

RIMAGE CORP  
Form DEF 14A  
April 13, 2007  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  X

Filed by a Party other than the Registrant  O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

**Rimage Corporation**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

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**Rimage Corporation**

7725 Washington Avenue South

Edina, Minnesota 55439

(952) 944-8144

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held May 15, 2007**

**TO THE SHAREHOLDERS OF**

**RIMAGE CORPORATION:**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Rimage Corporation, a Minnesota corporation, will be held on Tuesday, May 15, 2007, at 3:30 p.m. (Edina, Minnesota time), at 7725 Washington Avenue South, Edina, Minnesota 55439, for the following purposes:

1. To elect seven (7) directors to serve until the next Annual Meeting of the Shareholders or until their respective successors have been elected and qualified.
2. To adopt the Rimage Corporation 2007 Stock Incentive Plan.
3. To ratify and approve the appointment of KPMG LLP as the independent registered public accounting firm for Rimage Corporation for the fiscal year ending December 31, 2007.

Only holders of record of Rimage Corporation's common stock at the close of business on April 6, 2007 are entitled to notice of and to vote at the Annual Meeting or any adjournments thereof.

Each of you is invited to attend the Annual Meeting in person. Whether or not you plan to attend in person, please mark, date and sign the enclosed proxy, and mail it promptly. A return envelope is enclosed for your convenience.

By Order of the Board of Directors

Bernard P. Aldrich

President and Chief Executive Officer

April 14, 2007

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING,  
PLEASE SIGN THE PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE.

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APPENDIX A: Rimage Corporation 2007 Stock Incentive Plan

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## **Rimage Corporation**

7725 Washington Avenue South

Edina, Minnesota 55439

(952) 944-8144

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### **PROXY STATEMENT**

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#### **Solicitation of Proxies**

The accompanying Proxy is solicited on behalf of the Board of Directors of Rimage Corporation ( we or Rimage ) for use at the Annual Meeting of Shareholders to be held on May 15, 2007, at 3:30 p.m. (Edina, Minnesota time) at 7725 Washington Avenue South, Edina, Minnesota 55439, and at any postponements or adjournments thereof (the Meeting ). The mailing of this proxy statement to our shareholders commenced on or about April 14, 2007.

#### **Cost and Method of Solicitation**

This solicitation of proxies to be voted at the Meeting is being made by our Board of Directors. The cost of this solicitation of proxies will be borne by us. In addition to solicitation by mail, our officers, directors and employees may solicit proxies by telephone or in person. We may also request banks and brokers to solicit their customers who have a beneficial interest in our common stock registered in the names of nominees and will reimburse such banks and brokers for their reasonable out-of-pocket expenses. We have engaged The Proxy Advisory Group, LLC, to assist in the solicitation of proxies and to provide related advice and informational support for a services fee and reimbursement of customary disbursements that are not expected to exceed \$17,000 in the aggregate.

#### **Voting**

The total number of shares outstanding and entitled to vote at the Meeting as of April 6, 2007 consisted of 10,098,001 shares of common stock, \$.01 par value. Each share of common stock is entitled to one vote. Only shareholders of record at the close of business on April 6, 2007 will be entitled to vote at the Meeting.

All shareholders are cordially invited to attend the Meeting in person. Whether or not you expect to attend the Meeting, please complete, date, sign and return the enclosed proxy as promptly as possible (or follow instructions to grant a proxy to vote by means of telephone or internet) in order to ensure your representation at the Meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for that purpose. Even if you have given your proxy, you may still vote in person if you attend the Meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the Meeting, you must bring to the Meeting a letter from the broker, bank or other nominee confirming your beneficial ownership of the shares. Additionally, in order to vote at the Meeting, you must obtain

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from the record holder a proxy issued in your name.

If you sign and return the proxy card on time, the individuals named on the proxy card will vote your shares as you have directed. If you just sign and submit your proxy card without voting instructions, your shares will be voted FOR each director nominee and FOR each of the other proposals.

### Quorum and Voting Requirements

A quorum, consisting of a majority of the shares of common stock entitled to vote at the Meeting, must be present, in person or by proxy, before action may be taken at the Meeting.

Directors are elected by a plurality of the votes cast at the meeting by holders of common stock voting for the election of directors. This means that since shareholders will be electing seven directors, the seven nominees

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receiving the highest number of votes will be elected. However, in an uncontested election (where, as at the Meeting, the number of nominees does not exceed the number of directors to be elected), any nominee for director who received more votes withheld from his or her election than votes for his or her election is required under our Governance Guidelines to promptly tender his or her resignation following certification of the shareholder vote. The Governance Committee will consider the resignation offer and recommend to the Board whether to accept it. The Board will act on the Governance Committee's recommendation within 90 days following certification of the shareholder vote. The Board will promptly disclose its decision whether to accept the director's resignation offer (and the reasons for rejecting the resignation offer, if applicable) in a Current Report on Form 8-K filed with the Securities and Exchange Commission. Any director who tenders his or her resignation as described above will not participate in the Governance Committee's recommendation or Board action regarding whether to accept the resignation offer.

The affirmative vote of a majority of the shares of our common stock present in person or by proxy and entitled to vote at the annual meeting is required for the approval of the Rimage Corporation 2007 Stock Incentive Plan and to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for 2007, provided that the total number of shares that vote on each proposal represents a majority of the shares outstanding on the record date.

You may either vote FOR or WITHHOLD authority to vote for each nominee for the Board of Directors. You may vote FOR, AGAINST or ABSTAIN on the other proposal. If you withhold authority to vote for the election of one of the directors, it has the same effect as a vote against that director. Abstentions are counted as present and entitled to vote for the purposes of determining a quorum, but are not counted for the purposes of determining whether shareholders have approved that matter. Therefore, if you abstain from voting on any of the other proposals, it has the same effect as a vote against the proposal.

If you hold your shares in street name and do not provide voting instructions to your broker, your shares will not be voted on any proposal on which your broker does not have discretionary authority to vote (a broker non-vote). Shares held by brokers who do not have discretionary authority to vote on a particular matter and who have not received voting instructions from their customers are not counted or deemed to be present or represented for the purpose of determining whether shareholders have approved that matter, but they are counted as present for the purpose of determining a quorum at the Meeting.

So far as our management is aware, no matters other than those described in this proxy statement will be acted upon at the Meeting. In the event that any other matters properly come before the Meeting calling for a vote of shareholders, the persons named as proxies in the enclosed form of proxy will vote in accordance with their best judgment on such other matters.

### Revoking a Proxy

You may change your vote and revoke your proxy at any time before it is voted by:

- § Sending a written statement to that effect to the Secretary of Rimage Corporation;
- § Submitting a properly signed proxy card with a later date; or

§ Voting in person at the Meeting.

All shares represented by valid, unrevoked proxies will be voted at the Meeting and any adjournment(s) or postponement(s) thereof. Our principal offices are located at 7725 Washington Avenue South, Edina, Minnesota 55439, and our telephone number is (952) 944-8144.

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**Annual Meeting and Special Meetings; Bylaw Amendments**

This 2007 Annual Meeting of Shareholders is a regular meeting of our shareholders and has been called by our Board of Directors in accordance with our bylaws. Under our bylaws, special meetings of our shareholders may be held at any time and for any purpose and may be called by our president, treasurer, two or more directors or by a shareholder or shareholders holding 10% or more of the voting power of all shares entitled to vote on the matters to be presented to the meeting, except that a special meeting for the purpose of considering any action to directly or indirectly facilitate or affect a business combination, including any action to change or otherwise affect the composition of the Board of Directors for that purpose, must be called by 25% or more of the voting power of all shares entitled to vote. The business transacted at a special meeting is limited to the purposes as stated in the notice of the meeting. For business to be properly brought before a regular meeting of shareholders, a written notice containing the required information must be timely submitted. For more information, please review our bylaws and the section of this proxy statement entitled Shareholder Proposals for 2008 Annual Meeting.

Our bylaws may be amended or altered by a vote of the majority of the whole Board at any meeting. The authority of the Board is subject to the power of our shareholders, exercisable in the manner provided by Minnesota law, to adopt or amend, repeal bylaws adopted, amended, or repealed by the Board. Additionally, the Board may not make or alter any bylaws fixing a quorum for meetings of shareholders, prescribing procedures for removing directors or filling vacancies in the Board of Directors, or fixing the number of directors or their classifications, qualifications, or terms of office, except that the Board may adopt or amend any bylaw to increase their number.

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**OWNERSHIP OF VOTING SECURITIES BY PRINCIPAL HOLDERS AND MANAGEMENT**

The following table sets forth certain information as of April 6, 2007 with respect to our common stock beneficially owned by (i) each director and each nominee for director, (ii) each person known to us to beneficially own more than five percent of our common stock, (iii) each executive officer named in the Summary Compensation Table (the Named Executive Officers), and (iv) all current executive officers and directors as a group.

Name and Address of Beneficial Owner	Number of Shares	Percent of Outstanding
	Beneficially Owned (1)	

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Munder Capital Management (2) 480 Pierce Street Birmingham, MI 48009	497,560	4.9	%
Royce & Associates, LLC (3) 1414 Avenue of the Americas New York, NY 10019	899,000	8.9	%
Bernard P. Aldrich (4)(5)(6)	195,150	1.9	%
Lawrence M. Benveniste (4)	42,500	*	
Philip D. Hotchkiss (4)	30,000	*	
Thomas F. Madison (4)	52,500	*	
Steven M. Quist (4)	67,500	*	
James L. Reissner (4)	117,507	1.1	%
David J. Suden (4)(5)(7)	114,774	1.1	%
Manuel M. Almeida (5)	40,788	*	
Pamela V. Lampert (5)	13,894	*	
Robert M. Wolf (5)	73,470	*	
All current executive officers and directors as a group (10 persons)	748,083	7.0	%

\* Less than one percent

- (1) Includes shares which could be purchased within 60 days upon the exercise of the following stock options: Mr. Aldrich, 145,688 shares; Mr. Benveniste, 42,500 shares; Mr. Hotchkiss, 30,000 shares; Mr. Madison, 52,500 shares; Mr. Quist, 66,500 shares; Mr. Reissner, 87,500 shares; Mr. Suden, 86,150 shares; Mr. Almeida, 40,788 shares; Ms. Lampert, 13,894 shares; Mr. Wolf, 66,900 shares; and all current directors and executive officers as a group, 632,420 shares.
- (2) Based on a Schedule 13G filed on February 14, 2006.
- (3) Based on an Amendment No. 5 to Schedule 13G filed January 24, 2007.
- (4) Currently serves as our director and is nominated for election as a director.
- (5) Named Executive Officer.
- (6) Includes 47,937 shares held by the Bernard P. Aldrich Revocable Trust u/t/a dated March 25, 1999, of which Mr. Aldrich and his spouse, Cindy L. Aldrich, are trustees and includes 1,525 shares held by the Cindy L. Aldrich Revocable Trust u/t/a dated March 25, 1999, of which Ms. Aldrich and her spouse, Bernard P. Aldrich, are trustees.
- (7) Includes 28,624 shares owned jointly with spouse.

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#### **PROPOSAL 1:**

#### **ELECTION OF DIRECTORS**

Pursuant to our bylaws, we have set the number of directors at seven. Therefore, seven directors will be elected at the Meeting to serve until the next Annual Meeting of Shareholders or until their successors have been elected and shall qualify. Proxies cannot be voted for a greater number of persons than the number of nominees named. The Board of Directors has nominated for election the seven persons named below. Each



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nominee is currently a director of Rimage. All nominees were elected by the shareholders at our 2006 Annual Meeting.

The persons named in the accompanying proxy card intend to vote the proxies held by them in favor of the nominees named below as directors, unless otherwise card directed. Should any nominee for director become unable to serve as a director for any reason, the proxies have indicated they will vote for such other nominee as the Board of Directors may propose. The Board of Directors has no reason to believe that any candidate will be unable to serve if elected and each has consented to being named a nominee.

### Information Regarding Nominees

Set forth below is biographical and other information with respect to each nominee:

Name and Age	Principal Occupation and Business Experience for Past Five Years	Director Since
Bernard P. Aldrich Age 57	Chief Executive Officer, President and a director of Rimage since December 1996. Director of Apogee Enterprises, Inc. and a director of Park Industries Inc., a privately-held company.	1996
James L. Reissner Age 67	President of Activar, Inc. since January 1996 and Chief Financial Officer of Activar from 1992 until becoming President. Director of Intek, Inc., Winland, Inc. and Magstar Technologies, Inc. Director of two privately-held companies, Vermillion State Bank and Activar, Inc.	1998
David J. Suden Age 60	Chief Technology Officer of Rimage since December 1996 and a director since September 1995; President of Rimage from October 1994 through November 1996; Vice President Development and Operations of Rimage from February 1991 to October 1994.	1995
Steven M. Quist Age 61	Principal of Blackmore Peak Partners, a management consulting firm since 2003. President and Chief Executive Officer of CyberOptics Corporation, 1998 until 2003. Director of CyberOptics Corporation from 1991 to 2004. President of Rosemount, Inc., a subsidiary of Emerson Electric Company, St. Louis, Missouri 1992 until 1998. Director of Data I/O Corporation. Also a director for three privately-held companies: ILX Lightwave Corp., S2 Corporation, and Nervonix, Inc.	2000
Thomas F. Madison Age 71	President and Chief Executive Officer of MLM Partners, a consulting and small business investment company, since January 1993; Chairman of AetherWorks, Inc. from August 1999 to 2000; Vice Chairman and Chief Executive Officer of Minnesota Mutual Life Insurance Company 1994 and 1995; President of US West Communications Markets 1989 to 1993; President and Chief Executive Officer of Northwestern Bell 1985 to 1989; Director of Valmont Industries Inc., CenterPoint Energy, Inc., Digital River, Inc., Span Link Communications and Delaware Group of Funds.	2001

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Lawrence M. Benveniste Age 56	Dean of Goizueta Business School of Emory University since July 2005. Dean of Carlson School of Management at the University of Minnesota December 2001 to July 2005. Carlson School of Management Associate Dean for Faculty and Research from 2000 to 2001, Chair of Finance Department of Carlson School of Management from 1999 to 2000. US Bancorp Professor of Finance from 1996 to 1999. Director of Alliance Data Systems Corporation since June 2004.	2003
Philip D. Hotchkiss Age: 38	In 1995 founded and was then Chairman and CEO of BigCharts, Inc. which was subsequently acquired by CBS MarketWatch.com, Inc. in 1999. Served as President of CBS MarketWatch.com, Inc. and served on its Board of Directors from 1999 to 2000. Served as President and CEO of Talkingpoint Inc. from 2003-2006. Presently, Mr. Hotchkiss serves as the Chief Strategy Officer of bswing, Inc.	2003

We know of no arrangements or understandings between a director or nominee and any other person pursuant to which he has been selected as a director or nominee. There is no family relationship between any of the nominees, our directors or our executive officers.

**Voting Required**

Under Minnesota law and our bylaws, directors are elected by a plurality of the votes cast at the meeting by holders of common stock voting for the election of directors. This means that since shareholders will be electing seven directors, the seven nominees receiving the highest number of votes will be elected. However, in an uncontested election (where, as at the Meeting, the number of nominees does not exceed the number of directors to be elected), any nominee for directors who receives more votes withheld from his or her election than votes for his or her election is required under our Governance Guidelines to promptly tender his or her resignation following certification of the shareholder vote. The Governance Committee will consider the resignation offer and recommend to the Board whether to accept it. The Board will act on the Governance and Nominating Committee's recommendation within 90 days following certification of the shareholder vote. The Board will promptly disclose its decision whether to accept the director's resignation offer (and the reasons for rejecting the resignation offer, if applicable) in a Current Report on Form 8-K filed with the Securities and Exchange Commission. Any director who tenders his or her resignation as described above will not participate in the Governance and Nominating Committee's recommendation or Board action regarding whether to accept the resignation offer.

THE BOARD OF DIRECTORS RECOMMENDS

THAT SHAREHOLDERS VOTE FOR

THE ELECTION OF EACH NOMINEE

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**CORPORATE GOVERNANCE**

**Board Independence**

The Board of Directors undertook a review of director independence in February 2007 as to all seven directors then serving. As part of that process, the Board reviewed all transactions and relationships between each director (or any member of his immediate family) and Rimage, our executive officers and our auditors, and other matters bearing on the independence of directors. As a result of this review, the Board of Directors affirmatively determined that each of the directors, with the exception of Messrs. Aldrich and Suden, are independent according to the independence definition of the Nasdaq Marketplace Rules. Neither Mr. Aldrich nor Mr. Suden is independent under the Nasdaq Marketplace Rules because each is employed by Rimage and each serves as our executive officer.

**Committees of the Board of Directors and Committee Independence**

The Board of Directors has established a Compensation Committee, an Audit Committee, a Governance Committee and a Strategy and Technology Committee. The composition and function of these committees are set forth below.

*Compensation Committee.* The Compensation Committee operates under a written charter and reviews and approves the compensation and other terms of employment of our Chief Executive Officer and other senior management of our company. Among its other duties, the Compensation Committee oversees all significant aspects of our compensation plans and benefit programs, including succession plans for executive officers other than the Chief Executive Officer. The Board of Directors is responsible for, and regularly reviews, the succession plan for our Chief Executive Officer. The Compensation Committee annually reviews and approves corporate goals and objectives for the Chief Executive Officer's compensation and evaluates the Chief Executive Officer's performance in light of those goals and objectives. The Compensation Committee also administers our Amended and Restated 1992 Stock Option Plan and if our 2007 Stock Incentive Plan is approved at the Meeting, will also administer that plan.

The charter of the Compensation Committee requires that this Committee consist of no fewer than two Board members who satisfy the requirements of the Nasdaq Stock Market, the non-employee director requirements of Section 16b-3 of the Securities Exchange Act of 1934, and the outside director requirements of Section 162(m) of the Internal Revenue Code. Each member of our Compensation Committee meets these requirements. A copy of the current charter of the Compensation Committee is available by following the link to Corporate Governance in the Investor Relations section of our website [www.rimage.com](http://www.rimage.com).

During 2006, the members of the Compensation Committee were Messrs. Steven M. Quist (Chair), James L. Reissner and Lawrence M. Benveniste. In February 2007, the Board of Directors modified the composition of the Compensation Committee and the current members of the Compensation Committee are Steven M. Quist (Chair), Philip D. Hotchkiss and Lawrence M. Benveniste. During 2006, the Compensation Committee met eight times and met once in executive session, without management present.

*Governance Committee.* The Governance Committee operates under a written charter and is charged with the responsibility of identifying, evaluating and approving qualified candidates to serve as directors of our company, ensuring that our Board and governance policies are appropriately structured, developing and recommending a set of corporate governance guidelines, overseeing Board orientation, training and evaluation, and establishing an evaluation process for the Chief Executive Officer. The Governance Committee also has responsibility for overseeing our annual process of self-evaluation by members of the committees and the Board of Directors as a whole.

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The charter of the Governance Committee requires that this Committee consist of no fewer than two Board members who satisfy the independence requirements of the Nasdaq Stock Market. Each member of our Governance Committee meets these requirements. A copy of the current charter of the Governance Committee is available by following the link to Corporate Governance in the Investor Relations section of our website at [www.rimage.com](http://www.rimage.com). A copy of our current Governance Guidelines is also available in the Investor Relations section of our website. During 2006, the members of the Governance Committee were Thomas F. Madison (Chair), Philip D. Hotchkiss and Steven M. Quist. In February 2007, the Board of Directors modified the composition of the Governance Committee and the current members of the Governance

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Committee are Thomas F. Madison (Chair), James L. Reissner and Steven M. Quist. During 2006, the Governance Committee met five times.

*Audit Committee.* The Audit Committee assists the Board by reviewing the integrity of our financial reporting processes and controls; the qualifications, independence and performance of the independent auditors; and compliance by us with certain legal and regulatory requirements. The Audit Committee has the sole authority to retain, compensate, oversee and terminate the independent auditors. The Audit Committee reviews our annual audited financial statements, quarterly financial statements and filings with the Securities and Exchange Commission. The Audit Committee reviews reports on various matters, including our critical accounting policies, significant changes in our selection or application of accounting principles and our internal control processes. The Audit Committee also pre-approves all audit and non-audit services performed by the independent auditor.

The Audit Committee operates under a written charter adopted by the Board of Directors on May 10, 2000 and most recently amended on February 21, 2007. A copy of the current Audit Committee charter is available by following the link to Corporate Governance in the Investor Relations section of our website at [www.rimage.com](http://www.rimage.com). Our Audit Committee presently consists of four directors: James Reissner (Chair), Lawrence M. Benveniste, Philip D. Hotchkiss and Thomas F. Madison. During 2006, the Audit Committee met nine times and met three times in executive session, without management present.

The Board of Directors has determined that all members of the Audit Committee are independent directors under the rules of the Nasdaq Stock Market and the rules of the Securities and Exchange Commission. Our Board of Directors has reviewed the education, experience and other qualifications of each of the members of its Audit Committee. After review, the Board of Directors has determined that each of Messrs. Reissner, Benveniste and Madison meet the Securities and Exchange Commission definition of an audit committee financial expert. The members of the Audit Committee also meet the Nasdaq Stock Market requirements regarding the financial sophistication and the financial literacy of members of the audit committee. A report of the Audit Committee is set forth below.

*Strategy and Technology Committee.* On October 21, 2005, the Board of Directors established a Strategic Planning Committee to assist the Board of Directors in its oversight of our strategic planning. The Strategic Planning Committee operates under a written charter adopted by the Board of Directors on October 21, 2005 and amended on July 19, 2006 to, among other things, expand its responsibilities over strategy and technology initiatives and change the name of the committee to the Strategy and Technology Committee. The Strategy and Technology Committee consists of Philip D. Hotchkiss (Chair), Steven M. Quist and David J. Suden. The Board of Directors has determined that all members of the Strategy and Technology Committee are independent directors under the rules of the Nasdaq Stock Market and the rules of the Securities and Exchange Commission except for Mr. Suden, our Chief Technology Officer. The Strategy and Technology Committee met four times in fiscal year 2006.

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#### **Director Nominations**

The Governance Committee will consider candidates for Board membership suggested by its members, other Board members, as well as management and shareholders. Shareholders who wish to recommend a prospective nominee should follow the procedures set forth in Section 3.14 of our bylaws as described in the section of this proxy statement entitled Shareholder Proposals for Nominees. The Governance Committee has not adopted a formal policy for increasing or decreasing the size of the Board of Directors. Our Governance Guidelines provides that the Board should generally have between six and nine directors. The Governance Committee believes that the current size of the Board of Directors is appropriate because with seven directors, the Board of Directors has a diversity of talent and experience to draw upon, is able to appropriately staff the committees of the Board and engage the directors in Board and committee service, all while maintaining efficient function and communication among members. If appropriate, the Board may determine to increase or decrease its size, including in order to accommodate the availability of an outstanding candidate.

*Criteria for Nomination to the Board.* The Governance Committee is responsible for identifying, evaluating and approving qualified candidates for nomination as directors. The Governance Committee has not adopted minimum qualifications that nominees must meet in order for the Governance Committee to recommend them to the Board of Directors, as the Governance Committee believes that each nominee should be evaluated based on his or her merits as an individual, taking into account the needs of Rimage and the Board of Directors. The Governance Committee evaluates each prospective nominee against the standards and qualifications set out in our Governance Guidelines, including:

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- § Background, including demonstrated high personal and professional ethics and integrity; and the ability to exercise good business judgment and enhance the Board's ability to manage and direct our affairs and our business;
- § Commitment, including the willingness to devote adequate time to the work of the Board and its committees, and the ability to represent the interests of all shareholders and not a particular interest group;
- § Board skills needs, in the context of the existing makeup of the Board, and the candidate's qualification as independent and qualification to serve on Board committees; and
- § Diversity, in terms of knowledge, experience, skills, expertise, and other characteristics that contribute to the Board's diversity; and Business experience, which should reflect a broad experience at the policy-making level in business, government and/or education.

In reviewing prospective nominees, the Governance Committee reviews the number of public-company boards on which a director nominee serves to determine if the nominee will have the ability to devote adequate time to the work of our Board and its committees. Because of the variability of the time commitment these other positions may require, the Governance Committee has not adopted any formal policy limiting the number of boards on which our directors may serve. The Governance Committee also considers such other relevant factors as it deems appropriate. The Governance Committee will consider persons recommended by the shareholders using the same standards used for other nominees.

*Process for Identifying and Evaluating Nominees.* The process for identifying and evaluating nominees to the Board of Directors is initiated by identifying a slate of candidates who meet the criteria for selection as a nominee and have the specific qualities or skills being sought based on input from members of the Board and, if the Governance Committee deems appropriate, a third-party search firm. The Governance Committee evaluates these candidates by reviewing the candidates' biographical information and qualifications and checking the candidates' references. One or more Governance Committee members will interview the prospective nominees in person or by telephone. After completing the evaluation, the Governance Committee makes a recommendation to the full Board of the nominees to be presented for the approval of the shareholders or for election to fill a vacancy.

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*Board Nominees for the 2007 Annual Meeting.* The nominees for this 2007 Annual Meeting were selected by the Governance Committee in February 2007. All nominees were elected by shareholders at our 2006 Annual Meeting. We have not engaged a third-party search firm to assist it in identifying potential director candidates, but the Governance Committee may choose to do so in the future.

*Shareholder Proposals for Nominees.* The Governance Committee will consider written proposals from shareholders for nominees for director. Any such nominations should be submitted to the Governance Committee c/o the Secretary of Rimage Corporation and should include the following information: (a) all information relating to such nominee that is required to be disclosed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) the name and record address of the shareholder and of the beneficial owner, if any, on whose behalf the nomination will be made, and (c) the class and number of shares of the corporation owned by the shareholder and beneficially owned by the beneficial owner, if any, on whose behalf the nomination will be made. As to each person the shareholder proposes to nominate, the written notice must also state: (a) the name, age, business address and residence address of the person, (b) the principal occupation or employment of the person and (c) the class and number of shares of the corporation's capital stock beneficially owned by the person. To be considered, the written notice must be submitted in the time frame described in our bylaws and in the section of this proxy statement entitled "Shareholder Proposals for 2008 Annual Meeting."

### **Board Attendance at Board, Committee and Annual Shareholder Meetings**

During 2006, the Board of Directors met six times. Each nominee for director attended at least 75% of the meetings of the Board and committees on which he served during 2006. The Board of Directors regularly meets in executive session without the presence of members of management, including the Chief Executive Officer. We do not have a formal policy on attendance at meetings of our shareholders. However, we encourage all Board members to attend all meetings, including the annual meeting of shareholders. All of the seven directors then serving attended the 2006 Annual Meeting of Shareholders.

### **Continuing Education**

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In December 2005, the Board of Directors adopted a formal policy encouraging all Board members to seek out opportunities for further education on governance and public-company matters, including educational programs accredited by Institutional Shareholder Services. During calendar year 2006, five members of the Board of Directors attended one or more such programs.

### Communications With Directors

Shareholders may communicate with members of the Board by sending an e-mail to [chair.director@rimage.com](mailto:chair.director@rimage.com) or by directing the communication in care of the Governance Committee Chair c/o Corporate Secretary, at the address set forth on the front page of this proxy statement. All communications will be received and processed by the Corporate Secretary. You will receive a written acknowledgement from the Corporate Secretary upon receipt of your communication.

### Code of Ethics

We have adopted a code of ethics that applies to all directors, officers and employees, including its principal executive officer, principal financial officer and controller. This code of ethics is included in our Code of Ethics and Business Conduct which is publicly available by following the link to Corporate Governance in the Investor Relations section of our website at [www.rimage.com](http://www.rimage.com).

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#### **REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

The following report of the Audit Committee shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the 1934 Securities Exchange Act, as amended, except to the extent that we specifically incorporate it by reference in such filing.

In accordance with its Charter, the Audit Committee has reviewed and discussed our audited financial statements with management. The Audit Committee has discussed with KPMG LLP, our independent registered public accounting firm, (i) the matters required to be discussed by SAS No. 61 (Codification of Statements on Accounting Standards) which includes, among other items, matters related to the conduct of the audit of our financial statements, (ii) the written disclosures required by Independence Standards Board Standard No. 1 (which relates to the firm's independence from us and our related entities), and (iii) the independence of KPMG LLP from us.

Based on the review and discussions referred to above, the Audit Committee recommended to our Board that our audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

BY: THE AUDIT COMMITTEE

James L. Reissner (Chair)

Lawrence Benveniste

Philip D. Hotchkiss

Thomas Madison

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Table of Contents**PROPOSAL 2:****APPROVAL OF RIMAGE CORPORATION****2007 STOCK INCENTIVE PLAN**

On March 23, 2007, our Board of Directors adopted the Rimage Corporation 2007 Stock Incentive Plan (the 2007 Plan), subject to shareholder approval. A copy of the 2007 Plan is attached to this proxy statement as Appendix A. The 2007 Plan provides stock incentive awards in the form of options (incentive and non-qualified), stock appreciation rights, restricted stock, restricted stock units, performance stock, performance units, and other awards in stock and/or cash. The 2007 Plan permits the issuance of up to 730,320 shares of our common stock.

Effective immediately upon approval of the 2007 Plan by our shareholders, our Amended and Restated 1992 Stock Option Plan (the 1992 Plan) will be amended by the 2007 Plan to eliminate our authority to grant any new awards or options under the 1992 Plan, including awards or options that become available for issuance as a result of cancellation or forfeiture of previously granted awards or options. As of March 23, 2007, our only equity compensation plan consisted of the 1992 Plan. As a result of this freezing of the 1992 Plan, we will lose the ability to grant awards for 230,320 shares of otherwise remaining authority under the 1992 Plan plus 75,000 shares that we estimate would have become available under the 1992 Plan as a result of cancellation or forfeiture of previous grants.

**Purpose of the 2007 Plan**

The purpose of the 2007 Plan is to attract and retain talented and experienced people, closely link employee compensation with performance realized by shareholders, and reward long-term results with long-term compensation. If approved, the 2007 Plan will permit us to grant stock incentive awards to current and new employees, including officers, service providers and members of the Board of Directors.

**Key Terms of the 2007 Plan**

The following is a brief summary of the key terms of the 2007 Plan, which are described in more detail below.

<b>Key Plan Features</b>	<b>Description</b>
<i>Plan Term</i>	May 15, 2007 to May 15, 2017
<i>Eligible Participants</i>	employees, including executive officers, of Rimage and any subsidiary as determined by the Compensation Committee members of the Board of Directors service providers to us or any of our subsidiaries
<i>Total Shares Authorized</i>	730,320 shares of common stock for all types of stock incentive awards
<i>Individual Share Limits</i>	up to 25,000 shares for all stock incentive awards to non-employee directors elected or re-elected at a meeting up to 100,000 shares per person per year under all stock incentives
<i>Types of Awards</i>	incentive and non-qualified stock options with an exercise period no longer than ten years restricted stock and restricted stock units stock appreciation rights performance stock and performance units other awards in stock or cash

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restricted stock awards and/or non-qualified stock options on the annual election or re-election of non-employee directors

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<i>Vesting and Exercise</i>	determined by Compensation Committee based on service (time vesting) or upon achievement of performance targets (performance vesting) or both all non-performance awards vest upon a change in control
<i>Permissible Features</i>	objective performance criteria in the 2007 Plan, if approved by shareholders, will permit deductibility of executive officer awards as performance based compensation under Code Section 162(m) forfeiture and recoupment of prior award values for financial mismanagement or other breaches of policies or agreements with us, such as a non-compete or non-disclosure agreement we will hold restricted stock and restricted stock units until restrictions lapse  dividend and dividend equivalents on awards may be paid currently or deferred  options may be exercised with previously acquired shares
<i>Features Not Permitted</i>	increase the number of shares reserved for awards in the 2007 Plan  extend the term of the 2007 Plan  decrease the minimum exercise price  change the designation of participants eligible to participate in the 2007 Plan  re-price stock options or stock appreciation rights

### **Who is Eligible for Stock Incentive Awards**

Our employees, including executive officers, members of the Board of Directors and service providers to us and our subsidiaries are eligible to receive awards under the 2007 Plan. The Compensation Committee will determine which employees and other eligible persons will be awarded stock incentives under the 2007 Plan. The 2007 Plan also provides for an annual grant of either or both of stock options and restricted stock to each non-employee Board member upon election or re-election and shall be determined by the Board in its sole discretion prior to such annual meeting of shareholders, but also permits stock incentives be made to non-employee Board members by the Board in its discretion in addition to the annual grant of restricted stock. Currently, we have five non-employee Board members, five executive officers and approximately 40 other employees eligible to receive awards.

The Compensation Committee intends to utilize a mix of stock options, restricted stock and performance stock for awards under the 2007 Plan. The Compensation Committee anticipates granting an average of approximately 300,000 shares each year under the 2007 Plan. The following chart summarizes the past three fiscal year history of stock and option grants by the Compensation Committee. The chart shows the number of shares utilized under the 1992 Plan during the past three years, and the aggregate shares reserved for outstanding grants plus those available under the 1992 Plan, as a percentage of our outstanding shares (assuming for this calculation that all shares under the 1992 Plan were also outstanding).

	<b>Beginning Total Shares Outstanding (A)</b>	<b>Beginning Total Plan Shares Reserved and Available (B)</b>	<b>Beginning Plan Shares (B) as a Percentage of Total Shares (A+B)</b>	<b>New Share Grants During Year Under Plan (C)</b>	<b>New Share Grants (C) as a Percentage of Total Shares (A+B)</b>
Year					
2006	9,630,324	489,072	4.8%	281,992	2.8%
2005	9,365,479	293,407	3.0%	315,500	3.3%



2004	9,110,246	501,241	5.2%	213,500	2.2%
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**Types of Stock Incentives to be Awarded**

Subject to the limits of the 2007 Plan, the Compensation Committee has the discretionary authority to determine the size of the award, the type of award, and if the award will be tied to meeting performance-based requirements or will vest over time. For executive officers, the performance-based requirements for vesting in an award may be designed to comply with Section 162(m) of the Internal Revenue Code to permit us to deduct the value of the award for income tax purposes.

For directors who are not employees, the 2007 Plan provides for a grant of a discretionary number of shares of restricted stock or non-qualified stock options or a combination of both on each director's election and re-election at the annual shareholder meeting. Under this provision of the 2007 Plan, the stock incentive awards granted to the non-employee directors on each director's election and re-election at the annual shareholder meeting may not exceed 25,000 shares. The restricted stock will vest on the anniversary of the date of grant and the stock option will vest six months from the date of grant. In March 2007, the Compensation Committee determined that each non-employee director elected or re-elected at the Meeting would receive a non-qualified option to purchase 12,000 shares of our common stock and an award of 1,000 shares of restricted stock. For each following year, the Board will determine the number of shares underlying any stock option and the number of shares underlying any restricted stock award to be granted to non-employee directors upon election or re-election at an annual meeting of shareholders. In addition, the Board may from time to time grant additional awards to some or all of the Board of Directors as it deems appropriate.

The types of awards that may be made under the 2007 Plan are similar to those under the 1992 Plan and are as follows:

- § *Incentive stock options and non-qualified stock options* the right to purchase shares where value is based on the appreciation in the underlying shares in excess of an exercise price, which right may be exercised by the holder during the term of the option, unless earlier terminated upon certain events, such as termination of employment. The exercise price may be paid in cash or in previously owned shares or by other means permitted by the Compensation Committee.
- § *Stock appreciation rights* a contractual right to the increase in the value of the underlying shares subject to the award that does not require payment by the recipient to exercise the right, but which pays the appreciation in stock value when elected by the holder in the form of whole shares or cash, or a combination of both.
- § *Restricted stock and restricted stock unit* awards of stock that do not require purchase by the recipient, but which are subject to significant restrictions on transfer until certain restrictions lapse, either based on time or upon achievement of performance related criteria. Restricted units may vest earlier than the date the shares are actually paid in exchange for the units, which may result in a deferral of income. The holder of restricted stock is entitled to vote those shares. The Compensation Committee may determine whether, with respect to restricted stock, to pay dividends on those shares to the holder or to defer dividends. Restricted stock units are not outstanding until paid in stock and therefore do not have voting or dividend rights.
- § *Performance shares and performance units* awards of restricted or unrestricted stock that are issued to the recipient only upon satisfaction of performance based criteria.
- § *Other awards* additional opportunities to reward participants through payment of cash or stock as a bonus, or as deferred compensation, or for other purposes for which stock will provide a meaningful incentive.

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**Adjustments to Stock Incentives for Corporate Transactions**

In the event of a stock dividend, stock split, spin-off, rights offering, recapitalization through a large, nonrecurring cash dividend, or a similar equity restructuring, the Compensation Committee will adjust the number and kind of shares granted under the 2007 Plan, including the number and exercise price of shares subject to outstanding options or stock appreciation rights. For certain other corporate transactions, such as certain mergers, consolidations, acquisitions of property or stock, separations, reorganizations, or liquidations, that provide for the substitution or assumption of awards, the Compensation Committee will adjust awards of restricted stock, restricted stock units, performance stock and performance share units, and other awards to comply with certain requirements of the Code.

#### **Exercise Price for Stock Options**

The exercise price of stock options granted under the 2007 Plan that are intended to qualify for favorable tax treatment as incentive stock options under Code Section 422 may not be less than the fair market value of our common stock on the date of grant. No option shall have a term longer than ten years. No option may be repurchased or exchanged for a lower priced option.

#### **Effect on Termination of Employment on Stock Incentives**

Subject to certain exceptions requiring earlier termination, stock options will expire and cannot be exercised 90 days after the termination of a participant's employment, including upon death, disability or retirement. Prior to that time, only options that have become exercisable under their terms, based on either service based or performance based vesting, may be exercised. The Compensation Committee may at any time after an award vest part or all of the unvested options as it deems appropriate.

Restricted stock and restricted stock units will be forfeited if not vested when the participant terminates employment, including upon death, disability or retirement. The Compensation Committee may also accelerate vesting at any time after the restricted stock incentive is awarded.

For options and restricted stock, restricted stock units, performance stock and performance units, the Compensation Committee may elect not to accelerate options that would otherwise vest only upon achievement of performance criteria if those targets have not been achieved, or the performance period has not expired.

#### **Effect of a Change in Control on Stock Incentives**

Stock options become fully exercisable, and restricted stock and restricted stock units automatically become fully vested, upon the occurrence of a change in control as defined in the 2007 Plan, except that awards based on performance criteria where the performance period has not yet concluded at the time of a change in control will not automatically accelerate. The Compensation Committee may require options or stock appreciation rights be exercised prior to the change in control, may pay cash or other securities to cancel awards in connection with the change in control, or may provide for the successor to substitute its stock for outstanding awards.

#### **Transferability of Stock Incentives**

Stock options, restricted stock, restricted stock units, performance stock, and performance units, as well as other awards under the 2007 Plan that are vested at the time of the death of the participant, are transferable only by the participant's last will and testament or applicable state laws on descent and distribution. Restricted stock, restricted stock units, performance stock and performance units may not be sold, transferred, assigned, pledged or otherwise encumbered or disposed of until the applicable restrictions lapse or the performance targets have been achieved.

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#### **Administration**

The Compensation Committee will administer the 2007 Plan. The Compensation Committee will select employees to receive awards, determine the number of shares covered by each award, and establish the other terms and conditions consistent with the limitations contained in the 2007 Plan. The Compensation Committee may also interpret the 2007 Plan, may establish and amend terms of existing stock incentive awards, except that if the award recipient is adversely affected by the amendment, the recipient must also consent.

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The Board may also exercise any of the authorities granted to the Compensation Committee. To the extent required by law or desired for tax purposes, awards to executive officers will be made only by persons who qualify as outside directors under securities and tax laws. The Compensation Committee may delegate to an executive officer all or part of its responsibilities to make awards, other than the authority to make awards to other executive officers.

### Amendments to the 2007 Plan

The Compensation Committee may amend or suspend the 2007 Plan at any time except that any amendment in one or more of the following categories will not be permitted without the approval of our shareholders:

- § increase the number of shares that may be used under the 2007 Plan, or change any other limit on various types of awards;
- § permit the re-pricing of outstanding stock options; or
- § amend the maximum shares that may be granted as awards to any participant.

### Tax Consequences of Stock Incentives to Participants and to Us

*Options.* Stock options grant under the 2007 Plan may either be granted as incentive stock options, which are governed by Internal Revenue Code Section 422 or as non-qualified stock options, which are governed by Internal Revenue Code Section 83. Generally, no federal income tax is payable by the recipient upon the grant of an incentive stock option and no deduction is taken by us. If certain holding periods are met, the exercise of an incentive stock option does not result in taxation to the recipient; rather, the recipient is taxed only at the time of sale. If the shares have been held for at least one year after the date of exercise and at least two years from the date of grant of the option, the recipient will be taxed on any appreciation in excess of the exercise price as long-term capital gains. In that event, we are not entitled to a deduction for the amount of the capital gains.

Under current tax laws, if a recipient exercises a non-qualified stock option, the recipient will be taxed on the difference between the fair market value of the stock on the exercise date and the exercise price and, thereafter, the recipient would receive capital gains on any appreciation in stock value after the exercise date, depending upon the length of time the recipient held the stock after exercise. When the option is exercised, we will be entitled to corresponding tax deduction.

*Restricted and Performance Stock and Units.* Awards of restricted stock and restricted stock units, performance stock and performance units under the 2007 Plan generally are not subject to federal income tax when awarded, unless the recipient properly elects to accelerate the tax recognition. Restricted stock is generally subject to ordinary income tax at the time the restrictions lapse and performance stock is taxed at the time the performance targets are met. Restricted stock units and performance units are generally subject to ordinary tax at the time of payment, even if vested earlier. We are entitled to a corresponding deduction at the time the recipient recognizes taxable income on the restricted or performance stock or units.

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#### **New Plan Benefits**

No benefits or amounts have been granted, awarded or received under the 2007 Plan. If the 2007 Plan were approved by our shareholders at the Meeting, it is not possible to determine the benefits that will be received by eligible recipients, other than non-employee directors elected or re-elected at the Meeting.

Non-employee directors elected or re-elected at the Meeting will automatically receive an option to purchase 12,000 shares of our common stock and an award of 1,000 shares of restricted stock. The following table sets forth the information with respect to awards that will be granted under the 2007 Plan to nominees upon their election or re-election to the Board of Directors:

Name	Number of Shares Underlying Options	Number of Shares of Restricted Stock
Lawrence M. Benveniste	12,000	1,000
Philip D. Hotchkiss	12,000	1,000

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Thomas F. Madison	12,000	1,000
Steven M. Quist	12,000	1,000
James L. Reissner	12,000	1,000
All Non-Employee Directors, as a Group	60,000	5,000

### Registration with Securities and Exchange Commission

Upon approval of the 2007 Plan by our shareholders, we intend to file a registration statement with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1933, as amended, covering the 730,320 shares issuable under the 2007 Plan.

### Vote Required

The affirmative vote of the holders of a majority of the shares of the common stock represented at the Meeting and entitled to vote is necessary for the approval of Proposal 2: Approval of Rimage Corporation 2007 Stock Incentive Plan, provided that the total number of shares that vote on the proposal represent a majority of the shares outstanding on the record date. Proxies will be voted in favor of Proposal 2 unless otherwise indicated.

THE BOARD OF DIRECTORS RECOMMENDS

THAT SHAREHOLDERS VOTE FOR

THE APPROVAL OF PROPOSAL 2.

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### OTHER INFORMATION REGARDING EQUITY COMPENSATION PLANS

The following table sets forth information regarding our equity compensation plans in effect as of December 31, 2006. Each of our equity compensation plans is an employee benefit plan as defined by Rule 405 of Regulation C of the Securities Act of 1933.

	<b>Securities Authorized for Issuance Under Equity Compensation Plans</b>		
<b>Plan category</b>	<b>Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of shares of common stock remaining available for future issuance under equity compensation plans<sup>(1)</sup></b>
Equity compensation plans approved by shareholders:	1,306,940	\$ 13.56	230,320 <sup>(2)</sup>
Equity compensation plans not approved by shareholders:			
Total	1,306,940	\$ 13.56	230,320 <sup>(2)</sup>

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- (1) Excludes shares of common stock listed in the first column.
- (2) Consists of shares available for awards under our Amended and Restated 1992 Stock Option Plan (the 1992 Plan ). If Proposal 2: Approval of Rimage Corporation 2007 Stock Incentive Plan is approved by shareholders at the Meeting, the 1992 Plan will be amended by the 2007 Stock Incentive Plan to eliminate our authority to grant any new awards or options under the 1992 Plan.

Under our shareholder approved equity compensation plans, there is no mandatory holding period for stock acquired upon exercise of options. However, the federal income tax consequences to an employee for immediate disposition of stock acquired upon exercise of incentive stock options may make it more advantageous to the employee to hold such shares for at least one year from the date of exercise and two years from the date of grant. In addition, our executive officers and directors are subject to stock ownership guidelines that may encourage our executive officers and directors to hold shares acquired upon exercise of options. See the section of this proxy statement entitled Executive Compensation Compensation Discussion and Analysis Stock Ownership Guidelines for more information.

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#### **EXECUTIVE OFFICERS**

Set forth below is biographical and other information on our current executive officers. Information about Mr. Bernard P. Aldrich, our President and Chief Executive Officer, and Mr. David J. Suden, our Chief Technology Officer, may be found in this proxy statement under the heading Election of Directors.

Manuel M. Almeida, 49, was appointed as our Chief Operating Officer as of February 15, 2006. Mr. Almeida started with us in September 2003 as Executive Vice President. For the twenty-three years prior to joining us, Mr. Almeida was with Fuji Photo Film USA, most recently serving as its Vice President & General Manager Commercial Imaging Division from June 1999 to September 2003. During his twenty-three year tenure, Mr. Almeida also served as Fuji's Vice President & General Manager Digital Imaging, Vice President Consumer Marketing and Vice President Digital Imaging Sales.

Robert M. Wolf, 38, started with us in September 1997 and has been our Treasurer and Secretary since January 2000 and Chief Financial Officer since February 2003. From March 1995 until joining us, Mr. Wolf was a CPA and audit manager with Deloitte & Touche LLP. From December 1991 until March 1995, Mr. Wolf was a CPA with House, Nezerka & Froelich PA.

Pamela V. Lampert, 49, joined us in March 2005 as our Vice President Human Resources and in March 2007 was appointed to the position of Vice President Planning and Organization Development. From January 2003 through March 2005, Ms. Lampert was the owner and President of Lampert Consulting Group, an organization development and human resource services consulting business. She served as Vice President, Human Resources and Administration for CyberOptics Corporation from June of 1997 through July of 2003.

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**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

The following discussion and analysis describes our compensation objectives and policies as applied to the following executive officers who are referred to in this proxy statement as the Named Executive Officers:

- § Bernard P. Aldrich, our Chief Executive Officer
- § Robert M. Wolf, our Chief Financial Officer
- § Manuel M. Almeida, our Chief Operating Officer
- § David Suden, our Chief Technology Officer
- § Pamela V. Lampert, our Vice President Planning and Organization Development

This section is intended to provide a framework within which to understand the actual compensation awarded to, earned or held by each Named Executive Officer during 2006, as reported in the compensation tables and accompanying narrative sections appearing on pages 27 to 34 of this proxy statement.

*Overview of the Executive Compensation Process*

The responsibility of the Compensation Committee is to review and approve the compensation and other terms of employment of our Chief Executive Officer and our other executive officers. Among its other duties, the Compensation Committee oversees all significant aspects of our compensation plans and benefit programs, including succession plans for executive officers other than the Chief Executive Officer. The Board of Directors is responsible for, and regularly reviews, the succession plan for our Chief Executive Officer. The Compensation Committee annually reviews and approves corporate goals and objectives for the Chief Executive Officer's compensation and evaluates the Chief Executive Officer's performance in light of those goals and objectives. The Compensation Committee has also been appointed by the Board of Directors to administer our Amended and Restated 1992 Stock Option Plan (the "Plan") and the 2007 Stock Incentive Plan presented to shareholders at the Meeting.

In carrying out its duties, the Compensation Committee participates in the design and implementation and ultimately reviews and approves specific compensation programs. On February 20, 2006, the Compensation Committee established goals for fiscal year 2006 for our annual cash incentive compensation program (the "2006 Incentive Program") for executive officers. On May 16, 2006, the Compensation Committee adopted a long-term equity program for our executive officers and other key management (the "2006 Equity Program").

*Use of Compensation Consultant*

Under the Compensation Committee's charter, the Compensation Committee has the authority to retain, at our expense, such independent counsel or other advisers as it deems necessary to carry out its responsibilities. At the end of fiscal year 2005, the Compensation Committee selected Towers Perrin, an executive compensation consultant, to assist it in determining the amount and form of executive officer and director compensation for fiscal year 2006. In determining to engage Towers Perrin, we considered matters bearing upon the independence of Towers Perrin, including the fact that to the Compensation Committee's knowledge, Towers Perrin did not perform work for any of our management, either personal in nature or relating to our executive compensation. For 2006, the Compensation Committee reviewed the executive compensation information prepared by Towers Perrin. Specifically, Towers Perrin prepared a comparative analysis of executive officer and director compensation and compensation practices of Rimage as compared to a market group consisting of comparably sized companies. Towers Perrin additionally compared the compensation practices of the market group to a group of companies in industries comparable to ours to determine if certain compensation practices or data trends were particular to our industry. This comparative analysis focused on base salary for executive officers, annual incentive compensation, long-term equity incentive compensation, as well as the overall value of cash compensation to executive officers.

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The Compensation Committee also reviewed surveys, reports and other market data against which it measured the competitiveness of our compensation program. The Compensation Committee is committed to continually reviewing its compensation philosophy and our compensation programs to ensure they meet our objectives of providing compensation that attracts and retains superior executive talent, as well as encourage our executive officers to achieve our business goals. The Compensation Committee reviews its philosophy regularly (no less than annually) to ensure that the philosophy continues to be appropriate so that changes in executive compensation practices of the comparable companies and trends in compensation are identified.

*Role of Management*

In determining compensation for Named Executive Officers other than the Chief Executive Officer, the Compensation Committee solicits input from the Chief Executive Officer regarding the duties and responsibilities of the other executive officers and the results of performance reviews. The Chief Executive Officer also recommends to the Compensation Committee the base salary for all Named Executive Officers, the awards under the cash incentive compensation program, and the awards under the long-term equity program. The Chief Executive Officer also recommended to the Compensation Committee the financial performance goals under the 2006 Incentive Program and the 2006 Equity Program. In addition to the Chief Executive Officer, the Compensation Committee solicits information regarding executive compensation matters from our Vice President of Planning and Organization Development, Pamela V. Lampert. However, neither Ms. Lampert, nor any other Named Executive Officer other than the Chief Executive Officer, has a role in establishing executive compensation. From time to time, the Named Executive Officers are invited to attend meetings of the Compensation Committee. However no Named Executive Officer attends any executive session of the Compensation Committee or is present during deliberations or determination of such Named Executive Officer's compensation.

*Objectives of Compensation Programs*

Our philosophy with respect to the compensation of executive officers is based upon the following principles:

- § Executive base compensation levels should be established by comparison of job responsibility to similar positions in comparable companies and be adequate to retain highly-qualified personnel; and
- § Variable compensation should be established to provide incentive to improve performance and shareholder value.

For 2006, the Compensation Committee reviewed our compensation practices as compared to the companies in our market group consisting of similar-sized publicly-held and privately-held companies. As described above, the Compensation Committee also reviewed surveys, reports and other market data, including information provided by Towers Perrin, against which it measured the competitiveness of our compensation program to determine if these programs were consistent with our philosophy and met the objectives of our compensation programs.

For 2006, as with prior years, the Compensation Committee determined that a Named Executive Officer's base cash compensation should be determined with reference to the 50th percentile of the base pay of an employee with similar responsibilities at other companies in the market group, and that, on a combined basis, base salary and amounts under the annual cash incentive program should be at or above the 50th percentile of cash compensation. The Compensation Committee believes that variable cash compensation, tied to specific performance measures, should constitute a significant portion of a Named Executive Officer's overall cash compensation. In determining Named Executive Officers' annual base compensation, the Compensation Committee considered our overall performance, the duties of the Named Executive Officer, the Named Executive Officer's performance on behalf of us, surveys of executive compensation for companies in the market group and peer group and with respect to the Named Executive Officers other than the Chief Executive Officer, the recommendations of the Chief Executive Officer.

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In determining value of compensation comprised of long-term equity incentive compensation, the Compensation Committee reviews the value of equity grants of the market group of companies to executive officers with similar responsibilities, as well as surveys and other market data to adjust the long-term equity incentive program to reflect our market capitalization, type of equity awards, historical grant practices, the potential cash compensation for executive officers, as well as to scale long-term equity incentive compensation among the Named Executive Officers such that the Named Executive Officers in positions of increasing responsibility have an opportunity to receive a correspondingly larger portion of the overall value of long-term equity compensation for the year. The Compensation Committee believes that equity compensation programs should: (i) provide long-term incentives to executive officers, (ii) align compensation to creating long-term shareholder value, (iii) encourage executive officers to remain with us and promote our business, (iv) provide executives with the opportunity to obtain significant, long-term stock ownership in our common stock and (v) provide equity compensation incentives to those personnel most responsible for our performance.

### *Design of Compensation Programs*

Consistent with its compensation philosophy and the objectives of long-term equity incentive compensation programs generally, the Compensation Committee adopted the 2006 Equity Program. The value of the annual equity grants made to the Named Executive Officers in 2006 under the 2006 Equity Program were targeted to be at the median of grants to comparable positions within the market group. Under the 2006 Equity Program, the Compensation Committee granted the Named Executive Officers and other key management awards of non-qualified stock options and performance shares that are subject to the Plan. The stock options granted under the 2006 Equity Program have an exercise price of the fair market value of our common stock on the date of grant, vest over a period of four years, have a term of ten years and in other respects are subject to the terms and conditions of the Plan. The performance shares will be granted to the 2006 Equity Program participants contingent on us meeting performance goals established by the Compensation Committee and approved by the Board relating to revenue and operating income for the fiscal year ended December 31, 2008. The Compensation Committee will determine if the performance goals have been met within 60 days after December 31, 2008 and the shares will be promptly issued thereafter if the performance goals have been met. The grants were intended to focus the Named Executive Officers on our future performance, and in recognition of this, options granted under the 2006 Equity Program vest over a period of four years and the performance share awards granted under the 2006 Equity Program will vest only if we meet performance goals for the fiscal year ended December 31, 2008.

Consistent with its compensation philosophy and the objectives of annual cash incentive programs generally, the Compensation Committee adopted the 2006 Incentive Program. Under the 2006 Incentive Program, the Named Executive Officers are eligible for cash bonuses depending upon our financial performance in sales growth and net income before interest and taxes (NIBIT) as a percentage of sales and depending on position. Under the 2006 Incentive Plan, the Compensation Committee determined target goals relating to sales and NIBIT as a percentage of sales in the form of a matrix comprised of incrementally increasing percentages of sales growth over the prior fiscal year and incrementally increasing NIBIT as a percentage of sales. Sales and NIBIT measures are used by us for annual and long range planning purposes, as they are most reflective of performance of our business and are tied most closely to the performance of our employees. The 2006 target goals established by the Compensation Committee for sales were 25% growth over our 2005 results and NIBIT at 16% of sales for 2006. The Compensation Committee intends these target goals to be aggressive to encourage significant improvements in financial performance and growth in our business.

### *Elements of In-Service Compensation*

The Compensation Committee followed the guiding principles outlined above in the development and administration of these elements of compensation of the Named Executive Officers while serving with us:

- § Base salary
- § Cash bonus
- § Long-term equity compensation

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The Compensation Committee does not believe that personal benefits or perquisites (i.e. perks ) are appropriate as a significant element of compensation for the Named Executive Officers. Because perks are not conditioned upon performance, create divisions among employees that undermine morale, and are inconsistent with Rimage s policy of equitable treatment of all employees based upon their contribution to our business, the value of perks to any Named Executive Officer was less than \$10,000 in 2006.



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### *Base Salaries*

At its meeting in February 2006, the Compensation Committee approved increases to the base salaries of the Named Executive Officers effective for fiscal year 2006. The increases were based on market-related and internal equity adjustments, as well as executive officer's performance. These base salaries were set at or below the 50th percentile of base pay of similar executive officer employees in the market group. This is in keeping with the Compensation Committee's philosophy allowing Named Executive Officers to earn a significant portion of overall cash compensation through the annual incentive plan.

### *Cash Bonus*

The cash bonus component of compensation is available to the Named Executive Officers through the 2006 Incentive Plan. If the target goals for each of sales and NIBIT were achieved, Mr. Aldrich would earn a cash bonus of 60% of his base salary, Messrs. Wolf, Almeida and Suden and would earn a cash bonus of 50% of their respective base salaries, and Ms. Lampert would earn a cash bonus of 30% of her base salary. If the maximum sales and NIBIT were achieved under the Incentive Plan, Mr. Aldrich would earn a cash bonus of 120% of his base salary, Messrs. Wolf, Almeida and Suden and would earn a cash bonus of 100% of their respective base salaries, and Ms. Lampert would earn a cash bonus of 60% of her base salary. Consistent with its overall compensation philosophy, the Compensation Committee ties cash bonus amounts to achievement of specific performance goals intended to improve our business and shareholder value.

For 2006, our results were 8.3% growth in sales as compared to 2005 and NIBIT of 17% of sales for 2006. Under the matrix associated with the 2006 Incentive Plan, our 2006 financial performance resulted in cash bonuses to the Named Executive Officers of the amount noted below, which represents the corresponding percentage of their 2006 annual base salary:

Named Executive Officer	2006 Incentive Plan	% of 2006 Annual Base
	Award Amount	Salary
Bernard P. Aldrich	\$ 138,450	42.6%
Manuel M. Almeida	\$ 88,750	35.5%
David J. Suden	\$ 79,875	35.5%
Robert M. Wolf	\$ 60,350	35.5%
Pamela Lampert	\$ 31,950	21.3%

### *Long-Term Equity Compensation*

The long-term equity component of executive compensation is provided primarily through the 2006 Equity Program. In addition to the 2006 Equity Program, the Compensation Committee may from time to time grant equity awards to executive officers for superior performance that would not otherwise be rewarded under our existing long-term equity programs that are tied to our performance, such as the 2006 Equity Program. The Compensation Committee's policy is to grant all equity awards under shareholder approved equity compensation plans, such as the Plan.

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On May 16, 2006, the Compensation Committee granted the following stock options to the Named Executive Officers under the 2006 Equity Program and also determined that each of the Named Executive Officers would receive the following number of performance shares under the 2006 Equity Program:

Named Executive Officer	Number of Shares	Number of
	of Stock	Performance Shares
	Underlying Stock	

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	<b>Option</b>	
Bernard P. Aldrich	25,200	2,800
Manuel M. Almeida	15,150	1,683
David Suden	12,600	1,400
Robert M. Wolf	12,600	1,400
Pamela V. Lampert	7,575	842

In determining the number of shares underlying the stock options and the number of performance shares granted under the 2006 Equity Program, the Compensation Committee considered the overall value of the awards, as well as the allocation of the value between the two types of awards. The number of shares were determined based, in part, upon the value of both cash and equity compensation of executive officers in the market group of companies.

Each award under the 2006 Equity Program is split such that 75% of the value of the award is represented by stock options and 25% of the value of the award is represented by performance shares, at a rate of one performance share for every three stock options. This allocation reflects the Compensation Committee's assessment regarding the relative value of stock options and performance shares. The stock options granted under the 2006 Equity Program have an exercise price of the fair market value of our common stock on the date of grant, vest over a period of four years, have a term of ten years and in other respects are subject to the terms and conditions of the Plan. For 2006, the Compensation Committee determined that using performance shares for a portion of long-term equity incentive compensation would more strongly tie our long-term financial performance to compensation by conditioning receipt of the performance shares on achieving performance goals for the fiscal year ended December 31, 2008. Although the Compensation Committee continues to grant stock options to reward performance of our long-term employees, the Compensation Committee believes that performance share awards also provide equity incentives to employees and reward employees for our financial performance.

### *Equity Granting Process*

In light of recent media and regulatory scrutiny regarding stock option granting practices, we determined to voluntarily review our stock option practices in 2006, in part to determine if potential backdating issues exist. In connection with this review, we reviewed: (1) the effectiveness of the Compensation Committee, (2) the control procedures relating to stock option grants, (3) the dates of the grants reported in public filings as compared to dates of approval by the Board of Directors, (4) our stock performance for a period of time before and after the grants, and (5) the timing of stock option grants relative to favorable and unfavorable press releases and public filings. While the Compensation Committee determined that no backdating issues exist, the Compensation Committee took a number of steps to strengthen and formalize existing stock option practices. In order to avoid any potential option backdating issues, the Compensation Committee formalized as policy our historical practice to grant options on a recurring pre-determined calendar. Stock option awards to our executive officers typically have been granted at the same time as stock option awards to other employees. The practice and now, policy, of the Compensation Committee is to grant stock options at a regularly scheduled meeting of the Compensation Committee held in conjunction with a meeting of the Board of Directors on the day of the Annual Meeting of Shareholders, typically scheduled in May of each year.

Additionally, the Compensation Committee established a policy that if the Chief Executive Officer makes a discretionary grant of options to purchase our common stock to newly hired non-executive employees prior to the next annual grant, the grant date will be the second Tuesday of the month following the employee's start date, or if the Nasdaq Stock Market was closed on such second Tuesday, the next succeeding day on which the Nasdaq Stock Market is open for regular trading. Under the Plan, our Chief Executive Officer has been delegated the authority to grant stock options to non-executive employees, provided that the Chief Executive Officer shall grant no individual more than 10,000 options individually and no more than 50,000 options in the aggregate to all such employees on an annual basis, not including options granted directly by the Compensation Committee. Further, if the Chief

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Executive Officer grants stock options to a new hire using this discretion, he must advise the Chair of the Compensation Committee of the planned grant.

In 2006, as part of the formal review of stock option granting processes, we also adopted a formal policy that was consistent with historical practice regarding the timing of awards relative to the release of material, non-public information. Our practice has been to grant stock options at

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a time that directors and executive officers were not in possession of material, non-public information and during periods when trading would be permitted under our trading policy. Our practice is to grant annual options to executives and other employees on the Annual Shareholders Meeting date.

Stock options granted in 2006 under the 2006 Equity Program or otherwise under the Plan have an exercise price of the fair market value of our common stock on the date of grant, determined under the Plan by reference to the closing market price of our common stock on the date the Compensation Committee meets (or takes action in writing in lieu of meeting) and determines the award recipient, the number of shares underlying stock option awards and the other material terms of the stock option grant. Because of the need to determine appropriate targets for a three-year period under the 2006 Equity Program, the performance shares were deemed to have been granted on September 18, 2006, at which time the Compensation Committee had determined the number of performance shares and award recipients, the performance goals were established, and the award was communicated to the recipients.

### *Elements of Post-Termination Compensation*

We have entered into a letter agreement relating to severance and change in control benefits (the Letter Agreement ) with each of the Named Executive Officers. Our practice has been to enter into the Letter Agreement with each person appointed by the Board as an executive officer. The Compensation Committee believes that severance and change in control arrangements for the Named Executive Officers aid in the recruitment and retention of executive officers and provide incentives for executive officers to grow our business and maintain focus on returning value to shareholders. The Compensation Committee believes that providing protection to executive officers whose employment is terminated in connection with a change in control strikes an appropriate balance among the interests of our executive officers and the interests of others in a change in control transaction. In particular, the Compensation Committee noted that the benefits under the Letter Agreement are only payable upon termination without cause prior to a change in control or both the occurrence of a change in control and the termination of employment without cause or for good reason, and that the severance and change in control benefits are conditioned upon compliance with nondisclosure and non-competition agreements.

On March 7, 2007, the Compensation Committee approved amendments to: (a) reduce the cash severance payment to 100% of the sum of the Named Executive Officer's annual base salary and target bonus in effect on such date (without giving effect to any reduction that results in the executive's termination for good reason); (b) shorten the period during which we will pay the portion of the premiums for continued health, dental and group life insurance to the earlier of twelve months from the date COBRA coverage begins or the date COBRA coverage otherwise terminates; (c) provide that in the event the vesting of options, together with all other payments and the value of any benefit received or to be received by the Named Executive Officer would result in all or a portion of such amount being subject to excise tax, the Named Executive Officer is only entitled to an amount that would result in no portion of the amount being subject to excise tax; and (d) provide for an interest payment applied to any delayed payments required by Section 409A of the Internal Revenue Code.

See Executive Compensation Severance and Change in Control Benefits in this proxy statement for a discussion of the terms of the Letter Agreement and the value of benefits payable under the Letter Agreements.

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#### *Stock Ownership Guidelines*

On May 16, 2006, the Compensation Committee established, and the Board of Directors approved, stock ownership guidelines for our executive officers and directors. The ownership guidelines for executive officers is based upon the following multiples of base pay, with the multiple depending upon management level: Chief Executive Officer, five times; Chief Operating Officer, Chief Financial Officer and Chief Technical Officer, three times; and all other executive officers, two times. The ownership guideline for directors is five times the annual retainer (exclusive of meeting fees) paid to directors by us. Ownership levels will be determined by including stock acquired through open market transactions, employee stock purchase plan purchases, shares earned under restricted stock grants or performance stock awards, as well as the in-the-money value of vested stock options. We recommend that executive officers and directors meet the applicable guidelines within five years of the date he or she first becomes subject to the guidelines and meet the applicable guidelines associated with an increase in his or her management level within five years of such change. Although no executive officer is required to meet the guidelines at December 31, 2006, the Compensation

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Committee reviewed the progress of the Named Executive Officers toward the ownership guidelines as of that date and determined that all of the Named Executive Officers and directors either met the ownership guidelines or were on track for meeting the ownership guidelines within the established timeframes.

### *Impact of Regulatory Requirements*

In determining our compensation policies and the programs and actions to be taken by us with respect to executive compensation, the Compensation Committee considers the impact of accounting rules, securities rules and tax rules. In particular, the Compensation Committee reviewed the requirements of Section 162(m) of the Internal Revenue Code that allows us an income tax deduction for certain compensation exceeding \$1,000,000 paid in any taxable year to executive officers and, in structuring the Letter Agreements, the provisions of Section 280(G) that would subject certain excess parachute payment under Section 280G of the Internal Revenue Code to excise tax under Section 4999 of the Internal Revenue Code. We have not been limited in our deduction for compensation expenses under Section 162(m) of the Internal Revenue Code in 2006 or in any prior fiscal year. In response to this review, we amended the Letter Agreements in March 2007 to ensure that the benefits payable under the Letter Agreement are exempt from the requirements of Section 409A of the Internal Revenue Code, which imposes a penalty tax on certain non-exempt deferred compensation.

Our stock option grant policies have been impacted by the implementation of Statement of Financial Accounting Standards No 123R, Share-Based Payments ( SFAS 123R ), which we adopted in the first quarter of fiscal year 2006. Under this accounting standard, we are required to value unvested stock options granted prior to our adoption of SFAS 123R and stock options granted after the adoption of SFAS 123R using the fair value method and expense those amounts in our income statement over the stock options remaining vesting period. In light of the adoption of SFAS 123R, the Compensation Committee considered, and continues to evaluate, additional ways to align the value of equity compensation received by our employees with the accounting treatment of this equity compensation. In May 2006, we adopted a long-term equity compensation program consisting, in part, of performance shares. We believe that the accounting treatment of the performance shares under SFAS 123R is more closely aligned to the value of the performance shares.

In 2006, we also began issuing options that were not qualified under Section 423 of the Internal Revenue Code in lieu of stock options that were so qualified (i.e. incentive stock options) because of the high rate of disqualifying dispositions for incentive stock options (which result in the incentive option being treated as a non-qualified stock option) and the administrative burden of tracking disqualifying disposition data.

### *Conclusion of Compensation Committee*

The Compensation Committee believes our compensation philosophy and programs are designed to foster a performance-oriented culture that aligns employees interests with those of our shareholders. The Compensation Committee believes that the compensation of the Named Executive Officers is reasonable, appropriate and responsive to the goal of improving shareholder return.

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#### **Summary Compensation Table**

The following table shows information concerning compensation earned for services in all capacities during the fiscal year for (i) Bernard P. Aldrich, who served as our Chief Executive Officer in 2006; (ii) Robert M. Wolf, who served as our Chief Financial Officer in 2006; and (iii) the three other most highly compensated executive officers of our company whose total compensation was at least \$100,000, less the amount representing the change in pension value and nonqualified deferred compensation earnings (together referred to as our Named Executive Officers ).

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$ (1))	Option Awards (\$ (1))	Non-Equity	All Other	Total (\$)
					Incentive Plan Compensation (\$ (2))	Compensation (\$ (3))	
	2006	\$324,296	\$6,756	\$39,960	\$ 138,450	\$ 17,128	\$526,590

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Bernard P. Aldrich Chief Executive Officer	2006	169,824	3,378	19,980	60,350	5,687	259,219
Robert M. Wolf Chief Financial Officer	2006	249,988	4,061	24,027	88,750	14,629	381,455
Manuel M. Almeida Chief Operating Officer	2006	225,707	3,378	19,980	79,875	14,370	343,310
David J. Suden Chief Technology Officer	2006	149,616	2,032	12,013	31,950	4,488	200,099
Pamela V. Lampert Vice President Planning and Organization Development							

- (1) Values expressed represent the actual compensation cost recognized by our company during fiscal 2006 for equity awards granted in 2006 as determined pursuant to Statement of Financial Accounting Standards No. 123, Share-Based Payment ( SFAS 123R ) utilizing the assumptions discussed in Note 2, Stock-Based Compensation, in the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.
- (2) Represents bonuses paid to the Named Executive Officers under our 2006 Incentive Plan, which are reported for the year in which the related services were performed.
- (3) Includes matching contributions under the Rimage Corporation 401(k) retirement savings plan of \$9,909, \$5,095, \$7,680, \$7,471 and \$4,488 for Mr. Aldrich, Mr. Wolf, Mr. Almeida, Mr. Suden and Ms. Lampert, respectively. Additionally, includes amounts attributable to automobile allowances of \$6,000 each for Mr. Aldrich, Mr. Almeida and Mr. Suden, and insurance premiums of \$1,219, \$593, \$949 and \$900 for Mr. Aldrich, Mr. Wolf, Mr. Almeida and Mr. Suden, respectively.

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**Grants of Plan-Based Awards in 2006**

The following table sets forth certain information concerning plan-based awards granted to the Named Executive Officers during the fiscal year ended December 31, 2006.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Option Awards: Number of Securities Underlying Options (#) (3)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$) (4)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)			
Bernard P. Aldrich	02/20/06	\$32,500	\$195,000	\$390,000						
Bernard P. Aldrich	05/16/06							25,200	\$21.77	\$296,687
	09/18/06					2,800				\$61,376

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Bernard P. Aldrich									
Robert M. Wolf	02/20/06	\$ 17,000	\$ 85,000	\$ 170,000					
Robert M. Wolf	05/16/06					12,600	\$ 21.77	\$ 148,343	
Robert M. Wolf	09/18/06				1,400			\$ 30,688	
Manuel M. Almeida	02/20/06	\$ 25,000	\$ 125,000	\$ 250,000					
Manuel M. Almeida	05/16/06					15,150	\$ 21.77	\$ 178,365	
Manuel M. Almeida	09/18/06				1,683			\$ 36,891	
David J. Suden	02/20/06	\$ 22,500	\$ 112,500	\$ 225,000					
David J. Suden	05/16/06					12,600	\$ 21.77	\$ 148,343	
David J. Suden	09/18/06				1,400			\$ 30,688	
Pamela V. Lampert	02/20/06	\$ 15,000	\$ 45,000	\$ 90,000					
Pamela V. Lampert	05/16/06					7,575	\$ 21.77	\$ 89,182	
Pamela V. Lampert	09/18/06				842			\$ 18,457	

- (1) Represents bonuses that may have been earned by the Named Executive Officers under our 2006 Incentive Plan. For the actual bonus amounts earned and paid under these plans, please see the Summary Compensation Table column entitled Non-Equity Incentive Plan Compensation. For explanation of these plans, refer to the description on pages 22 and 23 of this proxy statement under the headings of Compensation Discussion and Analysis entitled Design of Compensation Programs and Elements of In-Service Compensation Cash Bonus, respectively.
- (2) Represents a performance share award. Performance shares will be granted to the Named Executive Officers contingent on Rimage meeting financial performance goals established by the Compensation Committee and approved by the Board of Directors relating to revenue and operating income for the fiscal year ended December 31, 2008.
- (3) Options vest and become exercisable in equal installments on the first four anniversaries of the date of grant.
- (4) Values expressed represent fair value of the award as determined pursuant to SFAS 123R utilizing the assumptions discussed in Note 2, Stock-Based Compensation, in the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

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**Outstanding Equity Awards At Fiscal Year-End**

The following table sets forth certain information concerning equity awards outstanding to the Named Executive Officers at December 31, 2006.

Name	Option Awards			Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date (2)	Stock Awards		
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)				Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Shares, Units or Rights That Have

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					Not Vested (#)	That Have Not Vested (\$)
Bernard P. Aldrich	20,000	10,000	\$ 18.00	02/24/2015		
Bernard P. Aldrich	25,000		\$ 14.10	01/22/2004		
Bernard P. Aldrich	20,000		\$ 8.57	02/12/2013		
Bernard P. Aldrich	20,000		\$ 6.85	11/02/2011		
Bernard P. Aldrich	20,000		\$ 10.00	10/30/2010		
Bernard P. Aldrich	15,000		\$ 10.00	03/02/2009		
Bernard P. Aldrich	28,125		\$ 2.67	03/02/2008		
Bernard P. Aldrich	20,000		\$ 1.33	04/15/2007		
Bernard P. Aldrich		25,200	\$ 21.77	05/16/2016		
Bernard P. Aldrich					2,800	\$ 72,800
Robert M. Wolf		12,600	\$ 21.77	05/16/2016		
Robert M. Wolf	13,334	6,666	\$ 18.00	02/24/2015		
Robert M. Wolf	10,000		\$ 14.10	01/22/2014		
Robert M. Wolf	10,000		\$ 8.57	02/12/2013		
Robert M. Wolf	10,000		\$ 6.85	11/02/2011		
Robert M. Wolf	10,000		\$ 10.00	10/30/2010		
Robert M. Wolf	3,750		\$ 8.17	05/04/2009		
Robert M. Wolf	1,500		\$ 2.67	03/01/2008		
Robert M. Wolf					1,400	\$ 36,400
Manuel M. Almeida		15,150	\$ 21.77	05/16/2016		
Manuel M. Almeida	16,667	8,333	\$ 18.00	02/24/2015		
Manuel M. Almeida	12,000		\$ 12.51	09/29/2013		
Manuel M. Almeida					1,683	\$ 43,758

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Name	Option Awards		Equity Incentive Plan Awards:			Stock Awards		Equity Incentive Plan Awards:	Equity Incentive Plan Awards:
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date (2)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Number of Unearned Shares, Units or Rights That Have Not Vested (#)	Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)
David J. Suden		12,600		\$21.77	05/16/2006				
David J. Suden	13,334	6,666		\$18.00	02/24/2015				
David J. Suden	23,000			\$14.10	01/22/2014				
David J. Suden	20,000			\$8.57	02/12/2013				
David J. Suden	20,000			\$6.85	11/02/2011				
David J. Suden								1,400	\$36,400
Pamela V. Lampert		7,575		\$21.77	05/16/2016				
Pamela V. Lampert	8,000	4,000		\$18.32	03/07/2015				
Pamela V. Lampert								842	\$21,892

(1) Options vest and become exercisable in equal installments on the first four anniversaries of the date of grant.

(2) The expiration date of each option is the ten-year anniversary of the date of grant of such option.

**2006 Options Exercises and Stock Vested**

The following table sets forth certain information concerning options exercised during fiscal 2006 for the Named Executive Officers.

Name	Option Awards Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) (1)	Stock Awards Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Bernard P. Aldrich	35,000	\$745,755		
Robert M. Wolf				
Manuel M. Almeida	5,000	59,950		
David J. Suden	35,000	458,148		
Pamela V. Lampert				

(1) Represents the difference between the exercise price and the fair market value of our common stock on the date of exercise.

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**Employment Arrangements with Named Executive Officers and Post-Employment Compensation**

On November 5, 2004, we entered into a letter agreement relating to severance and change in control benefits (the Letter Agreement ) with certain of our executive officers. Our practice has been to enter into the Letter Agreement with each person appointed by the Board as an executive officer. As of December 31, 2006, each of the Named Executive Officers, Mr. Aldrich, Mr. Wolf, Mr. Almeida, Mr. Suden and Ms. Lampert, were parties to the Letter Agreement.

The terms cause, change in control, and good reason, used in the Letter Agreement are defined as follows:

Term	Definition
Cause	The failure by the executive officer to use his or her best efforts to perform the material duties and responsibilities of his or her position or to comply with any material policy or directive Rimage has in



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effect from time to time, provided the executive officer shall have received notice of such failure and have failed to cured the same within thirty days of such notice.

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

A material breach of the executive officer's fiduciary responsibilities to Rimage, such as embezzlement or misappropriation of Rimage funds, business opportunities or properties, or to any of our customers, vendors, agents or employees.

Conviction of, or guilty plea or *nolo contendere* plea by the executive officer to a felony or any crime involving moral turpitude, fraud or misrepresentation.

A material breach of the executive officer's Nondisclosure and Noncompetition Agreement with Rimage.

Good Reason

Good Reason for the twelve month period following a Change in Control shall mean, without the express written consent of the executive officer, any of the following:

the assignment to the executive officer of any duties inconsistent with the executive officer's status or position as such executive officer of Rimage or a substantial reduction in the nature or status of the executive officer's position or of his or her responsibilities from those in effect immediately prior to the Change in Control;

a reduction by Rimage of the executive officer's annual base salary or bonus opportunity in effect immediately prior to the Change in Control;

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

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

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

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<b>Term</b>	<b>Definition</b>
Change in Control	Change in Control of Rimage shall mean a change in control which would be required to be reported in response to Item 5.01 of Form 8-K promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), whether or not Rimage is then subject to such reporting requirement, including without limitation, if:  any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly of securities of Rimage representing 20% or more of the combined voting power of Rimage's then outstanding securities (other than an entity owned 50% or greater by Rimage or an employee pension plan for the benefit of the employees of Rimage);

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

Rimage disposes of at least 75% of its assets, other than (X) to an entity owned 50% or greater by Rimage or any of its subsidiaries, or to an entity in which at least 50% of the voting equity securities are owned by the shareholders of Rimage immediately prior to the disposition in substantially the same percentage or (Y) as a result of a bankruptcy proceeding, dissolution or liquidation of Rimage.

The Letter Agreement provides that if the executive officer's employment is terminated without cause (other than during the twelve month period following a change in control), the executive will be entitled to payments of the executive officer's regular base salary for a period of twelve months or until the executive secures other employment, whichever comes first. The executive officer will also be paid an amount equal to the average of the prior three calendar years annual bonus amount received by the executive. The bonus payment will be paid in twelve equal installments consistent with our regular payroll practices, but will cease at such earlier time as the executive officer secures other employment. We also will pay a portion of the premiums for continued health, dental and group life insurance until the earlier of: (A) twelve months from the date COBRA coverage begins; or (B) the date COBRA coverage otherwise terminates.

If an executive officer's employment was terminated without cause as of December 31, 2006, we estimate that the value of the benefits under the Letter Agreement with Messrs. Aldrich, Wolf, Almeida, Suden, and Ms. Lampert would have been as follows based upon his or her salary for fiscal year 2006 and an amount equal to the average of the annual bonus for the prior three completed calendar years prior to December 31, 2006 (2005, 2004 and 2003):

Executive Officer	Termination Without Cause		
	Base Salary Payments	Bonus Payments	Insurance Premiums
Bernard P. Aldrich	\$325,000	\$159,500	\$3,919
Robert M. Wolf	\$170,000	\$64,583	\$8,151
Manuel M. Almeida	\$250,000	\$119,722	\$9,028
David Suden	\$225,000	\$124,083	\$9,288
Pamela V. Lampert	\$150,000	\$48,300	\$3,659

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

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for the period were achieved at the 100% level. We will pay a portion of the premiums for continued health, dental and group life insurance until the earlier of: (A) eighteen months from the date COBRA coverage begins; or (B) the date COBRA coverage otherwise terminates. Additionally, all stock options held by the executive will immediately vest upon a change in control.

In May 2006, we granted performance shares to each Messrs. Aldrich, Wolf, Almeida, Suden, and Ms. Lampert and the agreement relating to these performance shares also provides that the performance shares that have not yet vested shall vest and become immediately payable upon the occurrence of a change in control. The definition of the change in control for the purposes of the performance share agreement is substantially similar to the definition of the Letter Agreement.

If, within twelve months of a change in control, an executive officer's employment was terminated without cause or for good reason as of December 31, 2006, we estimate that the value of the benefits under the Letter Agreement with Messrs. Aldrich, Wolf, Almeida, Suden, and Ms. Lampert would have been as follows based upon his or her salary for fiscal year 2006, target bonus for fiscal year 2006 and stock option and

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performance share holdings at December 31, 2006:

### Termination Without Cause or For Good Reason Within 12 Months of a Change in Control

Executive Officer	Severance Payments	Insurance Premiums	Value of Accelerated Vesting of Stock Options (1)	Value of Accelerated Vesting of Performance Shares (1)
Bernard P. Aldrich	\$845,000	\$5,879	\$186,596	\$72,800
Robert M. Wolf	\$425,000	\$12,219	\$106,626	\$36,400
Manuel M. Almeida	\$625,000	\$13,542	\$130,749	\$43,758
David Suden	\$562,500	\$13,932	\$106,626	\$36,400
Pamela V. Lampert	\$345,000	\$5,489	\$62,762	\$21,892

- (1) Value based on a share price of \$26.00, which was the closing sales price for a share of our common stock on the Nasdaq Global Market on December 29, 2006. Value of accelerated stock options is determined using the difference between that closing share price and the applicable option exercise price multiplied by the number of option shares whose exercisability is accelerated. Value of accelerated performance shares is determined multiplying the closing share price by the number of performance shares whose receipt is accelerated.

These salary continuation and change in control benefits are conditioned upon the executive's execution of a general release and compliance with a nondisclosure and non-competition agreement. Further, in the event that the vesting of options upon a change in control, together with all other benefits provided by the Letter Agreement, would result in all or a portion of such amount being subject to excise tax then the executive will be entitled to the greater of the full amount or such lesser amount that would result in no portion of the amount being subject to excise tax, taking into account the tax consequences of the benefits to the Executive Officer. Additionally, if the amounts payable under the Letter Agreement would be subject to the requirements of Section 409A of the Internal Revenue Code, we may amend the Letter Agreement as we may determine, including to delay the start of any payment to any key employee (as defined in Section 409A of the Internal Revenue Code) for no more than six months, amend the definition of Change in Control and amend the definition of disability.

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

On March 7, 2007, the Board of Directors approved amendments to the Letter Agreement with the Named Executive Officers relating to severance and change of control benefits. The Compensation Committee recommended the amendments to the Letter Agreement to the Board of Directors.

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Prior to the amendments, the Letter Agreement provided that if a change in control occurs and within twelve months of the change of control an Executive Officer's employment is terminated by us without cause or by the Executive Officer for good reason, all as defined in the Letter Agreement, we must pay such Executive Officer a cash severance payment equal to 200% of the sum of such Executive Officer's annual base salary and target bonus in effect on such date (without giving effect to any reduction that results in the Executive Officer's termination for good reason). In the case of either a termination by us without cause or termination of employment by the Executive Officer for good reason within twelve months of a change of control, as described above, we will pay a portion of the premiums for continued health, dental and group life insurance until the earlier of eighteen months from the date COBRA coverage begins or the date COBRA coverage otherwise terminates. Further, in the event that the vesting of options upon a change in control, together with all other benefits provided by the Letter Agreement, would result in all or a portion of such amount being subject to excise tax then the executive will be entitled to the greater of the full amount or such lesser amount that would result in no portion of the amount being subject to excise tax, taking into account the tax consequences of the benefits to the Executive Officer.

The amendments approved by the Compensation Committee: (a) reduce the cash severance payment to 100% of the sum of the Executive Officer's annual base salary and target bonus in effect on such date (without giving effect to any reduction that results in the executive's

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termination for good reason); (b) change the period during which the Company will pay the portion of the premiums for continued health, dental and group life insurance to the earlier of twelve months from the date COBRA coverage begins or the date COBRA coverage otherwise terminates; (c) provide that in the event the vesting of options, together with all other payments and the value of any benefit received or to be received by the Executive Officer would result in all or a portion of such amount being subject to excise tax, the Executive Officer is only entitled to an amount that would result in no portion of the amount being subject to excise tax; and (d) provide for an interest payment applied to any delayed payments required by Section 409A of the Internal Revenue Code.

In March 2007, we and each of Messrs. Aldrich, Wolf, Almedia, Suden and Ms. Lampert entered into an amended and restated form of the Letter Agreement that incorporated the amendments described above.

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#### **DIRECTOR COMPENSATION**

Our non-employee directors received the following amounts for Board and committee service during 2006:

- an annual retainer of \$18,000;
- \$1,500 for each meeting of the Board of Directors attended in person;
- \$1,000 for each telephonic meeting of the Board of Directors attended; and
- \$1,500 for each committee meeting attended in person (other than Mr. Hotchkiss attendance at meetings of the Strategy and Technology Committee held January through September of 2006).

In addition, certain of our non-employee directors received the following additional amounts for Board and committee service during 2006:

- The chair of each committee of the Board of Directors received an additional \$500 per committee meeting attended (other than the chair of the Strategy and Technology Committee for meetings held January through September of 2006);
- James L. Reissner, our non-executive Chairman of the Board, received an additional annual retainer of \$12,000 for his service as chairman; and
- Philip D. Hotchkiss received \$6,500 per month from January through September of 2006 for his service as the chair the Strategy and Technology Committee.

Under our Amended and Restated 1992 Stock Option Plan (the 1992 Plan), each of our non-employee directors receives a non-qualified option to purchase 5,000 shares of common stock, or such other number of shares, not to exceed 15,000 shares, as determined from time to time by the Compensation Committee, at each annual meeting of shareholders at which such director is elected or re-elected. Under this automatic grant provision of the 1992 Plan, each of Messrs. Reissner, Madison, Quist, Hotchkiss and Benveniste received a non-qualified option to purchase 15,000 shares of our common stock on May 16, 2006, the date of the 2006 Annual Meeting of Shareholders.

If our shareholders approve Proposal 2: Approval of Rimage Corporation 2007 Incentive Plan, the 1992 Plan, including the provision relating to automatic grants to non-employee directors, will be suspended. Instead, each of our non-employee directors will receive an automatic grant under the 2007 Incentive Plan of a non-qualified option to purchase 12,000 shares of common stock and an award of 1,000 shares of restricted stock. If our shareholders do not approve Proposal 2, our 1992 Plan will continue and the Compensation Committee has determined that in this event, the non-employee directors will receive an automatic grant of a non-qualified option to purchase 15,000 shares of common stock.

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The following table shows for 2006, the cash and other compensation paid by us to each of our Board members:

Name	Fees Earned or Paid in Cash (\$ (1))	Stock Awards (\$)	Option Awards (\$ (2))	Non-Equity Incentive Plan Compensa- tion (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Larry M. Benveniste	\$46,000		\$176,600				\$222,600
Philip D. Hotchkiss	104,500		176,600				281,100
Thomas F. Madison	42,500		176,600				219,100
Steven M. Quist	56,000		176,600				232,600
James L. Reissner	62,500		176,600				239,100

(1) Represents cash retainer and meeting fees for 2006 as described above.

(2) Values expressed represent the actual compensation cost recognized by our company during fiscal 2006 for equity awards granted in 2006 as determined pursuant to SFAS 123R utilizing the assumptions discussed in Note 2, Stock-Based Compensation in the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

Bernard P. Aldrich and David J. Suden, each of whom is our director and an executive officers, received no compensation for Board and committee service during 2006.

Table of Contents**REPORT OF THE COMPENSATION COMMITTEE**

The following report of the Compensation Committee shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the 1934 Securities Exchange Act, as amended, except to the extent that we specifically incorporate it by reference in such filing.

The Compensation Committee has reviewed and discussed the section of this proxy statement entitled Compensation Discussion and Analysis (the CD&A) for the year ended December 31, 2006 with management. In reliance on the reviews and discussions referred to above, the Compensation Committee recommended to the Board that the CD&A be included in the proxy statement for the 2007 Annual Meeting of Shareholders for filing with the Securities and Exchange Commission.

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By the Compensation Committee of the Board of Directors

Steven M. Quist (Chair)

Larry M. Benveniste

James L. Reissner

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#### **CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS**

Since the beginning of 2006, we have not entered into any transaction and there are no currently proposed transactions, in which we were or are to be a participant and the amount involved exceeds \$120,000 and in which any related person had or will have a direct or indirect material interest.

The charter of our Audit Committee provides that the Audit Committee is responsible for reviewing and approving the terms and conditions of all of transactions we enter into in which an officer, director or 5% or greater shareholder or any affiliate of these persons has a direct or indirect material interest. Our Code of Ethics and Business Conduct, which is applicable to all of our employees and directors, also prohibits our employees, including our executive officers, and our directors from engaging in conflict of interest transactions. Requests for waivers by our executive officers and directors from the provisions of, or requests for consents by our executive officers and directors under, our Code of Ethics and Business Conduct must be made to the Audit Committee.

In addition, in March 2007, we adopted a formal related person transaction approval policy, which sets forth our policies and procedures for the review, approval or ratification of any transaction required to be reported in our filings with the Securities and Exchange Commission. Our policy applies to any financial transaction, arrangement or relationship or any series of similar transactions, arrangements or relationships in which our company is a participant and in which a related person has a direct or indirect interest. Through the policy, the Audit Committee has also identified and pre-approved certain transactions with related persons, including:

- employment of executive officers, director compensation to be reported in our proxy statement,
- payment of ordinary expenses and business reimbursements;
- transactions with related companies in which the dollar amount does not exceed \$60,000 or 2% of the other company's total revenues;
- charitable contributions in which the dollar amount does not exceed \$60,000 or 2% of the charitable organization's receipts;
- payments made under our articles of incorporation, bylaws, insurance policies or other agreements relating to indemnification;
- transactions in which our shareholders receive proportional benefits; and
- transactions that involve competitive bid, banking transactions and transactions where the terms of which are regulated by law or governmental authority.

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The Audit Committee must approve any related person transaction subject to this policy before commencement of the related party transaction. If pre-approval is not feasible, the Audit Committee may ratify, amend or terminate the related person transaction. The Audit Committee will analyze the following factors, in addition to any other factors the Committee deems appropriate, in determining whether to approve a related party transaction:

- whether the terms are fair to us;
- whether the terms of the related party transaction are no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances;
- whether the related party transaction is material to us;
- the role the related party has played in arranging the transaction;
- the structure of the related party transaction;
- the interests of all related parties in the transaction;
- the extent of the related party's interest in the transaction; and
- whether the transaction would require a waiver of our Code of Ethics and Business Conduct.

The Audit Committee may, in its sole discretion, approve or deny any related person transaction. Approval of a related person transaction may be conditioned upon our company and the related person taking such precautionary actions, as the Audit Committees deems appropriate.

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#### **PERFORMANCE GRAPH**

Our common stock is quoted on The Nasdaq Global Market. The Securities and Exchange Commission requires that we include in this proxy statement a line graph comparing cumulative, five-year stockholder returns on an indexed basis with a broad market index and either a nationally-recognized industry standard or an index of peer companies selected by us. We have chosen to use the Nasdaq National Market Index (US) as our Broad market index and the Nasdaq Computer Manufacturer Stocks Index as our index of peer companies.

The following graph shows changes during the period from December 31, 2002 to December 29, 2006 in the value of \$100 invested in: (1) the Nasdaq National Market Index (US); (2) Nasdaq Computer Manufacturer Stocks Index; and (3) our common stock. The values of each investment as of the dates indicated are based on share prices plus any dividends paid in cash, with the dividends reinvested on the date they were paid. The calculations exclude trading commissions and taxes.

	12/31/02	12/31/03	12/31/04	12/30/05	12/29/06
Nasdaq National Market Index	\$ 100.00	\$ 149.52	\$ 162.72	\$ 166.18	\$ 182.57
Nasdaq Computer Manufacturer Stocks Index	\$ 100.00	\$ 138.88	\$ 180.96	\$ 185.14	\$ 188.95
Rimage Corporation	\$ 100.00	\$ 195.31	\$ 198.15	\$ 357.34	\$ 320.59

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**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Under federal securities laws, our directors and officers, and any beneficial owner of more than 10% of a class of our equity securities, are required to report their ownership of our equity securities and any changes in such ownership to the Securities and Exchange Commission (the Commission ). Specific due dates for these reports have been established by the Commission, and we are required to disclose in this proxy statement any delinquent filing of such reports and any failure to file such reports during the fiscal year ended December 31, 2006.

Based upon information provided by our officers and directors, we believe that all officers, directors and 10% shareholders filed all reports on a timely basis in fiscal year 2006.

**PROPOSAL 3:**

**APPOINTMENT OF INDEPENDENT AUDITORS**

The Audit Committee has selected KPMG LLP as our independent registered public accounting firm to audit our consolidated financial statements for the fiscal year ending December 31, 2007 and to perform other appropriate audit-related and tax services. In the event the appointment of KPMG LLP should not be ratified and approved by the stockholders, the Board of Directors will make another appointment to be effective at the earliest feasible time.

The affirmative vote of the holders of a majority of the shares of common stock represented at the Meeting and entitled to vote is required to approve the ratification of the appointment of the independent auditors, provided that the total number of shares that vote on the proposal represent a majority of our shares outstanding on the record date. Proxies will be voted in favor of this proposal unless otherwise indicated.

THE BOARD OF DIRECTORS RECOMMENDS

THAT SHAREHOLDERS VOTE FOR

THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP

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**RELATIONSHIP WITH INDEPENDENT ACCOUNTANTS**

The Audit Committee has selected KPMG LLP as its independent registered public accounting firm for its fiscal year ending December 31, 2007 and has asked the shareholders to ratify such appointment. Representatives of KPMG LLP, which has served as our independent auditors since



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1989, are expected to be present at the Meeting, will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from shareholders.

### **Accountant Fees and Services**

The following is an explanation of the fees billed to us by KPMG LLP for professional services rendered for the fiscal years ended December 31, 2006 and December 31, 2005, which totaled \$629,900 and \$525,300, respectively.

*Audit Fees.* The aggregate fees billed or estimated to be billed to us for professional services related to the audit of our annual financial statements, review of financial statements included in our Forms 10-Q, work relating to our internal controls over financial reporting and the attestations required by Section 404 of the Sarbanes-Oxley Act of 2002, or other services normally provided by KPMG LLP in connection with statutory and regulatory filings or engagements for the fiscal years ended December 31, 2006 and December 31, 2005 totaled \$504,000 and \$414,000, respectively.

*Audit-Related Fees.* The aggregate fees billed to us for professional services for assurance and related services by KPMG LLP that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under Audit Fees consisted of fees associated with the audit of assumptions and calculations of stock-based compensation under SFAS 123R totaling \$25,000 for the fiscal year ended December 31, 2006 and a review of a registration statement totaling \$2,500 for the fiscal year ended December 31, 2005.

*Tax Fees.* The aggregate fees billed to us by KPMG LLP for professional services related to tax compliance, tax advice, and tax planning, including preparation of federal and state tax returns for the fiscal years ended December 31, 2006 and December 31, 2005 totaled \$100,900 and \$108,800, respectively.

*All Other Fees.* There were no fees billed to us by KPMG LLP for the fiscal years ended December 31, 2006 and December 31, 2005 other than those described above.

### **Audit Committee Pre-Approval Procedures**

We have adopted pre-approval policies and procedures for the Audit Committee that require the Audit Committee to pre-approve all audit and all permitted non-audit engagements and services (including the fees and terms thereof) by the independent auditors, except that the Audit Committee may delegate the authority to pre-approve any engagement or service less than \$10,000 to one of its members, but requires that the member report such pre-approval at the next full Audit Committee meeting. The Audit Committee may not delegate its pre-approval authority for any services rendered by our independent auditors relating to internal controls. These pre-approval policies and procedures prohibit delegation of the Audit Committee's responsibilities to Company management. Under the policies and procedures, the Audit Committee may pre-approve specifically described categories of services which are expected to be conducted over the subsequent twelve months on its own volition, or upon application by management or the independent auditor.

All of the services described above for 2006 were pre-approved by the Audit Committee or a member of the Committee before KPMG LLP was engaged to render the services.

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### **SHAREHOLDER PROPOSALS FOR 2008 ANNUAL MEETING**

The proxy rules of the Securities and Exchange Commission permit our shareholders, after timely notice to us, to present proposals for shareholder action in our proxy statement where such proposals are consistent with applicable law, pertain to matters appropriate for shareholder action and are not properly omitted by our action in accordance with the proxy rules. In order for a shareholder proposal to be considered for inclusion in the proxy statement for the 2008 Annual Meeting of Shareholders, the proposal must be received by the Secretary of Rimage Corporation in writing at our corporate offices, 7725 Washington Avenue South, Edina, Minnesota 55439, no later than December 16, 2007.

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Pursuant to our bylaws, in order for any other proposal to be properly brought before the next annual meeting by a shareholder, including a nominee for director to be considered at such annual meeting, the shareholder must give written notice of such shareholder's intent to bring a matter before the annual meeting, or nominate the director, no later than December 16, 2007. Each such notice must set forth certain information with respect to the shareholder who intends to bring such matter before the meeting and the business desired to be conducted, as set forth in greater detail in the section of this proxy statement entitled "Corporate Governance - Director Nominations" and in our bylaws. If we receive notice of a shareholder proposal after December 16, 2007, such proposal also will be considered untimely pursuant to Rules 14a-4 and 14a-5(e) and the persons named in proxies solicited by the Board of Directors for our 2008 Annual Meeting of Shareholders may exercise discretionary voting power with respect to such proposal.

### **OTHER BUSINESS**

At the date of this proxy statement, management knows of no other business that may properly come before the Meeting. However, if any other matters properly come before the Meeting, the persons named in the enclosed form of proxy will vote the proxies received in response to this solicitation in accordance with their best judgment on such matters.

By Order of the Board of Directors

Bernard P. Aldrich

President and Chief Executive Officer

Edina, Minnesota

April 14, 2007

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### **APPENDIX A**

#### **RIMAGE CORPORATION**

#### **2007 STOCK INCENTIVE PLAN**

**SECTION 1**

**PURPOSE**

The purpose of the 2007 Stock Incentive Plan (the Plan ) is to enable Rimage Corporation (the Company ) and its Subsidiaries to attract and retain employees, directors and service providers of the Company by aligning financial interests of these individuals with the other stockholders of the Company.

The Plan provides for the grant of Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock Awards, Restricted Stock Units, Stock Appreciation Rights, Performance Stock, Performance Units, and Other Awards to aid the Company in obtaining these goals, subject to the approval by the shareholders on May 15, 2007.

**SECTION 2**

**DEFINITIONS**

- 2.1 BOARD means the Board of Directors of the Company.
- 2.2 CAUSE shall mean, unless otherwise defined in the Stock Incentive Agreement or in a separate agreement with the Participant that governs Stock Incentives granted under this Plan, gross and willful misconduct during the course of his or her service to the Company, including but not limited to wrongful appropriation of funds or property of the Company, conviction of a Participant of a gross misdemeanor or felony or a material violation of any Company policy (including, without limitation, any policy contained in the Company's Code of Conduct), regardless of when facts resulting in a finding of Cause are discovered by the Company.
- 2.3 CODE means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute.
- 2.4 COMMITTEE means the Compensation Committee of the Board or any other committee appointed by the Board to administer the Plan.
- 2.5 COMPANY means Rimage Corporation, a corporation organized under the laws of the State of Minnesota (or any successor corporation).
- 2.6 DISABILITY shall mean a physical or mental condition resulting from a bodily injury or disease or mental disorder rendering such person incapable of continuing to perform the essential employment or director duties of such person at the Company as such duties existed immediately prior to the bodily injury, disease or mental disorder.
- 2.7 EXCHANGE ACT means the Securities Exchange Act of 1934, as amended.
- 2.8 EXERCISE PRICE means the price that shall be paid to purchase one (1) Share upon the exercise of an Option granted under this Plan.
- 2.9

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FAIR MARKET VALUE of one Share on any given date shall be determined by the Committee as follows: (a) if the Common Stock is listed for trading on one of more national securities exchanges, or is traded on the Nasdaq Stock Market, the last reported sales price on the such principal exchange or the Nasdaq Stock Market on the date in question, or if such Common Stock shall not have been traded on such principal exchange or on the Nasdaq Stock Market on such date, the last reported sales price on such principal exchange or the Nasdaq Stock Market on the first day prior thereto on which such Common Stock was so traded; or (b) if the Common Stock is not listed for trading on a national securities exchange or the Nasdaq Stock Market, but is traded in the over-the-counter market, including the Nasdaq Small Cap Market, the closing bid price for such Common Stock on the date in question, or if there is no such bid price for such

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Common Stock on such date, the closing bid price on the first day prior thereto on which such price existed; or (c) if neither (a) or (b) is applicable, with respect to any Option intended to qualify as an ISO, by any fair and reasonable determination made in good faith by the Committee, and, with respect to any other Stock Incentive that is intended to be exempt from the requirements of Code Section 409A, a value determined by the reasonable application of a reasonable valuation method as defined in regulations promulgated under Code Section 409A, which determination shall be final and binding on all parties.

- 2.10 INDEPENDENT DIRECTOR means a member of the Board who is not otherwise an employee of the Company or any Subsidiary.
- 2.11 INSIDER means an individual who is, on the relevant date, an officer, member of the Board or ten percent (10%) beneficial owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act.
- 2.12 ISO means an Option granted under this Plan to purchase Shares that is intended by the Company to satisfy the requirements of Code Section 422 as an incentive stock option.
- 2.13 KEY EMPLOYEE means any employee of the Company or any Subsidiary holding a key management or technical position as determined by the Committee. Key Employees of any Subsidiary created or acquired after the Effective Date of this Plan shall be eligible to be Participants in this Plan without further action of the Board or its shareholders.
- 2.14 KEY PERSON means a person, other than a Key Employee, who is (a) a member of the Board; or (b) a service provider providing bona fide services to the Company or any Subsidiary who is eligible to receive Shares that are registered on SEC Form S-8. Key Persons of any Subsidiary created or acquired after the Effective Date of this Plan shall be eligible to be Participants in this Plan without further action of the Board or its shareholders.
- 2.15 NQSO means an option granted under this Plan to purchase Shares that is not intended by the Company to satisfy the requirements of Code Section 422.
- 2.16 OPTION means an ISO or a NQSO.
- 2.17 OUTSIDE DIRECTOR means a member of the Board who is not an employee and who qualifies as (a) a non-employee director under Rule 16b-3(b)(3) under the Exchange Act, as amended from time to time, and (b) an outside director under Code Section 162(m) and

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the regulations promulgated thereunder.

- 2.18 PARTICIPANT means a Key Person or Key Employee who is designated to receive an award under the Plan by the Committee.
- 2.19 PERFORMANCE-BASED EXCEPTION means the performance-based exception from the tax deductibility limitations of Code Section 162(m).
- 2.20 PERFORMANCE PERIOD shall mean the period during which a performance goal must be attained with respect to a Stock Incentive that is performance based, as determined by the Committee.
- 2.21 PERFORMANCE STOCK means an award of Shares granted to a Participant that is subject to the achievement of performance criteria, either as to the delivery of such Shares or the calculation of the amount deliverable as a result of achieving a level of performance over a specified Performance Period, or any combination thereof.
- 2.22 PERFORMANCE UNITS means a contractual right granted to a Participant to receive a Share (or cash equivalent) upon achievement of performance criteria or a level of performance over a specified Performance Period that are deliverable either at the end of the Performance Period or at a later time.
- 2.23 PLAN means the Rimage Corporation 2007 Stock Incentive Plan, as it may be further amended from time to time.

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- 2.24 QUALIFYING EVENT shall mean, with respect to a Participant, such Participant's death, Disability or Retirement.
- 2.25 RESTRICTED STOCK AWARD means an award of Shares granted to a Participant under this Plan that is subject to restrictions in accordance with the terms and provisions of this Plan and the applicable Stock Incentive Agreement.
- 2.26 RESTRICTED STOCK UNIT means a contractual right granted to a Participant under this Plan to receive a Share (or cash equivalent) that is subject to restrictions in accordance with the terms and provisions of this Plan and the applicable Stock Incentive Agreement.
- 2.27 RETIREMENT shall mean retirement from active employment with the Company and any subsidiary or parent corporation of the Company on or after age 65.
- 2.28 SHARE or COMMON STOCK means a share of the common stock of the Company.
- 2.29 STOCK APPRECIATION RIGHT means a right granted to a Participant pursuant to the terms and provisions of this Plan whereby the individual, without payment to the Company (except for any applicable withholding or other taxes), receives Shares, or such other consideration as the Committee may determine, in an amount equal to the excess of the Fair Market Value per Share on the date on which the Stock Appreciation Right is exercised over the specified price per Share noted in the Stock Appreciation Right, for each Share subject to the Stock Appreciation Right.
- 2.30 STOCK INCENTIVE means an ISO, a NQSO, a Restricted Stock Award, a Restricted Stock Unit, a Stock Appreciation Right, a Performance Stock or Performance Unit or cash.

- 2.31 STOCK INCENTIVE AGREEMENT means a document issued by the Company or a Subsidiary to a Participant evidencing an award of a Stock Incentive.
- 2.32 SUBSIDIARY means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.
- 2.33 TEN PERCENT SHAREHOLDER means a person who owns (after taking into account the attribution rules of Code Section 424(d)) more than ten percent (10%) of the total combined voting power of all classes of shares of stock of either the Company or a Subsidiary.

### SECTION 3

#### **SHARES SUBJECT TO STOCK INCENTIVES**

- 3.1 The aggregate number of Shares that may be issued under the Plan is Seven Hundred Thirty Thousand Three Hundred Twenty (730,320) Shares, subject to adjustment as provided in Section 10. Effective immediately upon the approval of this Plan by the shareholders of the Company, the Company's 1992 Stock Option Plan (the Prior Plan) is amended by this Plan to eliminate the authority and discretion of the Board, the Compensation Committee of the Board and any executive officer of the Company to grant any new awards or options (or to amend any previously granted award or option to increase the number of shares thereunder) under the Prior Plan, including with respect to any shares that would become available for issuance as a result of the cancellation or forfeiture of shares under any previously granted awards or options.

Such Shares shall be reserved, to the extent that the Company deems appropriate, from authorized but unissued Shares, and from Shares which have been reacquired by the Company.

- 3.2 Subject to adjustment pursuant to Section 10, no Participant may be granted any Stock Incentive covering an aggregate number of Shares in excess of One Hundred Thousand (100,000) in any calendar year.

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### SECTION 4

#### **EFFECTIVE DATE**

The effective date of this Plan shall be May 15, 2007, which is the date on which the shareholders of the Company originally approved the Plan.

**SECTION 5**

**ADMINISTRATION**

- 5.1 **GENERAL ADMINISTRATION.** The Committee shall administer this Plan. The Committee, acting in its absolute discretion, shall exercise such powers and take such action as expressly called for under this Plan. The Committee shall have the power to interpret this Plan and, subject to the terms and provisions of this Plan, to take such other action in the administration and operation of the Plan as it deems equitable under the circumstances. The Committee's actions shall be binding on the Company, on each affected Participant, and on each other person directly or indirectly affected by such actions.
- 5.2 **AUTHORITY OF THE COMMITTEE.** Except as limited by law or by the Articles of Incorporation or By-laws of the Company, and subject to the provisions herein, the Committee shall have full power to select Participants in the Plan, to determine the sizes and types of Stock Incentives in a manner consistent with the Plan, to determine the terms and conditions of Stock Incentives in a manner consistent with the Plan, to construe and interpret the Plan and any agreement or instrument entered into under the Plan, to establish, amend or waive rules and regulations for the Plan's administration, and to amend the terms and conditions of any outstanding Stock Incentives as allowed under the Plan and such Stock Incentives. Any and all awards of Stock Incentives to named executive officers of the Company shall be made and administered by the Committee (or subcommittee authorized under Section 5.3) consisting solely of Outside Directors. Further, the Committee may make all other determinations that may be necessary or advisable for the administration of the Plan. The Committee may seek the assistance of such persons as it may see fit in carrying out its routine administrative functions concerning the Plan.
- 5.3 **DELEGATION OF AUTHORITY.** The members of the Committee and any other persons to whom authority has been delegated by the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board. The Committee may appoint one or more separate committees (any such committee, a Subcommittee ) composed of two or more Outside Directors of the Company (who may but need not be members of the Committee) and may delegate to any such Subcommittee or to one or more executive officers of the Company the authority to grant Stock Incentives, and/or to administer the Plan or any aspect of it; provided, however, that only the Committee may grant Stock Incentives that may meet the Performance-Based Exception, and only the Committee may grant Stock Incentives to Insiders that may be exempt from Section 16(b) of the Exchange Act. Notwithstanding any provision of this Plan to the contrary, the Board may assume the powers and responsibilities granted to the Committee or other delegate at any time, in whole or in part.
- 5.4 **DECISIONS BINDING.** All determinations and decisions made by the Committee pursuant to the provisions of this Plan and all related orders and resolutions of the Committee shall be final, conclusive and binding on all persons, including the Company, its shareholders, members of the Board, Participants, and their estates and beneficiaries.

**SECTION 6**

**ELIGIBILITY**

Participants selected by the Committee shall be eligible for the grant of Stock Incentives under this Plan, but no Participant shall have the right to be granted a Stock Incentive under this Plan merely as a result of his or her status as an eligible Participant.

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SECTION 7

**TERMS OF STOCK INCENTIVES**

7.1 TERMS AND CONDITIONS OF ALL STOCK INCENTIVES.

- (a) Grants of Stock Incentives. The Committee, in its absolute discretion, shall grant Stock Incentives under this Plan from time to time and shall have the right to grant new Stock Incentives in exchange for outstanding Stock Incentives; provided, however, the Committee shall not have the right to (i) lower the Exercise Price of an existing Option, (ii) take any action which would be treated as a repricing under generally accepted accounting principles, or (iii) cancel an existing Option at a time when its Exercise Price exceeds the fair market value of the underlying stock subject to such Option in exchange for another Option, a Restricted Stock Award, or other equity in the Company (except as provided in Sections 10 and 11). Stock Incentives shall be granted to Participants selected by the Committee, and the Committee shall be under no obligation whatsoever to grant any Stock Incentives, or to grant Stock Incentives to all Participants, or to grant all Stock Incentives subject to the same terms and conditions.
- (b) Shares Subject to Stock Incentives. The number of Shares as to which a Stock Incentive shall be granted shall be determined by the Committee in its sole discretion, subject to the provisions of Section 3 as to the total number of Shares available for grants under the Plan, and to any other restrictions contained in this Plan.
- (c) Stock Incentive Agreements. Each Stock Incentive shall be evidenced by an agreement, certificate, resolution or other type or form of writing or other evidence approved by the Committee that sets forth the terms and conditions of the Stock Incentives granted. The Stock Incentive Agreement may be in an electronic medium, may be limited to notation on the books and records of the Company and, with the approval of the Committee, need not be signed by a representative of the Company or a Participant. The Committee shall have sole discretion to modify the terms and provisions of Stock Incentive Agreements in accordance with Section 12 of this Plan.
- (d) Date of Grant. The date a Stock Incentive is granted shall be the date on which the Committee (i) has approved the terms and conditions of the Stock Incentive Agreement, (ii) has determined the recipient of the Stock Incentive and the number of Shares covered by the Stock Incentive and (iii) has taken all such other action necessary to direct the grant of the Stock Incentive.
- (e) Vesting of Stock Incentives. Stock Incentives under the Plan may have restrictions on the vesting or delivery of and, in the case of Options, the right to exercise, that lapse based upon the service of a Participant, or based upon other criteria that the Committee may determine appropriate, such as the attainment of performance goals determined by the Committee, including but not limited to one or more of the performance criteria listed in Section 14. If the Award is intended to meet the Performance-Based Exception, the attainment of such performance goals must be certified in writing by the Committee prior to payment thereof. Until the end of the period(s) of time specified in the vesting schedule and/or the satisfaction of any performance criteria, the Shares subject to such Stock Incentive Award shall remain subject to forfeiture.
- (f) Acceleration of Vesting of Stock Incentives. Notwithstanding anything to the contrary in this Plan, the Committee shall have the power to permit, in its sole discretion, an acceleration of the expiration of the applicable restrictions or the applicable period of such restrictions with respect to any part or all of the Shares awarded to a Participant; provided, however, the Committee may grant Stock Incentive Awards precluding such accelerated vesting in order to qualify the Stock Incentive Awards for the Performance-Based Exception.
- (g) Dividend Equivalents. The Committee may grant dividend equivalents to any Participant. The Committee shall establish the terms and conditions to which the dividend equivalents are subject. Dividend equivalents may be granted only in connection



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with a Stock Incentive. Under a dividend equivalent, a Participant shall be entitled to receive currently or in the future payments equivalent to the amount of dividends paid by the Company to holders of Common Stock with respect to the number of dividend equivalents held by the Participant. The dividend equivalent may provide for

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payment in Shares or in cash, or a fixed combination of Shares or cash, or the Committee may reserve the right to determine the manner of payment at the time the dividend equivalent is payable. Any such dividend equivalent on a Stock Incentive that is intended to be exempt from Code Section 409A shall be stated in a separate arrangement.

- (h) Transferability of Stock Incentives. Except as otherwise provided in a Participant's Stock Incentive Agreement, no Stock Incentive granted under the Plan may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, except upon the death of the holder Participant by will or by the laws of descent and distribution. Except as otherwise provided in a Participant's Stock Incentive Agreement, during the Participant's lifetime, only the Participant may exercise any Option or Stock Appreciation Right unless the Participant is incapacitated in which case the Option or Stock Appreciation Right may be exercised by and any other Stock Incentive may be payable to the Participant's legal guardian, legal representative, or other representative whom the Committee deems appropriate based on applicable facts and circumstances. The determination of incapacity of a Participant and the identity of appropriate representative of the Participant to exercise the Option or receive any other benefit under a Stock Incentive if the Participant is incapacitated shall be determined by the Committee.
- (i) Deferral Elections. The Committee may permit or require Participants to elect to defer the issuance of Shares or the settlement of awards in cash under this Plan pursuant to such rules, procedures, or programs as it may establish from time to time. However, notwithstanding the preceding sentence, the Committee shall not, in establishing the terms and provisions of any Stock Incentive, or in exercising its powers under this Article: (i) create any arrangement which would constitute an employee pension benefit plan as defined in ERISA Section 3(3) unless the arrangement provides benefits solely to one or more individuals who constitute members of a select group of management or highly compensated employees; or (ii) create any arrangement that would constitute a deferred compensation plan as defined in Code Section 409A unless the arrangement complies with Code Section 409A and regulations promulgated thereunder or unless the Committee, at the time of grant, specifically provides that the Stock Incentive is not intended to comply with Section 409A of the Code.

### 7.2 TERMS AND CONDITIONS OF OPTIONS.

- (a) Grants of Options. Each grant of an Option shall be evidenced by a Stock Incentive Agreement that shall specify whether the Option is an ISO or NQSO, and incorporate such other terms as the Committee deems consistent with the terms of this Plan and, in the case of an ISO, necessary or desirable to permit such Option to qualify as an ISO. The Committee and/or the Company may modify the terms and provisions of an Option in accordance with Section 12 of this Plan even though such modification may change the Option from an ISO to a NQSO.
- (b) Termination of Employment. Except as provided in the Option Agreement or a separate agreement with the Participant that governs Options granted under this Plan, or as otherwise provided by the Committee: (i) if the Participant's employment (or in the case of a non-employee, such Participant's service) with the Company and/or a Subsidiary ends before the Options vest, the Participant shall forfeit all unvested Options; and (ii) any Options held by such Participant may thereafter be exercised to the extent it was exercisable at the time of such termination, but may not be exercised after 90 days after such termination, or the expiration of the stated term of the Options, whichever period is the shorter. In the event a Participant's employment with the Company or any Subsidiary is terminated for Cause, all unexercised Options granted to such

Participant shall immediately terminate.

- (c) Death, Disability and Retirement. Except as provided in the Option Agreement or a separate agreement with the Participant that governs Options granted under this Plan, and except as otherwise provided by the Committee: (i) if a Qualifying Event occurs before the date or dates on which Options vest, the Participant shall forfeit all unvested Options; and (ii) any Options held by such Participant may thereafter be exercised to the extent it was exercisable at the time of such Qualifying Event, but may not be exercised after one year after such Qualifying Event, or the expiration of the stated term of the Options, whichever period is the shorter.

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- (d) Exercise Price. Subject to adjustment in accordance with Section 10 and the other provisions of this Section, the Exercise Price shall be specified in the applicable Stock Incentive Agreement. With respect to each grant of an ISO to a Participant who is not a Ten Percent Shareholder, the Exercise Price shall not be less than the Fair Market Value of a Share on the date the ISO is granted. With respect to each grant of an ISO to a Participant who is a Ten Percent Shareholder, the Exercise Price shall not be less than one hundred ten percent (110%) of the Fair Market Value of a Share on the date the ISO is granted.
- (e) Option Term. Each Option granted under this Plan shall be exercisable in whole or in part at such time or times as set forth in the related Stock Incentive Agreement, but no Stock Incentive Agreement shall: (i) make an Option exercisable prior to the date such Option is granted or after it has been exercised in full; or (ii) make an Option exercisable after the date that is (A) the tenth (10th) anniversary of the date such Option is granted, if such Option is a NQSO or an ISO granted to a non-Ten Percent Shareholder, or (B) the date that is the fifth (5th) anniversary of the date such Option is granted, if such Option is an ISO granted to a Ten Percent Shareholder. Options issued under the Plan may become exercisable based on the service of a Participant, or based upon the attainment (as determined by the Committee) of performance goals, including but not limited to goals established pursuant to one or more of the performance criteria listed in Section 14. Any Option that is intended to qualify for the Performance Based Exception must have its performance goals determined by the Committee based upon one or more of the performance criteria listed in Section 14, and must have the attainment of such performance goals certified in writing by the Committee.
- (f) Payment. The Exercise Price of Shares acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations by delivering to the Company or its designated agent, either: (i) in cash or by check at the time the Option is exercised or (ii) at the discretion of the Committee at the time of the grant of the Option (or subsequently in the case of an NQSO) (A) by delivery (or by attestation) of other Shares, (B) according to a deferred payment or other similar arrangement with the Participant, including use of a promissory note (except for executive officers and directors of the Company to the extent such loans and similar arrangements are prohibited under Section 402 of the Sarbanes-Oxley Act of 2002), (C) pursuant to a same day sale program exercised through a brokerage transaction as permitted under the provisions of Regulation T applicable to cashless exercises promulgated by the Federal Reserve Board so long as the Company's equity securities are registered under Section 12 of the Exchange Act, unless prohibited by Section 402 of the Sarbanes-Oxley Act of 2002, or (D) by some combination of the foregoing. Unless otherwise specifically provided in the Option, the Exercise Price of Shares acquired pursuant to an Option that is paid by delivery (including by attestation) of other Shares acquired, directly or indirectly from the Company, shall be paid only by Shares that have been held for more than six (6) months (or such longer or shorter period of time required to avoid the options being a liability award for financial accounting purposes). Notwithstanding the foregoing, with respect to any Participant who is an Insider, a tender of shares or, if permitted by applicable law, a cashless exercise must (1) have met the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act, or (2) be a subsequent transaction the terms of which were provided for in a transaction initially meeting the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act. Unless the Stock Incentive Agreement provides otherwise, the foregoing exercise payment methods shall be subsequent transactions approved by the original grant of an Option. Except as provided above, payment shall be made at the time that the Option or

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any part thereof is exercised, and no Shares shall be issued or delivered upon exercise of an Option until full payment has been made by the Participant. The holder of an Option, as such, shall have none of the rights of a shareholder.

- (g) ISO Tax Treatment Requirements. With respect to any Option that purports to be an ISO, to the extent that the aggregate Fair Market Value (determined as of the date of grant of such Option) of stock with respect to which such Option is exercisable for the first time by any individual during any calendar year exceeds one hundred thousand dollars (\$100,000), to the extent of such excess, such Option shall not be treated as an ISO in accordance with Code Section 422(d). The rule of the preceding sentence is applied as set forth in Treas. Reg. Section 1.422-4 and any additional

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guidance issued by the Treasury thereunder. Also, with respect to any Option that purports to be an ISO, such Option shall not be treated as an ISO if the Participant disposes of shares acquired thereunder within two (2) years from the date of the granting of the Option or within one (1) year of the exercise of the Option, or if the Participant has not met the requirements of Code Section 422(a)(2).

### 7.3 TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS.

- (a) Grants of Restricted Stock Awards. Shares awarded pursuant to Restricted Stock Awards shall be subject to such restrictions as determined by the Committee for periods determined by the Committee. The Committee may require a cash payment from the Participant in exchange for the grant of a Restricted Stock Award or may grant a Restricted Stock Award without the requirement of a cash payment.
- (b) Termination of Employment. Except as provided in the Restricted Stock Agreement or a separate agreement with the Participant covering the Restricted Stock granted under this Plan, if the Participant's employment (or in the case of a non-employee, such Participant's service) with the Company and/or a Subsidiary ends for any reason other than a Qualifying Event before any restrictions lapse, the Participant shall forfeit all unvested Restricted Stock Awards, unless the Committee determines that the Participant's unvested Restricted Stock Awards shall vest as of the date of such event.
- (c) Death, Disability and Retirement. Except as provided in the Restricted Stock Agreement or a separate agreement with the Participant covering Restricted Stock granted under this Plan: (i) if a Qualifying Event occurs before the date or dates on which restrictions lapse, the Participant shall forfeit all unvested Restricted Stock Awards, unless the Committee determines that the Participant's unvested Restricted Stock Awards shall vest as of the date of such event; and (ii) in the case of Restricted Stock Awards which are based on performance criteria then, as of the date on which such Qualifying Event occurs, the Participant shall be entitled to receive a number of Shares that is determined by measuring the selected performance criteria from the Company's most recent publicly available quarterly results that are available as of the date the Qualifying Event occurs; provided, however, the Committee may grant Restricted Stock Awards precluding such partial awards when a Qualifying Event occurs in order to qualify the Restricted Stock Awards for the Performance-Based Exception.
- (d) Voting, Dividend & Other Rights. Unless the applicable Stock Incentive Agreement provides otherwise, holders of Restricted Stock Awards shall be entitled to vote and to receive dividends during the periods of restriction of their Shares to the same extent as such holders would have been entitled if the Shares were unrestricted Shares.

7.4 TERMS AND CONDITIONS OF RESTRICTED STOCK UNITS.

- (a) Grants of Restricted Stock Units. A Restricted Stock Unit shall entitle the Participant to receive one Share at such future time and upon such terms as specified by the Committee in the Stock Incentive Agreement evidencing such award. The Committee may require a cash payment from the Participant in exchange for the grant of Restricted Stock Units or may grant Restricted Stock Units without the requirement of a cash payment.
- (b) Termination of Employment. Except as provided in the Restricted Stock Unit Agreement or a separate agreement with the Participant covering the Restricted Stock Unit granted under this Plan, if the Participant's employment with the Company and/or a Subsidiary ends before the Restricted Stock Units vest, the Participant shall forfeit all unvested Restricted Stock Units, unless the Committee determines that the Participant's unvested Restricted Stock Units shall vest as of the date of such event.

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- (c) Death, Disability and Retirement. Except as provided in the Restricted Stock Unit Agreement or a separate agreement with the Participant covering the Restricted Stock Unit granted under this Plan: (i) if a Qualifying Event occurs before the date or dates on which restrictions lapse, the Participant shall forfeit all unvested Restricted Stock Units, unless the Committee determines that the Participant's unvested Restricted Stock Units shall vest as of the date of such event; and (ii) in the case of Restricted Stock Units that are based on performance criteria, then as of the date on which such Qualifying Event occurs, the Participant shall be entitled to receive a number of Shares that is determined by measuring the selected performance criteria from the Company's most recent publicly available quarterly results that are available as of the date the Qualifying Event occurs; provided, however, the Committee may grant Restricted Stock Units precluding such partial awards when a Qualifying Event occurs in order to qualify the Restricted Stock Units for the Performance-Based Exception.
- (d) Voting, Dividend & Other Rights. Holders of Restricted Stock Units shall not be entitled to vote or to receive dividends until they become owners of the Shares pursuant to their Restricted Stock Units, and, unless the applicable Stock Incentive Agreement provides otherwise, the holder of a Restricted Stock Unit shall not be entitled to any dividend equivalents (as described in Section 7.1(f)).

7.5 TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS.

- (a) Grants of Stock Appreciation Rights. A Stock Appreciation Right shall entitle the Participant to receive upon exercise or payment the excess of the Fair Market Value of a specified number of Shares at the time of exercise, over a specified price. The specified price for a Stock Appreciation Right granted in connection with a previously or contemporaneously granted Option, shall not be less than the Exercise Price for Shares that are the subject of the Option. In the case of any other Stock Appreciation Right, the specified price shall not be less than one hundred percent (100%) of the Fair Market Value of the Shares at the time the Stock Appreciation Right was granted. If related to an Option, the exercise of a Stock Appreciation Right shall result in a pro rata surrender of the related Option to the extent the Stock Appreciation Right has been exercised.
- (b) Payment. Upon exercise of a Stock Appreciation Right, the Company shall pay to the Participant the appreciation with Shares (computed using the aggregate Fair Market Value of Shares on the date of payment or exercise) or in cash, or in any combination thereof as specified in the Stock Incentive Agreement or, if not specified, as the Committee determines. To the extent that a Stock Appreciation Right is exercised, the specified price shall be treated as paid in Shares for purposes of Section 3.

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- (c) Termination of Employment. Except as provided in the Stock Appreciation Rights Agreement or a separate agreement with the Participant that governs Stock Incentives granted under this Plan, or as otherwise provided by the Committee: (i) if the Participant's employment (or in the case of a non-employee, such Participant's service) with the Company and/or a Subsidiary ends before the Options vest, the Participant shall forfeit all unvested Stock Appreciation Rights; and (ii) any Stock Appreciation Rights held by such Participant may thereafter be exercised to the extent it was exercisable at the time of such termination, but may not be exercised after 90 days after such termination, or the expiration of the stated term of the Stock Appreciation Rights, whichever period is the shorter. In the event a Participant's employment with the Company or any Subsidiary is terminated for Cause, all unexercised Stock Appreciation Rights granted to such Participant shall immediately terminate.
- (d) Death, Disability and Retirement. Except as provided in the Stock Appreciation Rights Agreement or a separate agreement with the Participant that governs Stock Incentives granted under this Plan, and except as otherwise provided by the Committee: (i) if a Qualifying Event occurs before the date or dates on which Stock Appreciation Rights vest, the Participant shall forfeit all unvested Stock Appreciation Rights; and (ii) any Stock Appreciation Rights held by such Participant may thereafter be exercised to the extent it was exercisable at the time of such Qualifying Event, but may not be exercised after one year after such Qualifying Event, or the expiration of the stated term of the Stock Appreciation Rights, whichever period is the shorter.

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- (e) Special Provisions for Tandem Stock Appreciation Rights. A Stock Appreciation Right granted in connection with an Option may only be exercised to the extent that the related Option has not been exercised. A Stock Appreciation Right granted in connection with an ISO (i) will expire no later than the expiration of the underlying ISO, (ii) may be for no more than the difference between the exercise price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Stock Appreciation Right is exercised, (iii) may be transferable only when, and under the same conditions as, the underlying ISO is transferable, and (iv) may be exercised only (A) when the underlying ISO could be exercised and (B) when the Fair Market Value of the Shares subject to the ISO exceeds the exercise price of the ISO.

## 7.6 TERMS AND CONDITIONS OF PERFORMANCE STOCK AND PERFORMANCE UNITS.

- (a) Awards of Performance Stock and Performance Units. Performance Stock and Performance Units shall become payable to a Participant upon achievement of performance criteria as determined by the Committee. Each award will specify the number of Performance Stock or Performance Units to which it pertains, which number may be subject to adjustment to reflect changes in compensation or other factors; provided, however, that no such adjustment will be made in the case of a grant that is intended to qualify for the Performance-Based Exception, other than as provided in Section 14. Any grant of Performance Stock or Units may specify that the amount payable with respect thereto may not exceed a maximum specified by the Committee at the date of grant.
- (b) Payment. Each grant will specify the time and manner of payment of Performance Stock or Performance Units that have been earned. Any Performance Stock award shall be payable in Shares. Any Performance Unit award may specify that the amount payable with respect thereto may be paid by the Company in cash, in Shares or in any combination thereof and may either grant to the Participant or retain in the Committee the right to elect among cash or Shares.

## 7.7 OTHER AWARDS.

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- (a) Other awards may, subject to limitations under applicable law, be granted to any Participant denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares or factors that may influence the value of such Shares, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Shares, purchase rights for Shares, awards with value and payment contingent upon performance of the Company or specified Subsidiaries, affiliates or other business units thereof, or any other factors designated by the Committee. The Committee shall determine the terms and conditions of such awards.
- (b) Cash awards, as an element of or supplement to any other Stock Incentives granted under this Plan, may also be granted to Participants on such terms and conditions as determined by the Committee pursuant to this Plan.
- (c) Shares may be granted to a Participant as a bonus, or in lieu of obligations of the Company or a Subsidiary to pay cash or deliver other property under this Plan or under other plans or compensatory arrangements, subject to such terms as the Committee shall determine.
- (d) Participants designated by the Committee may be permitted to reduce compensation otherwise payable in cash in exchange for Shares or other Stock Incentives under the Plan.

7.8 INDEPENDENT DIRECTOR GRANTS. Notwithstanding any other provisions of this Plan, a grant of Restricted Stock or NQSO, or any combination of the same, shall be made to each Independent Director on the date of each regular annual meeting of shareholders of the Company at which such Independent Director is elected or re-elected to the Board. Except as provided in (a), (b), (c), (d) and (e) below, the number of Shares subject to this Restricted Stock Award or NQSO and other terms governing the Restricted Stock Award or NQSO shall be determined by the Committee in its sole discretion prior to such annual meeting of shareholders. No Independent Director may be granted Restricted Stock Awards or

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NQSOs covering an aggregate number of Shares in excess of 25,000 at any regular annual shareholders meeting pursuant to the terms of this Section 7.8. The following terms shall be applied to the grants to Independent Directors under this Section 7.8:

- (a) Subject to Section 7.8(b) and Section 7.8(e), each such Restricted Stock Award to an Independent Director shall vest as to all Shares one year from the date of grant (subject to such longer vesting period as determined by the Committee prior to the annual meeting of shareholders).
- (b) In the event that an Independent Director granted a Restricted Stock Award under this Section shall cease to be a director of the Company for any reason other than Cause, the restrictions shall lapse on the Restricted Stock Award, if not already lapsed pursuant to the provisions of this Plan or the agreement evidencing the Restricted Stock Award, on the later of (A) the date of such event, or (B) the first anniversary of the date of the date of grant.
- (c) Subject to Sections 7.8(d) and Section 7.8(e), NQSOs granted to Independent Directors shall be exercisable in full six months after the date of grant of the NQSO and shall expire ten years from the date of grant of the NQSO (subject to such shorter expiration period as determined by the Committee prior to the annual meeting). The Exercise Price per Share shall be the Fair Market Value of one Share on the date of grant.

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- (d) In the event that an Independent Director granted a NQSO under this Section shall cease to be a director of the Company for any reason other than Cause, such Independent Director, or in the case of death or Disability, such Independent Director's guardians, administrators or personal representatives, shall have the right to exercise the NQSO granted under this Section at any time for the remainder of the term of the NQSO to the extent of the full number of shares the Independent Director was entitled to purchase under the Option on the date of such termination, subject to the condition that no NQSO shall be exercisable after the expiration of the term of the NQSO.
- (e) In the event an Independent Director ceases to be a director for any reason constituting Cause, any NQSO granted under this Section shall terminate as of the date of the action constituting Cause and any Restricted Stock Award shall be forfeited to the Company without payment of any consideration therefor as of the date of such action constituting Cause.

The Committee, in its discretion, may, in addition to the Restricted Stock Award and NQSOs provided above, grant any additional Stock Incentive to all Independent Directors or to any individual Independent Director, provided that such grant shall be solely for substantial services performed or to be performed by such Independent Director as determined in good faith by the Committee.

### SECTION 8

#### SECURITIES REGULATION

- 8.1 LEGALITY OF ISSUANCE. No Share shall be issued under this Plan unless and until the Committee has determined that all required actions have been taken to register such Share under the Securities Act of 1933 or the Company has determined that an exemption therefrom is available, any applicable listing requirement of any stock exchange on which the Share is listed has been satisfied, and any other applicable provision of state, federal or foreign law, including foreign securities laws where applicable, has been satisfied.
- 8.2 RESTRICTIONS ON TRANSFER; REPRESENTATIONS; LEGENDS. Regardless of whether the offering and sale of Shares under the Plan have been registered under the Securities Act of 1933 or have been registered or qualified under the securities laws of any state, the Company may impose restrictions upon the sale, pledge, or other transfer of such Shares (including the placement of appropriate legends on stock certificates) if, in the judgment of the Company and its counsel, such restrictions are necessary or desirable to achieve compliance with the provisions of the Securities Act of 1933, the securities laws of any state, the United States or any other applicable foreign law. If the offering and/or sale of Shares under the Plan is not registered under the Securities Act of 1933 and the Company determines that the registration requirements of the Securities Act of 1933 apply but an exemption is available which requires an

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investment representation or other representation, the Participant shall be required, as a condition to acquiring such Shares, to represent that such Shares are being acquired for investment, and not with a view to the sale or distribution thereof, except in compliance with the Securities Act of 1933, and to make such other representations as are deemed necessary or appropriate by the Company and its counsel. All Stock Incentive Agreements shall contain a provision stating that any restrictions under any applicable securities laws will apply.

- 8.3 REGISTRATION OF SHARES. The Company may, and intends to, but is not obligated to, register or qualify the offering or sale of Shares under the Securities Act of 1933 or any other applicable state, federal or foreign law.

**SECTION 9**

**LIFE OF PLAN**

No Stock Incentive shall be granted under this Plan on or after the earlier of:

- (a) the tenth (10th) anniversary of the effective date of this Plan (as determined under Section 4 of this Plan), or
- (b) the date on which all of the Shares reserved under Section 3 of this Plan have (as a result of the exercise of Stock Incentives granted under this Plan or lapse of all restrictions under a Restricted Stock Award or Restricted Stock Unit) been issued or are no longer available for use under this Plan.

This Plan shall continue in effect until all outstanding Stock Incentives have been exercised in full or are no longer exercisable and all Restricted Stock Awards or Restricted Stock Units have vested or been forfeited.

**SECTION 10**

**ADJUSTMENT**

Notwithstanding anything in Section 12 to the contrary, in the event of a stock dividend, stock split, spin-off, rights offering, recapitalization through a large, nonrecurring cash dividend, or a similar equity restructuring of the Company, the Committee will adjust: (a) the number of Shares reserved under Section 3 of this Plan, (b) the limit on the number of Shares that may be granted subject to Stock Incentives during a calendar year to any individual under Section 3 of this Plan, (c) the number of Shares subject to certain Stock Incentives granted subject to Section 3 of the Plan, and (d) the Exercise Price of any Options and the specified price of any Stock Appreciation Rights, or any combination thereof, in an equitable manner that will equalize the fair value of the previously granted Stock Incentives before and after the equity restructuring. Furthermore, in the event of any corporate transaction described in Code Section 424(a) that provides for the substitution or assumption of Stock Incentives, the Committee will adjust such Stock Incentives in a manner that satisfies the requirements of Code Section 424(a) as to: (i) the number of Shares reserved under Section 3, (ii) the limit on the number of Shares that may be granted subject to Stock Incentives during a calendar year to any individual under Section 3 of this Plan; (iii) the number of Shares subject to such Stock Incentives, and (iii) the Exercise Price of any Options and the specified price of any Stock Appreciation Rights. If any adjustment under this Section creates a fractional Share or a right to acquire a fractional Share, such fractional Share shall be disregarded, and the number of Shares reserved under this Plan and the number subject to any Stock Incentives granted under this Plan shall be the next lower number of Shares, rounding all fractions downward. An adjustment made under this Section by the Committee shall be conclusive and binding on all affected persons and, further, shall not constitute an increase in the number of Shares reserved under Section 3 or an increase in any limitation imposed by the Plan.

**SECTION 11**

**CHANGE IN CONTROL OF THE COMPANY**

11.1 **CHANGE IN CONTROL.** Change in Control of the Company shall mean a change in control which would be required to be reported in response to Item 5.01 of Form 8-K promulgated under the Exchange Act (or any successor item of Form 8-K), whether or not the Company is then subject to such reporting requirement, including without limitation, if:



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- (a) any person (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities (other than an entity owned 50% or greater by the Company or an employee pension plan for the benefit of the employees of the Company);
- (b) there ceases to be a majority of the Board comprised of (i) individuals who, on the date of adoption of this Plan, constituted the Board; and (ii) any new director who subsequently was elected or nominated for election by a majority of the directors who held such office prior to a Change in Control; or
- (c) the Company disposes of at least 75% of its assets, other than (i) to an entity owned 50% or greater by the Company or any of its subsidiaries, or to an entity in which at least 50% of the voting equity securities are owned by the shareholders of the Company immediately prior to the disposition in substantially the same percentage or (ii) as a result of a bankruptcy proceeding, dissolution or liquidation of the Company.

11.2 VESTING UPON A CHANGE IN CONTROL. Except as otherwise provided in a Stock Incentive Agreement or as provided in the next sentence, if a Change in Control occurs, and if the agreements effectuating the Change in Control do not provide for the assumption or substitution of all Stock Incentives granted under this Plan, with respect to any Stock Incentive granted under this Plan that is not so assumed or substituted (a Non-Assumed Stock Incentive), such Stock Incentives shall immediately vest and be exercisable and any restrictions thereon shall lapse. Notwithstanding the foregoing, unless the Committee determines at or prior to the Change in Control, no Stock Incentive that is subject to any performance criteria for which the Performance Period has not expired, shall accelerate at the time of a Change in Control.

11.3 DISPOSITION OF STOCK INCENTIVES. Except as otherwise provided in a Stock Incentive Agreement, the Committee, in its sole and absolute discretion, may, with respect to any or all of such Non-Assumed Stock Incentives, take any or all of the following actions to be effective as of the date of the Change in Control (or as of any other date fixed by the Committee occurring within the thirty (30) day period immediately preceding the date of the Change in Control, but only if such action remains contingent upon the effectuation of the Change in Control) (such date referred to as the Action Effective Date):

- (a) Unilaterally cancel such Non-Assumed Stock Incentive in exchange for whole and/or fractional Shares (or whole Shares and cash in lieu of any fractional Share) or whole and/or fractional shares of a successor (or whole shares of a successor and cash in lieu of any fractional share) that, in the aggregate, are equal in value to:
  - (i) in the case of Options and Stock Appreciation Rights, the product of (A) the excess, if any, of the Fair Market Value per Share on the effective date of the Action Effective Date over the Exercise Price or specified price per Share (B) multiplied by the number of Shares subject to the Option or Stock Appreciation Right;
  - (ii) in the case of Restricted Stock, Restricted Stock Units, Performance Stock, Performance Units and Other Awards, the Fair Market Value per Share on the effective date of the Action Effective Date of the Shares subject to such Stock Incentive (taking into account vesting), less the value of any consideration payable with respect to such Stock Incentive.
- (b) Unilaterally cancel such Non-Assumed Stock Incentive in exchange for cash or other property equal in value to:

- (i) in the case of Options and Stock Appreciation Rights, the product of (A) the excess, if any, of the Fair Market Value per Share on the effective date of the Action Effective Date over the Exercise Price or specified price per Share (B) multiplied by the number of Shares subject to the Option or Stock Appreciation Right;

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- (ii) in the case of Restricted Stock, Restricted Stock Units, Performance Stock, Performance Units and Other Awards, the Fair Market Value per Share on the effective date of the Action Effective Date of the Shares subject to such Stock Incentive (taking into account vesting), less the value of any consideration payable with respect to such Stock Incentive.
- (c) In the case of Options, unilaterally cancel such Non-Assumed Option after providing the holder of such Option with (i) an opportunity to exercise such Non-Assumed Option to the extent vested within a specified period prior to the date of the Change in Control, and (ii) notice of such opportunity to exercise prior to the commencement of such specified period. The Committee may modify or waive any condition limiting the exercise of such Option to permit a cashless exercise of such Options.
- (d) Notwithstanding the foregoing, to the extent that the recipient of a Non-Assumed Stock Incentive is an Insider, payment of cash in lieu of whole or fractional Shares or shares of a successor may only be made to the extent that such payment (i) has met the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act, or (ii) is a subsequent transaction the terms of which were provided for in a transaction initially meeting the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act. Unless a Stock Incentive Agreement provides otherwise, the payment of cash in lieu of whole or fractional Shares or in lieu of whole or fractional shares of a successor shall be considered a subsequent transaction approved by the original grant of an Option.

11.4 GENERAL RULE FOR OTHER STOCK INCENTIVES. If a Change in Control occurs, then, except to the extent otherwise provided in the Stock Incentive Agreement pertaining to a particular Stock Incentive or as otherwise provided in this Plan, each Stock Incentive shall be governed by applicable law and the documents effectuating the Change in Control.

**SECTION 12**

**AMENDMENT OR TERMINATION**

12.1 AMENDMENT OF PLAN. This Plan may be amended by the Committee from time to time to the extent that the Committee deems necessary or appropriate; provided, however, no such amendment shall be made absent the approval of the shareholders of the Company if such amendment: (a) increases the number of Shares reserved under Section 3, except as set forth in Section 10, (b) extends the maximum life of the Plan under Section 9 or the maximum exercise period under Section 7, (c) decreases the minimum Exercise Price under Section 7, or (d) changes the designation of Participant eligible for Stock Incentives under Section 6. Shareholder approval of other material amendments (such as an expansion of the types of awards available under the Plan, an extension of the term of the Plan, or a change to the method of determining the Exercise Price of Options issued under the Plan) may also be required pursuant to rules promulgated by an established stock exchange or a national market system.

12.2 TERMINATION OF PLAN. The Board also may suspend the granting of Stock Incentives under this Plan at any time and may terminate this Plan at any time.

- 12.3 AMENDMENT OF STOCK INCENTIVES. The Committee shall have the right to modify, amend or cancel any Stock Incentive after it has been granted if (a) the modification, amendment or cancellation does not diminish the rights or benefits of the Participant under the Stock Incentive (provided, however, that a modification, amendment or cancellation that results solely in a change in the tax consequences with respect to a Stock Incentive shall not be deemed as a diminishment of rights or benefits of such Stock Incentive), (b) the Participant consents in writing to such modification, amendment or cancellation, (c) there is a dissolution or liquidation of the Company, (d) this Plan and/or the Stock Incentive Agreement expressly provides for such modification, amendment or cancellation, or (e) the Company would otherwise have the right to make such modification, amendment or cancellation pursuant to Article 11 or applicable law. Notwithstanding the foregoing, the Committee may reform any provision in a Stock Incentive intended to be exempt from Code Section 409A to maintain to maximum extent practicable the original intent of the applicable provision without violating the provisions of Code Section 409A; provided, however, that if no reasonably practicable reformation would avoid the imposition of any penalty tax or interest under Code Section 409A, no payment or benefit will be provided under the Stock Incentive and

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the Stock Incentive will be deemed null, void and of no force and effect, and the Company shall have no further obligation in connection with such Stock Incentive.

**SECTION 13**

**MISCELLANEOUS**

- 13.1 SHAREHOLDER RIGHTS. Except as provided in Section 7.3 with respect to Restricted Stock Awards, or in a Stock Incentive Agreement, no Participant shall have any rights as a shareholder of the Company as a result of the grant of a Stock Incentive pending the actual delivery of Shares subject to such Stock Incentive to such Participant.
- 13.2 NO GUARANTEE OF CONTINUED RELATIONSHIP. The grant of a Stock Incentive to a Participant under this Plan shall not constitute a contract of employment or other relationship with the Company and shall not confer on a Participant any rights upon his or her termination of employment or relationship with the Company in addition to those rights, if any, expressly set forth in the Stock Incentive Agreement that evidences his or her Stock Incentive.
- 13.3 WITHHOLDING. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company as a condition precedent for the grant or fulfillment of any Stock Incentive, an amount in Shares or cash sufficient to satisfy federal, state and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan and/or any action taken by a Participant with respect to a Stock Incentive. Whenever Shares are to be issued to a Participant upon exercise of an Option or Stock Appreciation Right, or satisfaction of conditions under a Restricted Stock, Restricted Stock Unit, Performance Stock or Performance Units, the Company shall have the right to require the Participant to remit to the Company, as a condition thereof, an amount in cash (or, unless the Stock Incentive Agreement provides otherwise, in Shares) sufficient to satisfy federal, state and local withholding tax requirements at the time of exercise. However, notwithstanding the foregoing, to the extent that a Participant is an Insider, satisfaction of withholding requirements by having the Company withhold Shares may only be made to the extent that such withholding of Shares (a) has met the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act, or (b) is a subsequent transaction the terms of which were provided for in a transaction initially meeting the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act. Unless the Stock Incentive Agreement provides otherwise, the withholding of shares to satisfy federal, state and local withholding tax requirements shall be a subsequent transaction approved by the original grant of a Stock Incentive. Notwithstanding the foregoing, in no event shall payment of withholding taxes be made by retention of Shares by the Company unless the Company retains only Shares with a Fair Market Value equal to the minimum amount of taxes required to be withheld. Subject to the foregoing, the Participant, and not the Company,

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shall be and remain responsible for any and all taxes arising out of the grant, exercise or receipt of any Stock Incentive awarded under this Plan.

- 13.4 NOTIFICATION OF DISQUALIFYING DISPOSITIONS OF ISO OPTIONS. If a Participant sells or otherwise disposes of any of the Shares acquired pursuant to an Option that is an ISO on or before the later of (a) the date two (2) years after the date of grant of such Option, or (b) the date one (1) year after the exercise of such Option, or except as otherwise permitted under Code Section 422(a)(2), then the Participant shall immediately notify the Company in writing of such sale or disposition and shall cooperate with the Company in providing sufficient information to the Company for the Company to properly report such sale or disposition to the Internal Revenue Service. The Participant acknowledges and agrees that he or she may be subject to federal, state and/or local tax withholding by the Company on the compensation income recognized by Participant from any such early disposition, and agrees that he or she shall include the compensation from such early disposition in his gross income for federal tax purposes. Participant also acknowledges that the Company may condition the exercise of any Option that is an ISO on the Participant's express written agreement with these provisions of this Plan.
- 13.5 TRANSFERS AND RESTRUCTURINGS. The transfer of a Participant's employment between or among the Company or a Subsidiary (including the merger of a Subsidiary into the Company) shall not be treated as a termination of his or her employment under this Plan. Likewise, the continuation of employment by a Participant with a corporation that is a Subsidiary shall be deemed to be a termination of employment when such corporation ceases to be a Subsidiary.

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- 13.6 LEAVES OF ABSENCE. Unless the Committee provides otherwise, vesting of Stock Incentives granted hereunder will be suspended during any unpaid leave of absence. A Participant will not cease to be an employee of the Company in the case of any leave of absence approved by the Company. For purposes of ISOs, no such leave may exceed 90 days unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three (3) months following the 91st day of such leave any ISO held by the Participant will cease to be treated as an ISO and if exercised thereafter will be treated for tax purposes as a NQSO.
- 13.7 GOVERNING LAW/CONSENT TO JURISDICTION. This Plan shall be construed under the laws of the State of Minnesota without regard to principles of conflicts of law. Each Participant consents to the exclusive jurisdiction in the United States District Court for the District of Minnesota for the determination of all disputes arising from this Plan and waives any rights to remove or transfer the case to another court.
- 13.8 ESCROW OF SHARES. To facilitate the Company's rights and obligations under this Plan, the Company reserves the right to appoint an escrow agent, who shall hold the Shares owned by a Participant pursuant to this Plan.
- 13.9 IMPACT OF RESTATEMENT OF FINANCIAL STATEMENTS UPON STOCK INCENTIVES. If any of the Company's financial statements are required to be restated resulting from errors, omissions or fraud, the Committee may (in its sole discretion, but acting in good faith) direct that the Company recover all or a portion of any Stock Incentive with respect to any fiscal year of the Company the financial results of which are negatively affected by such restatement. The amount to be recovered from the Participant shall be the amount by which the Stock Incentive exceeded the amount that would have been payable to the Participant had the financial statements been initially filed as restated, or any greater or lesser amount (including, but not limited to, the entire award) that the Committee shall determine. In no event shall the amount to be recovered by the Company be less than the amount required to be repaid or recovered as a matter of law. In addition to or in lieu of the right to recovery set forth above, the Committee shall determine whether the Company shall effect any such recovery (a) by seeking repayment from the Participant, (b) by reducing (subject to applicable law and the terms and conditions of the applicable plan, program or arrangement) the amount that would otherwise be payable to the Participant under any compensatory plan, program or arrangement maintained by the Company or any of its affiliates,

(c) by withholding payment of future increases in compensation (including the payment of any discretionary bonus amount) or grants of compensatory awards that would otherwise have been made in accordance with the Company's otherwise applicable compensation practices, or (d) by any combination of the foregoing.

- 13.10 **FORFEITURE AND RECOUPMENT.** Without limiting in any way the generality of the Committee's power to specify any terms and conditions of an Award consistent with law, and for greater clarity, the Committee may specify in an Stock Incentive Agreement that the Participant's rights, payments, and benefits with respect to a Stock Incentive under this Plan shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions. Such events shall include, but shall not be limited to, failure to accept the terms of the Stock Incentive Agreement, termination of employment or services under certain or all circumstances, violation of material Company policies, breach of noncompetition, confidentiality, nonsolicitation, noninterference, corporate property protection, or other agreement that may apply to the Participant, or other conduct by the Participant that the Committee determines is detrimental to the business or reputation of the Company and its Subsidiaries.

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**SECTION 14**

**PERFORMANCE CRITERIA**

- 14.1 **PERFORMANCE GOAL BUSINESS CRITERIA.** Unless and until the Board proposes for shareholder vote and shareholders approve a change in the general performance measures set forth in this Section, the attainment of which may determine the degree of payout and/or vesting with respect to Stock Incentives to Key Employees and Key Persons pursuant to this Plan which are designed to qualify for the Performance-Based Exception, the performance measure(s) to be used by the Committee for purposes of such grants shall be chosen from among the following: (a) earnings per share; (b) net income (before or after taxes); (c) return measures (including, but not limited to, return on assets, equity or sales); (d) cash flow return on investments which equals net cash flows divided by owners equity; (e) earnings before or after taxes, depreciation and/or amortization; (f) gross revenues; (g) operating income (before or after taxes); (h) total shareholder return; (i) corporate performance indicators (indices based on the level of certain services provided to customers); (j) cash generation, profit and/or revenue targets; (k) growth measures, such as revenue growth; (l) ratios, such as expenses or market share and/or (m) share price (including, but not limited to, growth measures and total shareholder return). In setting performance goals using these performance measures, the Committee may establish absolute goals or goals relative to a peer group performance or other benchmark, and may exclude the effect of changes in accounting standards and non-recurring unusual events specified by the Committee, such as write-offs, capital gains and losses and acquisitions and dispositions of businesses.
- 14.2 **DISCRETION IN FORMULATION OF PERFORMANCE GOALS.** The Committee shall have the discretion to adjust the determinations of the degree of attainment of the pre-established performance goals; provided, however, that Stock Incentives that are intended to qualify for the Performance-Based Exception may not be adjusted upward (although the Committee shall retain the discretion to adjust such Stock Incentives downward).
- 14.3 **PERFORMANCE PERIODS.** The Committee shall have the discretion to determine the period during which any performance goal must be attained with respect to a Stock Incentive. Such period may be of any length, and must be established prior to the start of such period or within the first ninety (90) days of such period (provided that the performance criteria are not in any event set after 25% or more of such period has elapsed).
- 14.4 **MODIFICATIONS TO PERFORMANCE GOAL CRITERIA.** In the event that the applicable tax and/or securities laws and regulatory rules and regulations change to permit Committee discretion to alter the governing performance measures noted above

without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval. In addition, in the event that the Committee determines that it is advisable to grant Stock Incentives that shall not qualify for the Performance-Based Exception, the Committee may make such grants without satisfying the requirements under Code Section 162(m) to qualify for the Performance-Based Exception.

**SECTION 15**

**NON-US PROVISIONS**

15.1 The Committee shall have the authority to require that any Stock Incentive Agreement relating to a Stock Incentive in a jurisdiction outside of the United States contain such terms as are required by local law in order to constitute a valid grant under the laws of such jurisdiction. Such authority shall be notwithstanding the fact that the requirements of the local jurisdiction may be different from or more restrictive than the terms set forth in this Plan. No purchase or delivery of Shares pursuant to a Stock Incentive shall occur until applicable restrictions imposed pursuant to this Plan or the applicable Stock Incentive have terminated.

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**RIMAGE CORPORATION**

**2007 ANNUAL MEETING OF SHAREHOLDERS**

**Tuesday, May 15, 2007**

**3:30 p.m.**

**Rimage Corporation**

**7725 Washington Avenue South**

**Edina, Minnesota 55439**

**Rimage Corporation  
7725 Washington Avenue South  
Edina, Minnesota 55439**

**proxy**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.**

The undersigned hereby appoints Bernard P. Aldrich and David J. Suden, or any of them, with power of substitution to each, as attorneys and proxies, and hereby authorizes them to represent the undersigned at the Annual Meeting of Shareholders of Rimage Corporation to be held at the Company's offices at 7725 Washington Avenue South, Edina, Minnesota, on Tuesday, May 15, 2007 at 3:30 p.m. Edina, Minnesota time, and at any adjournment(s) or postponement(s) thereof, and to vote, as designated below, all shares of Common Stock of Rimage Corporation held of record by the undersigned on April 6, 2007 and which the undersigned would be entitled to vote at such Annual Meeting, hereby revoking all former proxies.

**PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY PROMPTLY.**

*See reverse for voting instructions.*

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COMPANY #

**There are three ways to vote your Proxy**

**Your telephone or Internet vote authorizes the Named Proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.**

**VOTE BY PHONE TOLL FREE 1-800-560-1965 QUICK \*\*\* EASY \*\*\* IMMEDIATE**

Use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on May 14, 2007. Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions the voice provides you.

**VOTE BY INTERNET <http://www.eproxy.com/rimg/> QUICK \*\*\* EASY \*\*\* IMMEDIATE**

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Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on May 14, 2007. Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions to obtain your records and create an electronic ballot.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we've provided or return it to Rimage Corporation, c/o Shareowner Services<sup>SM</sup>, P.O. Box 64873, St. Paul, MN 55164-0873.

If you vote by Phone or Internet, please do not mail your Proxy Card.

Please detach here

RIMAGE CORPORATION 2007 ANNUAL MEETING OF SHAREHOLDERS

- 1. Election of directors:
 

01 Bernard P. Aldrich	04 Thomas F. Madison	06 James L. Reissner	<input type="radio"/> Vote FOR all nominees	<input type="radio"/> Vote WITH
02 Lawrence M. Benveniste	05 Steven M. Quist	07 David J. Suden	(except as marked)	from all no
03 Philip D. Hotchkiss				

(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

- 2. A proposal to approve the adoption of the Rimage Corporation 2007 Stock Incentive Plan.
 

<input type="radio"/> For	<input type="radio"/> Against	<input type="radio"/> Abstain
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- 3. A proposal to ratify and approve the appointment of KPMG LLP as independent auditors for the Company for the fiscal year ending December 31, 2007.
 

<input type="radio"/> For	<input type="radio"/> Against	<input type="radio"/> Abstain
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**THIS PROXY, IF PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR EACH NOMINEE NAMED IN PROPOSAL 1, FOR PROPOSAL 2 AND FOR PROPOSAL 3. PLEASE SIGN, DATE AND RETURN THIS PROXY FORM USING THE ENCLOSED ENVELOPE.**

Check appropriate box:



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Address Change? Mark Box  Indicate changes below:  
Indicate changes below:

Date \_\_\_\_\_, 2007

Signature(s) in Box

Please sign exactly as your name(s) appears on Proxy. If held in joint tenancy, all persons must sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the Proxy.

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