

Pursuing optical opportunities...  
exploring future technologies



R I M A G E<sup>®</sup>

2008  
ANNUAL REPORT

# About Rimage

**Rimage Corporation (Nasdaq: RIMG) is the world's leading provider of on-demand digital publishing systems that businesses and organizations use to quickly and easily produce CDs, DVDs and Blu-ray discs™ with customized content and durable color or monochrome disc labeling.** *Our systems integrate robotics, surface label printers and software into a complete disc publishing solution that typically is designed into OEM equipment as its digital output solution.*

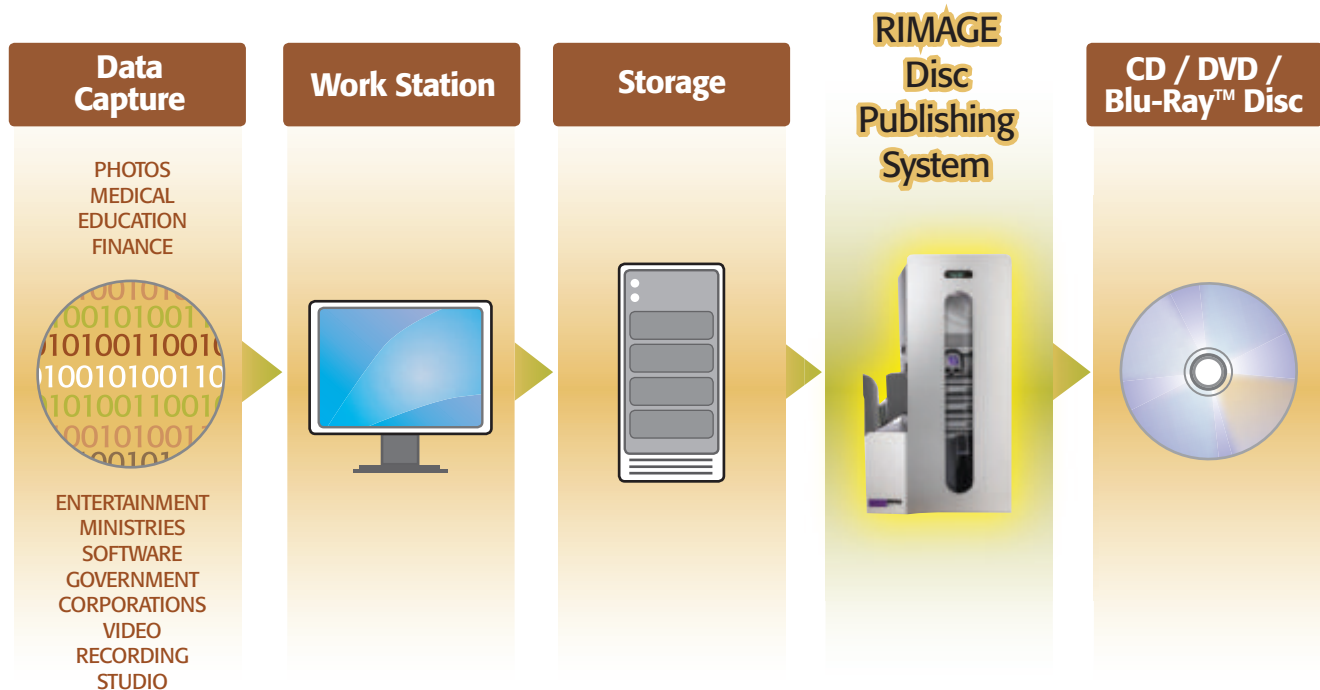
*Businesses and organizations deploy our on-demand disc publishing solutions to replace or supplement paper documents, microfilm, magnetic tape and film. Rimage systems are used by:*

- *Retail establishments to publish customers' digitally-taken photos on discs.*
- *Hospitals and clinics to output CT and MRI images onto discs instead of film.*
- *Video production studios to edit, archive and distribute movies and other video content.*
- *Businesses, government agencies and schools to archive and distribute documents.*
- *Software houses to archive and distribute software.*

*Headquartered in Minneapolis, Minnesota, Rimage is a global business with operations in the Americas, Europe and Asia.*

Blu-ray is a trademark of Sony Corporation.

## Typical Work Flow Application



# Financial Highlights

(in thousands, except per share amounts)

	2008	2007	2006
Revenues	\$ 91,394	\$ 108,874	\$ 103,252
Gross Profit	\$ 39,663	\$ 51,155	\$ 47,238
Net Income	\$ 9,431	\$ 15,761	\$ 13,084
Net Income Per Share:			
Basic	\$ 0.99	\$ 1.59	\$ 1.33
Diluted	\$ 0.97	\$ 1.52	\$ 1.26
Diluted Weighted Average			
Shares Outstanding	9,729	10,371	10,356
Cash and Marketable Securities	\$ 95,402	\$ 94,222	\$ 77,360
Long-term Liabilities	\$ 2,398	\$ 2,153	\$ 720
Stockholders' Equity	\$ 109,048	\$ 105,061	\$ 95,476



Statements regarding Rimage's anticipated performance are forward-looking and therefore involve risks and uncertainties, including but not limited to: market conditions in the computer peripherals market, competitive products, changes in technology, conditions in overseas markets that could affect international sales, and other factors set forth in Rimage's filings with the Securities and Exchange Commission.

# To Our Shareholders

Rimage remained solidly profitable in 2008 despite the global economic downturn and its growing impact upon the capital equipment markets that we serve. For the year ended December 31, 2008, we reported earnings of \$9,431,000 or \$0.97 per diluted share, compared to \$15,761,000 or \$1.52 per diluted share in 2007. Revenues of \$91,394,000 were down from \$108,874,000 a year earlier.

## Challenging Economic Environment

The global economy weakened steadily as we moved through 2008. Although prospective customers across a wide range of markets continued demonstrating interest in our CD/DVD/Blu-ray disc publishing systems, many proved hesitant to place orders due to their cautious attitude toward capital expenditures. Selling lead times grew longer, resulting in reduced sales of our hardware. Consequently, our sales mix shifted toward consumable supplies, which generate lower gross margins.

## Expense Reduction

In response to this difficult environment, we took several actions to streamline Rimage's expense structure and help safeguard our profitability. Through several workforce reductions over the past year, we reduced Rimage's worldwide employee base by approximately 20%. These difficult but necessary initiatives have enabled us to reduce total compensation-related costs by approximately \$4.0 million on an annualized basis. In addition, no bonuses were paid to executive officers for 2008, and companywide salaries for 2009 have been frozen.

## Strong Financial Condition

Fortunately, Rimage possesses more than adequate financial resources for dealing effectively with today's difficult economic environment and supporting our growth initiatives. We ended the year with cash and investments of \$95.4 million, up from \$94.2 million at the beginning of 2008. We attained this increase despite using cash of \$9.6 million to repurchase approximately 577,000 Rimage shares and another \$3.9 million to acquire our Minneapolis headquarters and manufacturing facility. We also ended 2008 with working capital in excess of \$62 million and a debt-free balance sheet. In all, the cash generating ability of our business remained strong in 2008, and the conservative nature of our balance sheet will serve Rimage well going forward.



*We see significant opportunity for our optical technology in the broadcasting and media market.*

*Many of our applications are generating ongoing demand for our consumable supplies.*



## Strategic Foundation

Our ability to remain profitable during these difficult times is a function of the strong strategic foundation that we have established over the past decade. Rimage is the acknowledged industry leader at providing optically-based digital publishing solutions for mission-critical applications, where sustained, error-free performance is a necessity. We possess unrivaled competencies in optical

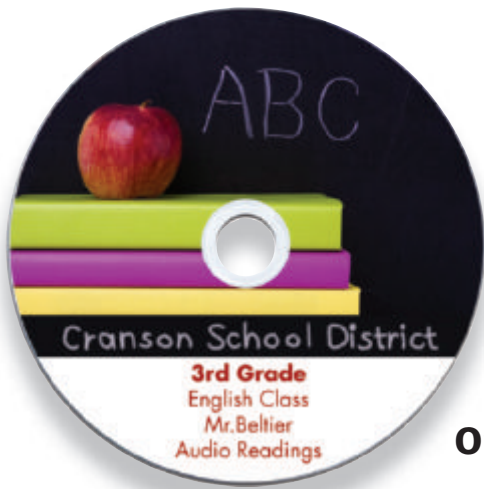


Rimage possesses more than adequate financial resources for dealing effectively with today's difficult economic environment and supporting our growth initiatives.

technology, robotics, disc surface printing and software. Our disc publishing systems are integrated into the workflows of OEM equipment, resulting in strong, long-term relationships with our customers. Our worldwide customer support and service have enabled Rimage to penetrate markets in Europe and Asia as well as the Americas. We also supply our customers with high-quality blank CDs, DVDs and Blu-ray discs, as well as replacement printer ribbons/cartridges, that optimize the performance of our publishing systems. All of these factors combine to form the Rimage brand, which is known for quality, reliability, convenience and technical innovation.

From left: Manuel M. Almeida, Executive Vice President, Sales and Marketing; Bernard P. Aldrich, Chief Executive Officer; Robert M. Wolf, Chief Financial Officer; James L. Reissner, Chairman of the Board





*Distributing school materials via disc is one of several applications we are pursuing in the business services market.*

## **Progress with Current Opportunities for Optical Technology**

### **Retail**

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We have leveraged these strengths to penetrate a series of large global markets with our optical technology. Over the past few years, major national retailers have been deploying our systems for publishing their customers' digitally-taken photos onto CDs as a way to replace lost revenues from processing film-based photos. More than 3,500 stores are now equipped with our systems, and additional retailers are testing our equipment. Reflecting our progress in this market, Rimage has become the industry leader for publishing photos on discs at retail. Moreover, our retail-related business generates a substantial stream of recurring revenues, since our retail customers regularly reorder blank discs and replacement printer ribbons/cartridges for their disc publishing systems.

### **Medical**

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Rimage digital publishing systems also have become the medical industry leader for outputting CT and MRI images onto discs instead of conventional film. Our mission-critical systems are the digital output solution for the imaging equipment sold by GE Medical, Philips, Siemens and Agfa. As a result, we have made substantial progress at penetrating the picture archiving and communications systems (PACS) of the largest North American hospitals and clinics with our digital publishing solutions, and we are now focusing on



*Rimage digital publishing systems are the medical industry standard for outputting CT and MRI images onto discs instead of film.*



We believe a variety of emerging opportunities in the business services market will drive a significant portion of Rimage's future growth.



*Our worldwide customer support and service have enabled Rimage to penetrate markets in Europe and Asia as well as the Americas.*



smaller PACS installations. Opportunities in South American, European and Asian PACS installations are also promising. A far greater opportunity in the medical market involves managing, archiving and distributing patient medical records. As health care providers overcome legal obstacles related to patient privacy rights, we believe hospitals and clinics eventually will replace paper-based patient files with more cost-effective and convenient optical discs. Rimage is well-positioned to serve this large, emerging market.

## Business Services

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We believe a variety of emerging opportunities in the business services market will drive a significant portion of Rimage's future growth. The business services segments that we are pursuing include media and broadcasting, government, law enforcement, education, software and professional services. A wide range of government agencies has been generating steadily growing demand for our products, and we will be focusing additional attention on the government sector going forward. We also see significant opportunity for our optical technology in the broadcasting and media market. Large production houses, including Disney, already use our CD/DVD publishing systems for editing, producing, distributing and archiving video content. However, these large operations are transitioning to high-capacity Blu-ray technology. This conversion process will require new or additional Rimage equipment from these current customers. We also have substantial opportunity with the thousands of small and mid-sized pre- and post-production houses. Many of these studios, which currently archive and distribute their video content on high-cost magnetic tape, will be converting to lower-cost Blu-ray optical technology. To capitalize upon these and other opportunities, we will continue to enhance the capabilities of our existing products and invest in the development of new products to keep Rimage at the forefront of the on-demand disc publishing industry.

## Investigating New Technologies and Opportunities

The retail, medical and business services markets represent current opportunities for Rimage's optical technology, and we intend to continue penetrating these areas to the fullest extent possible in coming years. Our studies indicate that optical technology should remain a primary means of archiving, managing and distributing digital data for some years to come. At the same time, we are putting in motion a strategic initiative aimed at investigating new technologies and business opportunities that could take us beyond the optical world and open a new and potentially broader horizon of opportunities for Rimage. We have always managed Rimage from a long-term perspective, and this technology initiative is clear evidence of this strategic commitment.

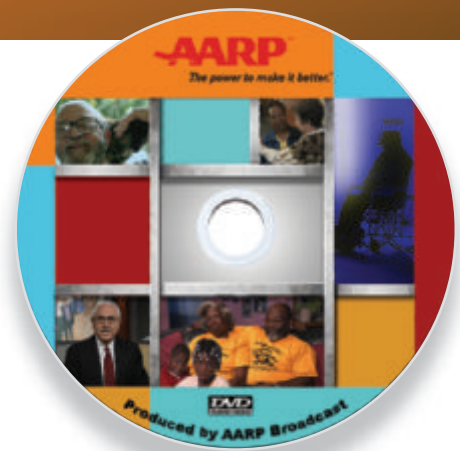


We are confident of emerging from this economic downturn positioned for a renewed period of profitable growth.

## Appointment of Sherman L. Black as President and COO

Sherman L. Black, who joined Rimage in April 2009 as our president and chief operating officer, will play a key role in directing our search for new technologies and business opportunities, formulating a cohesive strategic plan and managing our daily operations. He reports to me in my continuing capacity as Rimage's chief executive officer.

Sherman amassed a wide-ranging and highly successful career with Seagate Technology (Nasdaq: STX), a world leader in the design, manufacturing





*Rimage's Professional Series disc publishing systems are designed for high-volume, mission critical applications.*

and marketing of hard disk drives and storage devices. He most recently served as Seagate's senior vice president, marketing and strategy, of the Core Products Business Group. During his 20-year career with Seagate, Sherman also held a range of other executive management positions in business development, sales and marketing. Given his background and capabilities, we are confident that Sherman's appointment as president and chief operating officer will significantly strengthen our senior management team.

### **Looking Ahead**

Looking ahead, our near-term prospects most likely will be challenging. However, backed by our highly focused and committed employees and partners, as well as ample financial resources, we intend to move forward with on-going product development initiatives and investigate new technologies and long-term business opportunities. In all, we are confident of emerging from this economic downturn positioned for a renewed period of profitable growth.

We extend our sincere thanks to our many outstanding employees in North America, Europe and Asia for their dedicated efforts and hard work. We also appreciate the support and confidence of our shareholders, customers and suppliers.

Sincerely,

Bernard P. Aldrich  
Chief Executive Officer

## Corporate Information

### Headquarters

7725 Washington Avenue South  
Minneapolis, Minnesota 55439  
952-944-8144

### Transfer Agent

Wells Fargo Bank, Minnesota, N.A.  
South St. Paul, Minnesota

### Auditors

KPMG LLP  
Minneapolis, Minnesota

### Attorney

Lindquist & Vennum, PLLP  
Minneapolis, Minnesota

### Investor Relations Counsel

Equity Market Partners  
Amelia Island, Florida

### Notice of Annual Meeting

The Rimage Corporation Annual Meeting of Shareholders will be held on May 13, 2009 at 3:30 pm at the Rimage corporate headquarters.

### Form 10-K

The Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to stockholders at no charge by writing to: Robert Wolf, Chief Financial Officer, at the Rimage corporate address.

## Selected Financial Information

(in thousands, except per share data)

### Consolidated Income Statement Data

Year ended December 31	2008	2007	2006	2005	2004
Revenues	\$ 91,394	\$ 108,874	\$ 103,252	\$ 95,410	\$ 70,848
Cost of revenues	\$ 51,731	\$ 57,719	\$ 56,014	\$ 51,957	\$ 38,027
Gross profit	\$ 39,663	\$ 51,155	\$ 47,238	\$ 43,453	\$ 32,821
Operating expenses	\$ 27,915	\$ 30,274	\$ 29,464	\$ 26,829	\$ 19,386
Operating income	\$ 11,748	\$ 20,881	\$ 17,774	\$ 16,624	\$ 13,435
Other income, net	\$ 2,711	\$ 3,513	\$ 2,684	\$ 1,419	\$ 608
Income tax expense	\$ 5,028	\$ 8,633	\$ 7,374	\$ 6,675	\$ 4,971
Net income	\$ 9,431	\$ 15,761	\$ 13,084	\$ 11,368	\$ 9,072
Basic net income per share	\$ 0.99	\$ 1.59	\$ 1.33	\$ 1.19	\$ 0.98
Diluted net income per share	\$ 0.97	\$ 1.52	\$ 1.26	\$ 1.10	\$ 0.91
Weighted average shares outstanding:					
Basic	9,556	9,915	9,812	9,530	9,290
Diluted	9,729	10,371	10,356	10,312	9,932

### Consolidated Balance Sheet Data

As of December 31	2008	2007	2006	2005	2004
Cash and cash equivalents	\$ 14,885	\$ 7,416	\$ 8,500	\$ 12,693	\$ 12,120
Marketable securities	\$ 39,870	\$ 51,605	\$ 30,266	\$ 51,582	\$ 40,375
Receivables, net	\$ 11,099	\$ 14,447	\$ 21,697	\$ 12,885	\$ 10,184
Inventories	\$ 5,625	\$ 8,075	\$ 6,072	\$ 6,621	\$ 7,396
Current assets	\$ 74,151	\$ 84,771	\$ 70,116	\$ 86,444	\$ 71,665
Property and equipment, net	\$ 6,183	\$ 3,206	\$ 3,626	\$ 2,525	\$ 2,386
Marketable securities – non-current	\$ 40,647	\$ 35,201	\$ 38,594	\$ –	\$ –
Total assets	\$ 123,456	\$ 125,096	\$ 112,359	\$ 89,009	\$ 74,138
Current liabilities	\$ 12,010	\$ 17,882	\$ 16,163	\$ 12,191	\$ 11,277
Long-term liabilities	\$ 2,398	\$ 2,153	\$ 720	\$ 289	\$ 139
Stockholders' equity	\$ 109,048	\$ 105,061	\$ 95,476	\$ 76,529	\$ 62,722

## Quarterly Financial Information

(unaudited; in thousands, except per share amounts)

	2008				2007			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Revenues	\$ 20,749	25,210	22,686	22,749	28,212	33,650	25,486	21,526
Net income	\$ 1,712	4,006	1,927	1,786	4,515	6,203	2,921	2,122
Net income per basic share	\$ 0.19	0.42	0.20	0.18	0.46	0.63	0.29	0.21
Net income per diluted share	\$ 0.18	0.42	0.19	0.18	0.45	0.59	0.28	0.20

## Common Stock Information

Rimage's common stock is traded on the NASDAQ Global Market under the symbol "RIMG". The following table sets forth, for the periods indicated, the range of low and high prices for Rimage's common stock as reported on The NASDAQ Stock Market.

	2008		2007	
	LOW	HIGH	LOW	HIGH
1st Quarter	\$ 21.25	\$ 26.61	\$ 23.50	\$ 28.74
2nd Quarter	\$ 12.09	\$ 23.85	\$ 25.76	\$ 34.58
3rd Quarter	\$ 12.01	\$ 17.88	\$ 21.59	\$ 34.63
4th Quarter	\$ 10.07	\$ 15.89	\$ 20.79	\$ 27.39

## Board of Directors

**James L. Reissner**  
Chairman of the Board;  
Owner  
Activar, Inc.

**Bernard P. Aldrich**  
Chief Executive Officer  
Rimage Corporation

**Lawrence M. Benveniste**  
Dean  
Goizueta Business School  
Emory University

**Philip D. Hotchkiss**  
Managing Principal,  
retired  
b-swing, inc.

**Thomas F. Madison**  
President and Chief  
Executive Officer  
MLM Partners

**Steven M. Quist**  
Chief Executive Officer,  
retired  
CyberOptics Corporation

## Senior Management

**Bernard P. Aldrich\***  
Chief Executive Officer

**Sherman L. Black\***  
President and Chief  
Operating Officer

**Manuel M. Almeida\***  
Executive Vice President  
Sales and Marketing

**Robert M. Wolf\***  
Chief Financial Officer

**Stefan Exner**  
Managing Director  
Rimage Europe

**Yoshi Oyamada**  
Managing Director  
Rimage Japan

**Darren A. Groth**  
Vice President  
Hardware Engineering

**Maureen A. Hayes**  
Vice President  
Information Systems and  
Operations

**Chris E. Heim**  
Vice President  
U.S. Channel Sales

**Robert A. Martinez**  
Vice President  
Medical Sales

**Kevin L. Stagg**  
Vice President  
Software Engineering

**Jerry J. Weyandt**  
Vice President  
Services

\*Executive Officer



R I M A G E<sup>®</sup>

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