustee or lessor for the purpose of subjecting and subordinating this Lease to the lien of any such mortgage, deed of trust, ground leases or other underlying lease. In the event Tenant fails to comply with any such demand within ten (10) days following the demand, Tenant shall be deemed to have appointed Landlord as Tenant's attorney-in-fact to execute any such instruments, releases or other documents. With respect to any mortgage(s) and/or deed(s) of trust and/or ground lease(s) or other underlying lease(s) now or at any time hereafter created which constitute a lien or charge upon the Premises, Landlord at its sole option shall have the right to waive the applicability of this paragraph so that this Lease would not be subject and subordinate to such mortgage(s) or deed(s) of trust or ground lease(s) or other underlying lease(s).

24. NOTICES

Each provision of this instrument or of any applicable law or regulation with reference to the sending, mailing or delivery of any notice or the making of any payment by Landlord to Tenant or by Tenant to Landlord shall be deemed to be complied with when and if the following steps are taken:

A. All rent and other payments required to be made by Tenant to Landlord hereunder shall be payable to Landlord at the address herein below set forth or at such other address as Landlord may specify from time to time by written notice delivered in accordance herewith.

B. Any notice or document required or permitted to be delivered hereunder shall be deemed to be delivered, whether actually received or not, when deposited in the United States mail, postage prepaid, certified or registered mail, addressed to the parties hereto at the respective addresses set out opposite their names below, or at such other address as they have theretofore specified by written notice delivered in accordance herewith:

Landlord:	Tenant:
7725 Washington Avenue Corp.	Rimage Systems, Inc.
7808 CreekrIDGE Circle, #200	7725 Washington Avenue South
Minneapolis, MN 55439	Edina, MN 55439

C. Any notice or document required or permitted to be delivered hereunder by Landlord to Tenant also shall be deemed to be delivered if an when delivered personally to Tenant (or to an agent of Tenant if Tenant is not an individual) at the Premises.

25. RULES AND REGULATIONS

Tenant shall use the Premises and the common areas of the project in accordance with such rules and regulations as may from time to time be made by Landlord for the general safety, convenience and comfort of the owners, occupants and tenants of the project, and shall cause Tenant's employees, agents, representatives and invitees to abide by such rules and regulations. The rules and regulations now in effect are attached hereto as Exhibit D and are hereby made a part hereof, and Tenant hereby acknowledges receipt of the same.

26. MISCELLANEOUS

A. Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires. The headings of the paragraphs of this Lease are for convenience only and do not limit or define the contents of said paragraphs.

B. The terms, provisions and covenants and conditions contained in this Lease shall apply to, inure to the benefit of, and be binding upon, the parties hereto and upon their respective heirs, legal representatives, successors and permitted

assigns, except as otherwise herein expressly provided.

C. Tenant agrees, within ten (10) days after request of Landlord, or Landlord's designee, including without limitation, the present or any future holder of a mortgage(s) and/or deed(s) of trust and/or ground lease(s) and/or other underlying lease(s) on the Premises, or any prospective purchaser of the Premises, an estoppel certificate stating that this Lease is in full force and effect, the date to which rent and other charges have been paid, the unexpired

term of this Lease, whether or not Landlord is in default hereunder, and the nature of any such default, and such other matters pertaining to this Lease as may be reasonably requested by Landlord.

D. If any term, provision or covenant of this Lease or the application thereof to any person or circumstances shall, to any extent, be held to be invalid or unenforceable, the remainder thereof and the application of such term, provision or covenant to other persons or circumstances shall not be affected thereby, and this Lease and all the terms, provisions and covenants hereof shall, in all other respects, continue to be valid and enforceable and to be complied with to the full extent permitted by law.

E. This Lease may not be altered, changed or amended except by an instrument in writing signed by Landlord and Tenant. F. Base Rent, Tenant's share of operating costs and all other payments required of Tenant pursuant to the provisions of this Lease, shall be deemed rent due hereunder whether or not so designated. All such rent shall bear interest from the due date thereof (or from the date of advancement of funds by Landlord if the payment by Tenant is required by virtue of Landlord's advancement of funds to cure Tenant's default hereunder) until paid at a rate equal to the lesser of (i) the highest rate permitted by law; and (ii) two (2) percentage points in excess of the reference rate from time to time announced by First National Bank of Minneapolis.

27. ACCEPTANCE BY LANDLORD.

This Lease shall not be binding upon Landlord until approved in writing by, and signed by an officer of, Landlord, but this Lease may not be revoked or terminated by Tenant for a period often (10) days from the date hereof.

EXECUTED the 1st day of September, 1998.

LANDLORD:
7725 Washington Avenue Corp.

CORPORATE OR BUSINESS TENANT:
Rimage Systems, Inc.

Approved:
By /S/ JAMES REISSNER

Its Vice President

Approved:
By /S/ BERNARD P. ALDRICH

Its President and CEO

EXHIBIT A

(Floor Plan)

[MAIN LEVEL FLOOR PLAN]

[SECOND LEVEL FLOOR PLAN]

EXHIBIT B

(Legal Description OF Project)

The North 109.21 feet of Tract F, Registered Land Survey No.1283 and that part of Tract E, Registered Land Survey No.1283 lying South of the North 16.08 feet thereof, said 109.21 feet and 16.08 feet being measured along the West line of Registered Land Survey No. 1283.

EXHIBIT C

NONE

EXHIBIT D (ADDITIONAL LEASE PROVISIONS)

HAZARDOUS WASTE. Tenant warrants and represents it is not:

- (a) Engaged in the business of generating, transporting, storing, trading or disposing of hazardous substances or disposing of waste and agrees not to do so under this lease or permit others to engage in such a business at the premises. Hazardous substance and hazardous waste are hereby defined as those terms are defined in Minnesota Statutes #1158.02, Subdivisions 8 and 9 and including any amendments' thereto, as provided from time to time; which sections and amendments are incorporated herein by reference thereto as if fully set forth at length.
- (b) Knowingly permit any person to make any regular use of the premises for disposal of waste.
- (c) Knowingly permit any person to use the facility for disposal of a hazardous substance or waste.

Landlord states it is not aware of any hazardous waste or substance on the premises. In the event tenant discovers a hazardous substance or waste, it agrees not to take any action to contribute to the release of same as said release is defined in Minnesota Statutes #1158.02, Subd. 15, upon any discovery of same.

Tenant agrees it shall hold landlord harmless from all liability under Minnesota Statutes Chapter #1158 for any violation of said statute by tenant or the provisions in this lease including reasonable attorneys' fees.

EXHIBIT D (Continued)

Monthly Rent. This lease provides for base rent and base rent escalators as follows:

October 1, 1998

Base rent will be \$6.75 per square foot or Annually \$290,250.00 Monthly \$24,187.50 October 1, 1999

Base rent will be \$6.95 per square foot or Annually \$298,850.00 Monthly \$24,904.17 October 1, 2000

Base rent will be \$7.16 per square foot or Annually \$307,880.00 Monthly \$25,656.67 October 1, 2001

Base rent will be \$7.37 per square foot or Annually \$316,910.00 Monthly \$26,409.17 October 1, 2002

Base rent will be \$7.59 per square foot or Annually \$326,370.00 Monthly \$27,197.50

The five (5) year renewal option, if exercised, will be as follows:

January 1, 2004

Base rent will be \$7.82 per square foot or Annually \$336,260.00 Monthly \$28,021.67 January 1, 2005

Base rent will be \$8.05 per square foot or Annually \$346,150.00 Monthly \$28,845.83 January 1, 2006

Base rent will be \$8.29 per square foot or Annually \$356,470.00 Monthly
\$29, 705.83 January 1, 2007

Base rent will be \$8.54 per square foot or Annually \$367,220.00 Monthly
\$30,601.67 January 1, 2008

Base rent will be \$8.80 per square foot or Annually \$378,400.00 Monthly
\$31.533.33

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:

<TABLE>
<CAPTION>

	Three months ended March 31,	
	2002	2001
	-----	-----
<S>	<C>	<C>
Shares outstanding at end of period	8,653,799	8,724,790
	=====	=====
Weighted average shares of common stock outstanding	8,646,243	8,698,469
Weighted average shares of assumed conversion shares	807,784	877,150
	-----	-----
Weighted average shares of common stock and assumed conversion shares	9,454,027	9,575,619
	=====	=====
Net income	\$1,134,205	\$1,050,888
	=====	=====
Basic net income per common share	\$ 0.13	\$ 0.12
	=====	=====
Diluted net income per common share	\$ 0.12	\$ 0.11
	=====	=====

</TABLE>