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 **September 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 October 18, 2004 – 9,355,645 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 ___**

RIMAGE CORPORATION
FORM 10-Q
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FOR THE QUARTER ENDED SEPTEMBER 30, 2004

RIMAGE CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)

Assets	September 30, 2004	December 31, 2003
Current assets:		
Cash and cash equivalents	$24,740,546	$26,741,627
Marketable securities	24,447,420	21,855,434
Trade accounts receivable, net of allowance for doubtful accounts and sales returns of $575,000 and $887,000, respectively	8,767,226	6,242,516
Inventories	6,325,967	3,334,370
Prepaid expenses and other current assets	420,370	473,053
Deferred income taxes-current	1,202,329	1,202,329
Total current assets	65,903,858	59,849,329
Property and equipment, net	1,719,919	1,137,446
Deferred income taxes-noncurrent	36,676	36,676
Other noncurrent assets	102,917	906
Total assets	$67,763,370	$61,024,357
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 3,872,102	$ 2,365,213
Accrued compensation	1,803,741	1,658,741
Accrued other	1,035,771	1,426,840
Income taxes payable	8,765	1,768,710
Deferred income and customer deposits	1,673,005	1,793,725
Total current liabilities	8,393,384	9,013,229
Stockholders' equity:		
Common stock, $.01 par value, authorized 30,000,000 shares, issued and outstanding 9,354,645 and 9,110,246 respectively	93,546	91,102
Additional paid-in capital	19,565,658	18,156,735
Retained earnings	39,772,863	33,799,709
Accumulated other comprehensive loss	(62,081)	(36,418)
Total stockholders' equity	59,369,986	52,011,128

Commitments and contingencies		
Total liabilities and stockholders’ equity	$67,763,370	$61,024,357

See accompanying condensed notes to consolidated financial statements

RIMAGE CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(unaudited)

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Revenues	$17,878,930	$13,791,009	$49,953,357	$38,125,906
Cost of revenues	10,028,948	7,108,991	26,963,084	19,376,516
Gross profit	7,849,982	6,682,018	22,990,273	18,749,390
Operating expenses:				
Research and development	1,009,431	867,125	3,361,361	2,642,161
Selling, general and administrative	3,708,137	2,797,940	10,577,183	8,254,639
Total operating expenses	4,717,568	3,665,065	13,938,544	10,896,800
Operating income	3,132,414	3,016,953	9,051,729	7,852,590
Other income (expense):				
Interest income	174,582	126,570	442,007	397,899
Loss on currency exchange	(345)	(12,414)	(24,313)	(25,006)
Other, net	16,749	(13,662)	(62,882)	(35,239)
Total other income, net	190,986	100,494	354,812	337,654
Income before income taxes	3,323,400	3,117,447	9,406,541	8,190,244
Income taxes	1,213,041	1,137,868	3,433,387	2,989,439
Net income	$ 2,110,359	$ 1,979,579	$ 5,973,154	$ 5,200,805
Net income per basic share	$ 0.23	$ 0.22	$ 0.64	$ 0.59
Net income per diluted share	$ 0.21	$ 0.20	$ 0.60	$ 0.54
Basic weighted average shares outstanding	9,339,208	9,066,835	9,265,451	8,872,558
Diluted weighted average shares and assumed conversion shares	9,919,571	9,834,627	9,911,003	9,669,881

See accompanying condensed notes to consolidated financial statements

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

	Nine months ended September 30, 2004	Nine months ended September 30, 2003
Cash flows from operating activities:		
Net income	$ 5,973,154	$ 5,200,805
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	689,107	696,611
Change in reserve for allowance for doubtful accounts and sales returns	(311,829)	232,733
Change in reserve for excess and obsolete inventories	(11,410)	34,797
Loss on sale of property and equipment	107,245	41,401
Stock-based compensation	8,147	—
Changes in operating assets and liabilities:		
Trade accounts receivable	(2,212,881)	(1,052,923)
Inventories	(2,980,187)	(1,121,227)
Prepaid expenses and other current assets	52,683	177,941
Trade accounts payable	1,506,889	71,330
Accrued compensation	145,000	430,669
Accrued other	(391,069)	(81,633)
Income taxes payable	(1,265,366)	1,601,887
Deferred income and customer deposits	(120,720)	424,919
Net cash provided by operating activities	1,188,763	6,657,310
Cash flows from investing activities:		
Purchases of marketable securities	(126,154,129)	(43,083,123)
Maturity of marketable securities	123,562,143	39,112,723
Purchase of property and equipment	(1,350,836)	(566,096)
Other noncurrent assets	(135,091)	14,749
Net cash used in investing activities	(4,077,913)	(4,521,747)
Cash flows from financing activities:		
Proceeds from stock option exercises	908,641	897,069
Net cash provided by financing activities	908,641	897,069
Effect of exchange rate changes on cash	(20,572)	95,784
Net increase (decrease) in cash and cash equivalents	(2,001,081)	3,128,416
Cash and cash equivalents, beginning of period	26,741,627	17,339,135
Cash and cash equivalents, end of period	$ 24,740,546	$ 20,467,551
Supplemental disclosures of net cash paid during the period for:		
Income taxes	$ 4,930,435	$ 1,379,982
Supplemental disclosures of non cash financing activities during the period for:		
Tax effect of disqualifying disposition of stock options	$ 494,579	$ 1,024,179

See accompanying condensed notes to 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 Company also distributes related consumables for use with its systems, consisting of media kits, ribbons, ink cartridges and blank CD-R and DVD-R media.

The accompanying 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 are redeemable within twelve months 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)

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

(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 net income and basic and diluted earnings per share for the three and nine months ended September 30, 2004 and 2003 would have been adjusted to the proforma amounts stated below:

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net income:				
As reported	$ 2,110,359	$ 1,979,579	$ 5,973,154	$ 5,200,805
Stock-based employee compensation, net of tax	($136,242)	($128,586)	($408,726)	($295,996)
Proforma	$ 1,974,117	$ 1,850,993	$ 5,564,428	$ 4,904,809
Basic net income per share:				

As reported	$ 0.23	$ 0.22	$ 0.64	$ 0.59
Stock-based employee compensation, net of tax	($0.02)	($0.02)	($0.04)	($0.04)
Proforma	$ 0.21	$ 0.20	$ 0.60	$ 0.55
Diluted net income per share:				
As reported	$ 0.21	$ 0.20	$ 0.60	$ 0.54
Stock-based employee compensation, net of tax	($0.01)	($0.01)	($0.04)	($0.03)
Proforma	$ 0.20	$ 0.19	$ 0.56	$ 0.51

(4) **Inventories**

Inventories consist of the following as of:

	September 30, 2004	December 31, 2003
Finished goods and demonstration equipment	$ 1,231,715	$ 899,962
Work-in-process	510,727	362,645
Purchased parts and subassemblies	4,583,525	2,071,763
	$ 6,325,967	$ 3,334,370

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(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 September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income	$ 2,110,359	$ 1,979,579	$ 5,973,154	$ 5,200,805
Other comprehensive income (loss):				
Foreign currency translation adjustment	34,127	20,873	(21,968)	116,829
Net unrealized losses on securities	(1,692)	(9,407)	(3,695)	(6,296)
Total comprehensive income	$ 2,142,794	$ 1,991,045	$ 5,947,491	$ 5,311,338

(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 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 September 30, 2004, the Company had fifteen outstanding foreign currency contracts totaling $3,036,000. These contracts mature in 2004 and 2005 and bear rates between 1.1973 and 1.2389 U.S. Dollars per Euro. As of September 30, 2004, the fair value of foreign currency contracts is a net loss position of $45,000, recorded in accrued other under 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.

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

(8) Warranty Reserve

The warranty reserve rollforward is as follows:

Nine Months Ended:	Beginning Balance	Warranty Provisions	Warranty Claims	Changes In Estimates	Ending Balance
September 30, 2004	$ 172,000	$ 331,000	$ (330,000)	$ (1,000)	$ 172,000
September 30, 2003	$ 170,000	$ 233,000	$ (205,000)	$ (29,000)	$ 169,000

(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.

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 September 30,		Percent (%) Incr/(Decr) Between Periods	**Percent (%) of Revenues Nine Months Ended September 30,**		Percent (%) Incr/(Decr) Between Periods
	2004	2003	2004 vs. 2003	**2004**	2003	2004 vs. 2003
Revenues	**100.0**	100.0	29.6	**100.0**	100.0	31.0
Cost of revenues	**(56.1)**	(51.5)	41.1	**(54.0)**	(50.8)	39.2
Gross profit	**43.9**	48.5	17.5	**46.0**	49.2	22.6
Operating expenses:						
Research and development	**(5.7)**	(6.3)	16.4	**(6.7)**	(6.9)	27.2
Selling, general and admin	**(20.7)**	(20.3)	32.5	**(21.2)**	(21.7)	28.1
Operating income	**17.5**	21.9	3.8	**18.1**	20.6	15.3
Other income, net	**1.1**	0.7	90.0	**0.7**	0.9	5.1
Income before income taxes	**18.6**	22.6	6.6	**18.8**	21.5	14.9
Income taxes	**(6.8)**	(8.2)	6.6	**(6.9)**	(7.9)	14.9
Net income	**11.8**	14.4	6.6	**11.9**	13.6	14.9

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 reducing their manual labor efforts in industries such as banking, medical, photography and government. Rimage anticipates sales and marketing expenditures will continue to grow as a result of applying increased resources to further penetrate these markets. As approximately 95% 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 also earns revenues through the sale of 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 29.6% to $17.9 million and 31.0% to $50.0 million for the three- and nine-month periods ended September 30, 2004, respectively, from $13.8 million and $38.1 million for the same prior-year periods. The increase in revenues was primarily due to sales of Rimage-branded media kits, which the Company began to sell in 2004, totaling $2.4 million and $4.7 million, an increase in Producer line sales of $.8 million and $2.9 million and an increase in consumable sales of $1.0 million and $2.7 million for the three- and nine-month periods ended September 30, 2004, respectively. The impact of currency fluctuations on the Company's European operations also increased reported revenues by $.4 million and $1.4 million during the three and nine months ended September 30, 2004, respectively.

As of and for the nine months ended September 30, 2004, foreign revenues from unaffiliated customers generated by the Company's German operations and the operating income and net identifiable assets of such operations were $16,015,000, $634,000 and $5,187,000, respectively. Comparable amounts for the Company's German operations as of and for the nine months ended September 30, 2003, were foreign revenues from unaffiliated customers of $13,735,000, operating income of $471,000 and net identifiable assets of $5,438,000. The growth is due to increasing penetration in the foreign markets of sales of CD-R and DVD-R products.

The Company is projecting fourth quarter revenues to range between $17.5 million and $18.5 million, bringing full year 2004 revenues to $67.5 million to $68.5 million.

Gross profit. Gross profit as a percent of revenues was 43.9% and 46.0% for the three- and nine- month periods ended September 30, 2004, respectively, compared to 48.5% and 49.2% for the same prior-year periods. The decrease during the three- and nine-month periods ended September 30, 2004 was primarily due to the incremental sales of lower margin Rimage branded media kits, which the Company began to sell in 2004. The decrease during the nine-month period ended September 30, 2004 was also due to additional manufacturing costs associated with the June 2004 introduction of our new 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 nine-month periods ended September 30, 2004 were $3.7 million or 20.7% of revenues and $10.6 million or 21.2% of revenues, respectively, compared to $2.8 million or 20.3% of revenues and $8.3 million or 21.7% of revenues during the same prior year periods. The dollar increases are primarily related to focused efforts to strengthen the Company's sales and marketing organization and incremental expenses associated with Sarbanes-Oxley related initiatives. Research and development expenses during the three- and nine-month periods ended September 30, 2004 were $1.0 million or 5.6% of revenues and $3.4 million or 6.7% of revenues, respectively, compared to $867,000 or 6.3% of revenues and $2.6 million or 6.9% of revenues during the same periods of 2003. The increase in current period expenses is due to an increase in new product development during 2004.

Other income/(expense). The Company recognized interest income on cash investments of $175,000 and $442,000 during the three- and nine-month periods ended September 30, 2004 compared to $127,000 and $398,000 during the same prior year periods. This increase is due to an increase in interest rates and average cash investment balances. Also included in other income (expense), is the recognition of a loss on currency exchange of $0 and $24,000 during the three- and nine-month periods ended September 30, 2004 compared to losses of $12,000 and $25,000 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 nine-month periods ended September 30, 2004 amounted to $1.2 million and $3.4 million, respectively, or 36.5% of income before income taxes. The Company anticipates its effective tax rate will approximate 36.5% for the remainder of 2004. Income tax expense for the three- and nine-month periods ended September 30, 2003 amounted to $1.1 million and $3.0 million, respectively, or 36.5% of income before income taxes.

Net income / net income per share. Resulting net income for the three and nine months ended September 30, 2004 was $2.1 million, or $0.21 per diluted share, and $6.0 million, or $0.60 per diluted share, respectively. This compares to net income of $2.0 million, or $0.20 per diluted share, and $5.2 million, or $0.54 per diluted share, in the comparable prior year periods. The Company expects fourth quarter net income to range between $0.20 to $0.22 per diluted share, bringing full year 2004 net income to $0.80 to $0.82 per diluted share.

Liquidity and Capital Resources

The Company expects to fund its anticipated operating requirements (including anticipated capital expenditure requirements) 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 September 30, 2004, there were no amounts outstanding under the credit agreement.

Current assets increased to $65.9 million as of September 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 third quarter sales occurring during September 2004. The increase in inventory is due to buildup of inventory for long lead-time materials. 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 6% and 10% as of September 30, 2004 and 2003, respectively. The current period reduction is primarily due to decreased sales returns activity and an improvement in the aging of the Company's receivables. Current liabilities decreased to $8.4 million as of September 30, 2004, compared to $9.0 million as of December 31, 2003, primarily reflecting timing of income tax payments and the benefit recognized during the period from disqualifying dispositions of stock options.

Net cash provided by operating activities was $1.2 million for the nine months ended September 30, 2004, compared to $6.7 million for the comparable prior year period. The decline in operating cash flows during the current period was primarily the result of a build-up of inventory for long lead-time materials, an increase in accounts receivable due to the timing of sales during the third quarter 2004 and the timing of income tax payments.

Net cash used in investing activities was $4.1 million and $4.5 million for the nine months ended September 30, 2004 and 2003, respectively. The reduced use of cash during the 2004 period was due to a reduction in the purchase of marketable securities, net of maturities of marketable securities, partially offset by increased capital expenditures primarily related to tooling for new products. Net cash provided by financing activities of $909,000 and $897,000 during the nine months ended September 30, 2004 and 2003, respectively, reflected 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 payment terms, which are consistent with industry practice.

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, the following, as well as other factors not now identified: the Company's ability to keep pace with changes in technology in the computer and storage media industries as well as technology changes in the photography, medical, banking, government and office markets; changes in media or method used for distribution of software; technological changes in products offered by the Company or its competitors; the introduction of new products by competitors; the Company's ability to protect its intellectual property and to defend claims of others relating to its intellectual property; the ability of the Company's products to operate effectively with the computer products of other manufacturers; increase of sales of consumables as a proportion of the Company's revenues and changes in product mix; the dependence upon the selling efforts of the Company's distributors and channel partners; the significance of the Company's international operations and the risks associated with international operations including currency fluctuations, local economic health and management of these operations over long distances; and changes in general conditions in the computer market. 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 note 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 controls 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. Change in Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

On November 5, 2004, Company entered into a letter agreement relating to severance and change of control benefits attached to this Form 10-Q as Exhibit 10.1 (the "Letter Agreement") with the following executive officers:

Name	Position
Bernard P. Aldrich	President and Chief Executive Officer
Robert M. Wolf	Chief Financial Officer
David J. Suden	Chief Technology Officer
Manuel M. Almeida	Executive Vice President
Kenneth Klinck	Senior Vice President, Sales
Konrad Rotermund	Vice President, European Operations

The Letter Agreement provides that if the executive's employment is terminated without cause (other than during the twelve month period following a change of control), the executive will be entitled to payments of his regular base salary for a period of twelve months or until the executive secures other employment, whichever comes first. The executive will also be paid an amount equal to the average of the prior three calendar years annual bonus amount received by the executive. The bonus payment will be paid in twelve equal installments consistent with the Company's regular payroll practices, but will cease at such earlier time as the executive secures other employment.

The Letter Agreement also provides that if a change in control occurs and within twelve months of the change of control the executive's employment is terminated by the Company without cause or by the executive for good reason, all as defined in the Letter Agreement, the Company must pay the executive a cash severance payment. The severance payment is payable within sixty days of the date of termination and will be equal to 200% of the sum of the executive's annual base salary and his target bonus in effect on such date (without giving effect to any reduction that results in the executive's termination for good reason). The target bonus is the cash amount under all annual incentive compensation plans of the Company in which the executive participates, waiving any condition for payment to the executive and assuming that the performance goals for the period were achieved at the 100% level. Additionally, all stock options held by the executive will immediately vest upon a change of control.

In the case of either a termination by the Company without cause or termination of employment within twelve months of a change of control, as described above, the Company will pay a portion of the premiums for continued health, dental and group life insurance for a period of time. These salary continuation and change of control benefits are also conditioned upon the executive's execution of a general release and compliance with a nondisclosure and non-competition agreement. Further, in the event that the vesting of options upon a change of control, together with all other benefits provided by the Letter Agreement, would result in all or a portion of such amount being subject to excise tax then the executive will be entitled to the greater of the full amount or such lesser amount that would result in no portion of the amount being subject to excise tax, taking into account the tax consequences of the benefits to the executive.

If the executive resigns (other than for good reason during the twelve month period following a change in control), if the Company terminates the executive's employment for cause or if the executive's employment terminates as a result of his death or disability, the executive is entitled to receive his base salary accrued but unpaid as of the date of termination, but is not entitled to receive any salary continuation benefit thereafter.

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are included herein:

*10.1	Form of Severance/Change of Control Letter Agreement dated November 5, 2004 between the Company and certain executive officers.
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. §1350.

*Indicates management contract or compensatory plan.

(b) Reports on Form 8-K:

In the third quarter, the Company furnished a Form 8-K dated July 27, 2004, reporting under Items 7 and 12 a press release disclosing material non-public information regarding its results of operations for the quarter ended June 30, 2004 and statements of the Company's Chief Executive Officer and 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: November 5, 2004

By: /s/ Bernard P. Aldrich

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

Date: November 5, 2004

By: /s/ Robert M. Wolf

Robert M. Wolf
Chief Financial Officer
(Principal Financial Officer)
(Principal Accounting Officer)

November 5, 2004

____

____

____

Dear ____________:

The purpose of this Letter Agreement is to set forth our agreement in regard to your severance arrangement. Although your employment is "at will" and may be terminated by you or Rimage Corporation ("Rimage") at any time for any reason, Rimage has agreed to provide you with a particular severance pay benefit in the event Rimage terminates your employment without Cause (as defined below) or, for a specified period following a Change in Control (as defined below), you terminate your employment for Good Reason (as defined below). Terms not otherwise defined in this letter (the "Letter Agreement") shall have the meaning given such terms on Schedule 1, which is incorporated herein by reference. Rimage's obligation to you under this Letter Agreement is, among the other requirements set forth below, subject to the condition that you execute a Nondisclosure and Noncompetition Agreement in the form attached as Exhibit A, which is incorporated herein by reference.

Specifically, we have agreed as follows:

1. Severance.

(a) If your employment is terminated by Rimage without Cause (other than during the twelve (12) month period following a Change in Control), subject to the condition stated in Section 1(c), Rimage will:

(i) continue to pay your base salary in accordance with Rimage's regular payroll practices for a period of twelve (12) months thereafter, or until you have secured other employment, whichever occurs first, subject to applicable tax withholding;

(ii) pay you an amount equal to the average of the annual bonus amounts you received with respect to the three complete calendar years prior to the date of your termination, such bonus payment, subject to applicable tax withholding, to be made in equal installments consistent with Rimage's regular payroll practices over a period of twelve (12) months from the date of your termination, provided such installments shall cease at such time as you have secured other employment; and

(iii) if you are eligible for and elect COBRA or state continuation of the Rimage health, dental and group life insurance benefits, Rimage shall pay the portion of such COBRA premium that it pays for active employees until the earlier of: (A) twelve (12) months from the date COBRA coverage begins; or (B) the date COBRA coverage otherwise terminates. You shall pay the remaining portion of the premiums for such benefits during such period and, if applicable, the full premium thereafter.

(b) If you resign (other than for Good Reason during the twelve (12) month period following a Change in Control), if Rimage terminates your employment for Cause or if your employment terminates as a result of your death or disability, you shall be entitled to receive your base salary accrued but unpaid as of the date of termination, but shall not be entitled to receive any salary continuation benefit thereafter.

(c) In case of termination without Cause, you shall be entitled to receive the amounts due you under Section 1(a) only upon your execution and delivery to Rimage of a general release with respect to any and all claims against Rimage and its officers, directors, employees, agents and shareholders, acceptable in form and substance to Rimage in all respects, and provided you continue to comply with the terms of the Nondisclosure and Noncompetition Agreement with Rimage.

2. Change in Control.

(a) If a Change in Control shall occur and if within twelve (12) months of a Change in Control, your employment is terminated by Rimage without Cause or by you for Good Reason, Rimage shall pay you a severance payment in cash in a single sum within sixty (60) days of the date of termination equal to 200% of the sum of (i) your annual base salary, and (ii) your Target Bonus in effect on such date (without giving effect to any reduction that results in your termination for Good Reason). For purposes of this Letter Agreement, "Target Bonus" shall mean the amount payable in cash under all annual incentive compensation plans of Rimage in which you participate, waiving any condition precedent to the payment to you and assuming that the performance goals for the period were achieved at the 100% level.

(b) If you are eligible for and elect COBRA or state continuation of the Rimage health, dental and group life insurance benefits, Rimage shall pay the portion of such COBRA premium that it pays for active employees until the earlier of: (A) eighteen (18) months from the date COBRA coverage begins; or (B) the date COBRA coverage otherwise terminates. You shall pay the remaining portion of the premiums for such benefits during such period.

(c) Immediately prior to a Change in Control, you shall vest in all stock options that have been granted to you, subject to the provisions in Rimage's Stock Option Plan. Approval of this Agreement by the Compensation Committee shall be deemed approval of the vesting of options as provided in the immediately preceding sentence for all purposes under Rimage's Stock Option Plan.

(d) The payments under this paragraph shall be in lieu of and offset the amount of any severance to which you are entitled under paragraph 1(a) above. Amounts paid under this paragraph 2 shall be subject to applicable tax withholding.

(e) In the event the vesting of options, together with all other payments and the value of any benefit received or to be received by you would result in all or a portion of such amount being subject to excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended, (the "Code") then you shall be entitled to either (i) the full amount, or (ii) such lesser amount that would result in no portion of the amount being subject to excise tax under Section 4999 of the Code (the "Excise Tax"), whichever of the foregoing amounts, taking into account the applicable federal, state and local employment taxes, income taxes and the Excise Tax, results in the receipt by you, on an after-tax basis, of the greater amount, notwithstanding that all or some portion of the amount may be taxable under Section 4999 of the Code. In the event of any reduction in the amount under this Section 2(e), you shall be permitted to designate those benefits or payments to be reduced.

(f) Notwithstanding anything herein to the contrary, you shall be entitled to receive the amounts due you under this Section 2 only upon your execution and delivery to Rimage of a general release with respect to any and all claims against Rimage and its officers, directors, employees, agents and shareholders, acceptable in form and substance to Rimage in all respects, and provided you continue to comply with the terms of the Nondisclosure and Noncompetition Agreement with Rimage.

3. Arbitration. All disputes or claims arising out of or in any way related to this Letter Agreement, including the making of this Letter Agreement, shall be submitted to and determined by final and binding arbitration under the American Arbitration Association Rules for Resolution of Employment Disputes. Arbitration proceedings may be initiated by either of us upon notice to the other and to the American Arbitration Association, and shall be conducted by one arbitrator in Minneapolis, Minnesota who has experience in employment matters. Unless we agree to have the person to serve as arbitrator within thirty (30) days of delivery of the list of proposed arbitrators by the American Arbitration Association, then, at the request of either of us, the single arbitrator shall be selected at the discretion of the American Arbitration Association. The arbitrator shall provide a reasoned decision and may award any remedy available at law or equity, including reasonable attorneys fees to the prevailing party. Rimage shall pay the costs of the arbitrator. The decision of the arbitrator shall be enforceable in any court of competent jurisdiction.

4. Entire Agreement. This Letter Agreement constitutes our entire agreement and supersedes all prior discussions, understandings and agreements with respect to the severance benefits which Rimage has agreed to provide to you. This Letter Agreement

shall be governed and construed by the laws of the State of Minnesota and may be amended only in writing signed by both of us.

5. Successors. This Letter Agreement shall not be assignable, in whole or in part, by you. This Letter Agreement shall be binding upon and inure to the benefit of Rimage and its successors and assigns and upon any person acquiring, by merger, consolidation, purchase of assets or otherwise, all or substantially all of the assets and business of Rimage, and the successor shall be substituted for Rimage under this Letter Agreement.

6. Amendment and Termination. Rimage reserves the authority, without your consent, to terminate or amend this Letter Agreement at any time upon at least six months' written notice specifying the date of termination or amendment; provided, however, that if a Change in Control occurs during the term of this Letter Agreement, no termination or amendment shall be effective earlier than the second anniversary of that Change in Control. Notwithstanding the foregoing, if and to the extent that any amount otherwise payable under this Letter Agreement is subject to the requirements of Section 409A of the Code, as added by the American Job Creation Act of 2004, and regulations promulgated thereunder, Rimage shall amend this Letter Agreement as it may determine, including, without limitation, delaying the start of any payment to any key employee (as defined in Code Section 409A) for no more than six months from the date of termination of employment, and amending the definition of Change in Control and disability consistent with such Section 409A.

If this Letter Agreement accurately sets forth our agreement and understanding in regard to these matters, will you please sign this Letter Agreement where indicated below and return the executed letter to me for our files. A separate copy is enclosed for your records.

RIMAGE CORPORATION

By: ________________________________
Its: ________________________________

READ AND AGREED:

____
(Name)

Dated as of _______________, ____

SCHEDULE 1

Definition of "Cause":

1. The failure by you to use your best efforts to perform the material duties and responsibilities of your position or to comply with any material policy or directive Rimage has in effect from time to time.

2. Any act on your part which is harmful to the reputation, financial condition, business or business relationships of Rimage, including, but not limited to, conduct which is inconsistent with federal or state law respecting harassment of, or discrimination against, any Rimage employee or harmful to your reputation or business relationships.

3. A material breach of your fiduciary responsibilities to Rimage, such as embezzlement or misappropriation of Rimage funds, business opportunities or properties, or to any customer, vendor, agent or employee of Rimage.

4. Your conviction of, or guilty plea or *nolo contendere* plea to a felony or any crime involving moral turpitude, fraud or misrepresentation.

5. A material breach of your Nondisclosure and Noncompetition Agreement with Rimage.

Definition of "Change in Control":

Change in Control of Rimage shall mean a change in control which would be required to be reported in response to Item 5.01 of Form 8-K promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not Rimage is then subject to such reporting requirement, including without limitation, if:

(i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly of securities of Rimage representing 20% or more of the combined voting power of Rimage's then outstanding securities (other than an entity owned 50% or greater by Rimage or an employee pension plan for the benefit of the employees of Rimage);

(ii) there ceases to be a majority of the Board of Directors comprised of (A) individuals who, on the date of this Letter Agreement, constituted the Board of Directors of Rimage; and (B) any new director who subsequently was elected or nominated for election by a majority of the directors who held such office prior to a Change in Control; or

(iii) Rimage disposes of at least 75% of its assets, other than (X) to an entity owned 50% or greater by Rimage or any of its subsidiaries, or to an entity in which at least 50% of the voting equity securities are owned by the shareholders of Rimage

immediately prior to the disposition in substantially the same percentage or (Y) as a result of a bankruptcy proceeding, dissolution or liquidation of Rimage.

Definition of "Good Reason":

Good Reason shall mean, without your express written consent, any of the following:

(i) the assignment to you of any duties inconsistent with your status or position as ____________________________ of Rimage or a substantial reduction in the nature or status of your position or of your responsibilities from those in effect immediately prior to the Change in Control;

(ii) a reduction by Rimage of your annual base salary or bonus opportunity in effect immediately prior to the Change in Control;

(iii) the relocation of Rimage's principal executive offices to a location outside of the Minneapolis metropolitan area or requiring you to be based anywhere other than Rimage's principal executive offices, except for required travel for Rimage business to any extent substantially consistent with your business obligations prior to the Change in Control;

(iv) the failure by Rimage to continue to provide you with employee retirement and welfare benefits and fringe benefits, other than under any equity plan, at least as favorable to those enjoyed by you under Rimage plans which you participated in immediately prior to the Change in Control, the taking of any action which would, directly or indirectly, materially reduce any of such benefits or deprive you of any benefit enjoyed immediately prior to Change in Control, or the failure to provide you with the number of annual paid vacation days to which you are entitled immediately prior to the Change in Control; provided, however, Rimage may amend any such program so long as such amendments do not reduce any benefits to which you would be entitled upon termination;

(v) the failure of Rimage to obtain a satisfactory agreement from any successor to assume and agree to perform this Letter Agreement.

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 2,969 and 10,827 assumed conversion shares for the three- and nine-month periods ended September 30, 2004, respectively, and 4,236 and 8,100 assumed conversion shares for the three- and nine-month periods ended September 30, 2003, respectively, were excluded from the net income 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 September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Shares outstanding at end of period	9,354,645	9,093,712	9,354,645	9,093,712
Weighted average shares of common stock outstanding	9,339,208	9,066,835	9,265,451	8,872,558
Weighted average shares of assumed conversion shares	580,363	767,792	645,553	797,323
Weighted average shares of common stock and assumed conversion shares	9,919,571	9,834,627	9,911,003	9,669,881
Net income	$ 2,110,359	$ 1,979,579	$ 5,973,154	$ 5,200,805
Basic net income per common share	$ 0.23	$ 0.22	$ 0.64	$ 0.59
Diluted net income per common share	$ 0.21	$ 0.20	$ 0.60	$ 0.54

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 this 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: November 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 this 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: November 5, 2004

/s/ Robert M. Wolf

Robert M. Wolf
Chief Financial Officer

EXHIBIT 32

CERTIFICATION

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

(1) The accompanying Quarterly Report on Form 10-Q for the period ended September 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: November 5, 2004

/s/ Bernard P. Aldrich

Bernard P. Aldrich
President and Chief Executive Officer

Date: November 5, 2004

/s/ Robert M. Wolf

Robert M. Wolf
Chief Financial Officer