RIMAGE CORP
Form 10-Q
August 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **June 30, 2012**; OR

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes x No o**

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 o Accelerated Filer x Non-Accelerated Filer o Smaller Reporting Company o

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

Common Stock outstanding at July 31, 2012 10,127,948 shares of $.01 par value Common Stock.

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FOR THE QUARTER ENDED JUNE 30, 2012

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PART 1 FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)

RIMAGE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(unaudited - in thousands, except share data)

Assets	June 30, 2012	December 31, 2011
Current assets:		
Cash and cash equivalents	$ 49,099	$ 70,161
Marketable securities	13,243	
Receivables, net of allowance for doubtful accounts and sales returns of $252 and $219, respectively	11,350	15,496
Inventories	5,727	6,198
Prepaid expenses and other current assets	2,752	3,051
Deferred income taxes - current	3,517	3,531
Total current assets	85,688	98,437
Property and equipment, net of accumulated depreciation and amortization of $13,336 and $12,221, respectively	6,464	6,177
Intangible assets, net of amortization of $1,752 and $705, respectively	18,195	19,238
Goodwill	22,218	22,218
Deferred income taxes - non-current	11,141	8,589
Other assets - non-current	3,593	3,001
Total assets	$ 147,299	$ 157,660
Liabilities and Stockholders Equity		
Current liabilities:		
Trade accounts payable	$ 5,356	$ 5,469
Accrued compensation	4,209	5,231
Other accrued expenses	743	916
Deferred income and customer deposits	7,466	8,492
Other current liabilities	42	48
Total current liabilities	17,816	20,156
Long-term liabilities:		
Deferred income - non-current	4,478	4,769
Income taxes payable - non-current	95	96
Other non-current liabilities	727	339
Total long-term liabilities	5,300	5,204
Total liabilities	23,116	25,360
Commitments and contingencies		
Stockholders equity:		
Rimage 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 10,127,948 and 10,203,734, respectively	101	102
Additional paid-in capital	55,870	54,835
Retained earnings	68,053	76,875
Accumulated other comprehensive income (loss)	(68)	128
Total Rimage stockholders equity	123,956	131,940
Noncontrolling interest	227	360
Total stockholders equity	124,183	132,300
Total liabilities and stockholders equity	$ 147,299	$ 157,660

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues:				
Product	$ 14,181	$ 17,235	$ 29,580	$ 36,016
Service	4,103	2,959	8,165	5,634
Total revenues	18,284	20,194	37,745	41,650
Cost of revenues:				
Product	7,738	8,709	15,326	17,918
Service	2,249	1,606	4,549	3,069
Total cost of revenues	9,987	10,315	19,875	20,987
Gross profit	8,297	9,879	17,870	20,663
Operating expenses:				
Research and development	2,894	1,516	5,999	3,068
Selling, general and administrative	8,866	6,543	18,062	13,449
Amortization of purchased intangibles	264		511	
Total operating expenses	12,024	8,059	24,572	16,517
Operating income (loss)	(3,727)	1,820	(6,702)	4,146
Other income (expense):				
Interest, net	19	52	21	119
Loss on currency exchange	(13)	3	(85)	(30)
Other, net	(2)			
Total other income (expense), net	4	55	(64)	89
Income (loss) before income taxes	(3,723)	1,875	(6,766)	4,235
Income tax expense (benefit)	(902)	728	(2,176)	1,605
Net income (loss)	(2,821)	1,147	(4,590)	2,630
Net loss attributable to the noncontrolling interest	71	59	135	74
Net income (loss) attributable to Rimage	$ (2,750)	$ 1,206	$ (4,455)	$ 2,704
Net income (loss) per basic share	$ (0.27)	$ 0.12	$ (0.44)	$ 0.28
Net income (loss) per diluted share	$ (0.27)	$ 0.12	$ (0.44)	$ 0.28
Basic weighted average shares outstanding	10,177	9,559	10,197	9,526
Diluted weighted average shares outstanding	10,177	9,589	10,197	9,565

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income (loss)	$ (2,821)	$ 1,147	$ (4,590)	$ 2,630
Other comprehensive income:				
Net changes in:				
Foreign currency translation adjustments	(331)	177	(188)	552
Change in net unrealized loss (gain) on marketable securities, net of tax	(5)	(25)	(5)	(50)
Total other comprehensive income (loss)	(336)	152	(193)	502
Total comprehensive income (loss)	(3,157)	1,299	(4,783)	3,132
Net loss attributable to the noncontrolling interest	(71)	(59)	(135)	(74)
Foreign currency translation adjustments attributable to the noncontrolling interest		7	3	10
Comprehensive (income) loss attributable to the noncontrolling interest	(71)	(52)	(132)	(64)
Comprehensive income (loss) attributable to Rimage	$ (3,086)	$ 1,351	$ (4,651)	$ 3,196

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash flows from operating activities:		
Net income (loss)	$ (4,590)	$ 2,630
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,229	1,255
Deferred income tax benefit	(2,703)	(353)
Loss on disposal of property and equipment	29	30
Stock-based compensation	1,138	967
Excess tax benefits from stock-based compensation		(11)
Changes in operating assets and liabilities:		
Receivables	4,232	131
Inventories	374	(1,145)
Prepaid income taxes / income taxes payable	296	(97)
Prepaid expenses and other current assets	(194)	3
Trade accounts payable	(468)	(576)
Accrued compensation	(994)	(778)
Other accrued expenses and other current liabilities	(170)	(3)
Deferred income and customer deposits	(1,275)	4,008
Other long-term liabilities	696	
Net cash provided by (used in) operating activities	(1,400)	6,061
Cash flows from investing activities:		
Purchase of cost method investment		(2,000)
Purchases of marketable securities	(13,253)	
Sales and maturities of marketable securities		2,100
Issuances of notes receivable	(500)	(500)
Purchases of property and equipment	(1,399)	(639)
Proceeds from sale of property and equipment	2	
Net cash used in investing activities	(15,150)	(1,039)
Cash flows from financing activities:		
Repurchases of common stock	(900)	
Common stock repurchases to settle employee withholding liability	(28)	
Payments of dividends	(3,468)	(950)
Principal payments on capital lease obligations	(9)	(10)
Excess tax benefits from stock-based compensation		11
Proceeds from employee stock plans		204
Net cash used in financing activities	(4,405)	(745)
Effect of exchange rate changes on cash	(107)	232
Net increase (decrease) in cash and cash equivalents	(21,062)	4,509
Cash and cash equivalents, beginning of period	70,161	107,982
Cash and cash equivalents, end of period	$ 49,099	$ 112,491
Supplemental disclosures of net cash paid during the period for:		
Income taxes	$ 226	$ 2,057

See accompanying notes to condensed consolidated financial statements.

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

(1) Basis of Presentation and Nature of Business

The consolidated financial statements include the accounts of Rimage Corporation, its subsidiaries and its majority-owned joint venture, collectively hereinafter referred to as Rimage or the Company. All intercompany accounts and transactions have been eliminated in consolidation.

Rimage Corporation helps businesses deliver digital content directly and securely to their customers and employees. Rimage s disc publishing business supplies customers in North America, Europe and Asia with industry-leading solutions that archive, distribute and protect content on CDs, DVDs and Blu-ray Discs . With its acquisition of Qumu, Inc. (Qumu), Rimage entered the rapidly growing enterprise video communications market. The combination of Qumu with Rimage s disc publishing business, and online publishing solution introduced in the second quarter of 2012, enables businesses to securely deliver their videos, documents, audio files and images in today s multi-platform, multi-device world.

The accompanying condensed consolidated financial statements 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, 2011.

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 estimates on items such as allowance for doubtful accounts and sales returns, inventory provisions, asset impairment charges, deferred tax asset valuation allowances, accruals for uncertain tax positions and warranty accruals. These estimates and assumptions are based on management s best judgment. Management evaluates estimates and assumptions on an ongoing basis using its technical knowledge, historical experience and other factors, including consideration of the impact of the current economic environment. Management believes its assumptions are reasonable and adjusts such estimates and assumptions when facts and circumstances change. Illiquid credit markets, volatile equity, foreign currency and energy markets, and declines in business and consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Any required changes in those estimates will be reflected in the financial statements in future periods.

(2) Acquisition of Qumu, Inc.

On October 10, 2011, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) to acquire 100% of the outstanding stock of Qumu, a leading supplier of enterprise video communication solutions and social enterprise applications for business. Based in San Bruno, California, Qumu s products are expected to complement Rimage s Signal online publishing solution introduced in the second quarter of 2012, and each company is expected to benefit from the other s existing customer base. The acquisition was made to accelerate the Company s growth potential in the global content delivery market.

After inclusion of working capital and other adjustments required under the Merger Agreement, the aggregate purchase price totaled approximately $53 million, consisting of a net cash outlay of approximately $39 million and approximately 1,000,000 shares of Rimage s common stock. For the purposes of calculating the number of shares of common stock issuable in the merger, the parties agreed upon a value of $13.1865 per share. Pursuant to the terms of a lock-up agreement, the shares issued in the merger will be restricted from transfer, subject to certain exceptions. The restrictions will lapse for one-third of the shares at each of 180 days, 270 days and 365 days following the effective date of the merger. Following the acquisition, Qumu s liabilities consisted of trade payables, accrued operating expenses and deferred income related primarily to active software maintenance contracts. Of the cash amounts payable in the merger, $5.2 million is subject to escrow for a one-year period to secure a possible working capital adjustment and the indemnification obligations to Rimage. The acquisition was funded through the use of cash held by Rimage at the acquisition date and Rimage common stock.

The acquisition was accounted for under the provisions of ASC 805, Business Combinations. The aggregate purchase price was allocated to the fair values of the tangible and intangible assets acquired and liabilities assumed. Management engaged the services of an independent qualified third party appraiser to assist with establishing fair values. The fair values assigned to intangible assets were determined through the use of forecasted cash inflows and outflows and applying a relief-from royalty and a multi-period excess earnings method. These valuation methods were based on management s estimates as of the acquisition date of October 10, 2011. The excess of the purchase price over the net tangible and identifiable intangible assets acquired was recorded as goodwill, which is non-deductible for tax purposes. Transaction costs of approximately $1.7 million were expensed as incurred and were included in the Company s selling, general and administrative expenses.

The following table summarizes the preliminary purchase accounting allocation of the total purchase price to Qumu s net tangible and intangible assets, with the residual allocated to goodwill (in thousands).

Aggregate purchase price	$	51,275
Less: discount applied to Rimage stock for trade restrictions		(1,955)
Net transaction consideration	$	49,320
Current assets	$	5,213
Property and equipment		390
Intangible assets		18,900
Goodwill		22,218
Net deferred tax assets		7,229
Current liabilities		(4,630)
Total net assets acquired	$	49,320

The aggregate purchase price for purchase accounting of $51,275,000 reflects the cash consideration plus the valuation of issued Rimage stock at the closing price per share of $11.50 on the date of the acquisition. The purchase price allocation is considered preliminary and is subject to change pending finalization primarily of the value of tax benefits of acquired loss and tax credit carryforwards. As such, amounts subject to potential change in the purchase accounting allocation include goodwill and net deferred tax assets.

The guidance under ASC 805 provides that intangible assets with finite lives be amortized over their estimated remaining useful lives, while goodwill and other intangible assets with indefinite lives will not be amortized, but rather tested for impairment on at least an annual basis. Useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

The Company is amortizing the acquired intangible assets on a straight-line basis over their expected economic lives. Amortization expense related to the intangibles is reflected in cost of revenues ($0.2 million and $0.4 million for the three and six months ended June 30, 2012, respectively) and operating expenses amortization of purchased intangibles ($0.3 million and $0.5 million for the three and six months ended June 30, 2012, respectively) in the consolidated statements of operations. The Company established deferred tax assets amounting to approximately $14.2 million for the future benefit of utilization of acquired net operating losses and other tax credits, as well as the impact of cumulative temporary book to tax differences on Qumu s opening balance sheet. A deferred tax liability was established for approximately $7.0 million, for the estimated future impact of the difference in the book vs. tax basis of the purchased intangible assets.

Qumu operating results are included in the Company s condensed consolidated statements of operations in the Company s online publishing segment from the date of acquisition. The following table contains unaudited pro forma results for the three and six months ended June 30, 2012 and 2011, as if the Qumu acquisition had occurred on January 1, 2010 (in thousands, except per share data).

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	Three Months Ended June 30, 2012 Reported	2011 Reported	2011 Pro Forma (unaudited)	Six Months Ended June 30, 2012 Reported	2011 Reported	2011 Pro Forma (unaudited)
Net sales	$ 18,284	$ 20,194	$ 23,271	$ 37,745	$ 41,650	$ 48,125
Net income (loss)	(2,750)	1,206	448	(4,455)	2,704	1,219
Net earnings per share:						
Basic	(0.27)	0.12	0.04	(0.44)	0.28	0.12
Diluted	(0.27)	0.12	0.04	(0.44)	0.28	0.12

The above pro forma financial information is based on the historical financial results of Rimage and Qumu after giving effect to the acquisition and certain pro forma adjustments, summarized below.

Pro forma adjustments for the three and six months ended June 30, 2011 relate primarily to 1) amortization of identified intangible assets ($0.5 million and $1.0 million, respectively), 2) elimination of Qumu s interest expense and bank fees associated with debt that was retired with acquisition proceeds ($0.3 million and $0.5 million, respectively), and certain other adjustments together with related income tax effects ($0.5 million and $0.9 million, respectively).

The pro forma consolidated results do not purport to be indicative of results that would have occurred had the acquisition been in effect for the periods presented, nor do they claim to be indicative of the results that will be obtained in the future. In addition, the pro forma results do not reflect the realization of any cost savings that may have been achieved from operating efficiencies, synergies or other restructuring activities that may result from the acquisition.

(3) Stock-Based Compensation

The Company granted 61,740 and 69,740 stock option awards during the three and six months ended June 30, 2012, respectively, and granted 87,780 and 102,780 stock options during the three and six months ended June 30, 2011, respectively. The Company granted 54,124 and 64,124 restricted stock awards and restricted stock units during the three and six months ended June 30, 2012, respectively, compared to 91,518 during the three and six months ended June 30, 2011.

The Company recognized the following amounts related to its share-based payment arrangements (in thousands):

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Stock-based compensation cost charged against income, before income tax benefit				
Stock options	$ 335	$ 366	$ 758	$ 734
Resticted stock and restricted stock units	181	131	380	233
	$ 516	$ 497	$ 1,138	$ 967

	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Stock-based compensation cost included in:				
Cost of revenues	$ 35	$ 34	$ 72	$ 62
Operating expenses	481	463	1,066	905
	$ 516	$ 497	$ 1,138	$ 967

(4) Accounting for Uncertainty in Income Taxes

As of June 30, 2012 and December 31, 2011, the Company s liability for gross unrecognized tax benefits totaled $1,030,000 and $977,000, respectively (excluding interest and penalties). Total accrued interest and penalties relating to unrecognized tax benefits amounted to $15,000 and $17,000 on a gross basis at June 30, 2012 and December 31, 2011, respectively. The Company does not currently expect significant changes in the amount of unrecognized tax benefits during the next twelve months.

(5) Marketable Securities

Marketable securities consist primarily of highly liquid certificates of deposit and U.S. treasury bills. Marketable securities are classified as either short-term or long-term in the condensed consolidated balance sheet based on their effective maturity date. All marketable securities as of June 30, 2012, have original maturities ranging from three to 12 months and are classified as available-for-sale. Available-for-sale securities are recorded at fair value and any unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized. See Note 9, Fair Value Measurements, for a discussion of inputs used to measure the fair value of the Company s available-for-sale securities.

(6) Inventories

Inventories consisted of the following (in thousands):

	June 30, 2012	December 31, 2011
Finished goods and demonstration equipment	$ 2,383	$ 2,644
Purchased parts and subassemblies	3,344	3,554
	$ 5,727	$ 6,198

(7) Goodwill and Intangible Assets

On October 10, 2011, Rimage completed the acquisition of Qumu and recognized $22.2 million of goodwill attributable to the Company s online publishing segment. There was no change in the carrying amount of goodwill for the three and six months ended June 30, 2012.

Intangible assets consisted of the following (in thousands):

	Useful Life	June 30, 2012	December 31, 2011	Statements of Income Category
Customer relationships	11	$ 8,090	$ 8,090	Amortization of purchased intangibles
Developed technology	7	6,050	6,050	Cost of product revenues
In-process research and development	7	1,310	1,310	Amortization of purchased intangibles
Trademarks / trade names	16	3,420	3,420	Amortization of purchased intangibles
Favorable lease	1	30	30	Amortization of purchased intangibles
Software related to joint venture entity	5	1,047	1,043	Cost of product revenues
		19,947	19,943	
Less accumulated amortization		(1,752)	(705)	
		$ 18,195	$ 19,238	

Amortization expense included in cost of product revenues was $268,000 and $536,000 for the three and six months ended June 30, 2012, respectively, compared to $50,000 and $100,000 for the three and six months ended June 30, 2011, respectively. Amortization expense included in operating expenses as amortization of purchased intangibles was $264,000 and $511,000 for the three and six months ended June 30, 2012, respectively.

(8) Derivatives

The Company enters into forward foreign exchange contracts principally to hedge intercompany receivables denominated in Euros arising from sales to its subsidiary in Germany. The Company s foreign exchange contracts do not qualify for hedge accounting. As a result, gains or losses related to mark-to-market adjustments on forward foreign exchange contracts are recognized as other income or expense in the Consolidated Statements of Operations during the period in which the instruments are outstanding. The fair value of forward foreign exchange contracts represents the amount the Company would receive or pay to terminate the forward exchange contracts at the reporting date and is recorded 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.

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As the Company s foreign exchange agreement is subject to a master netting arrangement, the Company s policy is to record the fair value of outstanding foreign exchange contracts as other current assets or other current liabilities, based on whether outstanding contracts are in a net gain or loss position, respectively. See Note 9, Fair Value Measurements, for additional information regarding the fair value measurements of derivative instruments related to foreign currency exchange contracts.

As of June 30, 2012, the Company had seven outstanding foreign exchange contracts with a notional amount totaling approximately $0.6 million. These contracts mature during 2012 and bear exchange rates ranging from 1.2389 and 1.3072 U.S. Dollars per Euro. As of June 30, 2012, the fair value of foreign exchange contracts resulted in a net gain position of approximately $3,000, which is recorded in other current assets.

As of December 31, 2011, the Company had nine outstanding foreign exchange contracts with a notional amount totaling approximately $1.3 million. These contracts mature during 2012 and bear exchange rates ranging from 1.2910 and 1.3553 U.S. Dollars per Euro. As of December 31, 2011, the fair value of foreign exchange contracts resulted in a net gain position of $41,000, which is recorded in other current assets.

Realized and unrealized gains or losses on derivative instruments related to foreign currency exchange contracts and their location on the Company s condensed consolidated statements of operations are as follows (in thousands):

		Three Months Ended June 30,		Six Months Ended June 30,	
Derivative Instrument	**Location**	**2012**	**2011**	**2012**	**2011**
Foreign Exchange Contracts	Gain (loss) on currency exchange	$ (23)	$ 13	$ (90)	$ (14)

The net gains or losses from foreign exchange contracts reflected above were largely offset by the underlying transaction net gains and losses arising from the foreign currency exposures to which these contracts relate.

The gross fair market value of derivative instruments related to foreign currency exchange contracts and their location on the Company s condensed consolidated balance sheets are as follows as of June 30, 2012 (in thousands):

	Asset Derivatives		Liability Derivatives	
Derivative Instrument	**Location**	**June 30, 2012**	**Location**	**June 30, 2012**
Foreign Exchange Contracts	Other current assets	$ 3	Other current liabilities	$

The Company enters into its foreign exchange contracts with a single counterparty, a financial institution. The Company manages its concentration of counterparty risk associated with foreign exchange contracts by periodically assessing relevant information such as the counterparty s current financial statements, credit agency reports and/or credit references. To further mitigate credit risk, the Company s Foreign Exchange Agreement with its counterparty includes a master netting arrangement, which allows netting of asset and liability positions of outstanding foreign exchange contracts if settlement were required.

(9) Fair Value Measurements

A hierarchy for inputs used in measuring fair value is in place that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity.

The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available. Three levels within the hierarchy may be used to measure fair value:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets and liabilities.
Level 2: Inputs include data points that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset or liability, either directly or indirectly.

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Level 3: Inputs are generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect an entity s own estimates of assumptions that market participants would use in pricing the asset or liability.

The Company s assets and liabilities measured at fair value on a recurring basis and the fair value hierarchy utilized to determine such fair values is as follows at June 30, 2012 (in thousands):

		Fair Value Measurements Using		
	Total Fair Value at June 30, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Marketable securities:				
Certificates of deposit	$ 8,243	$ 8,243	$	$
Treasury bills	5,000	5,000		
Foreign currency forward exchange contracts	3		3	
Assets measured at fair value at June 30, 2012	$ 13,246	$ 13,243	$ 3	$

Marketable securities are classified as Level 1 in the above table and are carried at fair value based on quoted market prices. The Company uses quoted market prices as substantially all of the certificates of deposit and treasury bills have maturity dates within one year from the Company s date of purchase and trade in active markets.

Foreign currency forward exchange contracts are classified as Level 2 in the above table and are 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.

(10) Common Stock Repurchases and Dividends

Effective October 2010, the Company s Board of Directors approved the continuation of common stock repurchases under original Board authorizations providing for the repurchase of up to 1,000,000 shares of the Company s common stock. Shares may 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 repurchased 99,616 shares of its common stock during the three and six months ended June 30, 2012. The Company did not repurchase any shares during the three and six months ended June 30, 2011. The repurchase program has been funded to date using cash on hand. As of June 30, 2012, the Company had 247,393 shares available for repurchase under the authorizations.

In addition to shares purchased under the Board authorization, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax withholding on stock option exercises or vesting of restricted awards. The Company purchased 3,296 shares to satisfy employee withholding liabilities during the three and six months ended June 30, 2012.

The Company declared and paid dividends of $1.7 million and $3.5 million during the three and six months ended June 30, 2012, respectively. The Company paid dividends of $1.0 million during the three and six months ended June 30, 2011.

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(11) Computation of Net Income (Loss) Per Share of Common Stock

Basic net income (loss) per common share is determined by dividing net income (loss) by the basic weighted average number of shares of common stock outstanding. Diluted net income (loss) per common share includes the potentially dilutive effect of common shares issued in connection with outstanding stock options using the treasury stock method and the dilutive impact of restricted stock units. Stock options and restricted stock units to acquire weighted average common shares of 1,765,000 and 1,750,000 for the three and six months ended June 30, 2012, have been excluded from the computation of diluted weighted average shares outstanding as their effect is anti-dilutive. Stock options to acquire weighted average common shares of 1,191,000 and 1,138,000 for the three and six months ended June 30, 2011, have been excluded from the computation of diluted weighted average shares outstanding as their effect is anti-dilutive. The following table identifies the components of net income (loss) per basic and diluted share (in thousands, except for per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Shares outstanding at end of period	10,128	9,589	10,128	9,589
Basic weighted average shares outstanding	10,177	9,559	10,197	9,526
Dilutive effect of stock options/restricted stock units		30		39
Total diluted weighted average shares outstanding	10,177	9,589	10,197	9,565
Net income (loss) attributable to Rimage	$ (2,750)	$ 1,206	$ (4,455)	$ 2,704
Basic net income (loss) per common share	$ (0.27)	$ 0.12	$ (0.44)	$ 0.28
Diluted net income (loss) per common share	$ (0.27)	$ 0.12	$ (0.44)	$ 0.28

(12) Contingencies

On August 26, 2011, the Company brought a declaratory judgment action against Innovative Automation, LLC, seeking a declaration that the Company does not infringe a patent purportedly owned by Innovative Automation (asserted patent) and that the asserted patent is invalid. The asserted patent pertains to methods and a system for providing automated digital data duplication. This case was brought in California and has been combined with two other cases brought by Innovative Automation against two of the Company s customers. On August 30, 2011, Innovative Automation filed a separate lawsuit in Texas against the Company, some of the Company s customers, and other defendants, alleging infringement of the asserted patent. On February 6, 2012, a Petition for Reexamination was filed with the United States Patent and Trademark Office, seeking to invalidate each claim of the asserted patent. The Company s request for reexamination of the asserted patent was granted in early March 2012. The Company believes that the allegations that it infringes any valid claim of the asserted patent are without merit and intends to defend against these claims vigorously. While there can be no assurance as to the outcome of these matters, the Company believes they will not have a material adverse effect on the Company s financial position or results of operations.

The Company is exposed to a number of asserted and unasserted claims encountered in the normal course of business. Legal costs related to loss contingencies are expensed as incurred. 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) Consolidation of Joint Venture Entity and Noncontrolling Interest

In mid August 2010, the Company received approval of its registration of a majority-owned joint venture in China, Rimage Information Technology (Shanghai) Co., Ltd. (RIT), and was issued a business license which allowed initiation of operations. RIT deploys a complete digital publishing solution for medical imaging in hospitals in China. The initial capitalization of RIT consisted of $1,200,000 in cash, of which Rimage invested $612,000 for a 51% interest, and Taiwan Electronic Data Processing (TEDPC), a Taiwanese software provider in the healthcare solutions market, invested $588,000 for the remaining 49% interest.

RIT purchases digital publishing systems from Rimage and utilizes medical disc system software source code purchased from TEDPC, and integrates the software with Rimage s digital publishing systems to allow deployment of a complete digital publishing solution in the Chinese medical imaging market. RIT has a commitment to pay TEDPC a minimum of $1,000,000 over the first three years of operations for the purchase of the software source code and associated intellectual property, which was acquired by RIT from TEDPC in December 2010. To the extent RIT s sales over the initial three-year period exceed established thresholds, RIT has agreed to pay TEDPC an incremental fee based on unit sales volumes. The Company capitalized the $1,000,000 cost for the software source code when purchased in 2010, and the associated balance is included in intangible assets in the accompanying consolidated balance sheets. The software source code is being amortized over its expected useful life of five years. Amortization expense recognized was approximately $50,000 and $100,000 during the three and six months ended June 30, 2012 and 2011, respectively.

The key operating decisions of the entity are subject to simple majority approval of the Board of Directors of RIT, and Rimage has majority representation on the Board. Given Rimage s control over the operations of RIT and its majority voting interest, the Company consolidates the financial statements of RIT with its consolidated financial statements, with the equity and earnings (loss) attributed to the noncontrolling interest identified separately in the accompanying condensed consolidated balance sheets and statements of operations.

The following table contains financial information for RIT:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue	$ 143	$ 93	$ 251	$ 292
Net loss	(143)	(120)	(278)	(151)
Net loss attributable to noncontrolling interest	(71)	(59)	(135)	(74)

	June 30, 2012	December 31, 2011
Stockholders equity attributable to noncontrolling interest	$ 227	$ 360

(14) Investment in Software Company

At December 31, 2010, the Company held a $290,000 convertible note receivable with BriefCam, Ltd. (BriefCam), a privately-held Israeli company that develops video synopsis technology to augment security and surveillance systems to facilitate review of surveillance video. In February 2011, the Company participated in the funding of BriefCam s preferred stock issuance with a cash investment of $2.0 million, and concurrently converted its note receivable into the same series of convertible preferred stock, achieving a minority ownership interest of less than 20%. On April 18, 2012, the Company issued a $500,000 convertible note receivable to BriefCam. The $500,000 convertible note receivable bears annual interest at 10% and is either convertible into BriefCam s preferred stock or may be repaid upon demand depending on the occurrence of certain future financing or other events. The $500,000 convertible note receivable brings Rimage s total investment in BriefCam to $2.8 million as of June 30, 2012.

Because Rimage s ownership interest is less than 20% and it has no other rights or privileges that enable it to exercise significant influence over the operating and financial policies of BriefCam, Rimage accounts for this equity investment using the cost method. Management believes it is not practicable to estimate the fair value of its investment because of the early stage of BriefCam s business and low volume of BriefCam s equity transactions. Through its seat on BriefCam s board of directors, Rimage monitors BriefCam s results of operations and business plan, and is not aware of any events or circumstances that would indicate a decline in the carrying value of its investment and note receivable, which amounted to $2.8 million and $2.3 million at June 30, 2012 and December 31, 2011, respectively, and is included in other noncurrent assets in the condensed consolidated balance sheets. Rimage will utilize BriefCam s video synopsis software to enhance its video surveillance solutions with analytical capabilities.

(15) Software Development Costs for Signal Online Publishing Solution

The Company continued the development of Signal, its online publishing solution, through the second quarter of 2012. Signal is expected to be deployed through a cloud-based SaaS platform as well as the sale of software licenses and software on a server appliance, depending on customer preference. The Company accounted for the associated development costs under the guidance of ASC 985-20, Costs of Software to be Sold, Leased or Marketed. This standard provides that research and development costs incurred to establish the technological feasibility of a computer software product to be sold, leased or otherwise marketed are research and development costs and should be charged to expense when incurred. All Signal development expenses incurred during the three and six months ended June 30, 2012 and 2011 were expensed to research and development in the accompanying condensed consolidated statements of operations.

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(16) Qumu Facility Lease

On January 25, 2012, the Company entered into an amendment to the Qumu facility lease. Under the original lease, the Company leased approximately 11,600 square feet in San Bruno, California, with a term expiring effective June 30, 2012. Under the amendment, the Company agreed to relocate from the existing premises to approximately 13,900 square feet within the same facility effective April 1, 2012 and expiring in June 2018. The amendment allowed the Company to construct leasehold improvements to the new space prior to the effective date of the lease. As the leasehold improvements are the property of the Company, the associated costs, amounting to approximately $907,000, were capitalized in property and equipment as of June 30, 2012 and will be depreciated over the term of the lease. As an incentive to enter into the amendment, the lessor provided the Company a one-time tenant improvement allowance of $675,000 to apply against the cost of the leasehold improvements. The one-time tenant improvement allowance of $675,000 is included in other accrued expenses ($105,000) and other non-current liabilities ($570,000) and will be amortized as a reduction of rent expense over the term of the lease. Expenditures for leasehold improvements are included in the investing section of the statements of cash flows and the one-time tenant improvement allowance is included in the operating activities section of the statements of cash flows. Leasehold improvement costs remaining unpaid and accrued by the Company as of June 30, 2012 of $94,000 are excluded from the investing and operating activities sections of the statements of cash flows for the six months ended June 30, 2012.

(17) Segments

As part of its integration of Qumu s enterprise video communications product line and preparation for the introduction in the second quarter of 2012 of Signal, its internally developed online publishing solution, the Company modified its reporting structure during the first quarter of 2012 to align with changes in how the business is managed. Reportable segments are defined primarily by the nature of the Company s products and markets. The Company was previously organized under one reportable segment which consisted of its disc publishing business. As a result of the changes in the business described above, the Company has identified two reportable segments: disc publishing and online publishing. The Company s disc publishing business supplies customers in North America, Europe and Asia with industry-leading solutions that archive, distribute and protect content on CDs, DVDs and Blu-ray Discs . The Company s online publishing business enables online distribution of content through two delivery systems, 1) live and on-demand streaming video through its enterprise video communications product line, acquired as part of the acquisition of Qumu, and 2) secure push-based content delivery to personal computers, tablets and smart phones through its Signal online publishing solution. The combination of disc publishing and online publishing enables businesses to securely deliver their videos, documents, audio files and images in today s multi-platform, multi-device world.

Management evaluates segment performance based on revenue and operating income (loss). The measurement of operating income (loss) excludes interest income and expense, other non-operating items and income taxes. The operating income (loss) for the Company s online publishing and disc publishing segments include all the direct costs of each business. Additionally, the disc publishing segment includes all corporate and other unallocated amounts, a portion of which were incurred to support the online publishing segment. The Company has not provided specific asset information by segment, as it is not regularly provided to the Company s chief operating decision maker for review at a segment specific level.

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Net revenue and operating income (loss) were as follows (in thousands):

Reportable Segments	Disc Publishing	Online Publishing	Total
Three months ended June 30, 2012			
Revenues	$ 16,903	$ 1,381	$ 18,284
Operating income (loss)	660	(4,387) (1)	(3,727)
Three months ended June 30, 2011			
Revenues	$ 20,194	$	$ 20,194
Operating income (loss)	2,438	(618) (2)	1,820
Six months ended June 30, 2012			
Revenues	$ 34,987	$ 2,758	$ 37,745
Operating income (loss)	2,073	(8,775) (1)	(6,702)
Six months ended June 30, 2011			
Revenues	$ 41,650	$	$ 41,650
Operating income (loss)	5,342	(1,196) (2)	4,146

(1) Operating loss for the online publishing segment for the three and six months ended June 30, 2012 includes amortization expense of $480,000 and $943,000 for amortization of intangible assets established as part of the Qumu acquisition. See Note 7, Goodwill and Intangible Assets, for additional information regarding the Company s intangible assets.

(2) Operating loss for the online publishing segment for the three and six months ended June 30, 2011 consists of expenses incurred to develop and support the Company s Signal online publishing solution.

Note: The Company s contracted commitment backlog for the online publishing segment aggregated $6.6 million as of June 30, 2012. Associated revenues will be recognized over the next several quarters.

(18) Recently Issued Accounting Standards

In June 2011, the FASB issued amendments to the FASB Accounting Standards Codification relating to the financial statement presentation of comprehensive income. The amendments eliminate the option to report other comprehensive income and its components in the statement of changes in stockholders equity, and require that all nonowner changes in stockholders equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements of income and comprehensive income. Upon adoption on January 1, 2012, the Company elected to present comprehensive income in two separate but consecutive statements as part of the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

In September 2011, the FASB issued ASU No 2010-28, Intangibles Goodwill and Other that introduces the use of qualitative factors when considering the need to perform a step 1 goodwill impairment test. If the Company concludes that qualitative factors indicate that it is more likely than not that the fair value exceeds the carrying value, then they do not need to perform a step 1 goodwill impairment test. This update to ASC 350 is effective for the first quarter of 2012 and will be applicable to the Company s annual impairment analysis conducted during the Company s fourth quarter of 2012. Adoption is not expected to have a material impact on the Company s consolidated financial statements.

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

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

	Percentage (%) of Revenues Three Months Ended June 30,		Percentage (%) Inc/(Dec) Between Periods	Percentage (%) of Revenues Six Months Ended June 30,		Percentage (%) Inc/(Dec) Between Periods
	2012	2011	2012 vs. 2011	2012	2011	2012 vs. 2011
Revenues	100.0	100.0	(9.5)	100.0	100.0	(9.4)
Cost of revenues	(54.6)	(51.1)	(3.2)	(52.7)	(50.4)	(5.3)
Gross profit	45.4	48.9	(16.0)	47.3	49.6	(13.5)
Operating expenses:						
Research and development	(15.8)	(7.5)	90.9	(15.9)	(7.4)	95.5
Selling, general and administrative	(48.6)	(32.4)	35.5	(47.8)	(32.2)	34.3
Amortization of intangibles	(1.4)			(1.4)		
Operating income (loss)	(20.4)	9.0	(304.8)	(17.8)	10.0	(261.6)
Other income, net		0.3	(92.7)	(0.1)	0.2	(171.9)
Income (loss) before income taxes	(20.4)	9.3	(298.6)	(17.9)	10.2	(259.8)
Income tax benefit (expense)	5.0	(3.6)	(223.9)	5.7	(3.9)	(235.6)
Net income (loss)	(15.4)	5.7	(345.9)	(12.2)	6.3	(274.5)
Noncontrolling interest	0.4	0.3	20.3	0.4	0.2	82.4
Net income (loss) attributable to Rimage	(15.0)	6.0	(328.0)	(11.8)	6.5	(264.8)

Overview

Rimage helps businesses deliver digital content directly and securely to their customers and employees. The Company organizes and manages its business in two reportable segments based on the nature of its products and markets, consisting of disc publishing and online publishing. Rimage s disc publishing business supplies customers in North America, Europe and Asia with industry-leading solutions that archive, distribute and protect content on CDs, DVDs and Blu-ray Discs . The Company s online publishing business enables online distribution of content through two delivery systems, 1) live and on-demand streaming video through its enterprise video communications product line, acquired as part of the acquisition of Qumu, and 2) secure push-based content delivery to personal computers, tablets and smart phones through its Signal online publishing solution, introduced in the second quarter of 2012. The combination of disc publishing and online publishing enables businesses to securely deliver their videos, documents, audio files and images in today s multi-platform, multi-device world.

Rimage distributes its disc publishing systems from its operations in the United States, Germany, Japan and China. The Company also distributes related consumables for use with its disc publishing systems, consisting of media kits, ribbons, ink cartridges and Rimage-branded blank CD-R, DVD-R and Blu-ray media. These systems allow customers to distribute digital content in markets and applications such as medical imaging; video workflows, manufacturing, business services, including banking and finance; and government law enforcement, including surveillance and evidence management. As Rimage s sales within North America and Europe have averaged approximately 90% 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 introduced its Signal online publishing solution in the second quarter of 2012, and the Company expects to begin to generate revenues from Signal during the second half of 2012. Signal is designed to help companies push content directly to the personal computers, tablets and smart phones of their employees, partners, suppliers and customers while applying security and usage policies that effectively manage its distribution, even when it is resident on subscribers devices and disconnected from the internet. The initial sales focus will be on helping customers deliver pre-release content for media and entertainment and on securing business content to tablets for corporations.

On October 10, 2011, the Company acquired 100% of the capital stock of Qumu pursuant to an Agreement and Plan of Merger (the Merger Agreement). Based in San Bruno, California, Qumu is a leading supplier of enterprise video communication solutions and social enterprise applications for business. Qumu s products are expected to complement Rimage s recently introduced Signal online publishing solution, and each company is expected to benefit from the other s existing customer base. As a result of the acquisition, Qumu is a wholly-owned subsidiary of the Company.

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Through the acquisition of Qumu, the Company s enterprise video communications solutions, included in the online publishing business, are deployed primarily through the sale of software licenses and software on a server appliance. Software maintenance contracts and professional services are also sold with these solutions. The recently introduced Signal solution, also included in the online publishing business, did not generate any revenues in the first half of 2012. Signal is expected to be deployed through a cloud-based SaaS platform as well as the sale of software licenses and software on a server appliance, depending on customer preference. The Company s disc publishing business earns revenues through the sale of equipment, consumables and parts as well as maintenance contracts, repair and installation services. Product revenues on the accompanying consolidated statements of operations include the Company s sale of equipment and appliances, consumables, parts and software licenses. Service revenues on the consolidated statements of operations include revenues from maintenance contracts, repair, installation and professional services. Rimage has no long-term debt and does not require significant capital investment as all fabrication of its products is outsourced to vendors.

Results of Operations

Revenues.

The table below describes Rimage s revenues by segment and product category (in thousands):

	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011		Inc (Dec) Between Periods		Six Months Ended June 30, 2012		Six Months Ended June 30, 2011		Inc (Dec) Between Periods	
	$	%	$	%	$	%	$	%	$	%	$	%
Disc publishing												
Disc publishing equipment:												
Producer	$ 2,383	13%	$ 4,188	21%	$ (1,805)	-43%	$ 5,161	14%	$ 7,001	17%	$ (1,840)	-26%
Professional	2,517	14%	2,600	13%	(83)	-3%	5,725	15%	6,325	15%	(600)	-9%
Desktop	475	3%	699	3%	(224)	-32%	1,004	3%	1,334	3%	(330)	-25%
Total disc publishing equipment	5,375	29%	7,487	37%	(2,112)	-28%	11,890	32%	14,660	35%	(2,770)	-19%
Recurring:												
Consumables and parts	8,529	47%	9,748	48%	(1,219)	-13%	17,080	45%	21,356	51%	(4,276)	-20%
Service	3,000	16%	2,959	15%	41	1%	6,017	16%	5,634	14%	383	7%
Total recurring	11,529	63%	12,707	63%	(1,178)	-9%	23,097	61%	26,990	65%	(3,893)	-14%
Total disc publishing	16,904	92%	20,194	100%	(3,290)	-16%	34,987	93%	41,650	100%	(6,663)	-16%
Online publishing												
Software licenses and appliances	277	2%			277		610	2%			610	
Service	1,103	6%			1,103		2,148	6%			2,148	
Total online publishing	1,380	8%			1,380		2,758	7%			2,758	
Total	$ 18,284	100%	$ 20,194	100%	$ (1,910)	-9%	$ 37,745	100%	$ 41,650	100%	$ (3,905)	-9%

Total revenues decreased 9% for both the three and six months ended June 30, 2012 to $18.3 million and $37.7 million, respectively, from $20.2 million and $41.7 million in the respective prior-year periods. The decrease in total revenues in the second quarter and year-to-date periods reflects a $3.3 million and $6.7 million reduction in disc publishing revenues in each respective period, partially offset by $1.4 million and $2.8 million in revenues generated by the enterprise video communications product line, included in the online publishing business. Consolidated product revenues decreased $3.0 million and $6.4 million, partially offset by increases of $1.1 million and $2.5 million in service-related revenues for the three and six months ended June 30, 2012, respectively, compared to the prior-year comparative periods. International disc publishing product line sales, inclusive of the impact of currency changes, decreased 17% and 13% during the three and six months ended June 30, 2012, and comprised approximately 37% of total revenues for both the three and six months ended June 30, 2012, compared to approximately 40% and 39% of total revenues for the three and six months ended June 30, 2011, respectively. In the aggregate, currency fluctuations decreased consolidated revenues for the three and six months ended June 30, 2012 by $0.5 million, or 3%, and $0.7 million, or 2%, for each respective period.

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The $3.3 million and $6.7 million reduction in disc publishing revenues for the three and six months ended June 30, 2012 compared to the same periods in 2011 was driven by worldwide declines in equipment sales combined with a decline in consumable sales primarily in the Company s U.S. market. The decline in equipment sales was primarily due to lower sales to European and U.S. channel partners as well as reduced sales in the Company s U.S. retail market, where sales can fluctuate significantly between periods. The decline in equipment sales to U.S. and European channel partners was impacted by delays in closing several expected customer orders. Additionally, sales in the Company s European markets were negatively impacted by continued economic challenges, increased competition and the negative impact of foreign currency fluctuations. The decline in U.S. consumable sales in the current-year periods was due to decreased usage of consumable products by the Company s retail customers as well as the impact of customers purchasing consumables inventory in late first quarter and early second quarter of 2011 to minimize potential supply disruptions caused by the tsunami and earthquake that struck the northeast area of Japan in March 2011.

Online publishing revenues totaled $1.4 million and $2.8 million for the three and six months ended June 30, 2012, respectively. A high concentration of online publishing revenues were generated from software maintenance contracts and professional services, with a lower volume of software licenses and appliance sales. The Company introduced its Signal online publishing solution in the second quarter of 2012 and expects it to begin generating revenues in the second half of 2012. During the second quarter of 2012, the Company announced that Qumu had partnered with one of its key managed service providers to close a multi-year, multi-million dollar contract with a Fortune 50 corporation. The Company will recognize revenue related to this transaction over the term of the agreement and expects to begin recognizing revenue in the third quarter of 2012. The Company s contracted commitment backlog for Qumu s enterprise video communications solution aggregated $6.6 million as of June 30, 2012. The Company defines contracted commitments as the dollar value of signed customer purchase commitments.

Future consolidated revenues will be dependent upon many factors, including the continued growth of Qumu s enterprise video communications and online publishing product line, whether Qumu structures its license arrangements with customers as term or perpetual licenses, which impacts the timing of revenue recognition, the Company s ability to successfully commercialize its Signal online publishing solution, introduced in the second quarter of 2012, the success of the Company s deployment of a complete disc publishing solution for medical imaging in hospitals in China and the rate of adoption of other new solutions-based products introduced by the Company. Other factors that will influence future consolidated revenues include the timing of new product introductions, the rate of adoption of other new applications for the Company s products in its targeted markets, the performance of the Company s channel partners, the timing of customer orders and related product deliveries, the Company s ability to maintain continuous supply of its products and components, the impact of changes in economic conditions and the impact of foreign currency exchange rate fluctuations.

Gross profit. Gross profit as a percentage of total revenues was 45.4% and 47.3% for the three and six months ended June 30, 2012, respectively, compared to 48.9% and 49.6% for the same periods in 2011, which was comprised only of disc publishing revenues. The disc publishing business generated aggregate gross margins of 45.8% and 48.2% for the three and six months ended June 30, 2012, respectively, and the online publishing product line generated margins of 40.8% and 36.3% for each respective period. The online publishing margins are inclusive of the impact of amortization expense associated with intangible assets acquired as a result of the Qumu acquisition. Amortization expense of $0.2 million and $0.4 million had a 15.7% unfavorable impact on online publishing gross margins for both the three and six month periods ended June 30, 2012.

The three and six month period declines in consolidated gross profit as a percentage of total revenues were primarily impacted by a lower volume and concentration of equipment sales in the disc publishing business, particularly in the Producer Series product line, which typically generates higher margins than other disc publishing products. Further, the reduced volume of Producer equipment sales led to lower production levels in the second quarter and a resulting underabsorption of fixed manufacturing costs, negatively impacting gross profit as a percentage of revenues for the three months ended June 30, 2012. Also contributing to the declines in consolidated gross margin for the three and six months ended June 30, 2012 were lower gross margins generated by the enterprise video communications product line. Inclusive of the impact of amortization expense, the online publishing business contributed 0.3% and 0.8% of the decline in gross profit as a percentage of total revenues in each respective period. In addition to the impact of amortization expense, online publishing margins were unfavorably impacted by a low volume and concentration of higher margin software license revenues. Partially offsetting the unfavorable impact in the current-year periods of a reduced volume of equipment sales in the disc publishing product line was the impact of the Company incurring higher media prices and air freight costs in the comparable periods in 2011 to secure alternative supply sources and to expedite shipments stemming from supply disruptions caused by the March 2011 earthquake and tsunami in Japan.

Future gross profit margins will continue to be affected by many factors, including product mix, the timing of new product introductions, the timing of customer orders and related product deliveries, changes in material costs and supply sources, manufacturing volume, the growth rate of service-related revenues relative to associated service support costs and foreign currency exchange rate fluctuations. Future gross margins will also be impacted by the integration and growth of Qumu s enterprise video communications online publishing product line, which has historically generated higher gross margins than the Company s disc publishing business. This benefit will be partially offset in future years from the inclusion of amortization expense associated with intangibles acquired as a result of the Qumu acquisition, expected to approximate $0.9 million in 2012.

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Operating expenses. Total operating expenses amounted to $12.0 million and $24.6 million for the three and six months ended June 30, 2012, respectively, compared to $8.1 million and $16.5 million in the respective prior-year periods. The $3.9 million and $8.1 million rise in total operating expenses between the second quarter and year-to-date periods, respectively, occurred primarily as a result of expenses incurred to support the Company s online publishing business, including $3.8 million and $7.5 million of expenses to support Qumu s enterprise video communications product line in each respective period, $0.3 million and $0.5 million of expenses in each respective period associated with the amortization of intangible assets acquired as part of the acquisition of Qumu and a $0.3 million and $0.6 million increase in expenses in each respective period to support the Company s internally developed online publishing solution, Signal.

Research and development expenses totaled $2.9 million and $6.0 million for the three and six months ended June 30, 2012, respectively, each representing 16% of revenues. Research and development expenses totaled $1.5 million and $3.1 million for the comparative three and six months ended June 30, 2011, representing 8% and 7% of revenues, respectively. The $1.4 million second quarter and $2.9 million year-to-date increases from 2011 reflect the inclusion of $1.3 million and $2.6 million, respectively, of research and development expenses generated by Qumu to support the enterprise video communications product line, included in the Company s online publishing business. The remaining increases over prior-year periods are primarily driven by costs to support the development of the Signal online publishing solution. The Company also continues to incur development expenses to enhance its disc publishing products. Rimage anticipates expenditures in research and development in the third quarter 2012 will be comparable to that of the second quarter.

Selling, general and administrative expenses for the three and six months ended June 30, 2012 totaled $8.9 million and $18.1 million, or 49% and 48% of revenues, respectively, compared to expenses in the same prior-year periods of $6.5 million and $13.4 million, or 32% of revenues for each respective period. The $2.4 million and $4.7 million increase in expenses in the respective current-year periods primarily reflects the impact of $2.5 million and $4.9 million of expenses incurred in each respective period to support the enterprise video communications product line, included in the Company s online publishing business. The Company also incurred a higher level of expenses in the current-year periods to support the introduction in the second quarter of its internally developed Signal online publishing solution. The Company also continued to make investments to strengthen its disc publishing business. Partially offsetting the expense growth driven by the online publishing business was the impact of currency fluctuations primarily in the Company s European operations, which reduced selling, general and administrative expenses in the disc publishing business in the current year s second quarter and year-to-date periods by $0.2 million and $0.3 million, respectively. Rimage anticipates expenditures for selling, general and administrative activities in the third quarter to increase moderately relative to second quarter 2012 expense levels, primarily due to increased online publishing sales and marketing expenses.

Amortization of Purchased Intangibles. Operating expenses for the three and six months ended June 30, 2012 include $0.3 million and $0.5 million, respectively, for the amortization of intangible assets acquired as part of the Company s acquisition of Qumu in October 2011. Operating expenses in 2012 are expected to include approximately $1.1 million of amortization expense associated with the Qumu acquisition, exclusive of the portion classified in cost of revenues.

Other income, net. The Company recognized net interest income on cash, marketable securities and in the second quarter 2012, notes receivable, of $19,000 and $21,000 for the three and six month periods ended June 30, 2012, respectively, compared to $52,000 and $119,000 for the comparative prior-year periods. The reduction in interest income in the current-year periods was primarily the result of a shift in investments to lower yield securities and the Company s use of approximately $39 million in cash to acquire Qumu. Other income for the three and six months ended June 30, 2012 also included net losses on foreign currency transactions of $13,000 and $85,000, respectively, compared to net income of $3,000 for the three months ended June 30, 2011 and net losses of $30,000 for the six months ended June 30, 2011.

Income taxes. The provision or benefit for income taxes represents federal, state and foreign income taxes on income. The income tax benefit for the three and six months ended June 30, 2012 amounted to $0.9 million and $2.2 million, respectively, or 24.2% and 32.2% of loss before income taxes for the respective periods. Income tax expense for the three and six months ended June 30, 2011 amounted to $0.7 million and $1.6 million, respectively, or 38.8% and 37.9% of income before taxes for each respective period. The tax benefit for the current-year periods was driven by a projected annualized pre-tax consolidated loss for 2012. The effective tax rate is lower than the comparable prior-year periods due to offsetting tax expense associated with non-deductible expenses.

Net income (loss) / net income (loss) per share. Resulting net loss attributable to Rimage for the three and six months ended June 30, 2012 was $2.8 million and $4.5 million, respectively, compared to net income attributable to Rimage of $1.2 million and $2.7 million, for the same prior-year periods. Related net income (loss) per diluted share was ($0.27) and ($0.44) for the three and six months ended June 30, 2012, respectively, compared to $0.12 and $0.28 per diluted share for the respective prior-year periods.

Liquidity and Capital Resources

The Company expects it will be able to maintain current operations and anticipated capital expenditure requirements for the foreseeable future through its internally generated funds and cash reserves. At June 30, 2012, the Company had working capital of $67.9 million, down $10.4 million from working capital reported at December 31, 2011. The decrease was primarily the result of generation of a net loss adjusted for non-cash items during the six months ended June 30, 2012 of $3.9 million, payment of $3.5 million in dividends, purchases of property and equipment of $1.4 million, repurchases of common stock of $0.9 million and issuance of a $0.5 million note receivable. 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 tooling-intensive parts is outsourced to vendors.

Effective October 2010, the Company s Board of Directors approved the continuation of common stock repurchases under original Board authorizations providing for the repurchase of up to 1,000,000 shares of the Company s common stock. Shares may 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. Under the program, the Company repurchased 99,616 shares of its common stock during the three and six months ended June 30, 2012. The repurchase program has been funded to date using cash on hand. As of June 30, 2012, the Company had 247,393 shares available for repurchase under the authorizations. On April 24, 2012, the Company s Board of Directors approved a quarterly dividend of $0.17 per share payable June 15, 2012, to shareholders of record as of May 31, 2012. The Company expects quarterly dividend payments during 2012 of approximately $1.7 million. The Company also intends on utilizing its cash primarily for its continued organic growth and potential future strategic initiatives or alliances.

Net cash used by operating activities totaled $1.4 million for the six months ended June 30, 2012, compared to net cash provided by operations of $6.1 million in the same prior-year period. The $7.5 million decrease in cash provided by operating activities resulted from an $8.4 million unfavorable change in net income (net loss) adjusted for non-cash items, partially offset by a $0.9 million increase in cash provided by changes in operating assets and liabilities. Primarily contributing to the change in operating assets and liabilities compared to the prior-year period were favorable changes of $4.1 million in accounts receivable, $1.5 million in inventories and $0.7 in other long-term liabilities, partially offset by unfavorable changes of $5.3 million in deferred income. The favorable change in receivables was the result of decreased sales in May and June of 2012 compared to the same periods in 2011. The favorable change in inventories occurred as the Company reduced inventory purchases in the current-year s second quarter in response to lower product demand. The favorable change in inventories in the current period was also due to the Company s increased inventory purchases from alternative supply sources in late first quarter and second quarter of 2011 to minimize potential supply disruptions from its Japanese suppliers stemming from the earthquake and tsunami that struck the northeast area of Japan in March 2011. The unfavorable change in deferred income was impacted primarily by a $3.5 million sale of new maintenance contracts to a retail customer in the prior period under a multi-system sales agreement obtained in the second quarter of 2010.

Investing activities used net cash of $15.2 million and $1.0 million for the six months ended June 30, 2012 and 2011, respectively. The fluctuations in investing activities were primarily the result of $13.3 million in purchases of marketable securities during the six months ended June 30, 2012, compared to $2.1 million of maturities of marketable securities during the comparable prior-year period. Investing activities in the prior-year period also included a $2.0 million equity investment in BriefCam. Purchases of property and equipment during the six months ended June 30, 2012 and 2011 amounted to $1.4 million and $0.6 million, respectively. Capital expenditures in the current-year period consisted primarily of leasehold improvements and office equipment associated with the Company s facility in San Bruno, California. Capital expenditures in the prior-year period consisted primarily of the first installment payment of $0.4 million for software source code acquired and capitalized by the Company s Chinese joint venture in late 2010.

Financing activities used net cash of $4.4 million for the six months ended June 30, 2012, compared to net cash used of $0.7 million for the same prior-year period. The current-year period includes $3.5 million of dividend payments compared to $1.0 million in the prior-year period. The current-year period also includes $0.9 million of payments for the repurchase of common stock.

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 considered by management to be the most critical to the presentation of the condensed consolidated financial statements because they require the most difficult, subjective and complex judgments include revenue recognition, allowance for doubtful accounts, inventory provisions, deferred tax asset valuation allowances, accruals for uncertain tax positions, stock-based compensation and impairment of long-lived assets. These accounting policies are discussed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of the Company s Annual Report on Form 10-K for the year ended December 31, 2011. Management made no significant changes to the Company s critical accounting policies during the six months ended June 30, 2012.

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In applying its critical accounting policies, management reassesses its estimates each reporting period based on available information. Changes in such estimates did not have a significant impact on the Company s condensed consolidated financial statements for the six months ended June 30, 2012.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. For this purpose, any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as may, will, expect, believe, anticipate, estimate or continue or comparable terminology are intended to identify forward-looking statements 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 90% 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 Company s targeted 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 mature market for disc publishing products, with limited growth potential; the Company s ability to successfully implement its growth strategy; the ability of the Company s newly developed products to gain acceptance and compete against products in their markets; the return on the Company s investment in strategic initiatives may be lower or develop more slowly than expected; the Company s ability to effectively address risks or other problems encountered in connection with the Qumu integration; the Company s ability to successfully commercialize its online publishing solution introduced in the second quarter of 2012; 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; risks related to open source software incorporated into Qumu s products; the Company s ability to effectively market its products and serve customers through its value-added resellers, distributors, strategic partners and its own sales force; the ability of the Qumu products to deliver fast, efficient and reliable service; the Company s ability to maintain adequate inventory of products; the Company s ability to secure alternative sources of supply given its reliance on single source suppliers for certain key products; the ability of the Company s products to operate effectively with the computer products developed and to be developed by other manufacturers; the compatibility of the Company s disc publishing products with products designed by others; 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; the negative effect on the Company s common stock price of future sales of 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, 2011. These forward-looking statements are made as of the date of this report and the Company assumes no obligation to update such forward-looking statements, or to update the reasons why actual results could differ materially from those anticipated in such forward-looking statements.

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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, Japanese Yen, Chinese Yuan and Singapore dollar to the U.S. dollar as the financial position and operating results of the Company s German subsidiary, Rimage Europe GmbH, its Japanese subsidiary, Rimage Japan Co., Ltd., its majority-owned Chinese joint venture, Rimage Information Technology (Shanghai) Co., Ltd. and its Singapore subsidiary, Rimage Holdings (Singapore) Pte., Ltd., 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, Sherman L. Black, and the Company s Chief Financial Officer, James R. Stewart, have evaluated the Company s disclosure controls and procedures as of June 30, 2012. Based upon such evaluation, they have concluded that these disclosure controls and procedures are effective. The Company s Chief Executive Officer and Chief Financial Officer used the definition of disclosure controls and procedures as set forth in Rule 13a-15(e) under the Exchange Act in making their conclusion as to the effectiveness of such controls and procedures.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls over financial reporting that occurred during the second quarter ended June 30, 2012 that have materially affected, or are reasonable likely to materially affect, the Company s internal control over financial reporting. As part of the Company s ongoing integration activities following the acquisition of Qumu, Inc. in October 2011, the Company is continuing to incorporate the operations of Qumu into the Company s control environment and continuing to improve Qumu s control environment.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company is exposed to a number of asserted and unasserted claims encountered in the normal course of business. Legal costs related to loss contingencies are expensed as incurred. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Company s financial position or results of operations.

Item 1A. Risk Factors

Not Applicable.

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

Issuer Purchases of Equity Securities

Effective October 2010, the Company s Board of Directors approved the continuation of common stock repurchases under original Board authorizations providing for the repurchase of up to 1,000,000 shares of the Company s common stock. On July 26, 2011, the Board authorized the repurchase of an additional 500,000 shares under the program. Shares may 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 repurchase program has been funded to date using cash on hand.

Information on the Company s repurchases of its common stock during each month of the second quarter ended June 30, 2012 is as follows:

Monthly Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be purchased Under the Plans or Programs (at end of period)
April 2012	68,307	$ 9.39	68,307	278,702
May 2012	3,296(1)	$ 8.58		278,702
June 2012	31,309	$ 8.26	31,309	247,393

(1) In addition to shares purchased under the Board authorization, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax withholding on stock option exercises or vesting of restricted awards.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

(a) The following exhibits are included herein:

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.

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SIGNATURES

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

			RIMAGE CORPORATION Registrant
Date:	August 8, 2012	By:	/s/ Sherman L. Black Sherman L. Black Chief Executive Officer (Principal Executive Officer)
Date:	August 8, 2012	By:	/s/ James R. Stewart James R. Stewart Chief Financial Officer (Principal Financial Officer) (Principal Accounting Officer)