

RIMAGE CORP
Form 10-Q
May 07, 2010

**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, 2010**; OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File Number: **000-20728**

RIMAGE CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes x No o**

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

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

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

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

Common Stock outstanding at April 30, 2010 9,496,962 shares of \$.01 par value Common Stock.

**RIMAGE CORPORATION
FORM 10-Q
TABLE OF CONTENTS
FOR THE QUARTER ENDED MARCH 31, 2010**

| Description | Page |
|---|--------------|
| <u>PART I</u> | |
| <u>FINANCIAL INFORMATION</u> | |
| <u>Item 1.</u> | |
| <u>Financial Statements (unaudited)</u> | |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009</u> | 3 |
| <u>Condensed Consolidated Statements of Income for the three months ended March 31, 2010 and 2009</u> | 4 |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2010 and 2009</u> | 5 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 6-15 |
| <u>Item 2.</u> | |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 16-21 |
| <u>Item 3.</u> | |
| <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 22 |
| <u>Item 4.</u> | |
| <u>Controls and Procedures</u> | 22 |
| <u>PART II</u> | |
| <u>OTHER INFORMATION</u> | 22-23 |
| <u>Item 1.</u> | |
| <u>Legal Proceedings</u> | |
| <u>Item 1A.</u> | |
| <u>Risk Factors</u> | |
| <u>Item 2.</u> | |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | |
| <u>Item 3.</u> | |
| <u>Defaults Upon Senior Securities</u> | |
| <u>Item 4.</u> | |
| <u>[Removed and Reserved]</u> | |
| <u>Item 5.</u> | |
| <u>Other Information</u> | |
| <u>Item 6.</u> | |
| <u>Exhibits</u> | |
| <u>SIGNATURES</u> | 24 |

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

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

| Assets | March 31, 2010 | December 31, 2009 |
|--|-------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 83,114 | \$ 72,507 |
| Marketable securities | 15,911 | 28,581 |
| Receivables, net of allowance for doubtful accounts and sales returns of \$292 and \$327, respectively | 11,069 | 13,732 |
| Inventories | 5,151 | 4,123 |
| Prepaid income taxes | 647 | |
| Prepaid expenses and other current assets | 1,221 | 1,271 |
| Deferred income taxes - current | 581 | 546 |
| Total current assets | 117,694 | 120,760 |
| Marketable securities - non-current | 8,986 | 9,037 |
| Property and equipment, net | 8,092 | 7,855 |
| Deferred income taxes - non-current | 2,741 | 2,630 |
| Other assets - non-current | 190 | |
| Total assets | \$ 137,703 | \$ 140,282 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 6,236 | \$ 6,898 |
| Accrued compensation | 2,137 | 3,834 |
| Other accrued expenses | 773 | 911 |
| Income taxes payable | | 222 |
| Deferred income and customer deposits | 5,576 | 5,706 |
| Other current liabilities | 18 | 18 |
| Total current liabilities | 14,740 | 17,589 |
| Long-term liabilities: | | |
| Deferred income and customer deposits - non-current | 1,868 | 2,452 |
| Income taxes payable - non-current | 233 | 213 |
| Other non-current liabilities | 75 | 79 |
| Total long-term liabilities | 2,176 | 2,744 |
| Total liabilities | 16,916 | 20,333 |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value, authorized 250,000 shares, no shares issued and outstanding | | |
| Common stock, \$.01 par value, authorized 29,750,000 shares, issued and outstanding 9,485,385 and 9,471,885 respectively | 95 | 94 |
| Additional paid-in capital | 40,841 | 40,296 |
| Retained earnings | 79,477 | 78,782 |
| Accumulated other comprehensive income | 374 | 777 |
| Total stockholders' equity | 120,787 | 119,949 |
| Total liabilities and stockholders' equity | \$ 137,703 | \$ 140,282 |

See accompanying notes to condensed consolidated financial statements.

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

| | Three Months Ended | |
|--|--------------------|-----------|
| | March 31, | |
| | 2010 | 2009 |
| Revenues: | | |
| Product | \$ 15,844 | \$ 15,361 |
| Service | 2,526 | 2,997 |
| Total revenues | 18,370 | 18,358 |
| Cost of revenues: | | |
| Product | 7,755 | 7,928 |
| Service | 1,963 | 1,865 |
| Total cost of revenues | 9,718 | 9,793 |
| Gross profit | 8,652 | 8,565 |
| Operating expenses: | | |
| Research and development | 1,441 | 1,975 |
| Selling, general and administrative | 6,267 | 5,342 |
| Total operating expenses | 7,708 | 7,317 |
| Operating income | 944 | 1,248 |
| Other income (expense): | | |
| Interest, net | 168 | 556 |
| Loss on currency exchange | (27) | (45) |
| Other, net | 4 | (1) |
| Total other income, net | 145 | 510 |
| Income before income taxes | 1,089 | 1,758 |
| Income tax expense | 394 | 573 |
| Net income | \$ 695 | \$ 1,185 |
| Net income per basic share | \$ 0.07 | \$ 0.13 |
| Net income per diluted share | \$ 0.07 | \$ 0.13 |
| Basic weighted average shares outstanding | 9,476 | 9,344 |
| Diluted weighted average shares outstanding | 9,557 | 9,431 |
| See accompanying notes to condensed consolidated financial statements. | | |

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

| | Three months ended March 31, | |
|---|---------------------------------|-----------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | \$ 695 | \$ 1,185 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 374 | 309 |
| Deferred income tax benefit | (112) | (263) |
| Loss on disposal of property and equipment | | 2 |
| Stock-based compensation | 467 | 215 |
| Excess tax benefits from stock-based compensation | (12) | |
| Changes in operating assets and liabilities: | | |
| Receivables | 2,390 | (408) |
| Inventories | (1,154) | 366 |
| Prepaid income taxes/income taxes payable | (837) | (104) |
| Prepaid expenses and other current assets | (151) | 189 |
| Trade accounts payable | 1,560 | 346 |
| Accrued compensation | (1,651) | (8) |
| Other accrued expenses and other current liabilities | (132) | (186) |
| Deferred income and customer deposits | (686) | (387) |
| Net cash provided by operating activities | 751 | 1,256 |
| Cash flows from investing activities: | | |
| Purchases of marketable securities | | (1,593) |
| Maturities and sales of marketable securities | 12,631 | 626 |
| Purchases of property and equipment | (2,727) | (73) |
| Net cash provided by (used in) investing activities | 9,904 | (1,040) |
| Cash flows from financing activities: | | |
| Principal payments on capital lease obligations | (5) | (6) |
| Excess tax benefits from stock-based compensation | 12 | |
| Proceeds from stock option exercises | 66 | 188 |
| Net cash provided by financing activities | 73 | 182 |
| Effect of exchange rate changes on cash | (121) | (74) |
| Net increase in cash and cash equivalents | 10,607 | 324 |
| Cash and cash equivalents, beginning of period | 72,507 | 14,885 |
| Cash and cash equivalents, end of period | \$ 83,114 | \$ 15,209 |
| Supplemental disclosures of net cash paid during the period for: | | |
| Income taxes | \$ 1,334 | \$ 940 |
| See accompanying notes to condensed consolidated financial statements. | | |

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

(1) Basis of Presentation and Nature of Business

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

The accompanying condensed consolidated financial statements are unaudited and have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, pursuant to the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, certain financial information and footnote disclosures normally included in the financial statements have been condensed or omitted. However, in the opinion of management, the financial statements include all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the financial position and results of operations and cash flows of the interim periods presented. Operating results for these interim periods are not necessarily indicative of results to be expected for the entire year, due to seasonal, operating and other factors. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2009.

In July 2009, the FASB launched its Accounting Standards Codification (the Codification). The Codification became the exclusive authoritative source of nongovernmental U.S. generally accepted accounting principles (GAAP) for interim and annual accounting periods ending after September 15, 2009, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. The Codification did not change GAAP but reorganized the literature.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates on items such as allowance for doubtful accounts and sales returns, inventory provisions, asset impairment charges, deferred tax asset valuation allowances, accruals for uncertain tax positions and warranty accruals. These estimates and assumptions are based on management's best judgment. Management evaluates estimates and assumptions on an ongoing basis using its technical knowledge, historical experience and other factors, including consideration of the impact of the current economic environment. Management believes its assumptions are reasonable in light of the current economic environment. Management adjusts such estimates and assumptions when facts and circumstances change. Illiquid credit markets, volatile equity, foreign currency and energy markets, and decli