**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **June 30, 2004**; 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 Number) |

7725 Washington Avenue South, Edina, MN 55439

(Address of principal executive offices)

952-944-8144

(Registrant's telephone number, including area code)

NA

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

Common Stock outstanding at July 31, 2004 – 9,332,395 shares
of $.01 par value Common Stock.

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).
**Yes** _X_ **No** ___

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** ___

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**FOR THE QUARTER ENDED JUNE 30, 2004**

## PART 1 FINANCIAL INFORMATION

### Item 1. Unaudited Financial Statements

**RIMAGE CORPORATION AND SUBSIDIARIES**
**Consolidated Balance Sheets**
**June 30, 2004 and December 31, 2003**
**(Unaudited)**

| Assets | June 30, 2004 | December 31, 2003 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 35,429,629 | $ 26,741,627 |
| Marketable securities | 13,956,228 | 21,855,434 |
| Trade accounts receivable, net of allowance for doubtful accounts and sales returns of $699,000 and $887,000, respectively | 9,205,772 | 6,242,516 |
| Inventories | 4,742,129 | 3,334,370 |
| Prepaid expenses and other current assets | 525,034 | 473,053 |
| Deferred income taxes-current | 1,202,329 | 1,202,329 |
| Total current assets | 65,061,121 | 59,849,329 |
| Property and equipment, net | 1,246,076 | 1,137,446 |
| Deferred income taxes-noncurrent | 36,676 | 36,676 |
| Other noncurrent assets | 119,311 | 906 |
| Total assets | $ 66,463,184 | $ 61,024,357 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Trade accounts payable | $ 4,073,188 | $ 2,365,213 |
| Accrued compensation | 1,552,712 | 1,658,741 |
| Accrued other | 1,183,384 | 1,426,840 |
| Income taxes payable | 1,726,494 | 1,768,710 |
| Deferred income and customer deposits | 1,694,076 | 1,793,725 |
| Total current liabilities | 10,229,854 | 9,013,229 |
| Stockholders' equity: | | |
| Common stock, $.01 par value, authorized 30,000,000 shares, issued and outstanding 9,304,622 and 9,110,246, respectively | 93,046 | 91,102 |
| Additional paid-in capital | 18,572,296 | 18,156,735 |
| Retained earnings | 37,662,504 | 33,799,709 |
| Accumulated other comprehensive loss | (94,516) | (36,418) |
| Total stockholders' equity | 56,233,330 | 52,011,128 |
| Commitments and contingencies | | |

| | | |
|---|---|---|
| Total liabilities and stockholders' equity | $ 66,463,184 | $ 61,024,357 |

See accompanying condensed notes to consolidated financial statements



**RIMAGE CORPORATION AND SUBSIDIARIES**
**Consolidated Statements of Operations**
**(unaudited)**

| | Three Months Ended June 30, 2004 | Three Months Ended June 30, 2003 | Six Months Ended June 30, 2004 | Six Months Ended June 30, 2003 |
|---|---|---|---|---|
| Revenues | $ 17,630,729 | $ 12,791,163 | $ 32,074,427 | $ 24,334,897 |
| Cost of revenues | 9,563,962 | 6,458,778 | 16,934,136 | 12,267,525 |
| Gross profit | 8,066,767 | 6,332,385 | 15,140,291 | 12,067,372 |
| Operating expenses: | | | | |
| Research and development | 1,227,038 | 926,506 | 2,351,930 | 1,775,036 |
| Selling, general and administrative | 3,658,327 | 2,822,941 | 6,869,046 | 5,456,699 |
| Total operating expenses | 4,885,365 | 3,749,447 | 9,220,976 | 7,231,735 |
| Operating income | 3,181,402 | 2,582,938 | 5,919,315 | 4,835,637 |
| Other income (expense): | | | | |
| Interest, net | 124,124 | 133,501 | 267,425 | 271,329 |
| Gain (loss) on currency exchange | (14,293) | 9,190 | (23,968) | (12,592) |
| Other, net | (92,578) | (21,080) | (79,631) | (21,577) |
| Total other income, net | 17,253 | 121,611 | 163,826 | 237,160 |
| Income before income taxes | 3,198,655 | 2,704,549 | 6,083,141 | 5,072,797 |
| Income taxes | 1,167,509 | 987,160 | 2,220,346 | 1,851,571 |
| Net income | $ 2,031,146 | $ 1,717,389 | $ 3,862,795 | $ 3,221,226 |
| Net income per basic share | $ 0.22 | $ 0.20 | $ 0.42 | $ 0.37 |
| Net income per diluted share | $ 0.20 | $ 0.18 | $ 0.39 | $ 0.34 |
| Basic weighted average shares outstanding | 9,313,162 | 8,757,138 | 9,255,964 | 8,742,033 |
| Diluted weighted average shares and assumed conversion shares | 9,941,572 | 9,644,499 | 9,942,095 | 9,555,873 |

See accompanying condensed notes to the consolidated financial statements



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

| | Six months ended June 30, 2004 | Six months ended June 30, 2003 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 3,862,795 | $ 3,221,226 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 494,433 | 455,908 |

| | | |
|---|---|---|
| Change in reserve for excess and obsolete inventories | 31,210 | 101,500 |
| Change in reserve for allowance for doubtful accounts | (187,437) | 105,579 |
| Loss on disposal of property and equipment | 100,896 | 25,475 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | (2,775,819) | 112,180 |
| Inventories | (1,438,969) | (1,105,156) |
| Prepaid income taxes | — | 745,178 |
| Prepaid expenses and other current assets | (51,981) | 68,921 |
| Trade accounts payable | 1,707,975 | (186,798) |
| Accrued compensation | (106,029) | (19,805) |
| Accrued other | (243,456) | 16,714 |
| Income taxes payable | (42,216) | (194,973) |
| Deferred income and customer deposits | (99,649) | 185,826 |
| Net cash provided by operating activities | 1,251,753 | 3,531,775 |
| Cash flows from investing activities: | | |
| Purchase of marketable securities | (6,020,335) | (21,006,217) |
| Maturity of marketable securities | 13,919,541 | 17,894,763 |
| Purchase of property and equipment | (692,364) | (432,941) |
| Other noncurrent assets | (151,293) | 14,794 |
| Net cash provided by (used in) investing activities | 7,055,549 | (3,529,601) |
| Cash flows from financing activities: | | |
| Proceeds from stock option/warrant exercises | 417,505 | 489,314 |
| Effect of exchange rate changes on cash | (36,805) | 84,273 |
| Net increase (decrease) in cash and cash equivalents | 8,688,002 | 575,761 |
| Cash and cash equivalents, beginning of period | 26,741,627 | 17,339,135 |
| Cash and cash equivalents, end of period | $ 35,429,629 | $ 17,914,896 |
| Supplemental disclosures of net cash paid during the period for: | | |
| Income taxes | $ 2,126,448 | $ 1,170,827 |
| Supplemental disclosures of non cash financing activities during the period for: | | |
| Tax effect of disqualifying disposition of stock options | $ — | $ 1,024,179 |

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.

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.

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) Marketable Securities**

Marketable securities generally consist of U.S. Treasury, asset-backed and corporate securities with long-term credit ratings of AAA and short-term credit ratings of A-1. All marketable securities have maturities of twelve 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 accumulated other comprehensive income (loss) until realized.

(Continued)





**(3) Stock Based Compensation**

The Company applies APB No. 25 and related interpretations in accounting for its stock based compensation plans. Accordingly, no compensation expense has been recognized for its stock-based compensation plans. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's three months ended and six month ended June 30, 2004 and 2003 net income and basic and diluted earnings per share would have been adjusted to the proforma amounts stated below:

| | Three Months Ended June 30, 2004 | Three Months Ended June 30, 2003 | Six Months Ended June 30, 2004 | Six Months Ended June 30, 2003 |
|---|---|---|---|---|
| Net income: | | | | |
| As reported | $ 2,031,146 | $ 1,717,389 | $ 3,862,795 | $ 3,221,226 |
| Stock based employee compensation, net of tax | (264,636) | (99,158) | (420,323) | (167,410) |
| Proforma | $ 1,766,510 | $ 1,618,231 | $ 3,442,472 | $ 3,053,816 |
| Basic net income per share: | | | | |
| As reported | $ 0.22 | $ 0.20 | $ 0.42 | $ 0.37 |
| Stock based employee compensation, net of tax | $ (0.03) | $ (0.01) | $ (0.05) | $ (0.02) |
| Proforma | $ 0.19 | $ 0.19 | $ 0.37 | $ 0.35 |
| Diluted net income per share: | | | | |
| As reported | $ 0.20 | $ 0.18 | $ 0.39 | $ 0.34 |
| Stock based employee compensation, net of tax | $ (0.03) | $ (0.01) | $ (0.04) | $ (0.02) |
| Proforma | $ 0.17 | $ 0.17 | $ 0.35 | $ 0.32 |

**(4) Inventories**

Inventories consist of the following as of:

| | June 30, 2004 | December 31, 2003 |
|---|---|---|
| Finished goods and demonstration equipment | $ 1,126,211 | $ 899,962 |
| Work-in-process | 415,458 | 362,645 |
| Purchased parts and subassemblies | 3,200,461 | 2,071,763 |
| | $ 4,742,129 | $ 3,334,370 |

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

**(5) Comprehensive Income**

Comprehensive income is defined as net income and other changes in shareholders' equity from transactions and other events from sources other than shareholders. The components of and changes in other comprehensive income (loss) are as follows (in 000's):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Net income | $ 2,031 | $ 1,717 | $ 3,863 | $ 3,221 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | (11) | 65 | (56) | 96 |
| Net unrealized gains (losses) on securities | (5) | (16) | (2) | 3 |
| Total other comprehensive income | $ 2,015 | $ 1,766 | $ 3,805 | $ 3,320 |

**(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 calculated at each period end and are recognized in net income(loss) in the period in which they arose. The fair value of forward foreign exchange contracts is recorded in other current assets or other current liabilities depending on whether the net amount is a gain or a loss.

As of June 30, 2004, the Company had fourteen outstanding foreign currency contracts totaling $2,409,000. These contracts mature in 2004 and bear rates between 1.1763 and 1.2266 U.S. Dollars per Euro. As of June 30, 2004, the fair value of foreign currency contracts is $36,000 and is recorded in other current liabilities.

**(7) Recent Accounting Developments**

FIN 46, "Consolidation of Variable Interest Entities", was issued by the FASB in January 2003, and the interpretation was revised in December 2003 ("FIN 46-R"). FIN 46-R provides accounting requirements for business enterprises to consolidate related entities in which they are determined to be the primary beneficiary as a result of their variable economic interests. The interpretation provides guidance in judging multiple economic interests in an entity and in determining the primary beneficiary. The interpretation is effective for all such interests entered into after December 31, 2003, and for all others at the beginning of the fiscal year commencing after December 15, 2004. Adoption of the interpretation has not affected, and is not expected to affect, the Company's consolidated financial statements.

(Continued)



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

**(8) Warranty Reserve**

Warranty reserve rollforward is as follows:

| | Beginning Balance | Warranty Provisions | Warranty Claims | Changes In Estimates | Ending Balance |
|---|---|---|---|---|---|
| Six Months Ended: | | | | | |
| June 30, 2004 | $ 172,000 | $ 273,000 | $ (246,000) | $ (2,000) | $ 197,000 |
| June 30, 2003 | $ 170,000 | $ 177,000 | $ (159,000) | $ (29,000) | $ 159,000 |

**(9) Litigation**

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

**(10) Subsequent Event**

On July 31, 2004, the Company entered into an operating lease associated with its Edina, Minnesota facility. The lease is effective August 1, 2004 expiring July 31, 2008 with an option to renew for an additional four years. Future minimum lease payments excluding operating expenses and real estate taxes as of August 1, 2004 are as follows:

| Year ending December 31 | Edina facility operating lease |
|---|---|
| 2004 | $ 166,969 |
| 2005 | 404,138 |
| 2006 | 412,328 |
| 2007 | 420,518 |

| | |
|---|---|
| 2008 | 248,089 |
| Net minimum lease payments | $ 1,652,042 |



**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 amounts may not total due to rounding.

| | Percent (%) of Revenues Three Months Ended June 30, | | Percent (%) Incr/(Decr) Between Periods | Percent (%) of Revenues Six Months Ended June 30, | | Percent (%) Incr/(Decr) Between Periods |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 vs. 2003 | 2004 | 2003 | 2004 vs. 2003 |
| Revenues | 100.0 | 100.0 | 37.8 | 100.0 | 100.0 | 31.8 |
| Cost of revenues | (54.2) | (50.5) | 48.1 | (52.8) | (50.4) | 38.0 |
| Gross profit | 45.8 | 49.5 | 27.4 | 47.2 | 49.6 | 25.5 |
| Operating expenses: | | | | | | |
| Research and development | (7.0) | (7.2) | 24.5 | (7.3) | (7.3) | 32.5 |
| Selling, general and admin | (20.7) | (22.1) | 29.6 | (21.4) | (22.4) | 25.9 |
| Operating income | 18.0 | 20.2 | 23.2 | 18.5 | 19.9 | 22.4 |
| Other income, net | 0.1 | 1.0 | (85.8) | 0.5 | 1.0 | (30.9) |
| Income before income taxes | 18.1 | 21.1 | 18.3 | 19.0 | 20.8 | 19.9 |
| Income tax expense | (6.6) | (7.7) | 18.3 | (6.9) | (7.6) | 19.9 |
| Net income | 11.5 | 13.4 | 18.3 | 12.0 | 13.2 | 19.9 |

**Overview**

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

Rimage earns revenues through the sale of equipment, consumables (media kits, ribbons, ink cartridges and blank CD-R and DVD-R media), maintenance contracts, parts and service. Rimage's aftermarket sales (consumables, maintenance contracts, parts and service) represent approximately 39% of its consolidated revenues. Rimage has no long-term debt and does not require significant capital investment as all fabrication of its products is outsourced to vendors.

**Results of Operations**

**Revenues.** Revenues increased 37.8% to $17.6 million and 31.8% to $32.1 million for the three- and six-month periods ended June 30, 2004, respectively, from $12.8 million and $24.3 million for the same prior-year periods. The increase in revenues was primarily due to sales of Rimage-branded media kits totaling $1.8 million and $2.4 million, increased producer line sales of $1.2 million and $2.1 million, and increased consumable sales of $948,000 and $1.7 million for the three- and six-





month periods ended June 30, 2004, respectively. The increase in revenues was also due to the positive impact on our European operations of the weakening U.S. dollar.

As of and for the six months ended June 30, 2004, foreign revenues from unaffiliated customers, operating income, and net identifiable assets were $10,934,000, $459,000 and $5,136,000, respectively. As of and for the six months ended June 30, 2003, foreign revenues from unaffiliated customers, operating income, and net identifiable assets were $8,992,000, $306,000 and $5,462,000, respectively. The growth is due to increasing penetration in the European markets of sales of CD-R and DVD-R products in 2004 versus 2003.

**Gross profit.** Gross profit as a percent of revenues was 45.8% and 47.2% for the three- and six-month periods ended June 30, 2004, respectively, compared to 49.5% and 49.6% for the same prior-year periods. The decrease during the three- and six-month period ended June 30, 2004 was primarily due to the incremental sales of lower margin Rimage branded media kits which the Company began to sell in 2004, additional manufacturing costs related to the June introduction of the next-generation Desktop product line, and inventory costs associated with the discontinuation of the previous Desktop product line.

**Operating expenses.** Selling, general and administrative expenses during the three- and six-month periods ended June 30, 2004 were $2.8 million or 20.7% of revenues and $6.9 million or 21.4% of revenues, respectively compared to $2.8 million or 22.1% of revenues and $5.5 million or 22.4% of revenues during the same prior year periods. The increase of $1.4 million during the six-month period ended June 30, 2004 primarily related to focused efforts to strengthen the Company's sales and marketing organization. Research and development expense during the three- and six-month periods ended June 30, 2004 were $1.2 million or 7.2% of revenues and $2.4 million or 7.3% of revenues, respectively compared to $927,000 or 7.2% of revenues and $1.8 million or 7.3% of revenues during the same periods of 2003. This increase is due to increased development cost related to new product development during 2004 versus 2003.

**Other income/(expense).** The Company recognized net interest income on cash investments of $124,000 and $267,000 during the respective three- and six-month periods ended June 30, 2004 compared to $134,000 and $271,000 during the same prior year periods. This decrease is due to a decrease in interest rates. Also included in other income, the Company recognized a $14,000 loss and $24,000 loss on foreign currency exchange for both the three- and six-month periods ended June 30, 2004 compared to a $9,000 gain and $13,000 loss during the same prior year periods.

**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 six-month periods ended June 30, 2003 amounted to $1.2 million and $2.2 million, or 36.5% of income before income taxes, respectively. The Company anticipates an effective tax rate of 36.5% for the remainder of 2004. Income tax expense for the three- and six-month periods ended June 30, 2003 amounted to $1.0 million and $1.9 million or 36.5%, of income before income taxes, respectively.





**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. This credit agreement allows for advances under an unsecured revolving loan up to a maximum advance of $10,000,000. At June 30, 2004, there were no amounts outstanding under the credit agreement.

Current assets increased to $65.1 million as of June 30, 2004 compared to $59.8 million as of December 31, 2003, primarily reflecting increased accounts receivable and inventory levels. The increase in accounts receivable is due to a significant portion of the Company's sales occurring during June 2004. The increase in inventory is due to the buildup of inventory for long lead-time materials and newly released products including the new Desktop products. The Company intends on utilizing its current assets primarily for its continued organic growth. In addition, the Company may use its available cash for potential future acquisitions. The allowance for doubtful accounts and sales returns as a percentage of receivables was 7% and 10% as of June 30, 2004 and 2003, respectively. This reduction is primarily due to decreased sales returns activity. Current liabilities increased to $10.2 million as of June 30, 2004 compared to $9.0 million as of December 31, 2003 primarily reflecting timing of accounts payable payments.

Net cash provided by operating activities was $1.3 million and $3.5 million for the six months ended June 30, 2004 and 2003, respectively. This decrease was primarily the result of increased inventory levels of long lead-time items and newly released products including the new Desktop products and an increase in accounts receivables due to the timing of collection of receivables offset by an increase in accounts payables due to timing of payments.

Net cash provided by (used in) investing activities was $7.1 million and $(3.5) million for the six months ended June 30, 2004 and 2003, respectively. This increase was primarily due to fewer purchases of short-term investments during the six months ended June 30, 2004. Net cash provided by financing activities of $418,000 and $489,000 during the six months ended June 30, 2004 and 2003, respectively, represented proceeds from stock option exercises.

**Critical Accounting Policies.**

Management utilizes its technical knowledge, cumulative business experience, judgment and other factors in the selection and application of the Company's accounting policies. The following accounting policies are considered by management to be the most critical to the presentation of the consolidated financial statements because they require the most difficult, subjective and complex judgments:





*Revenue Recognition.* Revenue for product sales, including hardware and consumables, which are bundled together for shipment to the customer, is recognized on shipment, at which point the following criteria of SAB Topic 13(A)(1) have been satisfied:

- Persuasive evidence of an arrangement exists. Orders are received for all sales and sales invoices are mailed on shipment.
- Delivery has occurred. Product has been transferred to the customer or the customer's designated delivery agent, at which time title and the risk of loss transfers.
- The vendor's price is fixed or determinable. All sales prices are fixed at the time of the sale (shipment).
- Collectibility is probable. All sales are made on the basis that collection is expected in line with our standard net 30 days' terms.

We accrue for warranty costs and sales returns at the time of shipment based upon past experiences.

Revenue for maintenance agreements is recognized on a straight-line basis over the life of the contracts (commencing once the period covered by standard warranty expires) based on renewal prices.

*Revenue Arrangements with Multiple Deliverables.* EITF 00-21, “Revenue Arrangements with Multiple Deliverables” provides revenue recognition guidance for arrangements with multiple deliverables, and the criteria to determine if items in a multiple deliverable agreement should be accounted for separately. In some arrangements, the different revenue-generating activities are sufficiently separable and there exists sufficient evidence of their fair values to separately account for some or all of the activities. In other arrangements, some or all of the deliverables are not independently functional, or there is not sufficient evidence of their fair values to account for them separately. This issue addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. This issue does not change otherwise applicable revenue recognition criteria. The adoption of EITF 00-21 did not have any impact on the financial position or results of operations of the Company.

*Allowance For Doubtful Accounts And Sales Returns.* The Company records a reserve for accounts receivable that are potentially uncollectible. The reserve is established by estimating the amounts that are potentially uncollectible based on a review of customer accounts, the age of the receivable, the customer’s financial condition and industry, and general economic conditions. The Company also records a reserve for sales returns from its customers. The amount of the reserve is based upon historical trends, timing of new product introductions and other factors. Results could be materially different if economic conditions worsened for the Company’s customers.

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





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

*Warranty Reserves.* The Company records a liability for warranty claims at the time of sale. The amount of the liability is based on the trend in the historical ratio of claims to sales, the historical length of time between the sale and resulting warranty claim, anticipated releases of new products and other factors. Claims experience could be materially different from actual results because of the introduction of new, more complex products; a change in the Company’s warranty policy in response to industry trends, competition or other external forces; or manufacturing changes that could impact product quality.

**Cautionary Note Regarding Forward-Looking Statements**

This report contains forward-looking statements that involve risks and uncertainties. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as “may,” “will,” “expect,” “believe,”“anticipate,” “estimate” or “continue” or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties. The Company’s actual results could differ significantly from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, 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.



## Item 3. Quantitative and Qualitative Disclosures about Market Risk

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. (See footnote 6.)

## Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company’s Chief Executive Officer, Bernard P. Aldrich, and the Company’s Chief Financial Officer, Robert M. Wolf, have evaluated the Company’s disclosure controls and procedures as of the end of the period covered by this report. Based upon such review, they have concluded that these disclosure controls and procedures are effective in ensuring that material information related to the Company is made known to them by others within the Company.

(b) Changes in Internal Control Over Financial Reporting

There have been no significant changes in internal control over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonable likely to materially affect, the registrant’s internal control over financial reporting.

**PART II — OTHER INFORMATION**

Item 1. Legal Proceedings

Not Applicable.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Securities

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

The Company's Annual Meeting of Stockholders' was held on May 19, 2004. Of the 9,267,982 shares outstanding and entitled to vote at the meeting, 8,874,049 shares were present, either in person or by proxy. The following describes the matters considered by the Company's shareholders at the Annual Meeting, as well as the results of the votes cast at the meeting:

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

| Nominee | In Favor | Withheld |
|---|---|---|
| Bernard Aldrich | 8,460,142 | 413,907 |
| Lawrence Benveniste | 8,387,042 | 487,007 |
| Philip Hotchkiss | 8,387,292 | 486,757 |
| Thomas Madison | 8,386,492 | 487,557 |
| Steven Quist | 8,460,592 | 413,457 |
| James Reissner | 8,386,942 | 487,107 |
| David Suden | 8,459,717 | 414,332 |

Item 5. Other Information

Not Applicable.



Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are included herein:

| | |
|---|---|
| 10.1 | Lease dated July 31, 2004, between Rimage Corporation and 7725 Washington Avenue Corporation |
| 11.1 | Calculation of Earnings Per Share |
| 31.1 | Certificate of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act |
| 31.2 | Certificate of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act |
| 32 | Certifications pursuant to 18 U.S.C. ss.1350 |

(b) Reports on Form 8-K:

In the second quarter, Rimage furnished a Form 8-K dated April 21, 2004, reporting under Items 7 and 12 a press release disclosing material non-public information regarding its results of operations for the quarter ended March 31, 2004 and statements of the Company's Chief Financial Officer relating to these quarterly results.



## SIGNATURES

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

RIMAGE CORPORATION
Registrant

| | | |
|---|---|---|
| Date: August 5, 2004 | By: | /s/ Bernard P. Aldrich<br>Bernard P. Aldrich<br>Director, Chief Executive Officer,<br>and President<br>(Principal Executive Officer) |
| Date: August 5, 2004 | By: | /s/ Robert M. Wolf<br>Robert M. Wolf<br>Chief Financial Officer<br>(Principal Financial Officer)<br>(Principal Accounting Officer) |

# LEASE

| | | |
|---|---|---|
| 7725 Washington Ave. Corp<br>(Owner/Landlord) | August 1, 2004<br>(Lease Date) | $ 33,393.75/ Month 1st Yr. **<br>(Monthly Base Rent) See Exhibit B |
| Rimage Corporation<br>(Tenant) | N/A<br>(Unit(s)) | N/A<br>(Security Deposit) |
| 7725 Washington Ave. Bldg<br>(Project) | 4 Years<br>(Term) | N/A<br>(First Month's Rent) |
| 7725 Washington Ave. S<br>(Address) | 8/01/04<br>(Beginning) | N/A<br>(Improvements) |
| Edina, MN 55439<br>(City, State, Zip) | 7/31/2008<br>(Ending) | N/A<br>(Receipt by) |

THIS LEASE is made and entered into this 31st day of July, 2004, between 7725 Washington Ave. Corp., with its principal place of business at 7808 Creekridge Circle, #200, Mpls. MN 55439, (herein called "Landlord"), and Rimage Corporation, a corporation organized under the laws of the State of Minnesota with its principal business at 7725 Washington Ave. S., 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 58,500 square feet of gross rentable area consisting of the entire building commonly known as Washington Ave (herein called the "Building") located at 7725 Washington Ave. S, Edina, MN 55439, which building is situated upon the real property described on Exhibit A attached hereto and hereby made a part hereof (the Building and said real property are herein called the "Project"), together with the exclusive right to use any parking area located within the Project .

2. TERM.
This Lease shall be for a term of 4 years and 0 months, commencing on AUGUST 1, 2004, and expiring on JULY 31, 2008, except as the same may be extended or earlier terminated in accordance herewith.

3. RESERVED

4. RENT.
Tenant shall pay Landlord, without deduction or setoff, an annual minimum rental (herein sometimes called "Base Rent) of **See EXHIBIT B for Years 1-4 Rental Rates 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 N/A and /100 Dollars ($ N/A ), 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 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. RESERVED

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

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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 may erect any exterior signs, advertising media or lettering without the prior written consent of Landlord. Any such items consented to by Landlord within reason 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

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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 or rent if the term is to expire within 12 months. 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 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.

Landlord does not warrant that any of the utilities and services referred to in this paragraph, whether furnished 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 Lease.

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 which consent shall not be unreasonably withheld. 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 with 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

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destruction as reasonably possible, and rent shall abate during such period of time as the Premises are untenantable in the proportion that the untenantable 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 of 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 performance 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 or 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

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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 modified 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 material 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 material 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 reasonably possible, and rent shall abate during such period of time as the Premises are untenantable in the proportion that the untenantable 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.

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19. QUIET ENJOYMENT.

Landlord represents and warrants that it has full rights 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.

Any one 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 to pursue any one 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 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, 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 (2) the fair rental value of the Premises for the balance of such term.

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 relet 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 attorney's 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 this 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 waver 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 default by Tenant as described in Section 20, it becomes 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 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 lease(s) now or at any time hereafter constituting 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 be required 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 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 Ave. Corp. | Rimage Corporation |
| 7808 Creekridge Circle, #200 | 7725 Washington Ave. S. |
| Edina, 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 and when delivered personally to Tenant (or to an agent of Tenant if Tenant is not an individual) at the Premises.

25. RIGHT OF FIRST REFUSAL.

Tenant shall have a right-of-first refusal (ROF) in the event of a third party offer for the Premises. Once Landlord provides notice of the party to purchase the Premises, Tenant has a period of fifteen (15) days after receipt of such notice to notify Landlord of Tenant's intent to purchase the Premises under the same terms and conditions of said offer.

In the event the ROF is to be exercised, Tenant shall timely execute a letter so stating to Landlord within the fifteen (15) day period in which Tenant is permitted to exercise its ROF and shall deliver the letter to the Landlord at the address set forth in Section 24 herein together with a certified check in the amount of $10,000.00 payable to the Landlord as a deposit to be applied to the purchase price of the Premises.

For the purpose of this Section, the current individuals who are the fee owners of the Premises may freely transfer the Premises between themselves, neither of them being a "third party."

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. ACCEPTABLE BY LANDLORD.

This Lease shall not be binding upon Landlord until approved in writing by, and signed by an officer of, Landlord.

EXECUTED the 31st day of July 2004.

| LANDLORD: | TENANT: |
| --- | --- |
| 7725 Washington Avenue Corp. | Rimage Corporation |

By: /s/ Richard F. McNamara

Name: Richard F. McNamara

Its: Owner

By: /s/ Bernard P. Aldrich

Name: Bernard P. Aldrich

Its: President and CEO

**And**

By: /s/ Robert M. Wolf

Name: Robert M. Wolf

Its: CFO

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**EXHIBIT A**

**LEGAL DESCRIPTION**

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, files of Registrar of Titles, County of Hennepin, State of Minnesota.

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**EXHIBIT B**

**RENT SCHEDULE**

| YEAR | BLDG SQ FOOTAGE | NET LEASE RATE | ANNUAL NET RENT | MONTHLY RENT |
|---|---|---|---|---|
| 1 | 58,500 Sq Ft | $6.85 PSF | $400,725.00/yr | $33,393.75 |
| 2 | 58,500 Sq Ft | $6.99 PSF | $408,915.00/yr | $34,076.25 |
| 3 | 58,500 Sq Ft | $7.13 PSF | $417,105.00/yr | $34,758.75 |
| 4 | 58,500 Sq Ft | $7.27 PSF | $425,295.00/yr | $35,441.25 |

1) Tenant shall have an option to renew its lease for four (4) years at market rates.

2) Tenant will be responsible for all expenses related to occupying said building.

3) Tenant shall pay property taxes and insurance upon receipt of property tax statement and insurance billing.

Payments should be sent to:

7725 Washington Ave Corp
7808 Creekridge Circle, Suite 200
Minneapolis, MN 55439

**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. A total of 2,720 and 2,327 assumed conversion shares for the three- and six-month periods ended June 30, 2004, respectively and 7,877 and 11,980 assumed conversion shares for the three- and six-month periods ended June 30, 2003, respectively, were excluded from the net loss per share computation as their effect is anti-dilutive. The following is a summary of the weighted average common shares outstanding and assumed conversion shares:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Shares outstanding at end of period | 9,304,622 | 9,017,785 | 9,017,785 | 9,017,785 |
| Weighted average shares of common stock outstanding | 9,313,162 | 8,757,138 | 9,255,964 | 8,742,033 |
| Weighted average shares of assumed conversion shares | 628,410 | 887,361 | 686,131 | 813,840 |
| Weighted average shares of common stock and assumed conversion shares | 9,941,572 | 9,644,499 | 9,942,095 | 9,555,873 |
| Net income | $ 2,031,146 | $ 1,717,389 | $ 3,862,795 | $ 3,221,226 |
| Basic net income per common share | $ 0.22 | $ 0.20 | $ 0.42 | $ 0.37 |
| Diluted net income per common share | $ 0.20 | $ 0.18 | $ 0.39 | $ 0.34 |

**EXHIBIT 31.1**

**CERTIFICATION**

I, Bernard P. Aldrich, certify that:

1. I have reviewed this Form 10-Q of Rimage Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2004

/s/ Bernard P. Aldrich

Bernard P. Aldrich
President and Chief
Executive Officer

EXHIBIT 31.2

**CERTIFICATION**

I, Robert M. Wolf, certify that:

1. I have reviewed this Form 10-Q of Rimage Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2004

/s/ Robert M. Wolf

Robert M. Wolf
Chief Financial Officer

**EXHIBIT 32**

**CERTIFICATION**

The undersigned certify pursuant to 18 U.S.C. § 1350, that:

(1) The accompanying Quarterly Report on Form 10-Q for the period ended June 30, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the accompanying Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2004

/s/ Bernard P. Aldrich

President and Chief Executive Officer

Date: August 5, 2004

/s/ Robert M. Wolf

Chief Financial Officer