

CONFORMED  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED  
MARCH 31, 1998; OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_  
TO \_\_\_\_\_.

COMMISSION FILE NUMBER: 0-20728

RIMAGE CORPORATION

(Exact name of Registrant as specified in its charter)

Minnesota 41-1577970  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

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

612-944-8144  
(Registrant's telephone number, including area code)

NA

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

Common Stock outstanding at May 8, 1998 -- 3,143,471  
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

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FORM 10-Q  
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RIMAGE CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 1998 and December 31, 1997

<TABLE>  
 <CAPTION>

| 31,             | Assets   | March 31,<br>1998 | December<br>1997 |
|-----------------|--|-------------------|------------------|
| (unaudited)     |  |                   |                  |
| Current assets: |  |                   |                  |
| <S>             |  | <C>               | <C>              |
| 656,127         | Cash and cash equivalents  | \$ 1,427,551      |                  |
| 4,778,055       | Trade accounts receivable, net of allowance for doubtful<br>accounts and sales returns of \$356,528 and \$505,458,<br>respectively | 5,482,881         |                  |
| 2,265,867       | Inventories (note 2)   | 2,134,123         |                  |
| 23,350          | Income tax receivable  | 134,200           |                  |
| 378,306         | Prepaid expenses and other current assets  | 297,011           |                  |
| 94,422          | Current installments of investment in sales-type leases  | 70,621            |                  |
| 8,196,127       | Total current assets   | 9,546,387         |                  |
| 5,846,953       | Property and equipment, net  | 5,602,175         |                  |
| 12,013          | Investment in sales-type leases, net of current<br>installments  | 4,110             |                  |
| 848,692         | Goodwill   | 828,513           |                  |
| 259,727         | Other noncurrent assets  | 199,650           |                  |
| 15,163,512      | Total assets   | \$ 16,180,835     |                  |

</TABLE>

See accompanying condensed notes to consolidated financial statements

<TABLE>  
 <CAPTION>

December 31, Liabilities and Stockholders' Equity March 31, 1998

1997

|  |    | (unaudited) |
|--|----|-------------|
| <S>  |    | <C>         |
| <C>  |    |             |
| Current liabilities:   |    |             |
| Current portion of notes payable   | \$ | 900,000     |
| 900,000  |    |             |
| Current installments of capital lease obligations  |    | 371,892     |
| 356,053  |    |             |
| Trade accounts payable   |    | 2,561,205   |
| 2,789,973  |    |             |
| Accrued expenses (Note 4)  |    | 1,367,453   |
| 1,069,315  |    |             |
| Income taxes payable   |    | 155,000     |
| -  |    |             |
| Deferred income and customer deposits  |    | 697,138     |
| 640,725  |    |             |
| -----  |    |             |
| Total current liabilities  |    | 6,052,688   |
| 5,756,066  |    |             |
| Notes payable, less current portion  |    | 525,000     |
| 750,000  |    |             |
| Capital lease obligations, less current installments   |    | 2,562,511   |
| 2,661,334  |    |             |
| -----  |    |             |
| Total liabilities  |    | 9,140,199   |
| 9,167,400  |    |             |
| -----  |    |             |
| Minority interest in inactive subsidiary   |    | 57,907      |
| 57,907   |    |             |
| Stockholders' equity:  |    |             |
| Common stock, \$.01 par value, authorized 10,000,000 shares,<br>issued and outstanding 3,104,471 and 3,084,500, respectively |    | 31,045      |
| 30,845   |    |             |
| Additional paid-in capital   |    | 10,507,511  |
| 10,468,136   |    |             |
| Accumulated deficit  |    | (3,401,743) |
| (4,405,218)  |    |             |
| Foreign currency translation adjustment  |    | (154,084)   |
| (155,626)  |    |             |
| -----  |    |             |
| Total stockholders' equity   |    | 6,982,729   |
| 5,938,205  |    |             |
| -----  |    |             |
| Total liabilities and stockholders' equity   | \$ | 16,180,835  |
| 15,163,512   |    |             |
| -----  |    |             |

&lt;/TABLE&gt;

## RIMAGE CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations

Three months ended March 31, 1998 and 1997  
(unaudited)

<TABLE>  
<CAPTION>

|                  |    | Three months ended<br>March 31, |            |
|------------------|----|---------------------------------|------------|
|                  |    | 1998                            | 1997       |
| <S>              |    | <C>                             | <C>        |
| Revenues         | \$ | 9,648,600                       | 10,826,773 |
| Cost of revenues |    | 5,831,732                       | 8,262,083  |
| -----            |    |                                 |            |

|   |              |           |
|---|--------------|-----------|
| Gross profit  | 3,816,868    | 2,564,690 |
| -----   |              |           |
| Operating expenses:   |              |           |
| Engineering and development   | 509,411      | 556,693   |
| Selling, general, and administrative  | 2,042,250    | 1,735,918 |
| -----   |              |           |
| Total operating expenses  | 2,551,661    | 2,292,611 |
| -----   |              |           |
| Operating earnings  | 1,265,207    | 272,079   |
| -----   |              |           |
| Other (expense) income:   |              |           |
| Interest expense  | (91,639)     | (267,138) |
| Loss on currency exchange   | (5,683)      | (2,419)   |
| Other, net  | 8,790        | 12,508    |
| -----   |              |           |
| Total other expense, net  | (88,532)     | (257,049) |
| -----   |              |           |
| Earnings before income taxes  | 1,176,675    | 15,030    |
| Income taxes  | 173,200      | -         |
| -----   |              |           |
| Net earnings  | \$ 1,003,475 | 15,030    |
| -----   |              |           |
| Basic net earnings per common share   | \$ 0.32      | 0.01      |
| -----   |              |           |
| Diluted net earnings per common share<br>and common share equivalents       | \$ 0.29      | 0.01      |
| -----   |              |           |
| Basic weighted average shares   | 3,093,369    | 3,084,500 |
| -----   |              |           |
| Diluted weighted average shares and common<br>share equivalents outstanding | 3,447,220    | 3,087,891 |
| -----   |              |           |

</TABLE>

See accompanying condensed notes to consolidated financial statements

RIMAGE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Three months ended March 31, 1998 and 1997  
(unaudited)

|  | Three months ended<br>March 31, |             |
|--|---------------------------------|-------------|
|  | 1998                            | 1997        |
|  | -----                           |             |
| <S>  | <C>                             | <C>         |
| Cash flows from operating activities:  |                                 |             |
| Net earnings   | 1,003,475                       | 15,030      |
| Adjustments to reconcile net earnings to net<br>cash provided by (used in) operating activities: |                                 |             |
| Depreciation and amortization  | 528,240                         | 715,720     |
| Change in reserve for excess and obsolete inventories  | 10,819                          | (31,141)    |
| Change in reserve for doubtful accounts  | (148,930)                       | (10,077)    |
| Loss on sale of property and equipment   | 1,997                           | -           |
| Changes in operating assets and liabilities:   |                                 |             |
| Trade accounts receivable  | (555,896)                       | (2,097,280) |
| Inventories  | 120,925                         | 461,160     |
| Income tax receivable  | (110,850)                       | 192,790     |
| Prepaid expenses and other current assets  | 81,295                          | (154,405)   |
| Trade accounts payable   | (228,768)                       | 552,628     |
| Accrued expenses   | 298,138                         | (373,523)   |
| Income taxes payable   | 155,000                         | -           |
| Deferred income and customer deposits  | 56,413                          | 153,861     |
| -----  |                                 |             |
| Net cash provided by (used in)   |                                 |             |

|                                       |           |           |
|---------------------------------------|-----------|-----------|
| operating activities                  | 1,211,858 | (575,237) |
| -----                                 |           |           |
| Cash flows from investing activities: |           |           |
| Purchase of property and equipment    | (223,203) | (97,204)  |
| Other noncurrent assets               | 29,546    | (19,775)  |
| Receipts from sales-type leases       | 31,704    | 59,396    |
| -----                                 |           |           |
| Net cash used in investing activities | (161,953) | (57,583)  |
| -----                                 |           |           |

</TABLE>

(Continued)

RIMAGE CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

<TABLE>  
<CAPTION>

|  | Three months ended<br>March 31, |             |
|--|---------------------------------|-------------|
|  | 1998                            | 1997        |
| -----  |                                 |             |
| <S>  | <C>                             | <C>         |
| Cash flows from financing activities:                            |                                 |             |
| Proceeds from stock option exercise                              | 39,507                          | -           |
| Principal payments on capital lease obligations                  | (82,984)                        | (75,389)    |
| Proceeds from other notes payable                                | -                               | 8,361,233   |
| Repayment of other notes payable                                 | (225,000)                       | (7,732,476) |
| -----  |                                 |             |
| Net cash provided by (used in) financing activities              | (268,477)                       | 553,368     |
| -----  |                                 |             |
| Effect of exchange rate changes on cash                          | (10,004)                        | (18,224)    |
| -----  |                                 |             |
| Net increase (decrease) in cash                                  | 771,424                         | (97,676)    |
| Cash and cash equivalents, beginning of period                   | 656,127                         | 117,322     |
| -----  |                                 |             |
| Cash and cash equivalents, end of period                         | \$ 1,427,551                    | 19,646      |
| -----  |                                 |             |
| Supplemental disclosures of net cash paid during the period for: |                                 |             |
| Interest   | \$ 100,356                      | 190,748     |
| Income taxes   | \$ 110,850                      | (147,924)   |

</TABLE>

See accompanying condensed notes to consolidated financial statements.

RIMAGE CORPORATION AND SUBSIDIARIES

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) BASIS OF PRESENTATION AND NATURE OF BUSINESS

The consolidated financial statements include the accounts of Rimage Corporation, Rimage Europe GmbH, A/G Systems Inc., d/b/a Duplication Technology Inc. (Rimage Boulder), Knowledge Access International (Knowledge Access) and Rimage Services, collectively hereinafter referred to as Rimage or the Company. All material intercompany accounts and transactions have been eliminated upon consolidation.

The Company operates in two divisions, Rimage Systems Division and Rimage Services Division. The Rimage Systems Division consists of substantially all of the former Rimage Companies. The Rimage Services

Division consists of Rimage Services in addition to the existing service business at Rimage Boulder.

The Systems Division develops, manufactures and distributes high performance CD-Recordable (CD-R) publishing and duplication systems, and continues to support its long term involvement in diskette duplication and publishing equipment. The Services Division provides computer media duplication and production services to software developers and manufacturers and information publishers.

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

Certain prior year amounts have been reclassified to conform with the current quarter presentation.

(2) INVENTORIES

Inventories consist of the following as of:

|   | March 31,<br>1998<br>(unaudited) | December 31,<br>1997 |
|---|----------------------------------|----------------------|
| -----   |                                  |                      |
| Finished goods<br>and demonstration equipment | \$ 587,302                       | \$ 578,689           |
| Work-in-process                               | 297,506                          | 234,177              |
| Purchased parts and subassemblies             | 1,708,134                        | 1,901,001            |
| -----   |                                  |                      |
|   | 2,592,942                        | 2,713,867            |
| Less reserve for excess inventories           | 458,819                          | 448,000              |
| -----   |                                  |                      |
|   | \$2,134,123                      | \$2,265,867          |
| -----   |                                  |                      |

(Continued)

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

(3) SEGMENT REPORTING

The following table summarizes certain financial information for the Systems and Service segment:

| (in thousands)                        | Three Months Ended March 31,<br>(unaudited) |              |
|---------------------------------------|---|--------------|
|                                       | 1998  | 1997         |
| -----                                 |   |              |
| Revenues from unaffiliated customers: |   |              |
| Systems                               | \$ 6,132                                    | \$ 4,731     |
| Service                               | 3,517                                       | 6,096        |
|                                       | -----                                       | -----        |
|                                       | 9,649                                       | 10,827       |
| Operating earnings (loss):            |   |              |
| Systems                               | 1,148                                       | 425          |
| Service                               | 117   | (153)        |
|                                       | -----                                       | -----        |
|                                       | 1,265                                       | 272          |
|                                       | March 31,                                   | December 31, |
|                                       | 1998  | 1997         |
|                                       | -----                                       | -----        |
|                                       | (unaudited)                                 |              |
| Net identifiable assets:              |   |              |
| Systems                               | \$ 8,276                                    | 7,031        |
| Service                               | 7,076                                       | 7,283        |
|                                       | -----                                       | -----        |
|                                       | 15,352                                      | 14,314       |

As of and for the quarter ended March 31, 1998, foreign revenues from unaffiliated customers, operating earnings, and net identifiable assets were \$1,761,000, \$240,000 and \$1,908,000, respectively. As of and for the quarter ended March 31, 1997, foreign revenues from unaffiliated customers, operating loss, and net identifiable assets were \$895,000, \$(5,000), and \$1,978,000, respectively.

(4) ACCRUED EXPENSES

During March 1998, the Company formulated a plan to dramatically reduce its diskette production at one of its facilities during the second quarter of 1998. Also during March 1998, the Company reserved for the write off of approximately \$169,000 of net book value associated with leasehold improvements made to the facility. No reserve has been recorded for the remaining net book value of approximately \$67,000 as the Company believes future sublease rental income will negate this expense as well as future rental payments under the third party operating lease.

(Continued)

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

(5) RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, REPORTING COMPREHENSIVE INCOME. This statement requires companies to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet, and is effective for the Company's year ending December 31, 1998. The Company's only item of other comprehensive income relates to foreign currency translation adjustments, and is presented separately on the balance sheet as required. If presented on the statement of operations for the three months ended March 31, 1998, comprehensive income would be \$1,542 more than reported net income, due to foreign currency translation adjustments.

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

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

|                                       | Three months ended<br>March 31, |          | %      |
|---------------------------------------|---------------------------------|----------|--------|
|                                       | 1998                            | 1997     | Change |
|                                       | -----                           | -----    |        |
| Revenues from unaffiliated customers: |                                 |          |        |
| Systems .....                         | \$ 6,132                        | \$ 4,731 | 29.6%  |
| Services .....                        | 3,517                           | 6,096    | (42.3) |
|                                       | -----                           | -----    |        |
| Total revenues .....                  | 9,649                           | 10,827   | (10.9) |
| Cost of revenues:                     |                                 |          |        |
| Systems .....                         | 2,928                           | 2,794    | 4.8    |
| Service .....                         | 2,904                           | 5,468    | (46.9) |
|                                       | -----                           | -----    |        |
| Total cost of revenues .....          | 5,832                           | 8,262    | (29.4) |
| Gross profit:                         |                                 |          |        |
| Systems .....                         | 3,204                           | 1,937    | 65.4   |
| Services .....                        | 613                             | 628      | 2.4    |
|                                       | -----                           | -----    |        |
| Total gross profit .....              | 3,817                           | 2,565    | 48.8   |
| Operating expenses:                   |                                 |          |        |
| Systems .....                         | 2,056                           | 1,512    | 36.0   |
| Service .....                         | 496                             | 781      | (36.5) |
|                                       | -----                           | -----    |        |
| Total operating expenses ...          | 2,552                           | 2,293    | 11.3   |

Operating earnings (loss):

|                                |          |        |       |
|--------------------------------|----------|--------|-------|
| Systems .....                  | 1,148    | 425    | 170.1 |
| Service .....                  | 117      | (153)  | 176.5 |
|                                | -----    | -----  |       |
| Total operating earnings ..... | \$ 1,265 | \$ 272 | 365.1 |
|                                | =====    | =====  |       |

RESULTS OF OPERATIONS

Rimage operates through two primary divisions: (1) the systems division designs, manufactures and sells high performance, on-demand publishing and duplication equipment for CD-R's, diskettes and tapes, and (2) the services division provides media duplication and fulfillment services for most computer media types, including CD-ROM, diskette, tape and other media such as ZIP and Jazz disks. Results of operations during the three months ended March 31, 1998 reflected the continued trend of substantial growth and profitability in the systems division and lower contribution from the services division.

REVENUE. Revenue decreased 10.9% from \$10.8 million during the first quarter of 1997 to \$9.6 million during the first quarter of 1998. All of the decrease, however, occurred in the services division, which recorded a 42.3% decline in revenue from \$6.1 million in the first quarter of 1997 to \$3.5 million in the first quarter of 1998. Fueled by increasing sales of its CD-R products, revenue in the systems division increased 29.6% to \$6.1 million in the first quarter of 1998 from \$4.7 in the first quarter of 1997. Revenue in the services division was affected by the loss of a customer that provided 21.5% of services sales during the first quarter of 1997 and by decreasing demand for diskette duplication services.

GROSS PROFIT. Gross profit increased 48.8% from \$2.6 million in the first quarter of 1997 to \$3.8 million in the first quarter of 1998. The increase was due to the greater proportion of high margin systems sales in the 1998 quarter, and particularly sales of CD-R equipment. Gross profit from the services division remained relatively constant from the 1997 quarter to the 1998 quarter while gross profit in the systems division increased by 65.4%. As a percentage of revenue, gross profit increased from 23.7% during the first quarter of 1997 to 39.6% during the first quarter of 1998. Margins in the systems division increased to 52.3% in the first quarter of 1998 from 40.9% in the first quarter of 1997 as CD-R products contributed a greater percentage of sales and due to manufacturing efficiencies instituted in 1997. Margins also improved in the services division from 10% in the first quarter of 1997 to 17.4% in the first quarter of 1998, primarily as a result of cost savings measures applied to the services organization in 1997.

OPERATING EXPENSE. Operating expense increased 11.3% from \$2,293,000 in the first quarter of 1997 to 2,552,000 in the first quarter of 1998 and increased as a percentage of revenue from 21.2% in the first quarter of 1997 to 26.4% in the first quarter of 1998. All of the increase in operating expense related to increased sales and marketing expense and to the reserve for the write off of certain leasehold improvements associated with plans to remove operations from the services facility in Plover, WI. The Company significantly expanded its distribution network, both domestically and internationally, for its systems products in the second half of the 1997 fiscal year and has commenced joint marketing campaigns with distributors and value added resellers. These steps, combined with the increasing percentage of overall sales from the systems division (where products are sold through distribution) as opposed to services (where services are generated primarily through contacts and advertisement) were primary causes of sales and marketing expense to increase from 9.0% of revenue in the first quarter of 1997 to 12.8% of revenue in the first quarter of 1998. Partially offsetting the increased sales and marketing expense was a decrease in general and administrative expense both in terms of dollars (from \$953,000 in the first quarter of 1997 to \$806,000 in the first quarter of 1998) and as a percentage of revenue (from 8.8% in the first quarter of 1997 to 8.4% in the first quarter of 1998). Research and development expense remained relatively constant between the periods. One of the Company's principal objectives is to continue to reduce expenditures in administration as a percentage of revenue and direct more resources to revenue producing activities through selling and marketing expense. Accordingly, the Company intends to continue spending in sales and marketing.

INTEREST EXPENSE. The Company repaid all outstanding borrowings under its line of credit during the fourth quarter of 1997, substantially reducing net interest expense from \$267,000 in the first quarter of 1997 to \$92,000 in the first quarter of 1998. With a substantial cash balance at March 31, the Company anticipates that net interest expense will remain lower for the balance of the year.



INCOME TAXES. Income tax expense for the first quarter of 1998 amounted to \$173,000 as compared to \$0 for the first quarter of 1997. The Company is using an effective rate of 15% to record income taxes during 1998.

NET EARNINGS. The significant change in mix of revenue to higher margin product sales in the system division, combined with only marginal increases in operating expense to support those sales, caused net earnings to increase dramatically to over \$1 million in the first quarter of 1998. The Company expects to continue to emphasize and devote much of its resources to its systems business in coming quarters.

#### LIQUIDITY AND CAPITAL RESOURCES

Operating activities generated \$1.2 million of cash during the three months ended March 31, 1998. The \$1.6 million of cash generated from net earnings, after adjustment for non-cash items (primarily depreciation and amortization) was offset by increased receivables resulting from increased revenue netted with a reduction in inventories and increased accrued expenses.

The Company invested approximately \$223,000 in additional equipment primarily for manufacturing purposes. Financing activities consumed \$268,000 of cash primarily as a result of monthly payments under a term note agreement with its bank.

The Company also maintains a revolving credit agreement with the same bank that provides for borrowings of up to \$5,000,000 based on qualifying balances of varying assets. The Company estimates that it had available borrowing authority of approximately \$3,342,000 under such line at March 31, 1998, but had no outstanding advances under the line at that date.

The Company believes that the \$1.4 million cash balance at March 31, 1998 and available borrowings under its credit line will be more than adequate to finance operations through the remainder of the calendar year.

#### PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 2. Changes in Securities

Not Applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit No. 11.1 Calculation of Earnings Per Share.

Exhibit No. 27.1 Financial Data Schedule

Exhibit No. 27.2 Financial Data Schedule - Restated

(b) Reports on Form 8-K:

Not Applicable.

#### SIGNATURES

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

RIMAGE CORPORATION  
Registrant

Date: May 14, 1998  
-----

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

Date: May 14, 1998  
-----

By: /s/ Robert M. Wolf  
-----  
Robert M. Wolf  
Controller  
(Principal Accounting Officer)

RIMAGE CORPORATION  
COMPUTATION OF NET EARNINGS PER SHARE OF COMMON STOCK

Basic net earnings per common share is determined by dividing net earnings by the weighted average number of shares of common stock outstanding, unless the result is anti-dilutive. Diluted net earnings per common share is determined by dividing the net earnings by the weighted average number of shares of common stock and common share equivalents outstanding, unless the result is anti-dilutive. The following is a summary of the weighted average common shares outstanding and common share equivalents:

<TABLE>  
<CAPTION>

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 1998                            | 1997      |
| <S>   | <C>                             | <C>       |
| Shares outstanding at beginning of period                     | 3,091,302                       | 3,084,500 |
| Common stock issued in stock option exercise                  | 13,169                          | 0         |
| Shares outstanding at end of period                           | 3,104,471                       | 3,084,500 |
| Weighted average shares of common stock outstanding           | 3,093,369                       | 3,084,500 |
| Common stock equivalents                                      | 709,797                         | 388,853   |
| Weighted average shares of common stock equivalents           | 353,851                         | 3,391     |
| Weighted average shares of common stock and stock equivalents | 3,447,220                       | 3,087,891 |
| Net earnings  | \$1,003,475                     | \$ 15,030 |
| Basic net earnings per share                                  | \$ 0.32                         | \$ 0.01   |
| Diluted net earnings per share                                | \$ 0.29                         | \$ 0.01   |

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5  
<MULTIPLIER> 1,000

| <S>                          | <C>         |
|------------------------------|-------------|
| <PERIOD-TYPE>                | 3-MOS       |
| <FISCAL-YEAR-END>            | DEC-31-1998 |
| <PERIOD-START>               | JAN-01-1998 |
| <PERIOD-END>                 | MAR-31-1998 |
| <CASH>                       | 1,428       |
| <SECURITIES>                 | 0           |
| <RECEIVABLES>                | 5,839       |
| <ALLOWANCES>                 | 357         |
| <INVENTORY>                  | 2,134       |
| <CURRENT-ASSETS>             | 9,546       |
| <PP&E>                       | 13,364      |
| <DEPRECIATION>               | 7,762       |
| <TOTAL-ASSETS>               | 16,181      |
| <CURRENT-LIABILITIES>        | 6,053       |
| <BONDS>                      | 0           |
| <PREFERRED-MANDATORY>        | 0           |
| <PREFERRED>                  | 0           |
| <COMMON>                     | 31          |
| <OTHER-SE>                   | 6,952       |
| <TOTAL-LIABILITY-AND-EQUITY> | 16,181      |
| <SALES>                      | 9,649       |
| <TOTAL-REVENUES>             | 9,649       |
| <CGS>                        | 5,832       |
| <TOTAL-COSTS>                | 5,832       |
| <OTHER-EXPENSES>             | 2,552       |
| <LOSS-PROVISION>             | 0           |
| <INTEREST-EXPENSE>           | 92          |
| <INCOME-PRETAX>              | 1,177       |
| <INCOME-TAX>                 | 173         |
| <INCOME-CONTINUING>          | 1,004       |
| <DISCONTINUED>               | 0           |
| <EXTRAORDINARY>              | 0           |
| <CHANGES>                    | 0           |
| <NET-INCOME>                 | 1,004       |
| <EPS-PRIMARY>                | 0.32        |
| <EPS-DILUTED>                | 0.29        |

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5

<RESTATED>

<MULTIPLIER> 1,000

| <S>                          | <C>         | <C>         |
|------------------------------|-------------|-------------|
| <PERIOD-TYPE>                | 3-MOS       | 3-MOS       |
| <FISCAL-YEAR-END>            | DEC-31-1997 | DEC-31-1996 |
| <PERIOD-START>               | JAN-01-1997 | JAN-01-1996 |
| <PERIOD-END>                 | MAR-31-1997 | MAR-31-1996 |
| <CASH>                       | 20          | 117         |
| <SECURITIES>                 | 0           | 0           |
| <RECEIVABLES>                | 8,253       | 6,156       |
| <ALLOWANCES>                 | 1,075       | 1,085       |
| <INVENTORY>                  | 3,598       | 4,028       |
| <CURRENT-ASSETS>             | 12,071      | 10,545      |
| <PP&E>                       | 13,893      | 13,796      |
| <DEPRECIATION>               | 6,615       | 5,981       |
| <TOTAL-ASSETS>               | 20,522      | 20,010      |
| <CURRENT-LIABILITIES>        | 13,455      | 12,836      |
| <BONDS>                      | 0           | 0           |
| <PREFERRED-MANDATORY>        | 0           | 0           |
| <PREFERRED>                  | 0           | 0           |
| <COMMON>                     | 31          | 31          |
| <OTHER-SE>                   | 4,030       | 4,053       |
| <TOTAL-LIABILITY-AND-EQUITY> | 20,522      | 20,010      |
| <SALES>                      | 10,827      | 11,051      |
| <TOTAL-REVENUES>             | 10,827      | 11,051      |
| <CGS>                        | 8,262       | 7,882       |
| <TOTAL-COSTS>                | 8,262       | 7,882       |
| <OTHER-EXPENSES>             | 2,293       | 2,988       |
| <LOSS-PROVISION>             | 0           | 0           |
| <INTEREST-EXPENSE>           | 267         | 139         |
| <INCOME-PRETAX>              | 15          | 71          |
| <INCOME-TAX>                 | 0           | 24          |
| <INCOME-CONTINUING>          | 15          | 47          |
| <DISCONTINUED>               | 0           | 0           |
| <EXTRAORDINARY>              | 0           | 0           |
| <CHANGES>                    | 0           | 0           |
| <NET-INCOME>                 | 15          | 47          |
| <EPS-PRIMARY>                | 0.01        | 0.02        |
| <EPS-DILUTED>                | 0.01        | 0.02        |

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