WWA GROUP INC
Form PRE 14C
October 10, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14C INFORMATION

Information Statement Pursuant to Section 14(c)

of the Securities Exchange Act of 1934

Check the appropriate box:

[X]

Preliminary Information Statement

[__]

Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))

[__]

Definitive Information Statement

WWA GROUP, INC.

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

[X]

No fee required.

[__]

Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

1)

Title of each class of securities to which transaction applies:

2)

Aggregate number of securities to which transaction applies:

3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4)

Proposed maximum aggregate value of transaction:

5)

Total fee paid:

[__]

Fee paid previously with preliminary materials.

[__]

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1)

Amount Previously Paid:

2)

Form, Schedule or Registration Statement No.:

3)

Filing Party:

4)

Date Filed:

WWA GROUP, INC.

13854 Lakeside Circle, Suite 248

Sterling Heights, Michigan 48313

October [__], 2013

To:

The Holders of the Common Stock of WWA Group, Inc.

Re:

Action by Written Consent in Lieu of Meeting of Stockholders

This Information Statement is furnished by the Board of Directors of WWA Group, Inc., a Nevada corporation (the Company), to holders of record of the Company s common stock, $0.001 par value per share, at the close of business on October [__], 2013. The purpose of this Information Statement is to inform the Company s stockholders of a certain actions taken by the written consent of the holders of a majority of the Company s voting stock, dated as of October 7, 2013. This Information Statement is prepared and delivered to meet the requirements of Section 78.390 of the Nevada Revised Statutes. This Information Statement provides notice that the Board of Directors has recommended, and holders of a majority of the voting power of our outstanding stock have voted, to approve the following items:

To approve Amended and Restated Company s Articles of Incorporation that: (a) change the Company s name to Summit Digital, Inc., (b) increase the authorized capital stock from 250,000,000 shares of common to, 900,000,000 shares, consisting of (i) 800,000,000 shares of Common Stock, par value $0.001 per share (the "Common Stock") and (ii) 100,000,000 shares of preferred stock, par value $0.001 per share (the "Preferred Stock"), issuable in one or more series and the Company s board of directors may authorize from time to time, and (c) provides for a super-majority vote requirement of not less than 75% of the Company s Common Stock on certain corporate matters.

The above actions taken by the Company s stockholders will become effective on or about November [__], 2013 and are more fully described in the Information Statement accompanying this Notice.

Under the rules of the Securities and Exchange Commission, the above actions cannot become effective until at least 20 days after the accompanying Information Statement has been distributed to the stockholders of the Company.

This is not a notice of a special meeting of stockholders and no stockholder meeting will be held to consider any matter that will be described herein.

By Order of the Board of Directors

/s/ Tom Nix

Tom Nix, Chief Executive Officer

October [_], 2013

Sterling Heights, MI

WE ARE NOT ASKING YOU FOR A PROXY

AND YOU ARE REQUESTED NOT TO SEND US A PROXY

INFORMATION STATEMENT

INFORMATION STATEMENT PURSUANT TO SECTION 14C OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

THIS IS NOT A NOTICE OF A SPECIAL MEETING OF STOCKHOLDERS AND NO STOCKHOLDER MEETING WILL BE HELD TO CONSIDER ANY MATTER DESCRIBED HEREIN. THE ACTIONS DESCRIBED IN THIS INFORMATION STATEMENT HAVE BEEN APPROVED BY HOLDERS OF A MAJORITY OF OUR COMMON STOCK. WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY. THERE ARE NO DISSENTERS RIGHTS WITH RESPECT TO THE ACTIONS DESCRIBED IN THIS INFORMATION STATEMENT.

INTRODUCTION

This Information Statement is being mailed or otherwise furnished to the holders of common stock, $0.001 par value per share (the Common Stock) of WWA Group, Inc., a Nevada corporation (We or the Company) by the Board o Directors to notify them about a certain action that the holders of a majority of the Company s outstanding voting stock have taken by written consent, in lieu of a special meeting of the stockholders. The action was taken on October 7, 2013.

To approve Amended and Restated Company s Articles of Incorporation that: (a) change the Company s name to Summit Digital, Inc., (b) increase the authorized capital stock from 250,000,000 shares of common to, 900,000,000 shares, consisting of (i) 800,000,000 shares of Common Stock, par value $0.001 per share (the "Common Stock") and (ii) 100,000,000 shares of preferred stock, par value $0.001 per share (the "Preferred Stock"), issuable in one or more series as the Company s board of directors may authorize from time to time, and (c) provides for a super-majority vote requirement of not less than 75% of the Company s Common Stock on certain corporate matters.

Copies of this Information Statement are first being sent on or before October [__], 2013 to the holders of record on October [_], 2013 of the outstanding shares of the Company s Common Stock.

General Information

Stockholders of the Company owning a majority of the Company s outstanding voting securities have approved the following action (the Action) by written consent dated October 7, 2013, in lieu of a special meeting of the stockholders:

The Company has asked brokers and other custodians, nominees and fiduciaries to forward this Information Statement to the beneficial owners of the common stock held of record by such persons and will reimburse such persons for out-of-pocket expenses incurred in forwarding such material.

Dissenters Right of Appraisal

No dissenters or appraisal rights under Nevada law are afforded to the Company s stockholders as a result of the approval of the Action.

Vote Required

The vote, which was required to approve the above Actions, was the affirmative vote of the holders of a majority of the Company s voting stock. Each holder of Common Stock is entitled to one (1) vote for each share of Common Stock held.

The date used for purposes of determining the number of outstanding shares of voting stock of the Company entitled to vote is October [__], 2013. The record date for determining those shareholders of the Company entitled to receive this Information Statement is the close of business on October [__], 2013 (the Record Date). As of the Record Date, the Company had outstanding 123,841,922 shares of Common Stock. Holders of the Common Stock have no preemptive rights. All outstanding shares are fully paid and nonassessable. The transfer agent for the Common Stock WWA Group s transfer agent and registrar is Interwest Transfer Company, 1981 E. Murray-Holladay Road, Holladay, Utah, 84117 5164. Interwest s phone number is (801) 272-9294.

Vote Obtained Section 78.320 of the Nevada Revised Statutes

Section 78.320 of the Nevada Revised Statutes generally provides that any action required to be taken at any annual or special meeting of stockholders of a corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

In order to eliminate the costs and management time involved in soliciting and obtaining proxies to approve the Actions and in order to effectuate the Actions as early as possible in order to accomplish the purposes of the Company as hereafter described, the Board of Directors of the Company voted to utilize, and did in fact obtain, the written consent of the holders of a majority of the voting power of the Company. The consenting shareholders and their respective approximate ownership percentage of the voting stock of the Company, which total in the aggregate [81.4]% of the outstanding voting stock, are as follows: Summit Digital Holdings, Inc. (80%) and Eric Montandon (1.4%), respectively. Tom Nix and Stephen Spencer, each officers and directors of the Company, principally control Summit Digital Holdings, Inc..

This Information Statement is being distributed pursuant to the requirements of Section 14(c) of the Securities Exchange Act of 1934, as amended (the Exchange Act) to the Company s stockholders on the Record Date. The corporate action described herein will be effective approximately 20 days (the 20-day Period) after the mailing of this Information Statement. The 20-day Period is expected to conclude on or about November [__], 2013.

The entire cost of furnishing this Information Statement will be borne by the Company.

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AMENDMENT AND RESTATEMENT OF THE COMPANY S

ARTICLES OF INCORPORATION TO CHANGE

THE NAME OF THE COMPANY, INCREASE THE

AUTHORIZED CAPITAL, CREATE A CLASS OF PREFERRED STOCK

AND PROVIDE FOR A SUPER MAJORITY VOTE ON CERTAIN CORPORATE MATTERS

Name Change

On October 7, 2013, the Board of Directors of the Company approved, declared it advisable and in the Company s best interest, and directed that there be submitted to the holders of a majority of the Company s common stock for approval, the prospective amendment and restatement to the Company s Articles of Incorporation to change the name of the Company to Summit Digital, Inc. (the Name Change Amendment). On October 7, 2013, stockholders of the Company owning a majority of the Company s outstanding voting stock (the Majority Stockholders) approved the Name Change Amendment by written consent, in lieu of a special meeting of the stockholders.

The Board of Directors of the Company and the Majority Stockholders believe that it is advisable and in the Company s best interests to authorize and approve the Name Change Amendment in order to more accurately reflect changes in the Company s business focus. As disclosed in the Company s Current Report on Form 8-K filed with the SEC on May 16, 2013, the Company s new business focus is owning, operating and administering a multi-system cable television, high speed internet and related services to rural communities in the United States.

The Name Change Amendment, a copy of which is attached to this Information Statement as Exhibit A, will be filed with the Nevada Secretary of State with an expected effective date of November [__], 2013.

Increase the Authorized Common Stock and Create a Class of Preferred Stock

General

On October 7, 2013, the Board of Directors of the Company approved, declared it advisable and in the Company s best interest and directed that there be submitted to the holders of a majority of the Company s voting stock for approval, Article 5 of the Amended and Restated Articles of Incorporation that (i) increases the authorized common stock from 250,000,000 shares, par value $0.001, to 800,000,000 shares, par value $0.001; (ii) authorized a class of preferred stock consisting of 100,000,000 shares, par value $0.001, issuable in one or more series as the Company s board of directors may authorize from time to time (the Increase in Authorized Capital Stock Amendment); and (iii) provide for a super-majority vote requirement of not less than 75% of the Company s common stock on certain provisions. On October 7, 2013, the Majority Stockholders approved the Increase in Authorized Amendment by written consent, in lieu of a special meeting of the stockholders.

Reasons for the Increase in Authorized Amendment

Currently, the Company is authorized to issue 250,000,000 shares of common stock and no shares of preferred stock. Of the 250,000,000 shares of Common Stock authorized, as of the Record Date, there were 123,841,922 shares of Common Stock issued and outstanding. Consequently, the Company has a limited number of shares of Common Stock and no shares of Preferred Stock available for general corporate purposes.

As a general matter, the Board of Directors does not believe the currently available number of unissued shares of Common Stock is an adequate number of shares to assure that there will be sufficient shares available for issuance in connection with possible future acquisitions, equity and equity-based financings, possible future awards under employee benefit plans, stock dividends, stock splits, and other corporate purposes. Therefore, the Board of Directors and Majority Stockholders approved the increase in authorized shares of Common Stock and the creation of the class of Preferred Stock as a means of providing the Company with the flexibility to act with respect to the issuance of Common Stock or securities exercisable for, or convertible into, Preferred or Common Stock in circumstances which they believe will advance the interests of the Company and its stockholders without the delay of seeking an additional amendment to the Certificate of Incorporation at that time.

The Board of Directors is considering, and will continue to consider, various financing options, including the issuance of either Preferred or Common Stock or securities convertible into Common Stock from time to time to raise additional capital necessary to support future growth of the Company. As a result of the Increase in Authorized Amendment, the Board of Directors will have more flexibility to pursue opportunities to engage in possible future capital market transactions involving either the Preferred or Common Stock or other securities convertible into Common Stock, including, without limitation, public offerings or private placements of such Common Stock or securities convertible into Common Stock.

In addition, the Company s growth strategy may include the pursuit of selective acquisitions to execute its business plan. The Company could also use the additional Preferred and Common Stock for potential strategic transactions, including, among other things, acquisitions, spin-offs, strategic partnerships, joint ventures, restructurings, divestitures, business combinations and investments.

Ability of the Board to Issue Stock; Certain Issuances Requiring Shareholder Approval

The Amended and Restated Articles of Incorporation provide that the additional shares of Preferred and Common Stock authorized by the Increase in Authorized Amendment may be issued for any proper purpose from time to time upon authorization by the Board of Directors, without further approval by the stockholders unless required by applicable law, rule or regulation, including, without limitation, rules of any trading market that the Company s Common Stock may trade on at that time. Shares may be issued for such consideration as the Board of Directors may determine and as may be permitted by applicable law.

Interest of the Directors and Officers of the Company in the Increase in Authorized Amendment

The current officers and directors of the Company and the officers and directors of the Company when the Increase in Authorized Amendment was approved by the Board of Directors do not have any substantial interest, direct or indirect, in the approval of the Increase in Authorized Amendment, other than as stockholders of the Company or the Company s principal shareholder.

Effects of the Increase in Authorized Amendment

The increase in authorized shares of Common Stock and the class of Preferred Stock was not approved as a means of preventing or dissuading a change in control or takeover of the Company. However, use of these shares for such a purpose is possible. Authorized but unissued or unreserved shares of either Preferred and/or Common Stock, for example, could be issued in an effort to dilute the stock ownership and voting power of persons seeking to obtain control of the Company or could be issued to purchasers who would support the Board of Directors in opposing a takeover proposal. In addition, the increase in authorized shares of Preferred and Common Stock may have the effect of discouraging a challenge for control or make it less likely that such a challenge, if attempted, would be successful. The Board of Directors and executive officers of the Company have no knowledge of any current effort to obtain control of the Company or to accumulate large amounts of Common Stock.

The holders of Common Stock are not entitled to preemptive rights with respect to the issuance of additional Common Stock or securities convertible into or exercisable for Common Stock. Accordingly, the issuance of additional shares of Common Stock or such other securities might dilute the ownership and voting rights of stockholders.

The holders of Common Stock will not realize any dilution in their percentage of ownership of our company or their voting rights as a result of the increase. However, issuances of significant numbers of additional shares of Common Stock in the future (i) will dilute stockholders percentage ownership of our company and (ii) if such shares are issued at prices below what current stockholders paid for their shares, may dilute the value of current stockholders shares.

The Increase in Authorized Amendment does not change the terms of the Common Stock. The new class of Preferred Stock will be subject to those rights, preferences and privileges the Company s Board of Director s determine at their discretion. The Common Stock for which authorization is sought will have the same voting rights

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and liquidation rights, the same rights to dividends and distributions and will be identical in all other respects to the Common Stock now authorized.

The Increase in Authorized Amendment, a copy of which is attached to this Information Statement as Exhibit A, will be filed with the Nevada Secretary of State with an expected effective date of November [__], 2013.

Super Majority Vote Requirement on Certain Matters

General

On October 7, 2013, the Board of Directors and Majority Stockholders of the Company approved by written consent, in lieu of a special meeting of stockholders, the proposed Amendment and Restatement to the Company s Articles of Incorporation require the approval of not less than 75% of the outstanding shares of the Common Stock of the Company to approve the following matters:

(a)

The removal of any director of the Company; or

(b)

The sale of all or substantially all of the assets of the Company;

(c)

Any amendment, alteration, or repeal of the indemnification provisions set forth in Article 10 of the Amended and Restated Articles of Incorporation; and

(d)

Any amendment, alteration, or repeal of Article 11 (the adopting provision).

Reasons for the Super Majority Vote Requirement

The Nevada Revised Statutes provides generally that the affirmative vote of a majority of the shares entitled to vote is required to amend a Company s articles of incorporation or bylaws, unless Company s articles of incorporation or bylaws, as the case may be, requires a greater percentage. Article 11 of the proposed Amended and Restated Articles of Incorporation imposes supermajority voting requirements in connection with the amendment of certain provisions of the Company s articles of incorporation and other matters, such as removal of any director of the Company, the sales of all or substantially all of the assets of the Company, as well as any amendment, alternation or repeal of the indemnification provisions effecting directors, officers, employees and agents of the Company. The Board of Directors believes that it is in the interests of the Company and its stockholders that such provisions be adopted. The supermajority voting requirement is intended to protect key provisions of the certificate from arbitrary amendment and to prevent a simple majority of stockholders from taking actions that may be harmful to other stockholders or making changes to provisions that are intended to protect all stockholders.

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Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of the Record Date, certain information with respect to the Company s equity securities owned of record or beneficially by (i) each Officer and Director of the Company; (ii) each person who owns beneficially more than 5% of each class of the Company s outstanding equity securities; and (iii) all Directors and Executive Officers as a group.

Title of Class	Name and Address of Beneficial Owner[2]	Nature of Beneficial Ownership	Amount	Percent of Class [1]
Common Stock	Tom Nix[3]	President, CEO and Director	99,000,000[4]	80.0 [4]
Common Stock	Stephen Spencer [3]	CFO and Director	99,000,000[4]	80.0 [4]
Common Stock	Eric Montandon[3]	Director	1,854,074[5]	1.4 [5]
	All Officers and Directors as a Group (3) persons)		100,854,074	81.4%

(1)

As of the Record Date, October __, 2013, there were 123,841,922 shares of common stock outstanding. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of computing the percentage of the person holding such options or warrants, but are not deemed outstanding for the purposes of computing the percentage of any other person.

(2)

Unless indicated otherwise, the address of the shareholder is 13854 Lakeside Circle, Suite 248, Sterling Heights, Michigan 48313

(3)

Indicates an officer and/or director of the Company.

(4)

The shares of common stock are registered in the name of Summit Digital Holdings, Inc., of which the named individuals are the controlling shareholders, and principal officers and directors.

(5)

Includes 300,000 shares of common stock held in the name of the named individual and 1,554,074 shares held in the name of Asia8, Inc., of which the named individual is the chief executive officer.

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Executive Compensation

The following sets forth information with respect to the compensation awarded or paid to Tom Nix, our current President and Chief Executive Officer, Stephen Spencer, our Chief Financial Officer, and Eric Montandon, our former President, Chief Executive Officer for all services rendered in all capacities to us for the fiscal years ended December 31, 2012, 2011, and 2010.

Summary Compensation Table

The following table sets forth information regarding each element of compensation that we paid or awarded to our named executive officers for the fiscal years ended fiscal years ended December 31, 2012, 2011 and 2010.

Name and Principal Position	Fiscal Year	Salary($)	Bonus($)	All Other Compensation ($)	Total($)
Tom Nix (1)	2012	$ 30,000	$ 0	$ 0	$ 30,000
President and	2011	$ 30,000	$ 0	$ 0	$ 30,000
Chief Executive Officer	2010	$ 30,000	$ 0	$ 0	$ 30,000
Stephen Spencer (1)	2012	$ -0-	$ 0	$ 0	$ -0-
Chief Financial Officer	2011	$ -0-	$ 0	$ 2,000	$ 2,000
	2010	$ -0-	$ 0	$ 0	$ -0-
Eric Montandon (2)	2012	$ 0	$ 0	$ 0	$ -0-
Former President and CEO	2011	$ 0	$ 0	$ -0-	$ -0-
	2010	$ 72,000	$ 0	$ 0	$ 72,000

(1) Effective June 4, 2013, Mr. Nix and Mr. Spencer were appointed to our board of directors and named executive officers in connection with the issuance of 99,000,000 shares of our common stock to Summit Digital Holdings, Inc. In connection the change in control transaction, Mr. Nix was appointed as our President and Chief Executive Officer and Mr. Spencer was appointed our Chief Financial Officer. All compensation to Mr. Nix and Mr. Spencer reflected in the table was derived from Summit Holdings, Inc., our majority shareholder.

(2) Eric Montandon resigned as an executive officer effective June 4, 2013.

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Outstanding Equity Awards at Fiscal Year-End

The following table sets forth certain information concerning outstanding stock awards held by the Named Executive Officers for fiscal year 2012:

	Option Awards					Stock Awards			
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number Of Shares or Units of Stock That Have Not Vested (#)**	**Market Value Of Shares Or Units Of Stock That Have Not Vested ($)**	**Equity Incentive Plan Awards: Number Of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Tom Nix	-0-	-0-	-0-	-0-	-	-0-	-0-	-0-	-0-
	-0-	-0-	-0-	-0-	-	-0-	-0-	-0-	-0-

Stephen Spencer									
Eric Montandon	-0-	-0-	-0-	-0-	-	-0-	-0-	-0-	-0-
	-0-	-0-	-0-	-0-	-	-0-	-0-	-0-	-0-

WHERE YOU CAN FIND MORE INFORMATION

The Company is subject to the informational requirements of the Exchange Act and files reports and other information with the SEC. Such reports and other information filed by the Company may be inspected and copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C.20549, as well as in the SEC s public reference rooms in New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the SEC s public reference rooms. The SEC also maintains an Internet site that contains reports, proxy statements and other information about issuers, like us, who file electronically with the SEC. The address of the SEC s web site is http://www.sec.gov.

By order of the Board of Directors

/s/Tom Nix

Tom Nix, Chief Executive Officer

October __, 2013

Sterling Heights, MI

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Exhibit A

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

SUMMIT DIGITAL, INC.

(*Formerly WWA Group, Inc.)*

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Exhibit A

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

SUMMIT DIGITAL, INC.

(Formerly WWA Group, Inc.)

WWA GROUP, INC. (the Corporation) a corporation organized and existing under and by virtue of the Nevada Revised Statutes, as amended, DOES HEREBY CERTIFY:

FIRST: The Corporation filed its original Articles of Incorporation with the Secretary of State of Nevada on November 26, 1996.

SECOND: The Corporation has filed Amendments to its Articles of Incorporation with the Secretary of State of Nevada as set forth below (the Corporation s Articles):

(a)

Articles of Amendment on August 29, 1997;

(b)

Articles of Amendment on April 24, 1998;

(c)

Articles of Amendment on May 8, 1998;

(d)

Articles of Amendment on January 23, 2002;

(e)

Articles of Amendment on September 25, 2003; and

(f)

Articles of Amendment on May 20, 2013

THIRD: Pursuant to the Unanimous Written Consent of the Corporation s Board of Directors, dated October 7, 2013, the following amendments to the Corporation s Articles were approved:

ARTICLE 1.

Company Name

1.1

The name of this corporation shall be **SUMMIT DIGITAL, INC.**

ARTICLE 2.

Duration

2.1

The corporation shall continue in existence perpetually unless sooner dissolved according to law.

ARTICLE 3.

Purpose

3.1

The purpose for which the corporation is organized is to engage in any lawful activity within or outside of the State of Nevada.

3.2

The corporation may also maintain offices at such other places within or outside of the State of Nevada as it may from time to time determine. Corporate business of every kind and nature may be conducted, and meetings of directors and shareholders may be held outside the State of Nevada with the same effect as if held in the State of Nevada.

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ARTICLE 4.

Board of Directors

4.1.

Number. The board of directors of the Corporation shall consist of such number of persons, not less than one (1), but not more than nine (9), as shall be determined in accordance with the bylaws from time to time.

ARTICLE 5.

Capital Stock

5.1

Authorized Capital Stock. The aggregate number of shares which this Corporation shall have authority to issue is nine hundred million (900,000,000) shares, consisting of (a) eight hundred million (800,000,000) shares of Common Stock, par value $0.001 per share (the "Common Stock") and (b) one hundred million (100,000,000) shares of preferred stock, par value $0.001 per share (the "Preferred Stock"), issuable in one or more series as hereinafter provided. A description of the classes of shares and a statement of the number of shares in each class and the relative rights, voting power, and preferences granted to the and restrictions imposed upon the shares of each class are as follows:

5.2

Common Stock. Each share of Common Stock shall have, for all purposes one (1) vote per share.

Subject to the preferences applicable to Preferred Stock outstanding at any time, the holders of shares of Common Stock shall be entitled to receive such dividends and other distributions in cash, property or shares of stock of the Corporation as may be declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefore. The holders of Common Stock issued and outstanding have and possess the right to receive notice of stockholders meetings and to vote upon the election of directors or upon any other matter as to which approval of the outstanding shares of Common Stock or approval of the common stockholders is required or requested.

5.3

Preferred Stock. The Shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors is authorized, by resolution adopted and filed in accordance with law, to provide for the issue of such series of shares of Preferred Stock. Each series of shares of Preferred Stock:

(a)

may have such voting powers, full or limited, or may be without voting powers;

(b)

may be subject to redemption at such time or times and at such prices as determined by the Board of Directors;

(c)

may be entitled to receive dividends (which may be cumulative or non-cumulative) at such rate or rates, on such conditions and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or series of stock;

(d)

may have such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation;

(e)

may be made convertible into, or exchangeable for, shares of any other class or classes or of any other series of the same or any other class or classes of stock of the Corporation or such other corporation or other entity at such price or prices or at such rates of exchange and with such adjustments;

(f)

may be entitled to the benefit of a sinking fund to be applied to the purchase or redemption of shares of such series in such amount or amounts;

(g)

may be entitled to the benefit of conditions and restrictions upon the creation of indebtedness of the Corporation or any subsidiary, upon the issue of any additional shares (including additional shares of such series or of any other series) and upon the payment of dividends or the making of

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other distributions on, and the purchase, redemption or other acquisition by the Corporation or any subsidiary of, any outstanding shares of the Corporation; and

(h)

may have such other relative, participating, optional or other special rights, qualifications, limitations or restrictions thereof, in each case as shall be stated in said resolution or resolutions providing for the issuance of such shares of Preferred Stock. Shares of Preferred Stock of any series that have been redeemed or repurchased by the Corporation (whether through the operation of a sinking fund or otherwise) or that, if convertible or exchangeable, have been converted or exchanged in accordance with their terms shall be retired and have the status of authorized and unissued shares of Preferred Stock of the same series and may be reissued as a part of the series of which they were originally a part or may, upon the filing of an appropriate certificate with the Secretary of State of the State of Nevada, be reissued as part of a new series of shares of Preferred Stock to be created by resolution or resolutions of the Board of Directors or as part of any other series of shares of Preferred Stock, all subject to the conditions or restrictions on issuance set forth in the resolution or resolutions adopted by the Board of Directors providing for the issuance of any series of shares of Preferred Stock.

ARTICLE 6.

No Further Assessments

6.1

The capital stock, after the amount of the subscription price determine by the board of directors has been paid in money, property, or services, as the Directors shall determine, shall be subject to no further assessment to pay the debts of the corporation, and no stock issued as fully paid up shall ever be assessable or assessed, and these Articles of Incorporation shall not and cannot be amended, regardless of the vote therefore, so as to amend, modify or rescind this Article 6.

ARTICLE 7.

No Preemptive Rights

7.1

Except as otherwise set forth herein, none of the shares of the Corporation shall carry with them any preemptive right to acquire additional or other shares of the corporation, and no holder of any stock of the Corporation shall be entitled, as of right, to purchase or subscribe for any part of any unissued shares of stock of the Corporation, or for any additional shares of stock, of any class or series, which may at any time be issued, whether now or hereafter authorized, or for any rights, options, or warrants to purchase or receive shares of stock, or for any bonds, certificates of indebtedness, debentures, or other securities.

ARTICLE 8.

No Cumulative Voting

8.1

There shall be no cumulative voting of shares.

ARTICLE 9.

Election Not to be Governed By Provisions of NRS 78.411 to 78.444.

9.1

The Corporation, pursuant to NRS 78.434, hereby elects not to be governed by the provisions of NRS 78.411 to 78.411, inclusive.

ARTICLE 10.

Indemnification of Officers and Directors

10.1

The Corporation shall indemnify its directors, officers, employees, fiduciaries and agents to the fullest extent permitted under the Nevada Revised Statutes.

10.2

Every person who was or is a party or is threatened to be made a party to or is involved in any action, suit or proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that he or a person for whom he is the legal representative, is or was a director or officer of the corporation

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or is or was serving at the request of the corporation as a director or officer of another corporation, or as its representative in a partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless to the fullest extent legally permissible under the law of the State of Nevada from time to time against all expenses, liability and loss (including attorney's fees, judgments, fines and amounts paid or to be paid in settlement) reasonably incurred or suffered by him in connection therewith. Such right of indemnification shall be a contract right that may be enforced in any manner desired by such person. Such right of indemnification shall not be exclusive of any other right which such directors, officers or representatives may have or hereafter acquire and, without limiting the generality of such statement, they shall be entitled to their respective rights of indemnification under any By-Law, agreement, vote of stockholders, provision of law or otherwise, as well as their rights under this Article.

10.3

Without limiting the application of the foregoing, the Board of Directors may adopt By-Laws from time to time with respect to indemnification to provide at all times the fullest indemnification permitted by the law of the State of Nevada and may cause the corporation to purchase and maintain insurance on behalf of any person who is or was a director or officer of the corporation as a director of officer of another corporation, or as its representative in a partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred in any such capacity or arising out of such status, whether or not the corporation would have the power to indemnify such person.

10.4

The private property of the Stockholders, Directors and Officers shall not be subject to the payment of corporate debts to any extent whatsoever.

10.5

No director, officer or stockholder shall have any personal liability to the corporation or its stockholders for damages for breach of fiduciary duty as a director or officer, except that this provision does not eliminate nor limit in any way the liability of a director or officer for:

(a)

Acts or omissions which involve intentional misconduct, fraud or a knowing violation of law; or

(b)

The payment of dividends in violation of Nevada Revised Statutes (N.R.S.) 78.300.

ARTICLE 11.

Super-Majority Vote Requirement for Certain Matters

11.1

The approval of not less than 75% of the outstanding shares of the Common Stock shall be required to approve the following matters:

(a)

The removal of any director of the Corporation; or

(b)

The sale of all or substantially all of the assets of the Corporation;

(c)

Any amendment, alteration, or repeal of the indemnification provisions set forth in Article 10.; and

(d)

Any amendment, alteration, or repeal of this Article 11.

FOURTH: That the foregoing amendment has been consented to and authorized by the holders of a majority of the issued and outstanding stock entitled to vote by written consent in lieu of meeting in accordance with Section 78.390 of the Nevada Revised Statutes, as amended.

FIFTH: That the aforesaid amendment was duly adopted in accordance with the laws of the State of Nevada.

The Company has evaluated for potential disclosure subsequent events through the date that the financial statements were issued. Note 13 describes a material event that occurred subsequent to March 31, 2010.

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(2) Stock-Based Compensation

In May 2007, the Company s shareholders approved the 2007 Stock Incentive Plan (the 2007 Plan). The 2007 Plan provides for the grant of stock incentive awards in the form of incentive and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock, performance units and other awards in stock and/or cash to certain key employees, non-employee directors and service providers. In May 2009, the Company s shareholders approved amendments to the 2007 Plan, including an increase in the number of shares authorized for issuance by 500,000 shares to a total of 1,230,320 shares. At March 31, 2010, a total of 613,995 shares were available for future grant under the 2007 Plan, as amended. Effective with the approval of the 2007 Plan in May 2007, the Company may not issue any new awards or options under its Amended and Restated 1992 Stock Option Plan (the 1992 Plan). The exercise price of stock options granted under the 2007 Plan is equal to the market value on the date of grant. Options issued to employees through March 31, 2006 under the 1992 Plan 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 under both the 1992 Plan and the 2007 Plan generally become exercisable over a four-year period. Options issued to employees through May 13, 2008 under the 1992 Plan and the 2007 Plan terminate ten years from the date of grant, while options issued effective May 14, 2008 under the 2007 Plan terminate seven 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. Restricted stock and restricted stock unit awards issued to employees and non-employee directors under the 2007 Plan are subject to the risk of forfeiture and transfer restrictions that lapse in varying time periods from the date of grant.

In addition to awards granted under the 2007 Plan and 1992 Plan, the Company granted a non-qualified option to purchase 200,000 shares of its common stock to a newly hired executive officer on April 1, 2009. The option was granted outside of any shareholder-approved plan as an inducement to accept employment with the Company. The option has an exercise price equal to the closing price of the Company s common stock as reported by the Nasdaq Stock Market on the first day of employment of April 1, 2009, vests in four equal installments on each of the first four anniversaries of the date of grant and has a term of seven years. In other respects, the option was structured to mirror the terms of options granted under the 2007 Plan and is subject to a stock option plan and agreement between the Company and the executive officer.

Under the guidance of the Stock Compensation Topic of the Codification, 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 recognizes stock-based compensation net of an estimated forfeiture rate, resulting in the recognition of compensation cost for only those shares expected to vest. Compensation cost is recognized for all awards over the vesting period to the extent the employees or directors meet the requisite service requirements, whether or not the award is ultimately exercised. Conversely, when an employee or director does not meet the requisite service requirements and forfeits the award prior to vesting, any compensation expense previously recognized for the award is reversed. The Company recognized stock-based compensation costs of $467,000 and $215,000 for the three months ended March 31, 2010 and 2009, respectively.

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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, 2010. No stock options were granted during the three months ended March 31, 2009.

	Three Months Ended March 31,	
	2010	**2009**
Expected life of options in years	4.75	
Risk-free interest rate	2.34% - 2.65%	
Expected volatility	49.2% - 49.6%	
Expected dividend yield	0.0%	

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. For all stock options granted to non-employee directors in 2008, the expected life was 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. Effective April 2008, the Company s Board of Directors approved a change in the contractual term of stock options granted to employees from ten to seven years. Given the reduction in the contractual term of its employee stock option awards, the Company determined it was unable to rely on its historical exercise data as a basis for estimating the expected life of stock options granted to employees subsequent to this change. As such, the Company used the simplified method for determining the expected life of stock options granted to employees in 2008, 2009 and 2010, as specified by Staff Accounting Bulletin (SAB) No. 107, Valuation of Share-Based Payment Arrangements for Public Companies, which bases the expected life calculation on the average of the vesting term and the contractual term of the 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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Other information pertaining to stock options is as follows:

	Three Months Ended March 31, 2010		2009	
	(in thousands, except per share data)			
Number of options granted		75		
Fair value of options granted	$	557	$	
Per share weighted average fair value of options granted	$	7.43	$	
Total intrinsic value of stock options exercised	$	66	$	74
Total intrinsic value of stock options outstanding	$	1,000	$	1,060

Cash received from the exercise of stock options was $66,000 and $188,000 for the three months ended March 31, 2010 and 2009, respectively. The exercise of stock options and lapse of restrictions on restricted stock generated an income tax benefit of $12,000 and $28,000 during the three months ended March 31, 2010 and 2009, respectively. The income tax benefit was recorded as an increase to additional paid-in capital.

(3) Accounting for Uncertainty in Income Taxes

Gross unrecognized tax benefits recorded under the guidance of the Income Taxes Topic of the Codification as of March 31, 2010 and December 31, 2009 totaled $382,000 and $364,000, respectively (excluding interest and penalties). Changes in gross unrecognized tax benefits during the three months ended March 31, 2010 consisted primarily of a net increase of $21,000 for tax positions taken in the current year. Included in the balance of unrecognized tax benefits at March 31, 2010 are potential benefits of $363,000 that if recognized, would affect the effective tax rate. The difference between this amount and the corresponding amount of gross unrecognized tax benefits relates primarily to deferred federal benefits of uncertain tax positions. The Company made no other material adjustments to its unrecognized tax benefits during the three months ended March 31, 2010.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. Total accrued interest and penalties amounted to $37,000 and $36,000 on a gross basis at March 31, 2010 and December 31, 2009, respectively, and are excluded from the gross amounts of unrecognized tax benefits reflected above.

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The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of March 31, 2010, the Company was no longer subject to income tax examinations for taxable years before 2006 and 2005 in the case of U.S. federal and German taxing authorities, respectively, and taxable years generally before 2005 in the case of state taxing authorities, consisting primarily of Minnesota, California and Maryland.

(4) Marketable Securities

Marketable securities consist primarily of U.S. treasury money market securities, municipal securities, corporate securities and U.S. government agency securities with long-term credit ratings of AAA and short-term credit ratings of A-1. Marketable securities are classified as either short-term or long-term in the consolidated balance sheet based on their effective maturity date. All marketable securities have original maturities ranging from three to 36 months. Marketable securities are classified as available-for-sale. Available-for-sale securities are recorded at fair value and any unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized. See Note 8, Fair Value Measurements, for a discussion of inputs used to measure the fair value of the Company s available-for-sale securities. The Company s marketable securities at March 31, 2010 did not include any auction-rate securities, high-yield sub-prime backed paper or other affected securities which are subject to significant market value declines or liquidity issues.

(5) Inventories

Inventories consisted of the following (in thousands):

	March 31, 2010	December 31, 2009
Finished goods and demonstration equipment	$ 1,607	$ 1,425
Purchased parts and subassemblies	3,544	2,698
	$ 5,151	$ 4,123

(6) Comprehensive Income

Comprehensive income consists of the Company s net income, foreign currency translation adjustments, and unrealized holding gains and losses from available-for-sale securities. The components of and changes in other comprehensive income are as follows (in thousands):

	Three Months Ended March 31, 2010	2009
Net income	$ 695	$ 1,185
Other comprehensive income:		
Net changes in:		
Foreign currency translation adjustments	(348)	(427)
Change in unrealized gain on marketable securities, net of taxes	(55)	32
Total comprehensive income	$ 292	$ 790

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(7) Derivatives

The Company enters into forward foreign exchange contracts principally to hedge intercompany receivables denominated in Euros arising from sales to its subsidiary in Germany. The Company s foreign exchange contracts do not qualify for hedge accounting under the Derivatives and Hedging Topic of the Codification. As a result, gains or losses related to mark-to-market adjustments on forward foreign exchange contracts are recognized as other income or expense in the income statement during the period in which the instruments are outstanding. The fair value of forward foreign exchange contracts represents the amount the Company would receive or pay to terminate the forward exchange contracts at the reporting date and is recorded in other current assets or other current liabilities depending on whether the net amount is a gain or a loss. The Company does not utilize financial instruments for trading or other speculative purposes.

As of March 31, 2010, the Company had four outstanding foreign exchange contracts with a notional amount totaling approximately $745,000. These contracts mature during 2010 and bear exchange rates ranging from 1.3311 and 1.3638 U.S. Dollars per Euro. As of March 31, 2010, the fair value of foreign exchange contracts resulted in a net gain position of $3,000, which is recorded in other current assets.

As of December 31, 2009, the Company had three outstanding foreign exchange contracts with a notional amount totaling $550,000, all maturing during the first quarter of 2010 at exchange rates ranging from 1.4554 to 1.4913 U.S. Dollars per Euro. As of December 31, 2009, the fair value of foreign exchange contracts resulted in a net gain position of approximately $17,000, which is recorded in other current assets.

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

		Three Months Ended March 31,	
Derivative Instrument	**Location**	**2010**	**2009**
Foreign Exchange Contracts	Gain (loss) on currency exchange	$ (48)	$ 180

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

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The gross fair market value of derivative instruments related to foreign currency exchange contracts and their location on the Company s condensed consolidated balance sheets are as follows as of March 31, 2010 (in thousands):

	Asset Derivatives		Liability Derivatives	
Derivative Instrument	**Location**	**March 31, 2010**	**Location**	**March 31, 2010**
Foreign Exchange Contracts	Other current assets [1]	$ 5	Other current liabilities[1]	$ (2)

(1) As the Company s foreign exchange agreement is subject to a master netting arrangement, the Company s policy is to record the fair value of outstanding foreign exchange contracts as other current assets or other current liabilities, based on whether outstanding contracts are in a net gain or loss position, respectively. See Note 8, Fair Value Measurements, for additional information regarding the fair value measurements of derivative instruments related to foreign currency exchange contracts.

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

(8) Fair Value Measurements

A hierarchy for inputs used in measuring fair value is in place that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity. The hierarchy is intended to maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available. Three levels within the hierarchy may be used to measure fair value:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets and liabilities.

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

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

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The Company s assets and liabilities measured at fair value on a recurring basis and the fair value hierarchy utilized to determine such fair values is as follows at March 31, 2010:

(in thousands)	Total Carrying Value at March 31, 2010	Fair Value Measurements Using Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Available-for-sale securities	$ 24,897	$	$ 24,897	$
Foreign currency forward exchange contracts	$ 3	$	$ 3	$

Available-for-sale securities in the preceding table are classified as either current or non-current marketable securities in the accompanying condensed consolidated balance sheets. Available-for-sale securities are carried at fair value based on significant observable inputs other than quoted market prices. Such inputs may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and other reference data. Foreign currency forward exchange contracts are also carried at fair value based on significant other observable market inputs, in this case, quoted foreign currency exchange rates. Such valuation represents the amount the Company would receive or pay to terminate the forward exchange contracts at the reporting date.

(9) Common Stock Repurchase Authorizations

On October 17, 2007, the Company s Board of Directors authorized the repurchase of up to 500,000 shares of its common stock. In February 2008, the Company s Board of Directors increased the share repurchase authorization by an additional 500,000 shares, bringing total shares authorized for repurchase to 1,000,000. Shares may be purchased at prevailing market prices in the open market or in private transactions, subject to market conditions, share price, trading volume and other factors. The repurchase program is funded from cash on hand and may be discontinued at any time. During the three months ended March 31, 2010, the Company did not repurchase any shares of its common stock. As of March 31, 2010, 422,917 shares were available for repurchase under the authorizations.

(10) Recently Issued Accounting Standards

In October 2009, the FASB issued two new revenue recognition standards. The first new standard is ASU No. 2009-13, Revenue Recognition (ASC Topic 605) Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. Under ASU No. 2009-13, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The second new standard is ASU No. 2009-14, Software (Topic 985) Certain Revenue Arrangements That Include Software Elements. Under ASU 2009-14, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to the new guidance for multiple deliverable arrangements discussed above. The guidance under both standards is effective for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010. Early adoption is permitted, and the Company has elected to adopt the guidance under both standards on a prospective basis in the first quarter of 2010. The adoption did not have a material impact on the Company s consolidated financial statements.

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As of the first quarter 2010, revenue from multiple element arrangements is allocated among the separate units of accounting based on the relative selling price of each deliverable that is subject to the requirements of ASU 2009-13. The application of this new standard did not result in a significant change from prior periods in how the Company allocates arrangement consideration to various units of accounting and did not significantly change the pattern and timing of revenue recognition.

The Company earns revenues through the sale of tangible products, consisting primarily of equipment and consumables. As part of its product offering, the Company also sells optional services, consisting primarily of separately-priced maintenance contracts and installation services. When sold as a multiple-element arrangement, each of these deliverables qualifies as a separate unit of accounting.

Revenue for product sales is recognized upon shipment and transfer of risk of loss. Revenue associated with separately-priced maintenance agreements and installation services, however, is deferred until earned. Installation revenue is recognized upon successful completion of the service. The amount deferred and recognized as revenue over the contract period for a separately-priced maintenance contract is the stated amount of the contract. The remaining consideration in an arrangement including equipment, separately-priced maintenance and installation services is allocated to the equipment and the installation service using the relative selling price method. The relative selling price is determined based on the Company s stand-alone selling prices for the equipment and installation service.

While the Company s sales arrangements have not historically been within the scope of software revenue recognition guidance, the Company has elected to adopt the new guidance under ASU No. 2009-14 to facilitate application to potential future sales arrangements.

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

Basic net income per common share is determined by dividing net income by the basic weighted average number of shares of common stock outstanding. Diluted net income per common share includes the potentially dilutive effect of common shares issued in connection with outstanding stock options using the treasury stock method and the dilutive impact of restricted stock units. Stock options to acquire weighted average common shares of 1,078,000 and 869,000 for the three months ended March 31, 2010 and 2009, respectively, have been excluded from the computation of diluted weighted average shares outstanding for each respective period as their effect is anti-dilutive.

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The following table identifies the components of net income per basic and diluted share (in thousands, except for per share data):

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Shares outstanding at end of period	9,485	9,353
Basic weighted average shares outstanding	9,476	9,344
Dilutive effect of stock options and restricted stock units	81	87
Total diluted weighted average shares outstanding	9,557	9,431
Net income	$ 695	$ 1,185
Basic net income per common share	$ 0.07	$ 0.13
Diluted net income per common share	$ 0.07	$ 0.13

(12) Contingencies

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

(13) Subsequent Event

In April 2010, the Company entered into an agreement with a software provider to develop a complete digital publishing solution for medical imaging in Chinese hospitals and clinics. The Company intends to finalize go-to-market plans for the medical solution during the second quarter of 2010, subject to receipt of necessary governmental approvals.

RIMAGE CORPORATION AND SUBSIDIARIES
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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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

	Percentage (%) of Revenues Three Months Ended March 31,		Percentage (%) Inc/(Dec) Between Periods 2010 vs. 2009
	2010	2009	
Revenues	100.0	100.0	0.1
Cost of revenues	(52.9)	(53.3)	(0.8)
Gross profit	47.1	46.7	1.0
Operating expenses:			
Research and development	(7.9)	(10.8)	(27.1)
Selling, general and administrative	(34.1)	(29.1)	17.3
Operating income	5.1	6.8	(24.4)
Other income, net	0.8	2.8	(71.5)
Income before income taxes	5.9	9.6	(38.1)
Income tax expense	(2.1)	(3.1)	(31.3)
Net income	3.8	6.5	(41.3)

Overview

Rimage develops, manufactures and markets digital publishing systems that are used by businesses to produce recordable CD, DVD 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. These systems allow customers to benefit from cost savings by eliminating their manual labor efforts in markets and applications such as digital photography, medical imaging, business services, law enforcement and video workflows. As Rimage s sales within North America and Europe have averaged 92% of total sales over the past three years, the strength of the economies in these regions plays an important role in determining the success of Rimage.

Rimage earns revenues through the sale of equipment, consumables and parts (included in Product revenues in the accompanying condensed consolidated statements of income), as well as maintenance contracts, repair and installation services (included in Service revenues in the condensed consolidated statements of income). Rimage s recurring revenues (consumables, parts, maintenance contracts and service) comprised 66% and 64% of its consolidated revenues during the three months ended March 31, 2010 and 2009, respectively. Exclusive of a small amount of capital lease obligations, Rimage has no long-term debt and does not require significant capital investment for its ongoing operations as all fabrication of its products is outsourced to vendors.

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Results of Operations

Revenues. Total revenues for the three months ended March 31, 2010 were $18.4 million, consistent with revenues of $18.4 million for the same prior-year period. Product revenues in the current-year period rose $0.5 million while service related revenues declined $0.5 million relative to the prior-year period. The increase in product revenues for the three months ended March 31, 2010 resulted from a $1.0 million increase in sales of consumable products and parts, partially offset by a $0.5 million reduction in sales of equipment.

The growth in sales of consumable products was driven by an increased volume of sales of ribbons and ink cartridges of $1.2 million, primarily affected by higher purchases from the Company s U.S. distributors as they prepared for a change in the Company s sales distribution model effective April 1, 2010. As part of this change, Rimage discontinued its distributor relationships with distributors in the United States, Germany, and the United Kingdom and will sell products in these regions to end-user customers primarily through value-added resellers or other strategic partners and also directly to select accounts through its own sales force. Partially offsetting this increase was a reduction in sales of media and media kits of $0.3 million. The overall decline in equipment sales in the current-year period was primarily impacted by a reduced volume of sales in the Company s European market. The reduction in equipment sales in the current period was also impacted by a shift in the distribution of sales to lower-end Producer products with lower average selling prices. The decline in service-related revenues was primarily impacted by the timing of maintenance contract renewals resulting in a reduced level of maintenance contract revenue recognized in the current period.

Recurring revenues, consisting of consumables, parts, maintenance contracts and service, comprised 66% of total revenues for the three months ended March 31, 2010, compared to 64% in the same prior-year period. Sales of Producer product line equipment comprised 29% of total revenues in the current period, compared to 31% for the comparable period in 2009. Remaining revenues in each period were generated by sales of Desktop product line equipment, representing 5% of revenues for the three months ended March 31, 2010 and 2009, respectively.

International sales decreased 8% for the three months ended March 31, 2010 compared to the same period last year, and comprised 44% of total sales, compared to 48% in the same prior-year period. The decline in international sales was driven by a 13% reduction in sales in the Company s European market, partially offset by sales growth in the Company s Asian markets of 18%. Currency fluctuations primarily affecting the Company s European operation had a partially offsetting impact on the decline in European sales and increased reported consolidated revenues for the three months ended March 31, 2010 by 2% compared to the same prior-year period.

As of and for the three months ended March 31, 2010, the Company s German and Japanese operations generated foreign revenues from unaffiliated customers of $7.0 million and operating income of $0.1 million. Net identifiable assets for these operations amounted to $10.4 million. These amounts pertain primarily to the Company s German operations. Comparable amounts for the Company s German and Japanese operations as of and for the three months ended March 31, 2009 were revenues of $8.0 million, operating income of $0.1 million and net identifiable assets of $9.5 million.

Revenue levels in 2010 will be dependent upon many factors, including the effectiveness of changes that occurred effective April 1, 2010 to improve the efficiency of the Company s sales channels, described above. Other factors that will influence revenue levels in 2010 include the performance of the Company s channel partners, the timing of new product introductions, the rate of adoption of new applications for the Company s products in its targeted markets, the impact of changes in economic conditions and the impact of foreign currency exchange rate fluctuations.

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Gross profit. Gross profit as a percentage of total revenues was 47.1% for the three months ended March 31, 2010, compared to 46.7% for the same period in 2009. The small improvement in gross profit as a percentage of total revenues for the current-year period resulted primarily from the impact of changes in the distribution and content of recurring revenues. Sales of ribbons and ink cartridges, which typically generate higher margins than other recurring revenues, increased 24% and comprised 34% of revenues in the first quarter of 2010, compared to 27% in the same period in 2009. Further, sales of media / media kits and maintenance contracts / services, which typically generate lower margins, comprised 15% and 14% of revenues in the current period, respectively, compared to 17% and 16%, respectively, in the same prior-year period. Gross profit in the current period also benefited from the impact of foreign currency fluctuations on revenues generated in the Company s European market.

Partially offsetting the favorable impact of the above was a reduction in maintenance contract revenues in the current period, coupled with increased service costs resulting from investments to strengthen the service support infrastructure of the Company s international subsidiaries. Additionally, gross margins were unfavorably impacted in the current period by a reduction in average selling prices for lower-end products in the Producer product line, primarily resulting from increased equipment sales in the U.S. retail market segment, which generally carry lower selling prices.

Future gross profit margins will continue to be affected by many factors, including the impact of recently implemented changes in the Company s sales distribution model described above, product mix, the timing of new product introductions, changes in material costs, manufacturing volume, the growth rate of service related revenues relative to associated service support costs and foreign currency exchange rate fluctuations.

Operating expenses. Research and development expenses totaled $1.4 million, or 8% of revenues, and $2.0 million, or 11% of revenues, for the quarterly periods ended March 31, 2010 and 2009, respectively. Expenses in the prior-year period reflect costs incurred as part of a development arrangement with a third party supplier to develop a new product launched by the Company in the first quarter of 2010. The Company incurred a lower level of expenses in the current period as a result of the timing of activities associated with new product development projects scheduled for 2010. Rimage anticipates expenditures in research and development will increase moderately in the second quarter of 2010 relative to the first quarter.

Selling, general and administrative expenses for the three months ended March 31, 2010 amounted to $6.3 million, or 34% of revenues, compared to $5.3 million, or 29% of revenues for the three months ended March 31, 2009. The rise in expenses in the current-year period primarily reflects the impact of investments made to strengthen the Company s core business, including increased compensation-related costs from personnel additions and equity compensation as well as higher costs for recruiting, travel and promotional programs. Additionally, the Company incurred expenses in the current period for the implementation of an enhanced sales order processing system to support the changes made effective April 1, 2010 in its sales distribution model. Also contributing to the increase in expenses in the current period was the impact of currency fluctuations primarily affecting the Company s European operation, increasing expenses by $0.1 million. Rimage anticipates expenditures for selling, general and administrative activities in the second quarter of 2010 will approximate first quarter expense levels.

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Other income, net. The Company recognized net interest income on cash and marketable securities of $0.2 million for the three months ended March 31, 2010, compared to $0.6 million for the same prior-year period. The reduction in interest income in the current period was the result of a decline in average effective yields approximating two percentage points relative to the same prior-year period. This resulted from the Company s change to a more conservative investment strategy as well as an environment of generally lower interest rates. Partially offsetting the impact of the reduction in interest rates was a $15 million increase in average cash equivalent and marketable securities balances for the three months ended March 31, 2010 compared to the same period in the prior year.

Income taxes. The provision for income taxes represents federal, state and foreign income taxes on income. Income tax expense for the three months ended March 31, 2010 and 2009 amounted to $0.4 million and $0.6 million, respectively, or 36.2% and 32.6% of income before taxes in each respective period. The increase in the effective tax rate for the three months ended March 31, 2010 primarily reflects the impact of a significantly reduced amount of projected tax-exempt interest income comprising a smaller percentage of pre-tax income and the expiration of the federal research credit effective January 1, 2010, resulting in no tax benefit in the current period. Partially offsetting the unfavorable effect of the above was the impact in the current period of the implementation in late 2009 of recommendations of a transfer price study which reduced projected U.S. pre-tax income and reduced the projected loss of the Company s Japanese subsidiary. Also partially offsetting the unfavorable impact of the above changes was an increased benefit in the current period from the Section 199 deduction, impacted by an increase in the rate applied to qualified production activities income from 6% to 9% effective January 1, 2010.

Net income / net income per share. Resulting net income for the three months ended March 31, 2010 was $0.7 million, or 4% of revenues. Comparable amounts for the three months ended March 31, 2009 were $1.2 million, or 6% of revenues. Related net income per diluted share amounts were $0.07 and $0.13 for the three months ended March 31, 2010 and 2009, respectively.

Liquidity and Capital Resources

The Company expects it will be able to maintain current operations and anticipated capital expenditure requirements for the foreseeable future through its internally generated funds and, if required, from Rimage s existing credit agreement. This credit agreement allows for advances under an unsecured revolving loan up to a maximum advance of $10 million. At March 31, 2010, no amounts were outstanding under the credit agreement.

At March 31, 2010, the Company had working capital of $103.0 million, down $0.2 million from working capital reported at December 31, 2009. The decrease was primarily the result of the use of $2.7 million of cash to purchase property and equipment, partially offset by net income adjusted for non-cash items of $1.4 million and proceeds from stock option exercises of $0.1 million.

On October 17, 2007, the Company s Board of Directors authorized the repurchase of up to 500,000 shares of its common stock. In February 2008, the Company s Board of Directors increased the share repurchase authorization by an additional 500,000 shares, bringing total shares authorized for repurchase to 1,000,000. Shares may be purchased at prevailing market prices in the open market or in private transactions, subject to market conditions, share price, trading volume and other factors. The repurchase program may be discontinued at any time. The Company will finance the purchase of the shares, if any, using cash on hand. During the three months ended March 31, 2010, the Company did not repurchase any shares of its common stock. The Company also intends on utilizing its assets primarily for its continued organic growth and potential future strategic initiatives or alliances.

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Net cash provided by operating activities totaled $0.8 million for the three months ended March 31, 2010, compared to $1.3 million in the same prior-year period. The $0.5 million decrease in cash generated from operating activities resulted from changes in operating assets and liabilities producing a $0.5 million greater use of cash for the three months ended March 31, 2010 compared to the same prior-year period. Primarily contributing to the change in operating assets and liabilities compared to the prior-year period were unfavorable changes of $1.5 million in inventories and $0.4 million in the aggregate amount of trade accounts payable, accrued compensation and accrued expenses, a $1.1 million larger increase in prepaid income taxes and prepaid expenses and a $0.3 million larger decrease in deferred income, partially offset by a $2.8 million favorable change in receivables. The change in inventories resulted from a $1.1 million increase in inventories in the current period, compared to a $0.4 million decline in the prior-year. The current period increase in inventories occurred as the Company prepared for the impact of a change in its sales model effective April 1, 2010 under which it will sell products to end-user customers through value-added resellers instead of through distributors in major markets, requiring increased inventory levels. The change in prepaid income taxes and prepaid expenses was impacted primarily by the amount and timing of payments for estimated taxes and other prepaid expenses. The change in the aggregate amount of trade accounts payable, accrued compensation and accrued expenses reflects a $0.2 million aggregate decrease in the amount of these balances in the current-year period, compared to a $0.2 million aggregate increase in the same period last year. These changes were primarily due to increased payments in the current-year period for annual incentive bonuses to employees for calendar year 2009 performance and expenditures for property and equipment, partially offset by the impact of a higher level of inventory purchases remaining in accounts payable at the end of the period. The favorable change in receivables resulted from a $2.4 million reduction in receivables in the current period and a $0.4 million increase in the prior-year period, primarily impacted by a $0.9 million decrease in sales from December 2009 to March 2010, compared to a $1.5 million increase in sales from December 2008 to March 2009.

Investing activities provided net cash of $9.9 million for the three months ended March 31, 2010, compared to a net use of cash of $1.0 million for the same prior-year period. The fluctuations in investing activities were primarily the result of $12.6 million in maturities of marketable securities during the three months ended March 31, 2010, compared to $1.0 million in purchases of marketable securities, net of related maturities, in the same prior-year period. Purchases of property and equipment during the three months ended March 31, 2010 and 2009 amounted to $2.7 million and $0.1 million, respectively. Capital expenditures in the current-year period included $2.4 million of production tooling capitalized by the Company in late 2009 associated with a new product launched during the first quarter of 2010. Remaining capital expenditures in the current-year period consisted primarily of costs to support the Company s information technology infrastructure related requirements.

Financing activities generated net cash of $0.1 million and $0.2 million for the three months ended March 31, 2010 and 2009, respectively. Financing activities in each period consisted primarily of proceeds from stock option exercises.

Critical Accounting Policies

Management utilizes its technical knowledge, cumulative business experience, judgment and other factors in the selection and application of the Company s accounting policies. The accounting policies considered by management to be the most critical to the presentation of the consolidated financial statements because they require the most difficult, subjective and complex judgments include revenue recognition, allowance for doubtful accounts, inventory provisions, deferred tax asset valuation allowances, accruals for uncertain tax positions, stock-based compensation and impairment of long-lived assets. These accounting policies are discussed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of the Company s Annual Report on Form 10-K for the year ended December 31, 2009. Management made no changes to the Company s critical accounting policies during the three months ended March 31, 2010.

Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

In applying its critical accounting policies, management reassesses its estimates each reporting period based on available information. Changes in such estimates did not have a significant impact on earnings for the three months ended March 31, 2010.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. For this purpose, any statements contained in this report that are not statements of historical fact may deemed to be forward-looking statements. Without limiting the foregoing, words such as may, will, expect, believe, anticipate, estimate or continue or comparable terminology are intended to identify forward-looking statements. T statements by their nature involve substantial risks and uncertainties. The Company s actual results could differ significantly from those discussed in the forward-looking statements.

Factors that could cause or contribute to such differences include, but are not limited to, the following, as well as other factors not now identified: the economic health of the markets from which Rimage derives its sales and, in particular, the strength of the economies within North America and Europe where the Company has averaged 92% of total sales over the past three years; the Company s ability to keep pace with changes in technology in the computer and storage media industries as well as technology changes in the Company s targeted markets; increasing competition and the ability of the Company s products to successfully compete with products of competitors and newly developed media storage products; the ability of the Company s newly developed products to gain acceptance and compete against products in their markets; the significance of the Company s international operations and the risks associated with international operations including currency fluctuations, local economic health and management of these operations over long distances; the Company s ability to protect its intellectual property and to defend claims of others relating to its intellectual property; the Company s ability to effectively market its products and serve customers through its value-added resellers, distributors, strategic partners and its own sales force; the Company s ability to maintain adequate inventory of products; the Company s reliance on single source suppliers; the ability of the Company s products to operate effectively with the computer products developed and to be developed by other manufacturers; the negative effect upon the Company s business from manufacturing or design defects; the effect of U.S. and international regulation; fluctuations in the Company s operating results; the Company s dependence upon its key personnel; the volatility of the price of the Company s common stock; provisions governing the Company relating to a change of control, compliance with corporate governance and securities disclosures rules and other risks, including those set forth in the Company s reports filed with the Securities and Exchange Commission, including Item 1A of Part I of the Company s Annual Report on Form 10-K for the year ended December 31, 2009. These forward-looking statements are made as of the date of this report and the Company assumes no obligation to update such forward-looking statements, or to update the reasons why actual results could differ materially from those anticipated in such forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk from foreign exchange rate fluctuations of the European Euro and Japanese Yen to the U.S. dollar as the financial position and operating results of the Company s German and Japanese subsidiaries, Rimage Europe GmbH and Rimage Japan Co., Ltd., respectively, are translated into U.S. dollars for consolidation. Resulting translation adjustments are recorded as a separate component of stockholders equity.

The Company enters into forward exchange contracts principally to hedge intercompany receivables denominated in Euros arising from sales to its subsidiary in Germany. Gains or losses on forward exchange contracts are calculated at each period end and are recognized in net income in the period in which they arose. The Company records the fair value of its open forward foreign exchange contracts in other current assets or other current liabilities depending on whether the net amount is a gain or a loss. The Company does not utilize financial instruments for trading or other speculative purposes.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company s Chief Executive Officer, Sherman L. Black, and the Company s Chief Financial Officer, Robert M. Wolf, have evaluated the Company s disclosure controls and procedures as of March 31, 2010. Based upon such evaluation, they have concluded that these disclosure controls and procedures are effective. The Company s Chief Executive Officer and Chief Financial Officer used the definition of disclosure controls and procedures as set forth in Rule 13a-15(e) under the Exchange Act in making their conclusion as to the effectiveness of such controls and procedures.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls over financial reporting that occurred during the first quarter ended March 31, 2010 that have materially affected, or are reasonable likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 1A. Risk Factors

Not Applicable.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. [Removed and Reserved]

Item 5. Other Information

Not Applicable.

Item 6. Exhibits

(a) The following exhibits are included herein:

31.1	Certificate of Chief Executive Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act.
31.2	Certificate of Chief Financial Officer pursuant to Rules 13a-14 and 15d-14 of the Exchange Act.
32	Certifications pursuant to 18 U.S.C. §1350.

SIGNATURES

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

		RIMAGE CORPORATION Registrant
Date: May 7, 2010	By:	/s/ Sherman L. Black Sherman L. Black Chief Executive Officer (Principal Executive Officer)
Date: May 7, 2010	By:	/s/ Robert M. Wolf Robert M. Wolf Chief Financial Officer (Principal Financial Officer) (Principal Accounting Officer)