

RIMAGE CORP
Form 10-Q
May 10, 2007
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **March 31, 2007**; OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____.
Commission File Number: 0-20728
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RIMAGE CORPORATION

(Exact name of Registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

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

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

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

NA
(Former name, former address, and former fiscal year, if changed since last report.)
Common Stock outstanding at April 30, 2007 10,099,667 shares
of \$.01 par value Common Stock.

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

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

Large Accelerated Filer **Accelerated Filer** **Non-Accelerated Filer**

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

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FOR THE QUARTER ENDED MARCH 31, 2007

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

Assets	March 31, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	\$ 13,479	\$ 8,500
Marketable securities	40,378	30,266
Receivables, net of allowance for doubtful accounts and sales returns of \$566,000 and \$878,000, respectively	16,003	21,697
Inventories	7,301	6,072
Prepaid expenses and other current assets	1,737	1,151
Deferred income taxes - current	2,430	2,430
Total current assets	81,328	70,116
Marketable securities - non-current	29,655	38,594
Property and equipment, net	3,714	3,626
Deferred income taxes - non-current	78	23
Total assets	\$ 114,775	\$ 112,359
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$ 6,284	\$ 7,136
Accrued compensation	1,818	2,882
Other accrued expenses	1,227	1,237
Income taxes payable		1,207
Deferred income and customer deposits	4,108	3,509
Other current liabilities	82	192
Total current liabilities	13,519	16,163
Long-term liabilities:		
Deferred income and customer deposits - non-current	918	715
Other non-current liabilities		5
Total long-term liabilities	918	720
Total liabilities	14,437	16,883
Stockholders' equity:		
Preferred stock, \$.01 par value, authorized 250,000 shares, no shares issued and outstanding		
Common stock, \$.01 par value, authorized 29,750,000 shares, issued and outstanding 10,095,751 and 9,925,430, respectively	101	99
Additional paid-in capital	30,626	27,914
Retained earnings	69,446	67,324
Accumulated other comprehensive income	165	139
Total stockholders' equity	100,338	95,476

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Total liabilities and stockholders' equity \$ 114,775 \$ 112,359

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2007	2006
Revenues	\$ 21,526	\$ 22,637
Cost of revenues	11,778	12,964
Gross profit	9,748	9,673
Operating expenses:		
Research and development	1,590	1,576
Selling, general and administrative	5,828	6,123
Total operating expenses	7,418	7,699
Operating income	2,330	1,974
Other income (expense):		
Interest, net	803	609
Gain on currency exchange	6	12
Other, net	20	
Total other income, net	829	621
Income before income taxes	3,159	2,595
Income tax expense	1,037	961
Net income	\$ 2,122	\$ 1,634
Net income per basic share	\$ 0.21	\$ 0.17
Net income per diluted share	\$ 0.20	\$ 0.16
Basic weighted average shares outstanding	9,979	9,685
Diluted weighted average shares outstanding	10,494	10,331

See accompanying notes to condensed consolidated financial statements

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

	Three months ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 2,122	\$ 1,634
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	387	344
Deferred income tax benefit	(55)	(12)
Loss on sale of property and equipment		11
Stock-based compensation	212	202
Excess tax benefits from stock-based compensation	(925)	(781)
Changes in operating assets and liabilities:		
Receivables	5,694	162
Inventories	(1,229)	334
Prepaid income taxes / income taxes payable	(467)	(474)
Prepaid expenses and other current assets	(165)	(5)
Trade accounts payable	(724)	163
Accrued compensation	(1,064)	(1,473)
Other accrued expenses and other current liabilities	(120)	84
Deferred income and customer deposits	801	576
Net cash provided by operating activities	4,467	765
Cash flows from investing activities:		
Purchases of marketable securities	(13,636)	(7,990)
Maturities of marketable securities	12,465	11,170
Purchases of property and equipment	(603)	(812)
Other non-current items	10	19
Net cash provided by (used in) investing activities	(1,764)	2,387
Cash flows from financing activities:		
Principal payments on capital lease obligations	(5)	(1)
Excess tax benefits from stock-based compensation	925	781
Proceeds from employee stock plans	1,343	936
Net cash provided by financing activities	2,263	1,716
Effect of exchange rate changes on cash	13	28
Net increase in cash and cash equivalents	4,979	4,896
Cash and cash equivalents, beginning of period	8,500	12,693

Cash and cash equivalents, end of period	\$	13,479	\$	17,589
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Supplemental disclosures of net cash paid during the period for:

Income taxes	\$	1,563	\$	1,330
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Non-cash investing and financing activities:

Income tax reductions relating to exercise of stock options	\$	235	\$	162
Unrealized net gains (losses) from available-for-sale securities	\$	2	\$	(4)
Capital lease obligations	\$		\$	30

See accompanying notes to condensed consolidated financial statements

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

(1) Basis of Presentation and Nature of Business

Rimage Corporation (the Company) develops, manufactures and distributes high performance CD-Recordable (CD-R) and DVD-Recordable (DVD-R) publishing and duplication systems from its operations in the United States, Germany and Japan. The Company also distributes related consumables for use with its systems, consisting of media kits, ribbons, ink cartridges and blank CD-R and DVD-R media.

The accompanying condensed consolidated financial statements of Rimage Corporation are unaudited and have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position and results of operations and cash flows of the interim periods presented. Operating results for these interim periods are not necessarily indicative of results to be expected for the entire year, due to seasonal, operating and other factors. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Stock-Based Compensation

The Stock Option Plan, initially approved by shareholders in September 1992, and with the latest amendments approved by shareholders in May 2005, provides for the grant of incentive stock options, non-qualified stock options, restricted stock awards, deferred stock awards, stock appreciation rights and performance stock to certain key administrative, managerial and executive employees and the automatic periodic grants of stock options to non-employee directors. At March 31, 2007, a total of 233,153 shares were available for future grant under the plan. The exercise price of stock options granted under the Stock Option Plan is equal to the market value on the date of grant. Options issued to employees through March 31, 2006 generally become exercisable over a two-year period and terminate ten years from the date of grant. Options issued to employees after March 31, 2006 generally become exercisable over a four-year period and terminate ten years from the date of grant. Stock options granted to non-employee directors vest six months from the date of grant and terminate ten years from the date of grant. Performance shares granted to employees under the Stock Option Plan provide a right to receive shares of the Company's common stock contingent on the Company's achievement of revenue and operating income performance goals for the calendar year which follows two years after the grant date. Shares of the Company's common

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

stock are issued to employees for the performance shares only if the Company achieves the performance goals during the applicable performance period. If the performance goals are not achieved at the end of the performance period, all performance shares will be canceled and the employees will receive no common stock for the canceled performance shares.

Stock-based compensation expense is determined based on the grant-date fair value and is recognized on a straight-line basis over the vesting period for each stock-based award granted on or after January 1, 2006, and for previously granted awards not yet vested as of January 1, 2006. The Company recognized stock-based compensation costs of \$212,000 and \$203,000 for the three months ended March 31, 2007 and 2006, respectively.

The fair value of each option award is estimated at the date of grant using the Black-Scholes option pricing model. The following key assumptions were utilized in valuing option awards issued during the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	2006
Expected life of options in years	6.0	5.0
Risk-free interest rate	4.5%	4.3%
Expected volatility	40.0%	37.8%
Expected dividend yield	0.0%	0.0%

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

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