

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **September 30, 2008**; OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File Number: **000-20728**

RIMAGE CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-1577970
(I.R.S. Employer Identification No.)

7725 Washington Avenue South, Edina, MN 55439
(Address of principal executive offices)

952-944-8144
(Registrant's telephone number, including area code)

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

Common Stock outstanding at October 31, 2008 – 9,352,956 shares
of \$.01 par value Common Stock.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No**

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

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

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

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RIMAGE CORPORATION
FORM 10-Q
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PART 1 – FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)

Condensed Consolidated Balance Sheets
(unaudited - - in thousands, except share data)

Assets	September 30, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	\$ 23,561	\$ 7,416
Marketable securities	33,060	51,605
Receivables, net of allowance for doubtful accounts and sales returns of \$650 and \$583, respectively	15,228	14,447
Inventories	5,914	8,075
Prepaid expenses and other current assets	1,252	1,591
Deferred income taxes - current	1,446	1,637
Total current assets	80,461	84,771
Marketable securities - non-current	33,992	35,201
Property and equipment, net	6,465	3,206
Deferred income taxes - non-current	2,183	1,918
Total assets	\$ 123,101	\$ 125,096
Liabilities and Stockholders' Equity		
Current liabilities:		
Checks written in excess of bank balance	\$ 1,124	\$ —
Trade accounts payable	4,194	7,564
Accrued compensation	2,052	3,138
Other accrued expenses	1,131	1,157
Income taxes payable	684	685
Deferred income and customer deposits	4,904	5,281
Other current liabilities	24	57
Total current liabilities	14,113	17,882
Long-term liabilities:		
Deferred income and customer deposits - non-current	1,908	1,930
Income taxes payable - non-current	431	164
Other non-current liabilities	41	59
Total long-term liabilities	2,380	2,153
Total liabilities	16,493	20,035
Stockholders' equity:		
Preferred stock, \$.01 par value, authorized 250,000 shares, no shares issued and outstanding	—	—
Common stock, \$.01 par value, authorized 29,750,000 shares, issued and outstanding 9,352,956 and 9,705,947, respectively	94	97
Additional paid-in capital	36,988	33,827
Retained earnings	68,903	70,462
Accumulated other comprehensive income	623	675
Total stockholders' equity	106,608	105,061
Total liabilities and stockholders' equity	\$ 123,101	\$ 125,096

See accompanying notes to condensed consolidated financial statements.

RIMAGE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(unaudited - - in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	\$ 25,210	\$ 33,650	\$ 70,645	\$ 80,662
Cost of revenues	13,233	17,238	39,077	43,105
Gross profit	11,977	16,412	31,568	37,557
Operating expenses:				
Research and development	1,227	1,592	4,091	4,622
Selling, general and administrative	5,225	6,180	17,535	18,292
Total operating expenses	6,452	7,772	21,626	22,914
Operating income	5,525	8,640	9,942	14,643
Other income (expense):				
Interest, net	691	889	2,203	2,553
Gain (loss) on currency exchange	40	163	(123)	74
Other, net	(20)	(31)	—	(18)
Total other income, net	711	1,021	2,080	2,609
Income before income taxes	6,236	9,661	12,022	17,252
Income tax expense	2,230	3,458	4,303	6,006
Net income	\$ 4,006	\$ 6,203	\$ 7,719	\$ 11,246
Net income per basic share	\$ 0.42	\$ 0.63	\$ 0.80	\$ 1.13
Net income per diluted share	\$ 0.42	\$ 0.59	\$ 0.79	\$ 1.07
Basic weighted average shares outstanding	9,465	9,890	9,629	9,992
Diluted weighted average shares outstanding	9,595	10,302	9,820	10,466

See accompanying notes to condensed consolidated financial statements.

RIMAGE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(unaudited - in thousands)

	Nine months ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 7,719	\$ 11,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,044	1,165
Deferred income tax benefit	(50)	(1,032)
Loss on disposal of property and equipment	3	112
Stock-based compensation	748	1,174
Excess tax benefits from stock-based compensation	(673)	(1,011)
Changes in operating assets and liabilities:		
Receivables	(781)	1,896
Inventories	2,160	(1,512)
Prepaid income taxes/income taxes payable	1,196	2,785
Prepaid expenses and other current assets	339	(545)
Trade accounts payable	(3,357)	430
Accrued compensation	(1,085)	69
Other accrued expenses and other current liabilities	(59)	49
Deferred income and customer deposits	(399)	3,197
Net cash provided by operating activities	6,805	18,023
Cash flows from investing activities:		
Purchases of marketable securities	(52,059)	(42,953)
Maturities of marketable securities	71,756	33,495
Purchases of property and equipment	(4,318)	(1,163)
Other non-current items	(6)	140
Net cash provided by (used in) investing activities	15,373	(10,481)
Cash flows from financing activities:		
Checks written in excess of bank balance	1,124	—
Principal payments on capital lease obligations	(18)	(5)
Repurchase of common stock	(9,284)	(12,628)
Excess tax benefits from stock-based compensation	673	1,011
Proceeds from employee stock plans	1,485	1,982
Net cash used in financing activities	(6,020)	(9,640)
Effect of exchange rate changes on cash	(13)	98
Net increase (decrease) in cash and cash equivalents	16,145	(2,000)
Cash and cash equivalents, beginning of period	7,416	8,500
Cash and cash equivalents, end of period	\$ 23,561	\$ 6,500
Supplemental disclosures of net cash paid during the period for:		
Income taxes	\$ 3,160	\$ 4,311

See accompanying notes to condensed consolidated financial statements.

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

(1) Basis of Presentation and Nature of Business

Rimage Corporation (“the Company” or “Rimage”) develops, manufactures and markets digital publishing systems that are used by businesses to produce recordable CD (“CD-R”), DVD (“DVD-R”) and blue laser discs with customized digital content on an on-demand basis. Rimage distributes its publishing systems from its operations in the United States, Germany and Japan. The Company also distributes related consumables for use with its systems, consisting of media kits, ribbons, ink cartridges and Rimage-branded blank CD-R and DVD-R media.

The accompanying condensed consolidated financial statements of Rimage are unaudited and have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position and results of operations and cash flows of the interim periods presented. Operating results for these interim periods are not necessarily indicative of results to be expected for the entire year, due to seasonal, operating and other factors. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K as of and for the year ended December 31, 2007.

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) Stock-Based Compensation

In May 2007, the Company’s shareholders approved the 2007 Stock Incentive Plan (the “2007 Plan”). The 2007 Plan provides for the grant of stock incentive awards in the form of incentive and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock, performance units and other awards in stock and/or cash to certain key employees, non-employee directors and service providers. The 2007 Plan permits the issuance of up to 730,320 shares of the Company’s common stock. At September 30, 2008, a total of 322,320 shares were available for future grant under the 2007 Plan. Effective with the approval of the 2007 Plan in May 2007, the Company may not issue any new awards or options under its Amended and Restated 1992 Stock Option Plan (the “1992 Plan”). The exercise price of stock options granted under the 2007 Plan is equal to the market value on the date of grant. Options issued to employees through March 31, 2006 under the 1992 Plan generally become exercisable over a two-year period and terminate ten years from the date of grant. Options issued to employees after March 31, 2006 under both the 1992 Plan and the 2007 Plan generally become exercisable over a four-year period.

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

Options issued to employees through May 13, 2008 under the 1992 Plan and the 2007 Plan terminate ten years from the date of grant, while options issued effective May 14, 2008 under the 2007 Plan terminate seven years from the date of grant. Stock options granted to non-employee directors vest six months from the date of grant and terminate ten years from the date of grant. Restricted stock issued to non-employee directors under the 2007 Plan are subject to the risk of forfeiture and transfer restrictions that lapse one year from the date of grant.

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share-Based Payment,” stock-based compensation expense is determined based on the grant-date fair value and is recognized on a straight-line basis over the vesting period for each stock-based award granted on or after January 1, 2006, and for previously granted awards not yet vested as of January 1, 2006. Compensation cost is recognized for all awards over the vesting period to the extent the employees or directors meet the requisite service requirements, whether or not the award is ultimately exercised. Conversely, when an employee or director does not meet the requisite service requirements and forfeits the award prior to vesting, any compensation expense previously recognized for the award is reversed. The Company recognized stock-based compensation costs of \$451,000 and \$748,000 for the three and nine months ended September 30, 2008, respectively, compared to \$625,000 and \$1,174,000 for the comparable periods in 2007. Costs recognized in the current year-to-date period include the impact of the reversal in the second quarter of approximately \$0.2 million in expenses stemming from the forfeiture of unvested stock options held by terminated employees.

The fair value of each option award is estimated at the date of grant using the Black-Scholes option pricing model. The following key assumptions were utilized in valuing option awards issued during the nine months ended September 30, 2008 and 2007:

	Nine Months Ended September 30,	
	2008	2007
Expected life of options in years	4.75 - 6.00	6.00
Risk-free interest rate	3.1%	4.5 - 4.8%
Expected volatility	39.1 - 40.0%	39.0 - 40.0%
Expected dividend yield	0.0%	0.0%

In accordance with SFAS No. 123R, the Company reviews these assumptions at the time of each new option award and adjusts them as necessary to ensure proper option valuation. The expected life represents the period that the stock option awards are expected to be outstanding and is determined based on an analysis of historical exercise behavior and anticipated future exercise patterns, giving consideration to the contractual terms of unexercised stock option awards. The risk-free interest rate is based on the yield of constant maturity U.S. treasury bonds with a remaining term equal to the expected life of the awards. The Company estimated the stock price volatility using historical weekly price observations over the expected life of the awards. The expected dividend yield is zero as the Company has not paid or declared any cash dividends on its common stock and does not currently have plans to pay dividends.

RIMAGE CORPORATION AND SUBSIDIARIES
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Other information pertaining to stock options is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in thousands, except per share data)			
Number of options granted	—	—	184	245
Fair value of options granted	\$ —	\$ —	\$ 1,282	\$ 3,002
Per share weighted average fair value of options granted	\$ —	\$ —	\$ 6.98	\$ 12.25
Total fair value of stock options vested	\$ —	\$ 75	\$ 879	\$ 858
Total intrinsic value of stock options exercised	\$ —	\$ 348	\$ 2,592	\$ 3,824
Total intrinsic value of stock options outstanding	\$ 1,347	\$ 8,984	\$ 1,347	\$ 8,984

Cash received from the exercise of stock options was \$1,485,000 and \$1,982,000 for the nine months ended September 30, 2008 and 2007, respectively. The income tax benefit realized from the exercise of stock options and recorded as an increase to additional paid-in capital was \$930,000 and \$1,274,000 for the nine months ended September 30, 2008 and 2007, respectively.

(3) Accounting for Uncertainty in Income Taxes

The Company implemented the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. (“FIN”) 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109,” effective January 1, 2007. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes.” This interpretation prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Gross unrecognized tax benefits as of September 30, 2008 and December 31, 2007 totaled \$368,000 and \$187,000, respectively. Changes in gross unrecognized tax benefits consisted of an increase of \$36,000 for tax positions taken in the current year and a decrease of \$72,000 resulting from settlements with state taxing authorities. An additional increase of \$217,000 resulted from a balance sheet reclassification of a deferred tax asset that had previously been offset in unrecognized tax benefits as of December 31, 2007. Included in the balance of unrecognized tax benefits at September 30, 2008 are potential benefits of \$131,000 that if recognized, would affect the effective tax rate. The difference between this amount and the corresponding amount of gross

RIMAGE CORPORATION AND SUBSIDIARIES
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unrecognized tax benefits relates primarily to the deferred federal benefit for state and foreign income tax related amounts.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. Total accrued interest and penalties amounted to \$63,000 and \$49,000 on a gross basis at September 30, 2008 and December 31, 2007, respectively, and are excluded from the gross amounts of unrecognized tax benefits reflected above. Interest and penalties recognized in the accompanying Condensed Consolidated Statements of Income related to uncertain tax positions amounted to \$17,000 for the nine months ended September 30, 2008.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of September 30, 2008, the Company was no longer subject to income tax examinations for taxable years before 2006 and 2005 in the case of U.S. federal and German taxing authorities, respectively, and taxable years generally before 2003 in the case of state taxing authorities, consisting primarily of Minnesota, California and Maryland.

(4) Marketable Securities

Marketable securities consist primarily of municipal securities, U.S. government agency and money market securities and corporate securities with long-term credit ratings of AAA and short-term credit ratings of A-1. Marketable securities are classified as short-term or long-term in the balance sheet based on their effective maturity date. All marketable securities, except for variable rate demand notes, have maturities ranging from three to 36 months. Variable rate demand notes may be liquidated in less than three months from the date of purchase, but have legal maturities of greater than three months and are required to be classified as marketable securities. Marketable securities are classified as available-for-sale. Available-for-sale securities are recorded at fair value and any unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized. See Note 8, "Fair Value Measurements," for a discussion of inputs used to measure the fair value of the Company's available-for-sale securities. The Company's investment portfolio at September 30, 2008 did not include any auction-rate securities, "high-yield" sub-prime backed paper or other affected securities which are subject to significant market value declines or liquidity issues.

(5) Inventories

Inventories consisted of the following (in thousands):

	September 30, 2008	December 31, 2007
Finished goods and demonstration equipment	\$ 1,703	\$ 1,879
Purchased parts and subassemblies	4,211	6,196
	\$ 5,914	\$ 8,075

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(6) Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income	\$ 4,006	\$ 6,203	\$ 7,719	\$ 11,246
Other comprehensive income:				
Net changes in:				
Foreign currency translation adjustments	(475)	144	(19)	238
Net unrealized gain (loss) on marketable securities, net of taxes	(135)	178	(32)	63
Total comprehensive income	<u>\$ 3,396</u>	<u>\$ 6,525</u>	<u>\$ 7,668</u>	<u>\$ 11,547</u>

(7) Foreign Currency Contracts

The Company enters into forward foreign exchange contracts to hedge intercompany 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, 2008, the Company had nine outstanding foreign currency contracts totaling approximately \$1,743,000. These contracts mature during 2008 and bear exchange rates ranging from 1.3967 to 1.5762 U.S. Dollars per Euro. As of September 30, 2008, the fair value of foreign currency contracts resulted in a net gain position of \$93,000, which is recorded in other current assets.

As of December 31, 2007, the Company had 20 outstanding foreign currency contracts totaling \$3,981,000, all maturing during the first half of 2008 at exchange rates ranging from 1.4041 to 1.4810 U.S. Dollars per Euro. As of December 31, 2007, the fair value of foreign currency contracts resulted in a net loss position of approximately \$34,000, which is recorded in other current liabilities.

(8) Fair Value Measurements

The Company adopted SFAS No. 157, "Fair Value Measurements," for financial assets and liabilities on January 1, 2008. SFAS No. 157 defines fair value and establishes a framework for measuring fair value. This statement applies only to fair value measurements that are already required or permitted by other accounting standards, except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value. In February 2008, FASB Staff Position No. 157-2 was issued which delayed the effective date of FASB Statement No. 157 to fiscal years ending after November 15, 2008 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Although the adoption of SFAS No. 157 for financial assets and liabilities did not impact the Company's financial statements, additional disclosures about fair value measurements are required.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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SFAS No. 157 establishes a framework for measuring fair value by creating a hierarchy of fair value measurements that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity, as highlighted in the table below. The Company's assets and liabilities measured at fair value on a recurring basis subject to the disclosure requirements of SFAS No. 157 were as follows at September 30, 2008:

(in thousands)	Total Carrying Value at September 30, 2008	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities	\$ 82,923	\$ —	\$ 82,923	\$ —
Foreign currency forward exchange contracts	\$ 93	\$ —	\$ 93	\$ —

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

The Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115," on January 1, 2008. This standard permits entities to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. Unrealized gains and losses on items for which the fair value option is elected would be reported in earnings. The Company has not elected the fair value measurement option for any of its financial assets or liabilities as of September 30, 2008, and the Company has not determined whether or not it will elect this option for financial instruments it may acquire in the future.

(9) Common Stock Repurchase Authorizations

On October 17, 2007, the Company's Board of Directors authorized the repurchase of up to 500,000 shares of its common stock. In February 2008, the Company's Board of Directors increased the share repurchase authorization by an additional 500,000 shares, bringing total shares authorized for repurchase to 1,000,000. Shares will be purchased at prevailing market prices in the open market or

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

in private transactions, subject to market conditions, share price, trading volume and other factors. The repurchase program may be discontinued at any time. The Company will finance the purchase of the shares using cash on hand. During the three and nine months ended September 30, 2008, the Company repurchased 275,452 and 550,762 shares, respectively, of its common stock at an average purchase price of \$15.56 and \$16.86 per share for each respective period under the authorizations. As of September 30, 2008, there were 449,238 shares available for repurchase under the authorizations.

(10) Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141R (revised 2007), "Business Combinations." SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired in the business combination. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R becomes effective for business combinations occurring on or after January 1, 2009, and early adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51." SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The provisions of SFAS No. 160 are effective for the Company beginning January 1, 2009. The Company is currently evaluating the impact of adopting this pronouncement on its consolidated financial statements and related disclosures.

(11) 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 includes the potentially dilutive effect of common shares issued in connection with outstanding stock options using the treasury stock method. Stock options to acquire 788,000 and 717,000 weighted average common shares for the three and nine months ended September 30, 2008, respectively, and 397,000 and 303,000 weighted average common shares for the three and nine months ended September 30, 2007, respectively, have been excluded from the computation of diluted weighted average shares outstanding for each respective period as their effect is anti-dilutive. The following is a summary of the weighted average common shares outstanding and diluted potential common shares (in thousands, except for per share data):

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Shares outstanding at end of period	9,353	9,646	9,353	9,646
Weighted average shares outstanding	9,470	9,890	9,632	9,992
Restricted stock effect on weighted average shares outstanding	(5)	—	(3)	—
Total basic weighted average shares outstanding	9,465	9,890	9,629	9,992
Weighted average shares outstanding	9,470	9,890	9,632	9,992
Weighted average potential common shares	125	412	188	474
Total diluted weighted average shares outstanding	9,595	10,302	9,820	10,466
Net income	\$ 4,006	\$ 6,203	\$ 7,719	\$ 11,246
Basic net income per common share	\$ 0.42	\$ 0.63	\$ 0.80	\$ 1.13
Diluted net income per common share	\$ 0.42	\$ 0.59	\$ 0.79	\$ 1.07

(12) Contingencies

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

(13) Purchase of Real Property and Building

On August 11, 2008, a Purchase and Sale Agreement dated July 31, 2008 between the Company and 7725 Washington Avenue Corp. ("the Seller") became effective. Under the Purchase and Sale Agreement, the Company agreed to purchase from the Seller the real property and building the Company previously leased as its corporate headquarters in Edina, Minnesota. The closing of the purchase transaction was effective September 30, 2008. The aggregate cost of the property totaled \$3.9 million, consisting of the base purchase price of \$3.8 million and other direct costs of \$0.1 million. The Company financed the purchase using cash on hand.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

	Percentage (%) of Revenues Three Months Ended September 30,			Percentage (%) Incr/(Decr) Between Periods		
	2008	2007	2008 vs. 2007	2008	2007	2008 vs. 2007
Revenues	100	100	(25)	100	100	(12)
Cost of revenues	(52)	(51)	(23)	(55)	(53)	(9)
Gross profit	48	49	(27)	45	47	(16)
Operating expenses:						
Research and development	(5)	(5)	(23)	(6)	(6)	(11)
Selling, general and administrative	(21)	(18)	(15)	(25)	(23)	(4)
Operating income	22	26	(36)	14	18	(32)
Other income, net	3	3	(30)	3	3	(20)
Income before income taxes	25	29	(35)	17	21	(30)
Income tax expense	(9)	(11)	(36)	(6)	(7)	(28)
Net income	16	18	(35)	11	14	(31)

Overview

Rimage develops, manufactures and markets digital publishing systems that are used by businesses to produce recordable CD, DVD and blue laser discs with customized digital content on an on-demand basis. Rimage distributes its publishing systems from its operations in the United States, Germany and Japan. These systems allow customers to benefit from cost savings by reducing or eliminating their manual labor efforts in industries such as digital photography, medical imaging and business services. Rimage anticipates increased sales and marketing expenditures in 2008 as a result of increased resources focused on developing these markets. As Rimage's sales within North America and Europe have averaged 94% of total sales over the past three years, the strength of the economies in these regions plays an important role in determining the success of Rimage.

Rimage earns revenues through the sale of equipment, consumables (ribbons, ink cartridges and Rimage-branded blank CD-R and DVD-R media), maintenance contracts, parts and repair services. Rimage's recurring revenues (consumables, maintenance contracts, parts and service) comprised approximately 59% and 46% of its consolidated revenues during the nine months ended September 30, 2008 and 2007, respectively. Exclusive of a small amount of capital lease obligations, Rimage has no long-term debt and does not require significant capital investment for its ongoing operations as all fabrication of its products is outsourced to vendors.

Results of Operations

Revenues. Consolidated revenues decreased 25% and 12% to \$25.2 million and \$70.6 million for the three and nine months ended September 30, 2008, respectively, from \$33.7 million and \$80.7 million for the respective prior-year periods. The reduction in revenues resulted from decreased sales of Producer and Desktop product line equipment of \$8.8 million and \$14.5 million for the three and nine months ended September 30, 2008, respectively, compared to the same periods in the prior year. The overall decline in the volume of equipment sales was primarily due to deliveries against significant orders from the retail market segment during the prior year's second and third quarters, compared to minimal equipment sales in this market segment in the current-year periods. Sales in the retail market

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

segment can fluctuate significantly between periods due to uneven rollout schedules of the Company's retail customers. The lower volume and concentration of sales in the retail market segment during the current-year periods helped drive an increase in average selling prices on Producer equipment configurations, partially offsetting the impact on revenue of a decreased volume of equipment sales. Sales of Producer product line equipment comprised 37% and 34% of total revenues for the three and nine months ended September 30, 2008, respectively, compared to 49% and 44% for the same periods in the prior year. Sales of Desktop product line equipment represented 5% and 7% of revenues for the three and nine months ended September 30, 2008, respectively, compared to 8% and 9% in the respective prior-year periods. Partially offsetting the overall decrease in equipment sales was an increase in the volume of recurring revenues of \$0.4 million and \$4.5 million for the three and nine months ended September 30, 2008, respectively, compared to the same periods in the prior year. The growth in recurring revenues was primarily due to the continued expansion of the Company's worldwide installed base of CD-R and DVD-R publishing systems and the Company's increased emphasis on promoting this portion of its business. Recurring revenues comprised 58% and 59% of total revenues for the three and nine months ended September 30, 2008, respectively, compared to 43% and 46% in the same prior-year periods.

International sales decreased 3% for the third quarter and increased 11% for the year-to-date period compared to the same prior-year periods, and comprised 35% and 42% of total respective sales, compared to 27% and 33% for the same periods in the prior year. Currency fluctuations affecting the Company's European and Japanese operations reduced the decline in the third quarter and generated the increase in the year-to-date period of total international revenues, resulting in an increase in reported consolidated revenues for the three and nine months ended September 30, 2008 of 2.8% and 4.4%, respectively, relative to the same prior-year periods.

As of and for the nine months ended September 30, 2008, the Company's German and Japanese operations generated foreign revenues from unaffiliated customers of \$26.0 million and operating income of \$0.1 million. Net identifiable assets for these operations amounted to \$9.1 million. These amounts pertain primarily to the Company's German operations. Comparable amounts for the Company's German and Japanese operations as of and for the nine months ended September 30, 2007 were revenues of \$22.8 million, operating income of \$0.2 million and net identifiable assets of \$9.5 million. The growth in total revenues for these operations occurred primarily as a result of foreign currency fluctuations.

The Company is estimating that fourth quarter 2008 consolidated revenues will range between \$20 million and \$22 million.

Gross profit. Gross profit as a percentage of revenues was 48% and 45% for the three and nine months ended September 30, 2008, respectively, compared to 49% and 47% for the respective prior year periods. The decline in gross profit as a percentage of revenues for both current-year periods resulted primarily from a shift in the distribution of sales to lower margin products. This shift is driven largely by a reduced volume and concentration of Producer product line equipment sales, which generally carry higher gross margins than Desktop product line equipment or recurring revenues. Sales in the current-year periods also included an increased volume and concentration of sales of media and media kits, which generally carry lower margins than other product offerings, comprising 21% and 20% of revenues for the three and nine months ended September 30, 2008, respectively, compared to 13% and 12% in the same prior-year periods.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Partially offsetting the unfavorable impact of changes in product mix was an improvement in equipment margins primarily as a result of higher average selling prices on Producer equipment configurations, influenced by the lower concentration of sales in the retail market segment. Additionally, gross margin for the current-year periods benefited from reductions in compensation related costs stemming from a workforce reduction in the second quarter 2008 in the Company's U.S. operations. Gross margin for the current year-to-date period was also favorably impacted by reduced inventory related charges to cost of sales of approximately \$0.3 million.

Future gross profit margins will continue to be affected by many factors, including product mix, the timing of new product introductions, changes in material costs, manufacturing volume, the growth rate of service related revenues relative to associated service support costs and foreign currency exchange rate fluctuations.

Operating expenses. Research and development expenses totaled \$1.2 million and \$4.1 million for the three and nine months ended September 30, 2008, respectively, representing 5% and 6% of revenues for each period, respectively. Expenses for the same prior-year periods totaled \$1.6 million and \$4.6 million, representing 5% and 6% of revenues, respectively. The reduction in expenses between periods was primarily due to the timing of activities associated with new product development projects and enhancements to existing products. Rimage anticipates expenditures in research and development in the fourth quarter of 2008 to increase approximately 5% to 10% from this year's third quarter to support new product development initiatives and to improve existing products.

Selling, general and administrative expenses for the three and nine months ended September 30, 2008 amounted to \$5.2 million and \$17.5 million, respectively, or 21% and 25% of revenues, compared to expenses in the same prior-year periods of \$6.2 million and \$18.3 million, respectively, or 18% and 23% of revenues. Currency fluctuations affecting the Company's European and Japanese operations increased selling, general and administrative expenses in the current year's third quarter and year-to-date period by \$0.2 million and \$0.7 million, respectively, from the same periods in the prior year. The increased expenses from currency fluctuations were more than offset in the current-year periods by lower bonus expenses, stemming from below plan revenue and operating income, and a \$0.2 million and \$0.5 million respective decrease in stock-based compensation costs. Further offsetting the impact of currency fluctuations for the current-year periods were reduced expenditures for marketing and promotional programs, and for the nine months ended September 30, 2008, reduced consulting and related expenses of \$0.2 million primarily stemming from the Company's implementation in the prior year's first quarter of a new enterprise resource planning ("ERP") system in the Company's European operation.

Other income, net. The Company recognized net interest income on cash and marketable securities of \$0.7 million and \$2.2 million for the three and nine months ended September 30, 2008, respectively, compared to \$0.9 million and \$2.6 million for the same prior-year periods. The reduction in interest income in each of the current-year periods was the result of a decline in average interest rates approximating one percentage point relative to the same prior-year periods. Partially offsetting the impact of the reduction in interest rates was a \$6 million and \$9 million increase in average cash equivalent and marketable securities balances for the three and nine months ended September 30, 2008, respectively, compared to the same periods in the prior year. Other income for the three and nine months ended September, 2008 included a net gain and a net loss on foreign currency transactions of \$40,000 and \$123,000, respectively, compared to net gains on foreign

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

currency transactions of \$163,000 and \$74,000 in the respective prior year periods. The net loss in the current year-to-date period was impacted by larger fluctuations in the rate of exchange between the U.S. dollar and the Japanese Yen and European Euro applied to intercompany receivable balances denominated in these foreign currencies.

Income taxes. The provision for income taxes represents federal, state and foreign income taxes on income. Income tax expense for the three and nine months ended September 30, 2008 amounted to \$2.2 million and \$4.3 million, or 35.8% of income before taxes in each period. Income tax expense for the three and nine months ended September 30, 2007 was \$3.5 million and \$6.0 million, or 35.8% and 34.8% of income before taxes, respectively. The rise in the effective tax rate for the year-to-date period primarily reflects the increased impact of recording no tax benefit on foreign operating losses for the Company's Japanese subsidiary. Additionally, the increase in the year-to-date period was further impacted by higher state income taxes and the recognition of a benefit in the same period in 2007 for the federal research credit, which was not yet reinstated for 2008 as of September 30, 2008. Tax-exempt interest income comprised a larger percentage of pre-tax income in the current year-to-date period, generating a partially offsetting favorable impact on the effective tax rate. The Company anticipates its effective tax rate will range between 35% and 37% for the full year 2008.

Net income / net income per share. Resulting net income for the three and nine months ended September 30, 2008 was \$4.0 million and \$7.7 million, respectively, or 16% and 11% of revenues for the respective periods. Comparable amounts for the three and nine months ended September 30, 2007 were \$6.2 million and \$11.2 million, respectively, or 18% and 14% of revenues, respectively. Related net income per diluted share amounts for the three and nine months ended September 30, 2008 were \$0.42 and \$0.79, respectively, compared to \$0.59 and \$1.07 per diluted share for the respective prior-year periods. The Company expects fourth quarter 2008 net income to range from \$0.15 to \$0.21 per diluted share.

Liquidity and Capital Resources

The Company expects it will be able to maintain current operations, including anticipated capital expenditure requirements, through its internally generated funds and, if required, from Rimage's existing credit agreement. This credit agreement allows for advances under an unsecured revolving loan up to a maximum advance of \$10 million. At September 30, 2008, no amounts were outstanding under the credit agreement.

At September 30, 2008, the Company had working capital of \$66.3 million, a decrease of \$0.6 million from working capital reported at December 31, 2007. The decrease was primarily the result of the Company's use of \$9.3 million during the nine months ended September 30, 2008 to repurchase shares of its common stock and \$3.9 million in September 2008 to purchase its U.S. corporate headquarters and manufacturing facility, previously leased by the Company. Year-to-date net income adjusted for non-cash items of \$9.5 million, proceeds from employee stock plans of \$1.5 million and the impact of a \$1.2 million net change in classification of marketable securities partially offset the uses of cash described above. The net change in marketable securities resulted from a non-cash change in the classification of \$18.5 million of marketable securities from non-current as of December 31, 2007 to current as of September 30, 2008, partially offset by a \$17.3 million net use of cash to purchase non-current marketable securities.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

On October 17, 2007, the Company's Board of Directors authorized the repurchase of up to 500,000 shares of its common stock. In February 2008, the Company's Board of Directors increased the share repurchase authorization by an additional 500,000 shares, bringing total shares authorized for repurchase to 1,000,000. Shares will be purchased at prevailing market prices in the open market or in private transactions, subject to market conditions, share price, trading volume and other factors. The repurchase program may be discontinued at any time. The Company will finance the purchase of the shares using cash on hand. During the nine months ended September 30, 2008, the Company repurchased 550,762 shares of its common stock at an average purchase price of \$16.86 per share under the authorizations. The Company also intends on utilizing its assets primarily for its continued organic growth. Additionally, the Company may use its available cash for potential future strategic initiatives or alliances.

Net cash provided by operating activities totaled \$6.8 million for the nine months ended September 30, 2008, compared to \$18.0 million in the same prior-year period. The \$11.2 million reduction in cash generated from operations resulted from changes in operating assets and liabilities producing a net use of cash of \$2.0 million in 2008 compared to a net increase in cash of \$6.3 million in 2007, coupled with a \$3.2 million decrease in net income adjusted for non-cash items for the nine months ended September 30, 2008 compared to the same prior-year period. Contributing to the change in operating assets and liabilities compared to the prior year's period was a \$1.6 million smaller increase in income taxes payable and unfavorable variations of \$2.7 million in receivables, \$3.6 million in deferred income and \$5.0 million in the aggregate amount of trade accounts payable, accrued compensation and accrued expenses. These changes were partially offset by favorable variations of \$3.7 million in inventories and \$0.9 in prepaid expenses. The unfavorable change in receivables resulted from an \$0.8 million increase in receivables in the current period, compared to a \$1.9 million decrease in the comparable prior-year period, primarily impacted by a \$2.2 million increase in revenue in September 2008 relative to December 2007 (last month of each quarter), compared to a \$3.7 million decrease in revenue between the comparable prior-year periods. The unfavorable change in deferred income resulted from a larger volume of new maintenance contracts initiated during the first nine months of 2007 compared to 2008. The changes in trade accounts payable, accrued compensation and accrued expenses were primarily due to the timing of related payments, and in the case of accounts payable, reduced inventory purchases. The favorable change in inventories resulted from a \$2.2 million reduction in inventories during the current-year period, compared to a \$1.5 million increase in the same prior-year period. The decrease in inventories in the current period resulted primarily from the Company's maintenance of lower levels of buffer inventory stock and a reduced level of sales.

Investing activities provided a net increase in cash of \$15.4 million for the nine months ended September 30, 2008, compared to a net use of cash of \$10.5 million for the same prior-year period. The fluctuations in investing activities were primarily the result of \$19.7 million in maturities of marketable securities, net of related purchases, during the nine months ended September 30, 2008, compared to \$9.5 million in purchases of marketable securities, net of related maturities, in the same prior-year period. Capital expenditures for the nine months ended September 30, 2008 and 2007 totaled \$4.3 million and \$1.2 million, respectively. Capital expenditures in the current period consisted of the purchase of the Company's U.S. corporate headquarters and manufacturing facility (\$3.9 million), previously leased by the Company, and purchases of manufacturing tooling and office equipment. Expenditures in the prior-year period consisted primarily of costs capitalized as part of the implementation of an enterprise resource planning system and purchases of manufacturing tooling.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Financing activities used net cash of \$6.0 million and \$9.6 million for the nine months ended September 30, 2008 and 2007, respectively. The significant net use of cash in each period was primarily attributable to the Company's repurchase of shares of its common stock, requiring \$9.3 million of cash to repurchase 550,762 shares in the current period and \$12.6 million to repurchase 500,000 shares in the prior-year period. Partially offsetting the Company's use of cash to repurchase common stock in each period were proceeds from employee stock plans of \$1.5 million and \$2.0 million, respectively. Checks written in excess of the account bank balance also generated a partially offsetting increase in cash from financing activities in the current-year period of \$1.1 million.

Additionally, each period includes excess tax benefits recognized as an addition to the additional paid-in capital ("APIC") pool of \$0.7 million and \$1.0 million, respectively. Such amounts are required to be reported as an addition to financing activities and a reduction in operating activities in the Statements of Cash Flows under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment."

Critical Accounting Policies

Management utilizes its technical knowledge, cumulative business experience, judgment and other factors in the selection and application of the Company's accounting policies. The accounting policies described below 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. Management made no changes to the Company's critical accounting policies during the nine months ended September 30, 2008.

In applying the critical accounting policies described below, management reassesses its estimates each reporting period based on available information. Changes in such estimates did not have a significant impact on earnings for the three or nine months ended September 30, 2008.

Revenue Recognition. Revenue for product sales (including hardware and consumables), which do not include any requirement for installation or training, is recognized on shipment, at which point the following criteria of SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition," 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 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 the Company's standard payment terms, which are consistent with industry practice in the geographies in which the Company markets its products.

A standard product sale by the Company does not require a commitment on the Company's part to provide installation, set-up or training. When such services are requested, value-added resellers generally arrange and perform the service directly with the customer, with no financial interest or obligation on the part of the Company. In the limited situations in which the Company does provide installation or training services for customers, the Company charges separately for the service based

Management’s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

upon its published list prices and recognizes the associated service revenue upon the successful completion of the service.

The Company records an allowance for sales returns from its customers. The amount of the allowance is based upon historical trends, timing of new product introductions and other factors. A return policy is in place with the Company’s distributors to restrict the volume of returned products, and the Company reviews the distributors’ inventory to ensure compliance with the return policy.

Revenue for maintenance agreements is recognized primarily on a straight-line basis over the life of the contracts, in accordance with FASB Technical Bulletin No. 90-1, “Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts.”

Emerging Issues Task Force (“EITF”) Issue No. 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. The elements of the Company’s sales transactions are clearly and separately stated and sufficient evidence of their fair value exists to separately account for the elements.

Allowance for Doubtful Accounts and Sales Returns. The Company records an allowance for doubtful accounts for potentially uncollectible receivables. The allowance is established based on a specific assessment of accounts with known collection exposure, based upon a review of the age of the receivable, the customer’s payment history, the customer’s financial condition and industry and general economic conditions, as well as a general assessment of collection exposure in the remaining receivable population based upon bad debt history. Actual bad debt exposure could differ significantly from management’s estimates if economic conditions worsened for the Company’s customers. As described above under “Revenue Recognition,” the Company also records an allowance for sales returns from its customers. The amount of the allowance is based upon historical trends, timing of new product introductions and other factors.

Inventory Provisions. The Company records provisions for inventory shrinkage and for potential excess, obsolete and slow moving inventory. The amounts of these provisions are based upon usage, historical loss trends, inventory levels, 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.

Income Taxes. 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.

On January 1, 2007, the Company adopted FIN 48, “Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109”. Prior to adoption, the Company’s policy was to establish an accrual that reflected the probable outcome of known tax contingencies. The effects of final resolution, if any, were recognized as changes to the effective income tax rate in the period of

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

resolution. FIN 48 requires application of a "more-likely-than-not" threshold to the recognition and derecognition of uncertain tax positions. Under FIN 48, once the more-likely-than-not threshold is met, the amount of benefit to be recognized is the largest amount of tax benefit that is greater than 50 percent likely of being ultimately realized upon settlement. It further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the period of such a change. Management recognizes a tax accrual for estimated exposures associated with uncertain tax positions and adjusts this accrual in light of changing facts and circumstances. However, due to the complexity of some of these uncertainties, the ultimate settlement may result in payments that are significantly different from management's current estimate of tax liabilities, resulting in the recognition of additional charges or benefits to income tax expense.

For the nine months ended September 30, 2008, the Company recognized tax liabilities of \$36,000 and \$217,000, before reduction for the federal benefit for state and foreign income tax related amounts, for new uncertainties related to current period income tax positions and prior period income tax positions, respectively. During the nine months ended September 30, 2008, the Company reversed gross tax liabilities, exclusive of interest and penalties, amounting to \$72,000 associated with income tax settlements.

Warranty Accruals. The Company's non-consumable products are warranted to the end-user to ensure end-user confidence in design, workmanship and overall quality. Warranty lengths vary by product type, ranging from periods of six to twelve months. Warranty covers parts, labor and other associated expenses. The Company performs the majority of warranty work, while authorized distributors and dealers also perform some warranty work. The Company records a liability for estimated future warranty claims during the warranty period. The amount of the liability is based on an analysis of historical claims experience, which includes labor, parts and freight costs and consideration of the proportion of parts that can be re-used. Also considered are the anticipated impact of product improvements, 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.

Stock-Based Compensation. The Company implemented the fair value recognition provisions of SFAS No. 123R effective January 1, 2006 using the modified prospective method. Under this method, the Company recognizes compensation expense on a straight-line basis over the vesting period for all stock-based awards granted on or after January 1, 2006, and for previously granted awards not yet vested as of January 1, 2006. The Company recognized stock-based compensation costs of approximately \$0.7 million and \$1.2 million for the nine months ended September 30, 2008 and 2007, respectively.

The Company utilizes a Black-Scholes option pricing model to estimate the fair value of each stock option award on the date of grant. The Black-Scholes model requires the input of certain assumptions that involve management judgment. Key assumptions that affect the calculation of fair value include the expected life of stock-based awards and the Company's stock price volatility. Additionally, the Company is required to estimate the expected forfeiture rate of unvested awards and recognize expense for only those shares expected to vest. The assumptions used in calculating the fair value of stock-based awards and the forfeiture rate of such awards reflect management's best estimates. However, circumstances may change and additional data may become available over time, which could result in changes to these assumptions that materially impact the fair value determination of

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

future awards or their estimated rate of forfeiture. If assumptions change for future stock-based awards, the compensation expense recorded under SFAS 123R may differ significantly from the expense recorded in the current period.

See Note 2 under the Notes to Condensed Consolidated Financial Statements in this Form 10-Q for additional information on stock-based compensation.

Impairment of Long-lived Assets. Long-lived assets at September 30, 2008 consisted of property and equipment. In accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," the Company reviews the carrying amount of its long-lived assets when events or changes in circumstances such as market value, asset utilization, physical change, legal factors or other matters indicate that the carrying amount of the assets may not be recoverable. When this review indicates the carrying amount of an asset or asset group exceeds the sum of the future undiscounted cash flows expected to be generated by the assets, the Company recognizes an asset impairment charge against operations for the amount by which the carrying amount of the impaired asset exceeds its fair value. Considerable judgment is required in the evaluation of whether certain events or circumstances lead to an indication of impairment and in the assumptions used in determining the amount and period over which future revenues are expected to be earned, related costs, terminal values and discount rates. No impairment charges were recognized by the Company during the nine months ended September 30, 2008. The Company recorded charges to cost of revenues of \$60,000 during the nine months ended September 30, 2007 for impairment in the carrying value of manufacturing tooling associated with the assembly of the Rimage 360i product line.

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 141R (revised 2007), "Business Combinations." SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired in the business combination. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R becomes effective for business combinations occurring after January 1, 2009, and early adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51." SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The provisions of SFAS No. 160 are effective for the Company beginning January 1, 2009. The Company is currently evaluating the impact of adopting this pronouncement on its consolidated financial statements and related disclosures.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may," "will," "expect,"

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

"believe," "anticipate," "estimate" or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties. The Company's actual results could differ significantly from those discussed in the forward-looking statements.

Factors that could cause or contribute to such differences include, but are not limited to, the following, as well as other factors not now identified: the economic health of the markets from which Rimage derives its sales and, in particular, the strength of the economies within North America and Europe where the Company has averaged 94% of total sales over the past three years; the Company's ability to keep pace with changes in technology in the computer and storage media industries as well as technology changes in the retail, medical and business services markets; increasing competition and the ability of the Company's products to successfully compete with products of competitors and newly developed media storage products; the ability of the Company's newly developed products to gain acceptance and compete against products in their markets; the significance of the Company's international operations and the risks associated with international operations including currency fluctuations, local economic health and management of these operations over long distances; the Company's ability to protect its intellectual property and to defend claims of others relating to its intellectual property; the Company's dependence upon the selling efforts of the Company's key channel partners; the Company's ability to maintain adequate inventory of products; the Company's reliance on single source suppliers; the ability of the Company's products to operate effectively with the computer products developed and to be developed by other manufacturers; the negative effect upon the Company's business from manufacturing or design defects; the effect of U.S. and international regulation; fluctuations in the Company's operating results; the Company's dependence upon its key personnel; the volatility of the price of the Company's common stock; provisions governing the Company relating to a change of control, compliance with corporate governance and securities disclosures rules and other risks, including those set forth in the Company's reports filed with the Securities and Exchange Commission, including Item 1A of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2007. 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 is exposed to market risk from foreign exchange rate fluctuations of the European Euro and Japanese Yen to the U.S. dollar as the financial position and operating results of the Company's German and Japanese subsidiaries, Rimage Europe GmbH and Rimage Japan Co., Ltd., respectively, are translated into U.S. dollars for consolidation. Resulting translation adjustments are recorded as a separate component of stockholders' equity.

The Company enters into forward exchange contracts principally to hedge intercompany receivables denominated in Euros arising from sales to its subsidiary in Germany. Gains or losses on forward exchange contracts are calculated at each period end and are recognized in net income in the period in which they arose. The Company records the fair value of its open forward foreign exchange contracts in other current assets or other current liabilities depending on whether the net amount is a gain or a loss. The Company does not utilize financial instruments for trading or other speculative purposes.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer, 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 evaluation, they have concluded that these disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION**Item 1. Legal Proceedings**

Not Applicable.

Item 1A. Risk Factors

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides certain information regarding purchases made by the Company of its common stock in the quarter ended September 30, 2008:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan or Program</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)</u>
July 1 – July 31, 2008	110,000	\$ 15.10	110,000	614,690
August 1 – August 31, 2008	165,452	\$ 15.86	165,452	449,238
Sept. 1 – Sept. 30, 2008	—	—	—	449,238
Total	275,452	\$ 15.56	275,452	449,238

(1) On October 17, 2007, the Company's Board of Directors authorized the repurchase of up to 500,000 shares of its common stock. In February 2008, the Company's Board of Directors increased the share repurchase authorization by an additional 500,000 shares, bringing total shares authorized for repurchase to 1,000,000. Shares will be purchased at prevailing market prices in the open market or in private transactions, subject to market conditions, share price, trading volume and other factors. The repurchase program may be discontinued at any time. The Company will finance the purchase of the shares using cash on hand.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

(a)

The following exhibits are included herein:

- 10.1 Purchase and Sale Agreement dated as of July 31, 2008, between Rimage Corporation and 7725 Washington Avenue Corporation.
- 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.

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 7, 2008

By: /s/ Bernard P. Aldrich
Bernard P. Aldrich
Director, Chief Executive Officer,
and President
(Principal Executive Officer)

Date: November 7, 2008

By: /s/ Robert M. Wolf
Robert M. Wolf
Chief Financial Officer
(Principal Financial Officer)
(Principal Accounting Officer)

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT (“**Agreement**”) is dated as of July 31, 2008 (which date is only to be the reference date and not the “Effective Date” of this Agreement) by and between 7725 WASHINGTON AVENUE CORP., a Minnesota corporation (“**Seller**”) and RIMAGE CORPORATION, a Minnesota corporation (“**Buyer**”).

RECITALS:

- A. Seller owns certain real property, located at 7725 Washington Avenue South, in the City of Edina (the “**City**”), County of Hennepin, State of Minnesota that is legally described on the attached Exhibit A (the “**Land**”);
- B. A building comprising approximately 58,500 square feet is located on the Land (the “**Building**”);
- C. Buyer is the tenant of the Building pursuant to that certain Lease dated August 1, 2004 (the “**Lease**”); and
- D. Seller desires to sell, and Buyer desires to purchase, the Land, Building and certain other property, as more further described in Section 1 of this Agreement.

NOW, THEREFORE, in consideration of the foregoing and of the following terms and conditions, the parties agree as follows:

1. **Sale and Purchase.** Seller hereby agrees to sell to Buyer, and Buyer hereby agrees to purchase from Seller, upon the terms and conditions set forth below, the following (collectively, the “**Property**”):

- (a) **Real Property.** Fee simple title to the Land together with (i) all buildings, parking facilities, fixtures and improvements constructed or located on the Land (the “**Improvements**”), (ii) all easements, air rights, and other rights benefiting or appurtenant to the Land, and (iii) Seller’s interest in all neighboring or contiguous alleys, streets, roads, utilities servicing, pertaining or relating to the Land (collectively, the “**Real Property**”);
- (b) **Personal Property.** All of Seller’s right, title and interest in any personal property situated in or about the Real Property and used in the maintenance or operation of the Real Property, including, without limitation, any and all appliances, furniture, furnishings, carpeting, draperies and curtains, equipment, tools, supplies, keys, access cards, security systems (hardware and software), fire protection systems (hardware and software), accounting programs and software (collectively the “**Personal Property**”);

- (c) **Miscellaneous.** All of Seller’s right, title and interest in the “Contracts,” the “Permits,” the “Warranties,” the “Plans” and the “Records” (as each term is defined in Section 3(d) below) to the extent approved by Buyer and transferable by Seller.

2. **Purchase Price.** The total purchase price to be paid by Buyer to Seller for the Property (the “**Purchase Price**”) shall be Three Million Eight Hundred Thousand Dollars (\$3,800,000), which shall be payable as follows:

- (a) \$50,000 earnest money deposited with Title Company as set forth below (the “**Earnest Money**”).
- (b) The balance of the Purchase Price (subject to prorations and adjustments as provided herein) shall be payable on the “Closing Date” (as defined in Section 5 below) in cash, certified or cashier’s check or by wire transfer.

The parties agree to deposit this executed Agreement in triplicate counterparts with First American Title Insurance Company (“**Title Company**”). Title Company shall act as escrow agent with respect to the Earnest Money deposit. All costs of Title Company, if any, with respect to the escrow shall be borne equally by Buyer and Seller; provided however, Title Company shall deposit the Earnest Money in an interest bearing account if Buyer so directs and if Buyer agrees to pay any fees in relation thereto and provides Title Company with completed IRS W-9 forms, all pursuant to the acknowledgment by Title Company attached hereto (the “**Escrow Agreement**”). Buyer and Seller agree to the terms, conditions and provisions of the Escrow Agreement, upon Title Company’s acceptance and execution thereof. The date that the counterpart original of this Agreement executed by both Buyer and Seller is delivered to Title Company and the Earnest Money is deposited with Title Company shall be the “**Effective Date**” and this Agreement shall not be binding until such Effective Date (*i.e.* the deposit of the Earnest Money is a condition precedent). Title Company shall fill in the Effective Date on the Escrow Agreement and deliver original counterparts of this Agreement to each of Buyer and Seller, together with a copy of the executed Escrow Agreement as soon as practicable after Title Company’s receipt of the Earnest Money. Buyer shall deposit the Earnest Money with Title Company on the date that it deposits its counterparts of this Agreement with Title Company. All Earnest Money payments shall be fully credited towards the Purchase Price at Closing, provided that this Agreement is not terminated pursuant to the provisions hereof.

3. **Inspections and Examinations.** Buyer and Seller covenant and agree as follows:

- (a) **Right of Entry.** Seller hereby agrees that, in addition to Buyer’s rights as tenant pursuant to the Lease, Buyer may investigate and test the Property for the purpose of conducting due diligence as a Buyer of the Property. Buyer shall pay all costs and expenses of such investigation and testing and shall hold Seller and the Real Property harmless from all costs and liabilities relating to Buyer’s activities, provided, however, that costs and liability with respect to existing Hazardous Substances shall be governed by Section 7(i) of this Agreement. In the event this Agreement is terminated without Buyer’s purchase of the Property, Buyer shall further repair and restore any damage to the Real Property caused by or occurring during Buyer’s testing and return the Real Property to substantially the same condition as existed prior to such entry.

- (b) **Phase I ESA.** Within ten (10) days after the Effective Date, Seller shall, at its cost and expense, provide Buyer copies of any Phase I Environmental Site Assessments and/or Phase II Environmental Site Assessments concerning the Real Property that is in its possession (individually or collectively, the “**Phase I ESA**”).

- (c) **Documents and Materials.** Within ten (10) days after the Effective Date, to the extent in Seller’s possession or control, and to the extent not already delivered to Buyer, Seller shall deliver to Buyer true and correct copies of all “Contracts,” “Permits,” “Warranties,” “Plans” and “Records,” with any amendments thereto (collectively, with the Phase I ESA the “**Seller Deliveries**”), for Buyer’s examination and analysis. If Buyer requests, Buyer shall have the right to examine the books and records regarding the Property at Seller’s and/or Seller’s property manager’s offices. At Seller’s option, a representative of Seller may accompany Buyer at all times that Buyer is examining such books and records at Seller’s and/or Seller’s property manager’s offices, provided that

Seller shall not delay or disrupt Buyer's examination of such books and records. "Contracts" means the service and maintenance contracts, equipment leases, and other contracts regarding the Real Property and the Personal Property. "Permits" means any approvals, permits and licenses benefiting the Real Property. "Warranties" means all warranties and guaranties given to, assigned to, or benefiting Seller or the Real Property or the Personal Property regarding the acquisition, construction, design, use, operation, management, or maintenance of the Real Property and/or the Personal Property. "Plans" means all originals and copies of all blueprints, surveys, plans and specifications regarding the Real Property and/or the Personal Property in the possession of or available to Seller. "Records" means all records and reports of Seller regarding the Real Property and/or the Personal Property, including all reports, site plans, surveys, tests and inspections regarding any part of the Property (such as, but not limited to, engineer's reports, environmental assessments, soil tests, and water tests), records regarding real estate taxes and assessments, insurance claims, insurance notices, maintenance, repairs, capital improvements, operating statements, financial statements, books, records, expense and revenue budgets, leasing, management, governmental notices and services, and CAD files (but excluding income tax returns).

(d) Confidentiality. Buyer agrees that prior to Closing, the information provided to it in the Seller Deliveries shall be strictly confidential, except to the extent such information is public or otherwise available to third-parties. Buyer shall have the right to disclose all or any of such information to Buyer's legal counsel, lender (or proposed lender), equity investors (or proposed equity investors) and any professional counselors or consultants used to assist Buyer in this transaction.

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4. Conditions. The obligations of Buyer under this Agreement are conditioned upon satisfaction or waiver by Buyer of each of the following by the respective dates indicated:

(a) Representations and Warranties. The representations and warranties of Seller contained in this Agreement are true, and Seller shall have delivered to Buyer at Closing a certificate dated as of the Closing Date, signed by an authorized representative of Seller, certifying that such representations and warranties are true as of the Closing Date (the "**Bring-down Certificate**");

(b) Title. Title shall have been found acceptable by Buyer, or been made acceptable, in accordance with the requirements and terms of Section 9 below; and at Closing, a title insurance policy (the "**Title Policy**") shall be issued by Title Company pursuant to the Title Commitment (as defined below) or a suitably marked-up Title Commitment shall be issued to Buyer at Closing;

(c) Performance of Seller's Obligations. Seller shall have performed all of the obligations required to be performed by Seller under this Agreement, by the dates set forth herein.

(d) Testing. Buyer shall have determined in Buyer's sole discretion, within sixty (60) days after the Effective Date (the "**Contingency Date**"), that it is satisfied with the results of and matters disclosed by soil tests, engineering inspections, feasibility tests and studies, hazardous waste and environmental reviews, code and other legal compliance analyses and other tests and inspections, evaluations, assessments, surveys and reviews of the Property, any or all of which shall be obtained at Buyer's sole cost and expense, unless otherwise provided herein.

(e) Document Review. Buyer shall have determined in Buyer's sole discretion by the Contingency Date that it is satisfied with its examination and analysis of the Seller Deliveries and any other books and records pertaining to the Property.

Buyer may, at its option by notice to Seller, postpone the Contingency Date for up to fifteen (15) days after receipt of any documents, data or other matters that Seller is required to furnish to Buyer hereunder if Buyer has not received such documents, data or other matters fifteen (15) or more days prior to the Contingency Date. If the Contingency Date is extended to a date that is later than the Closing Date set forth hereinbelow, then the Closing Date shall be automatically extended to the date that is five (5) business days after the expiration of the extended Contingency Date or as otherwise mutually agreed by Buyer and Seller.

If any condition set forth in this Section 4 has not been satisfied or waived by Buyer before its respective date (i.e., the Contingency Date or the Closing Date, as applicable), then Buyer may terminate this Agreement at any time on or before its respective date by delivery of written notice to Seller and to Title Company. Upon receipt of such notice from Buyer, Title Company shall promptly return to Buyer the Earnest Money and any interest accrued thereon. Upon such return, neither Seller nor Buyer shall have any further rights or obligations under this Agreement, except for the covenants made in Section 3(a), which shall survive termination of this Agreement, whether such termination is effected by Seller or Buyer (the "**Surviving Covenants**"). Seller and Buyer specifically state and acknowledge that all of the conditions set forth in this Agreement are for the sole and exclusive benefit of Buyer, and Buyer shall have the unilateral right to waive any condition by notice to Seller.

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With respect to each condition set forth above, If Buyer fails to terminate this Agreement on the date as set forth with respect to said condition, time being of the essence, then, upon the expiration of such date, said condition to Buyer's performance hereunder shall conclusively be deemed satisfied or waived by Buyer.

5. Closing. The closing of the purchase and sale contemplated by this Agreement (the "**Closing**") shall occur on that date which is ninety (90) days following the Effective Date (the "**Closing Date**"). Buyer shall have the right at any time to accelerate the Closing Date, upon five (5) business days notice to Seller, to a date specified in such notice. The Closing shall take place at 10:00 a.m. local time at the office of Buyer's counsel or at such other place as may be acceptable to Seller and Buyer. Seller shall deliver possession of the Property to Buyer on the Closing Date, together with all access cards, keys to locks and doors in or on the Real Property and the Personal Property that are in Seller's possession.

(a) Seller's Closing Documents. On the Closing Date, Seller shall execute and/or deliver to Buyer the following in form and content satisfactory to Buyer (collectively, the "**Seller's Closing Documents**");

(i) Deed. A Warranty Deed ("**Deed**") conveying fee simple title to the Real Property to Buyer, free and clear of all encumbrances, except the "Permitted Encumbrances" (as defined in Section 9 below) on a Minnesota Uniform Conveyancing blank form;

(ii) Bill of Sale. A Warranty Bill of Sale conveying the Tangible Personal Property to Buyer, free and clear of all encumbrances;

(iii) Lease Termination. A Termination of Lease regarding the Lease ("**Lease Termination**");

(iv) Assignment of Intangible and Other Personal Property. An Assignment in the form of Exhibit B conveying Seller's interest in the Contracts, Permits, Warranties, Plans, Records and Intangible Personal Property to Buyer (the "**Assignment of Intangible Property**") with warranties, free and clear of all encumbrances, together with the written consent of any parties required to consent to such assignment;

(v) Bring-down Certificate. The Bring-down Certificate as required pursuant to Section 4(a) above;

- (vi) Seller's Affidavit. An Affidavit by Seller indicating that on the Closing Date there are no outstanding, unsatisfied judgments, tax liens, or bankruptcies against or involving Seller or the Real Property; that there has been no skill, labor, or material furnished to the Real Property for which payment has not been made or for which mechanics' liens could be filed; and that there are no unrecorded interests in the Real Property (other than the Lease), together with whatever standard owner's affidavit and/or indemnity as may be required by Title Company to issue the Title Policy in the form required by Section 9 hereof;

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- (vii) Original Documents. Originals of the Contracts, and, to the extent in Seller's possession or control, originals of the Permits, the Warranties, the Plans, and the Records;
- (viii) FIRPTA Affidavit. A non-foreign affidavit, properly executed and in recordable form, containing such information as is required by Internal Revenue Code Section 1445(b)(2) and its regulations;
- (ix) IRS Reporting Form. The appropriate federal income tax reporting form, if any is required;
- (x) Resolutions. Resolutions and other certificates and documents reasonably necessary for Buyer and Title Company to confirm the good standing, power and authority of Seller to enter into this Agreement, perform the obligations of Seller under this Agreement, and to execute, deliver and perform (to the extent applicable) the Seller's Closing Documents, certified by the Secretary of Seller or other appropriate officer of Seller;
- (xi) Settlement Statement. A Closing settlement statement reflecting the financial provisions of the Closing, consistent with the provisions of this Agreement; and
- (xii) Other Documents. All other documents reasonably determined by Title Company to be necessary to transfer the Property to Buyer free and clear of all encumbrances, except the Permitted Encumbrances.
- (b) Buyer's Closing Documents. On the Closing Date, Buyer will execute and/or deliver to Seller the following (collectively, "**Buyer's Closing Documents**"):
- (xiii) Purchase Price. The cash payment toward the Purchase Price to be paid as required by Section 2(b) hereof;
- (xiv) Lease Termination. The Lease Termination;
- (xv) Assignment of Intangible Property. The Assignment of Intangible Property;

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- (xvi) Title Documents. Such affidavits of Buyer or other documents as may be reasonably required by the Company to record the Seller's Closing Documents and issue the Title Policy required by Section 9 of this Agreement; and
- (xvii) Settlement Statement. A Closing settlement statement reflecting the financial provisions of the Closing, consistent with the provisions of this Agreement.

6. **Prorations**. Seller and Buyer shall make the following prorations and allocations of taxes, assessments, rents, costs, and other expenses at Closing:

- (a) Title Insurance and Closing Fee. Seller shall pay all costs of the Title Commitment (as defined in Section 9(a)). Seller and Buyer will each pay one-half of any reasonable and customary closing fee or charge imposed by Title Company or its designated closing agent. Buyer shall pay the premium costs for the title policy which it desires and the title policy of its lender, if any.
- (b) Transfer Tax. Seller shall pay all state deed or other governmental transfer taxes due upon the delivery of the Warranty Deed and other transfer documents to be delivered by Seller under this Agreement. Buyer shall pay all mortgage registration taxes due and payable with regard to any mortgage to be recorded in favor of Buyer's lender.
- (c) Real Estate Taxes and Special Assessments. Pursuant to the Lease, Buyer has been making regular payments to Seller for real estate taxes on the Real Property ("**Taxes**") and Seller has made payment of Taxes to the taxing authority. At Closing, Seller shall return to Buyer (by credit of the Purchase Price or direct payment), all amounts prepaid by Buyer to Seller for Taxes, which amounts have not been paid to the taxing authority. Buyer shall be responsible for payment of all Taxes payable in the calendar year of Closing and all subsequent years. Buyer shall assume all special assessments, area charges, lateral charges, and similar impositions, if any (collectively, "**Assessments**") levied, "pending," or constituting a lien against the Real Property as of the Closing Date, including without limitation any installments of Assessments, including interest, payable in the calendar year of the Closing.
- (d) Recording Costs. Seller shall pay the cost of recording all documents necessary to place record title in Seller in the condition warranted by Seller in this Agreement. Buyer will pay the cost of recording the Deed and all other documents.
- (e) Rents. Seller shall credit to Buyer on the Closing Date, any rent paid by Buyer for the period from and after the Closing Date.
- (f) Insurance. Pursuant to the Lease, Buyer has been making regular payments to Seller for insurance premiums due and payable for the Property ("**Insurance**") and Seller has made payment of all amounts for Insurance to the insurer. At Closing, Seller shall return to Buyer (by credit of the Purchase Price or direct payment), all amounts prepaid by Buyer to Seller for Insurance, which amounts have not been paid to the insurer.

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- (g) Other Costs. If and to the extent not otherwise accounted for above in this Section, Seller and Buyer shall prorate all other operating costs of the Property as of the Closing Date.
- (h) Proration Method. Unless otherwise stated herein, Buyer's and Seller's respective proration obligations shall be determined as follows: (i) Seller pays

that part of expenses that have accrued before the Closing Date, (ii) Buyer pays that part of expenses that accrue on or after the Closing Date, (iii) Seller is entitled to that part of Rents and other income that has accrued before the Closing Date, and (iv) Buyer is entitled to that part of Rents and other income that accrues on or after the Closing Date.

(i) Unknown Amounts. Any expense amount that cannot be ascertained with certainty (*i.e.*, under the accounting required above) as of the Closing Date shall be prorated on the basis of the parties' reasonable estimate of such amount, and shall be subject to final proration within 30 days after the Closing, or as soon thereafter as the precise amount can be ascertained, which shall in no event be later than 30 days after the end of the calendar year following the Closing Date. Once all income and expense amounts have been ascertained, Buyer and Seller shall prepare, sign and deliver a final proration statement, and Buyer shall pay Seller, or Seller shall pay Buyer, as applicable, the amount of any adjustment required under the final proration statement.

(j) Utilities. Buyer is responsible for all utility payments pursuant to the Lease and will remain so responsible following the Closing. Accordingly, no proration of utility charges is required pursuant to this Agreement.

(k) Attorneys' Fees. Each of Seller and Buyer shall pay its own attorneys' fees in connection with the preparation and negotiation of this Agreement and the Closing, except that a party defaulting under this Agreement or any of its respective Closing Documents shall pay the reasonable attorneys' fees and court costs incurred by the non-defaulting party to enforce its rights regarding such default.

7. **Representations, Warranties and Indemnity by Seller**. Seller represents and warrants to Buyer as follows:

(a) Organization; Authority. Seller is duly organized and is in good standing under the laws of the State of Minnesota; Seller is duly qualified to transact business in the State of Minnesota; Seller has the requisite power and authority to execute and perform this Agreement and those Seller's Closing Documents to be signed by it; such documents have been duly authorized by all necessary action on the part of Seller and at the Closing will be executed and delivered; such execution, delivery, and performance by Seller of such documents do not conflict with or result in a violation of Seller's organizational documents, any judgment, order, or decree of any court or arbiter to which Seller is a party, or any agreement by which Seller is bound; and such documents are and shall be valid and binding obligations of Seller, enforceable in accordance with their terms.

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(b) Title to Real Property. Seller owns the Real Property, free and clear of all encumbrances except the Permitted Encumbrances identified in Section 9(b) below.

(c) Title to Personal Property. Seller owns the Personal Property, free and clear of all encumbrances.

(d) Contracts. The Contracts are in full force and neither Seller nor, to the best knowledge of Seller, any other party to the Contracts is in default under the Contracts. All other contracts in effect regarding the Property may be terminated by Seller at its sole option on or before the Closing Date and Seller shall do so.

(e) Assessments. Seller has received no notice of, nor is Seller aware of, any actual or threatened special assessments or reassessments of the Real Property.

(f) Environmental Laws. To Seller's knowledge, the documents listed on Exhibit C attached hereto (the "**Environmental Reports**") include all reports, studies and assessments commissioned by Seller or now or ever in the possession of Seller or Seller's agents relating to toxic or hazardous substances or wastes, pollutants, or contaminants (including, without limitation, asbestos, urea formaldehyde, the group of organic compounds known as polychlorinated biphenyls, petroleum products including gasoline, fuel oil, crude oil, and various constituents of such products, and any hazardous substance as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("**CERCLA**"), 42 U.S.C. §§ 9601-9657, as amended) (collectively "**Hazardous Substances**") at the Property. Other than as disclosed in the Environmental Reports (i) Seller has not caused any Hazardous Substances to be generated, used, treated, stored or released on, under or about the Property and (ii) Seller has no knowledge of the presence of Hazardous Substances on under or about the Property. Seller will include the Environmental Reports as part of the Records to be delivered to Buyer pursuant to Section 3(c) of this Agreement.

To the best of Seller's knowledge, no above-ground or underground tanks are located in or about the Real Property or have been located under, in, or about the Real Property and have subsequently been removed or filled.

This Section 7(f) is subject to the limitation of Seller's knowledge during Buyer's occupancy of the Property during the Term of the Lease and any prior leases pursuant to which Buyer was a tenant of the Property, commencing on or about August, 1992 ("Buyer's Occupancy"). The parties agree that Buyer is and shall remain responsible for Hazardous Substances arising in, on or from the Property by reason of Buyer's actions or failures to act during Buyer's Occupancy ("Buyer's Environmental Responsibility") and Seller shall be responsible for Hazardous Substances arising in, on or from the Property other than Buyer's Environmental Responsibility.

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(g) Wells and Septic. Seller knows of no wells on the Real Property except as disclosed on the Well Disclosure Certificate which has been given to Buyer. At the time of Closing, Seller will deliver any required well certificate pursuant to applicable laws. There is no "individual sewage treatment system" within the meaning of Minn. Stat. Section 115.55 on or serving the Real Property. Sewage generated at the Real Property goes to a facility permitted by the Minnesota Pollution Control Agency.

(h) Rights of Others to Purchase Property. Seller has not executed any other contracts for the sale of the Property, and there are no existing rights of first refusal or options to purchase the Property or any other rights of others that might prevent the consummation of this Agreement.

(i) Seller's Defaults. Seller, to its best knowledge, is not in default concerning any of its legal obligations or liabilities regarding the Property.

(j) FIRPTA. Seller is not a "foreign person," "foreign partnership," "foreign trust" or "foreign estate," as those terms are defined in Section 1445 of the Internal Revenue Code. Neither Seller, nor any individual(s) or entities holding any interest in Seller, is on the list of Specifically Designated Nationals under Executive Order 13224.

(k) Proceedings. Seller has not received any notice of, nor is Seller aware of, any action, litigation, investigation, condemnation, violation, or proceeding of any kind by or from any person or entity or by or from any federal, state, or local government entity against Seller or related to any portion of the Property.

(l) Violations. Seller has not received any notice of, nor is Seller aware of, any uncured violation of any federal, state or local law, ordinance or regulation relating to any portion of the Property.

- (m) Agents and Employees. There are no claims for brokerage commissions or other payments with respect to the Property, including any such claims with respect to any of the Leases, that will survive and remain unpaid after the Closing Date.

Seller will indemnify Buyer, its successors, and assigns, against, and will hold Buyer, its successors, and assigns, harmless from, any expenses or damages, including reasonable attorneys' fees, that Buyer incurs because of the alleged breach of any of the above representations and warranties of Seller, whether such breach is discovered before or after Closing.

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For the purpose of this Agreement, the phrase "to the best of Seller's knowledge" and any phrase or words of similar import shall be deemed to mean the actual knowledge of the officers of Seller without having made inquiry or investigation beyond such officers' actual knowledge on the date that Seller executes this Agreement. Such officers are named solely for the purpose of defining and narrowing the scope of Seller's knowledge and not for the purpose of imposing any liabilities on or creating any duties running from such individual to Buyer, and in no event shall such officers be personally liable for any representation made herein.

Notwithstanding anything contained in this Agreement to the contrary, all of the representations, warranties and certifications (the "**Representations**") which are made by Seller and set forth in this Agreement or in any of the documents or instruments required to be delivered by Seller under this Agreement, including, without limitation, any documents to be delivered at Closing, shall be subject to the following conditions and limitations: (i) each of the Representations shall survive Closing for a period of twelve (12) months following the date of Closing, and any claim arising out of or related to the Representations that is not asserted in an action filed and served on or before the date that is twelve (12) months following the date of Closing shall be barred (Buyer hereby waives any and all claims arising out of or relating to the Representations that are not timely asserted as provided above); (ii) in the event that prior to the time of Closing, during the course of Buyer's inspections, studies, tests and investigations or through other sources, Buyer gains current actual knowledge of a fact or circumstance which, by its nature, indicates that a Representation was or has become untrue or inaccurate, then Buyer shall not have the right to bring any lawsuit or other legal action against Seller, nor pursue any other remedies against Seller, as a result of the breach of the Representation caused thereby, but Buyer's sole right shall be to terminate this Agreement in which event the Earnest Money shall be returned to Buyer; and (iii) there shall be no liability on the part of Seller for breaches of Representations of which Buyer had current actual knowledge at Closing.

8. **Representations, Warranties and Indemnity by Buyer**. Buyer represents and warrants to Seller that Buyer is duly organized and in good standing under the laws of the State of Minnesota; that Buyer is duly qualified to transact business in the State of Minnesota; that Buyer has the power and authority to execute this Agreement and any Buyer's Closing Documents signed by it; that all such documents have been duly authorized by all necessary action on the part of Buyer and at Closing shall have been duly executed and delivered; that the execution, delivery, and performance by Buyer of such documents do not conflict with or violate Buyer's organizational documents or any judgment, order or decree of any court or arbiter or any agreement by which Buyer is bound; and that all such documents are valid and binding obligations of Buyer and are enforceable in accordance with their terms. Neither Buyer, nor any assignee of Buyer, nor any individual(s) or entities holding any interest in Buyer or any assignee of Buyer, is on the list of Specifically Designated Nationals under Executive Order 13224. Buyer will indemnify Seller and its successors and assigns against, and will hold Seller and its successors and assigns harmless from, any expenses or damages, including reasonable attorneys' fees, that Seller incurs because of the alleged breach of any of the above representations and warranties of Buyer, whether such breach is discovered before or after Closing. Consummation of this Agreement by Seller with knowledge of any such breach by Buyer will not constitute a waiver or release by Seller of any claims due to such breach.

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9. **Title Matters**. Title examination shall be conducted as follows:

(a) **Seller's Title Evidence**. Seller shall, at least twenty (20) days prior to the Contingency Date, furnish all of the following to Buyer, unless otherwise provided below, (collectively, the "**Title Evidence**"):

- (i) **Title Insurance Commitment**. A commitment for an ALTA Form B 2006 Owner's Policy of Title Insurance (" **Title Commitment**") committing to insure marketable title to the Real Property in Buyer, subject only to the Permitted Encumbrances (as defined in Section 9(b)) hereof, deleting so-called "standard exceptions" related to survey matters, parties in possession, and liens for labor, materials and services, and including affirmative insurance regarding zoning, legal subdivision, separate real estate taxation, contiguity, appurtenant easements, and such other matters as to which Buyer may give notice to Seller, in the amount of the Purchase Price and issued by Title Company with a current effective date. The Title Commitment shall include complete and accurate copies of all matters described in Schedule B thereof;
- (ii) **Survey**. Buyer may, at its cost and expense, cause the Real Property to be surveyed by a Registered Land Surveyor that is properly licensed to practice in the state where the Real Property is located. Buyer shall cause the survey (the "**Survey**") to be certified to Title Company, Seller, Buyer and Buyer's lender, if any, and delivered to Buyer, Buyer's counsel and Title Company at least ten (10) days prior to the Contingency Date (as defined in Section 4(d)); and
- (iii) **UCC Searches**. A report of UCC search results made of the Uniform Commercial Code records of the Secretary of State of Minnesota, made by said Secretary of State or by a search firm acceptable to Buyer, showing no UCC filings regarding any of the Property.

(b) **Buyer's Objections**. Within ten (10) days after receiving the last item of the Title Evidence and any revisions, endorsements and/or supplements thereto, as the case may be, Buyer shall notify Seller of any objections ("**Objections**") to the form and/or contents of the Title Evidence. Buyer's failure to make Objections within such time period will constitute a waiver of Buyer's right to make Objections. Buyer shall be deemed to have automatically made Objections to any mortgage, judgment, tax lien, mechanic's lien and any other monetary lien against the Property (collectively "**Monetary Liens**"). Any matter disclosed by the Title Evidence and not objected to by Buyer shall be a "**Permitted Encumbrance**" hereunder. Seller will have thirty (30) days after receipt of the Objections (the "**Cure Period**") to cure the Objections, during which the Closing will be postponed as necessary; provided, however, that Seller shall pay Monetary Liens out of proceeds from Closing on the Closing Date if they are not satisfied prior thereto. If the Cure Period expires prior to the Closing Date, Buyer shall have the right to extend the Cure Period to the Closing Date. Seller shall use commercially reasonable efforts to correct any Objections (other than Monetary Liens, which shall be paid pursuant to the foregoing) but shall not be required to expend more than \$2,500.00 in doing so. If the Objections are not cured within the Cure Period, Buyer may elect any of the following options by providing written notice thereof to Seller and to Title Company:

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-
- (i) Terminate this Agreement within ten (10) days after the expiration of the Cure Period. Upon receipt of such notice from Buyer, Title Company shall promptly return the Earnest Money to Buyer in accordance with the provisions of the Escrow Agreement. Upon such return, neither Seller nor Buyer shall have any further rights or obligations under this Agreement, except for the Surviving Covenants; or

- (ii) Waive the Objections and close the transaction contemplated by this Agreement as if such Objections had not been made.

10. **Operation Prior to Closing.** During the period from the date of Seller's acceptance of this Agreement through the Closing Date (the "**Executory Period**"), Seller shall operate and maintain the Property in the ordinary course of business in accordance with prudent and reasonable business standards, including, but not limited to, maintaining liability insurance and insurance against loss by fire, windstorm and other hazards, casualties and contingencies, including vandalism and malicious mischief, except as otherwise provided in the Lease. The risk of loss or damage caused by any perils through the Executory Period shall be governed by the Lease. During the Executory Period, Seller shall execute no contracts, leases, lease amendments, or other agreements regarding the Property or any part thereof, nor shall Seller cause or permit title to the Property to be encumbered or impaired, without the prior written consent of Buyer, which consent may be withheld by Buyer in its sole discretion.

11. **Damage.** If, prior to the Closing Date, all or any part of the Property is substantially damaged by fire, other casualty, the elements or any other cause, Seller shall immediately give notice to Buyer of such fact, and, at Buyer's option (to be exercised by notice to Seller and Title Company within thirty (30) days after Seller's notice), this Agreement shall terminate, in which event Title Company shall return the Earnest Money to Buyer in accordance with the provisions of the Escrow Agreement. Upon such return, neither Seller nor Buyer shall have any further rights or obligations under this Agreement, except for the Surviving Covenants. If Buyer does not elect to terminate this Agreement despite such damage, or if the Property is damaged but not substantially, the repair of such damage or destruction shall be governed by the Lease. For purposes of this Section, the words "substantially damaged" mean damage that would cost (as so determined) Two Hundred Fifty Thousand and no/100 Dollars (\$250,000.00) or more to repair.

12. **Condemnation.** If, prior to the Closing Date, any governmental entity commences any eminent domain proceedings ("**Proceedings**") against all or any part of the Property, Seller shall immediately give notice to Buyer of such fact, and, at Buyer's option (to be exercised by notice to Seller and Title Company within thirty (30) days after Seller's notice), this Agreement shall terminate, in which event Title Company shall return the Earnest Money to Buyer in accordance with the provisions of the Escrow Agreement. Upon such return, neither Seller nor Buyer shall have any further rights or obligations under this Agreement, except for the Surviving Covenants. If Buyer does not give such notice, then there shall be no reduction in the Purchase Price, and Seller shall assign to Buyer at the Closing Date all of Seller's right, title, and interest in and to any award made or to be made in the Proceedings. Prior to the Closing Date, Seller shall not designate counsel, appear in, or otherwise act with respect to the Proceedings without Buyer's prior written consent.

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13. **Broker's Commission.** If the transaction contemplated by this Agreement is closed within the time and in the manner contemplated hereby, Buyer shall pay a brokerage commission to Michael H. Koehler, Premise Commercial Real Estate, LLC, as the sole real estate brokerage commission related to this transaction. Seller and Buyer represent and warrant to each other that they have employed, used the services of or otherwise dealt with no other brokers, finders or the like in connection with this transaction. Each party shall indemnify and hold the other party harmless against all claims, damages, costs, or expenses of or for any other such fees or commissions resulting from their actions or agreements regarding the execution or performance of this Agreement, and shall pay all costs of defending any legal action brought against the other party to recover any other such fees or commissions, including reasonable attorneys' fees.

14. **Assignment.** Except pursuant to an Exchange as provided in Section 15 below, Buyer shall not assign this Agreement without the prior written consent of Seller, which consent Seller shall not unreasonably withhold, condition or delay; provided, however, that Buyer shall have no obligation to obtain Seller's consent to assign this Agreement to an entity controlling, controlled by, or under common control with, Buyer. Buyer shall promptly notify Seller of any such assignment. No assignment or transfer will relieve Buyer of its obligations under this Agreement.

15. **1031 Exchange.** Seller and Buyer agree to cooperate with reasonable requests made by the other to effect the requesting party's like-kind exchange (whether simultaneous, deferred or reverse) of real property pursuant to Section 1031 of the United States Internal Revenue Code and similar provisions of applicable state law ("**Exchange**"); provided that (i) the cooperating party shall not be required to incur any costs, expenses or liability in connection with the Exchange, (ii) neither party shall be allowed to delay the Closing hereunder, (iii) neither party shall be obligated to execute any note, contract, deed or other document not otherwise expressly provided for in this Agreement providing for any personal liability, nor shall either party be obligated to take title to any property other than the Property as otherwise contemplated in this Agreement or incur additional expense for the benefit of the other party, and (iv) the exchanging party shall not be released from any obligations or liabilities under this Agreement. Each party shall indemnify and hold the other harmless against any liability which arises or is claimed to have arisen on account of any Exchange that is initiated on behalf of the indemnifying party.

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16. **Mutual Indemnification.** Seller and Buyer shall indemnify each other against, and hold each other harmless from, all liabilities (including reasonable attorneys' fees in defending against claims) arising out of the ownership, operation, or maintenance of the Property for their respective periods of ownership, subject to Buyer's Environmental Responsibility (as defined in Section 7(f) of this Agreement). Such rights to indemnification will not arise to the extent that (a) the party seeking indemnification actually receives insurance proceeds or other cash payments directly attributable to the liability in question (excluding, however, the cost of collection, including reasonable attorneys' fees), or (b) the claim for indemnification arises out of the act or neglect of the party seeking indemnification. If and to the extent that the indemnified party has insurance coverage, or the right to make any claim against any third party for any amount to be indemnified against as provided in this Section, the indemnified party shall, upon full performance by the indemnifying party of its indemnification obligations, assign such rights to the indemnifying party, or, if such rights are not assignable, the indemnified party shall diligently pursue such rights by appropriate legal action or proceeding and assign the recovery and/or right of recovery to the indemnifying party to the extent of the indemnification payment made by such party.

17. **AS-IS.** Buyer acknowledges and agrees that, except for the covenants, representations and warranties of Seller expressly contained in this Agreement, the Property shall be sold and conveyed (and accepted by Buyer at Closing) AS IS, WHERE IS, WITH ALL DEFECTS AND WITHOUT ANY WRITTEN OR ORAL REPRESENTATION OR WARRANTY WHATSOEVER, EXPRESS OR IMPLIED OR ARISING BY OPERATION OF LAW. Except as expressly otherwise provided in this Agreement, Seller makes no representation, warranty or covenant, express, implied or statutory, of any kind whatsoever with respect to the Property, including, without limitation, representation, warranty or covenant as to title, survey conditions, use of the Property for Buyer's intended use, the condition of the Property, past or present use, development, investment potential, tax ramifications or consequences, compliance with law, present or future zoning, the presence or absence of hazardous substances, the availability of utilities, access to public road, habitability, merchantability, fitness or suitability for any purpose, or any other matter with respect to the Property (collectively, the "**Condition of the Property**"), all of which are, except as otherwise expressly provided in this Agreement, hereby expressly disclaimed by Seller. Except as otherwise expressly provided in this Agreement, Buyer acknowledges that Seller has made no representation, warranty or covenant as to the Condition of the Property or compliance of the Property with any federal, state, municipal or local statutes, laws, rules, regulations or ordinances, including, without limitation, those pertaining to construction, building and health codes, land use, zoning, hazardous substances or toxic wastes or substances, pollutants, contaminants, or other environmental matters. The provisions of this Section shall survive the Closing or the termination of this Agreement.

18. **Survival.** Except as otherwise provided in Section 17 above, all of the covenants, representations and warranties of this Agreement will survive and be enforceable after the Closing for a period of twelve (12) months.

19. **Notices.** Any notice required or permitted to be given hereunder will be properly given in accordance with this Agreement, if in writing and (i) delivered by hand, (ii) sent by recognized overnight courier

(such as Federal Express), (iii) sent via facsimile with confirmation receipt, or (iv) mailed by certified or registered mail, return receipt requested, in a postage prepaid envelope, and addressed as follows:

If to Seller:	7725 Washington Avenue Corp. 7808 Creekridge Circle, Suite 200 Minneapolis, Minnesota 55439 Attention: _____ Fax # _____
With a copy to:	Larkin Hoffman Daly & Lindgren Ltd. 1500 Wells Fargo Plaza 7900 Xerxes Avenue South Bloomington, Minnesota 55431 Attention: Robert L. Hoffman Fax # 952-896-3333
If to Buyer:	Rimage Corporation 7725 Washington Avenue Edina, Minnesota 55439 Attention: Rob Wolf Fax # _____
With a copy to:	Lindquist & Vennum P.L.L.P. 4200 IDS Center 80 South Eighth Street Minneapolis, Minnesota 55402 Attention: Debra K. Page Fax # 612-371-3207

Notice shall be effective, and the time for response to any notice by the other party shall commence to run, one (1) business day after any such deposit if by overnight carrier, or three (3) days if by U.S. mail, or the day of receipt if delivered by hand or facsimile (provided actual receipt is shown by acknowledgment *via* email or other writing from the recipient, or by an affidavit of delivery). Either Seller or Buyer may change its address for the service of notice by giving notice of such change to the other party, in any manner above specified, ten (10) days prior to the effective date of such change.

20. **Remedies.** Time is of the essence of this Agreement. If Buyer defaults in performance of its obligations under this Agreement, Seller shall have the right to terminate this Agreement in the manner provided by Minn. Stat. Sec. 559.21 and to obtain the Earnest Money as liquidated damages. Except for a default in the obligations of Buyer under Section 3(a) or Section 8, for which Seller will be entitled to seek specific performance or monetary damages, such termination of this Agreement and receipt of the Earnest Money will be the only remedies available to Seller for such default by Buyer, and Buyer will not be liable for damages or specific performance. If Seller defaults in the performance of its obligations hereunder, Buyer may, as its only remedies, (i) terminate this Agreement and obtain a full refund of all Earnest Money; or (ii) seek specific performance of this Agreement. Any action for specific performance must be commenced, if at all, within six (6) months following Seller's default. In no event shall Seller be liable to Buyer for monetary damages.

21. **Further Assurances.** At any time and from time to time before and after the Closing, Buyer and Seller shall, at the request of the other party hereto, and without further consideration, promptly execute, acknowledge and deliver such further instruments and take such further action as the requesting party may reasonably request in order to consummate and confirm the transaction contemplated by this Agreement and to accomplish the purposes of this Agreement, including, but not limited to, a recordable memorandum of this Agreement; provided however, no such instruments or actions shall impose any burden or obligation that is in excess of any burden or obligation specifically imposed pursuant to the terms of this Agreement other than the terms of this Section.

22. **Review by Counsel.** Buyer and Seller acknowledge that they have each been represented by counsel and that their respective counsel have reviewed and approved this Agreement, and the parties hereby agree that the rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

23. **Effect of Submission.** The submission by Buyer to Seller or Seller to Buyer of this Agreement in an unsigned form shall be deemed to be a submission solely for consideration and not for acceptance and execution. Such submission shall have no binding force or effect, and shall not confer any rights or impose any obligations, irrespective of any reliance thereon, change of position or partial performance. The submission by Seller or Buyer of this Agreement for execution shall similarly have no binding force or effect unless and until both parties shall have executed this Agreement and a counterpart hereof shall have been delivered to the other party hereto.

24. **Exclusivity.** Unless this Agreement is canceled or terminated, Seller shall not solicit a possible sale of all or any part of the Property to any other party or provide any information regarding the Property to any third party in connection with the possible sale of all or any part of the Property.

25. **General.** The section and paragraph headings or captions appearing in this Agreement are for convenience only, are not a part of this Agreement, and are not to be considered in interpreting this Agreement. This written Agreement constitutes the complete agreement between Seller and Buyer and supersedes any prior oral or written agreements between them regarding the Property. There are no verbal agreements that change this Agreement, and no amendment of any of its terms will be effective unless in writing and executed by both Seller and Buyer. This Agreement binds and benefits Seller and Buyer and their respective successors and assigns and has been made under, and will be interpreted and controlled by, the laws of the State of Minnesota. All Exhibits referred to in and attached to this Agreement are incorporated in and made a part of this Agreement. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original and which together shall constitute one and the same Agreement. At the request of either Buyer or Seller, the parties shall execute and deliver a recordable memorandum of this Agreement. This Agreement is for the benefit of Buyer and Seller only and is not for the benefit of any third-party. No third-party shall have the right to enforce any provisions of this Agreement. In the event the date on which Buyer or Seller is required to take any action under the terms of this Agreement is not a business day, the action shall be deemed to be required to be taken on the next succeeding business day.

26. **Extension of Lease.** To the extent the term of the Lease ("Term") expires prior to the Closing Date, the parties hereby agree that the Term is hereby extended to and including the Closing Date, to be terminated as of the Closing Date by the Lease Termination.

Seller and Buyer have executed this Agreement as of the latest of the dates set forth on the signature pages hereof.

SELLER: 7725 WASHINGTON AVENUE CORP.

Date: August 8, 2008 By: /s/ Ron R. Fletcher
 Its: President
 By: _____
 Tax ID Number: 41-1695724 Its: _____

BUYER: RIMAGE CORPORATION

Date: July 31, 2008 By: /s/ Robert M. Wolf
 Its: CFO
 By: _____
 Tax ID Number: 41-1577970 Its: _____

SCHEDULE OF ATTACHMENTS AND EXHIBITS

Acknowledgment of Receipt of Earnest Money and Escrow Agreement
 Exhibit A Legal Description of Land
 Exhibit B Assignment and Assumption of Intangible Property
 Exhibit C List of Environmental Reports

ACKNOWLEDGMENT OF RECEIPT OF EARNEST MONEY AND ESCROW AGREEMENT

1. The undersigned, designated as the "**Title Company**" by the parties to that certain Purchase and Sale Agreement to which this Escrow Agreement is attached ("**Purchase Agreement**"), acknowledges receipt from the "Buyer" under the Purchase Agreement of \$50,000 as "**Earnest Money**" under the Purchase Agreement. The "**Effective Date**" under the Purchase Agreement is July 31, 2008. Except as otherwise defined in this Escrow Agreement, all capitalized terms herein shall have the meaning given to them in the Purchase Agreement.

2. Title Company hereby agrees to act as escrow agent and to hold the Earnest Money pursuant to the provisions of the Purchase Agreement, subject to the conditions set forth below.

3. Upon receipt of an appropriate Internal Revenue Service Form W-9, all of said Earnest Money shall be held in an FDIC insured interest bearing account with interest accruing to the benefit of Buyer, unless Seller receives the earnest money as a result of the cancellation of the PA, in which event the interest shall also be disbursed to Seller.

4. Upon notification by both parties in writing that the transaction has closed or if Title Company is facilitating the Closing of the Purchase Agreement, Title Company will pay said Earnest Money and interest accrued thereon (the "**Deposit**") to Seller at the Closing.

5. The Purchase Agreement contemplates circumstances in which Buyer shall have the unilateral right to terminate the Purchase Agreement, including, but not limited to, on or before the end of the Contingency Date, by delivery of written notice to Seller and Title Company (the "**Termination Notice**"). Upon Title Company's receipt of the Termination Notice (provided Title Company receives such Termination Notice on or before the end of the Contingency Date) Title Company shall immediately and simultaneously: (x) deliver a copy of the Termination Notice to Seller, in the manner provided in the Notice Section of the Purchase Agreement, and (y) disburse the full Deposit to Buyer.

6. If Buyer defaults under its Purchase Agreement obligations and Seller desires to obtain the Earnest Money from Title Company pursuant to the terms of the Purchase Agreement, Seller shall first be required to present to Title Company Seller's affidavit of such default (the "**Default Affidavit**"), executed under penalty of perjury by an authorized representative of Seller, certifying to Buyer and Title Company that: (a) Buyer is in default under the Purchase Agreement, and (b) the Purchase Agreement has been cancelled pursuant to Minn. Stat. Section 559.21, and therefore, Seller is entitled to the Deposit. Upon receipt of the Default Affidavit from Seller, Title Company shall (i) deliver a copy of the Default Affidavit to Buyer in the manner as provided in the notice section of the Purchase Agreement and (ii) if within five (5) business days after the date on which the Default Affidavit is deemed given to Buyer (pursuant to the notice section of the Purchase Agreement), Title Company has not received from Buyer a notice ("**Objection Notice**") objecting to Title Company's compliance with the Default Affidavit, Title Company shall deliver the Deposit to Seller.

7. If after the Contingency Date has expired Seller defaults on any of its obligations under the Purchase Agreement and Buyer desires the return of the Earnest Money from Title Company pursuant to the terms of the Purchase Agreement, Buyer shall first be required to present to Title Company its own Default Affidavit, executed under penalty of perjury by an authorized representative of Buyer, certifying to Seller and Title Company that Seller is in default under the Purchase Agreement and did not cure such default within any applicable time period set forth in the Purchase Agreement, and therefore, Buyer is entitled to the Deposit. Upon receipt of such Default Affidavit from Buyer, Title Company shall (i) deliver a copy of such Default Affidavit to Seller in the manner required pursuant to the notice section of the Purchase Agreement, and (ii) if within five (5) business days after the date on which the Default Affidavit is deemed given to Seller (pursuant to the notice section of the Purchase Agreement), Title Company has not received from Seller an Objection Notice, objecting to Title Company's compliance with such Default Affidavit, Title Company shall deliver the Deposit to Buyer.

8. If Title Company receives an Objection Notice from either Seller or Buyer within the time period set forth above, then Title Company shall refuse to comply with the Default Affidavit then in question (“**Objectionable Default Affidavit**”) until Title Company receives either (a) joint written instructions executed by both Buyer and Seller, or (b) a final non-appealable order with respect to the disposition of the Deposit from a federal or state court of competent jurisdiction (“**Court Order**”), in either of which events Title Company shall then disburse the Deposit in accordance with such written instructions or such Court Order, as applicable. Notwithstanding the immediately preceding sentence, if the party that delivers the Objection Notice does not both (i) commence litigation with respect to the Deposit by filing a complaint or action for a declaratory judgment in an appropriate court of competent jurisdiction (“**Litigation**”), and (ii) provide notice and a file-stamped copy of such complaint or, action for declaratory judgment to Title Company and the other party to this Escrow Agreement within thirty (30) days after delivery of the then-applicable Objection Notice, then Title Company shall disburse the Deposit in accordance with the Objectionable Default Affidavit.

9. The sole duties of Title Company shall be those described herein. Title Company shall be under no obligation to determine whether the parties to the Purchase Agreement are complying with any requirements of law or the terms and conditions of any other agreements among said parties. Title Company may conclusively rely upon and shall be protected in acting upon any notice, consent, order or other document believed by it to be genuine and to have been signed or presented by the proper party or parties, consistent with reasonable due diligence on Title Company’s part. Title Company may consult the advice of counsel with respect to any issue concerning the interpretation of its duties hereunder. Buyer and Seller hereby acknowledge such fact and indemnify and hold harmless Title Company from any action taken by it in good faith in reliance thereon. Title Company shall have no duty of liability to verify any such notice, consent, order or other document, and its sole responsibility shall be to act as expressly set forth in this Agreement. Title Company shall be under no obligation to institute or defend any action, suit or proceeding in connection with this Agreement. If any dispute arises with respect to the disbursement of any monies, Title Company may continue to hold the same or commence an action in interpleader and in connection therewith remit the same to a court of competent jurisdiction pending resolution of such dispute, and the parties hereto hereby indemnify and hold harmless Title Company for any action taken by it in good faith in the execution of its duties hereunder.

10. In the event of litigation between the parties with respect to this Escrow Agreement, the performance of their respective obligations, or the effect of a termination under the Purchase Agreement or this Escrow Agreement, the losing party shall pay all costs and expenses incurred by the prevailing party in connection with such litigation, including, but not limited to, court costs and reasonable fees of counsel selected by the prevailing party. Notwithstanding any provision of the Purchase agreement or this Escrow Agreement to the contrary, the obligations of the parties under this Section shall survive a termination of either or both of the Purchase Agreement and this Escrow Agreement.

First American Title Insurance Company hereby acknowledges receipt of the foregoing escrow deposit and agrees to hold the same as above specified.

Dated this 31st day of July, 2008

TITLE COMPANY:
FIRST AMERICAN TITLE INSURANCE COMPANY

Address:

By: _____
Its: _____

EXHIBIT A
to
PURCHASE AND SALE AGREEMENT

Legal description of Land:

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.

EXHIBIT B
to
PURCHASE AND SALE AGREEMENT
FORM OF ASSIGNMENT AND ASSUMPTION OF
INTANGIBLE PERSONAL PROPERTY RIGHTS
ASSIGNMENT AND ASSUMPTION OF
INTANGIBLE AND OTHER PERSONAL PROPERTY RIGHTS

THIS ASSIGNMENT AND ASSUMPTION OF INTANGIBLE AND OTHER PERSONAL PROPERTY RIGHTS (this “**Assignment**”) is made as of the 31st day of July, 2008, by and between 7725 WASHINGTON AVENUE CORP., a Minnesota corporation (“**Assignor**”), and RIMAGE CORPORATION, a Minnesota corporation (“**Assignee**”).

RECITALS

A. On even date herewith Assignor has conveyed to Assignee the real property located at 7725 Washington Avenue, Edina , Minnesota, legally described on Exhibit A attached hereto and made a part hereof (the “**Real Property**”).

B. Assignor desires to assign to Assignee all of Assignor’s right, title and interest in any and all contracts, permits, records, plans, warranties, and intangible personal property owned by Assignor and used in connection with the Real Property, and Assignee desires to accept such assignment and assume such obligations of Assignor first arising under such assignment from and after the date hereof.

NOW THEREFORE, in consideration of One Dollar (\$1.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Assignor and Assignee hereby agree as follows:

1. Assignment. Assignor hereby conveys, assigns, transfers, and sets over unto Assignee, all Assignor's right, title and interest, to the extent assignable, in and to any and all intangible property owned by Assignor and used in connection with the Real Property and the buildings and improvements located thereon (the "**Property**"), including without limitation: (i) all plans and specifications in the possession of Assignor which were prepared in connection with any of the Property, including the "Plans" as defined in the "Purchase Agreement" (as defined below) (ii) existing or prospective agreements, plans, and/or licenses with and/or from (A) governmental bodies, entities and agencies, (B) contractors and subcontractors, and (C) utility companies, with respect to the Property; (iii) all environmental reports, soil studies, engineering reports and agreements with the firms preparing such reports and/or studies, and all other contracts, subcontracts and agreements relating to the Property, (iv) to the extent that the same are in effect as of the date hereof, any approvals, licenses, permits and other written authorizations necessary for the construction, development, use, operation or ownership of the Property, (v) all hereditaments, privileges, tenements and appurtenances belonging to the Property, (vi) all right, title and interest of Assignor in and to all open or proposed highways, streets, roads, avenues, alleys, easements, strips, gores and rights-of-way in, on, across in front of, contiguous to, abutting or adjoining the Property, (vii) all "Contracts," "Permits," "Warranties," and "Records" as those terms are defined in the Purchase Agreement, and (viii) other intangibles pertaining to the Property including any third party warranties and/or guaranties (e.g. roof warranties) (collectively, the "**Intangibles**"), but excluding cash on hand and in bank and escrow accounts.

2. Assumption. Assignee does hereby accept the foregoing Assignment subject to the terms and conditions herein contained, and does hereby assume as of the date hereof and become responsible for and agree to perform, discharge, fulfill and observe all obligations, covenants, conditions and provisions first accruing from and after the date hereof with respect to the above-described Intangibles.

3. Miscellaneous. This Assignment shall inure to the benefit of and be binding upon Assignor and Assignee and their respective successors and assigns. This Assignment may be executed in one or more counterparts, each of which shall be deemed to be an original and together which shall constitute one and the same agreement.

IN WITNESS WHEREOF, Assignor and Assignee have executed and delivered this Assignment as of the 31st day of July, 2008, which instrument is effective this date.

ASSIGNOR:
7725 WASHINGTON AVENUE CORP.

By: /s/ Ron R. Fletcher
Its: President

ASSIGNEE: RIMAGE CORPORATION

By: /s/ Robert M. Wolf
Its: CFO

EXHIBIT C
to
PURCHASE AND SALE AGREEMENT
LIST OF ENVIRONMENTAL REPORTS

1. Phase I Environmental Assessment prepared by STS Consultants, LTD in 1991.
2. Phase II Environmental Reconnaissance for Property Transfer dated February 1, 1991 and prepared by STS Consultants, Ltd., Project No. 94875-YF.
3. Phase I Environmental Assessment dated August 12, 1992 and prepared by Nova Environmental Services, Inc., Project No. M92-752.
4. Phase I Environmental Assessment dated August 10, 1998 and prepared by Nova Environmental Services, Inc., Project No. M98-0959.

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 7, 2008

/s/ Bernard P. Aldrich

Bernard P. Aldrich
President and Chief
Executive Officer

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 7, 2008

/s/ Robert M. Wolf

Robert M. Wolf
Chief Financial Officer

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 September 30, 2008 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 7, 2008

/s/ Bernard P. Aldrich
President and Chief
Executive Officer

Date: November 7, 2008

/s/ Robert M. Wolf
Chief Financial Officer