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Rimage (RIMG) Acquisition Thoughts

Market cap is \$70 MM. The investment would be guaranteed by the net tangible assets alone. We are wary of intangibles, especially goodwill. We wipe out goodwill as it is only an accounting entry, not a holder of value. For tech companies, we understand patents are valuable and may hold value, but due to the obsolescence worries, we zeroed out intangible assets as well. We don't see any buyer purchasing the co. for the patent, since it could be replicable and is not ground breaking technology. Our adjusted book value is roughly \$75 MM from \$124 MM, with roughly 70% in cash. The adjusted figures mainly negates the goodwill/intangibles.

If we offer a 30% premium over today's market cap, the adjusted book value would be 83% of the investment. On a 60/40, debt equity investment with 10% interest rate, we would load the book with \$54 MM in debt, assume a negative goodwill in the acquisition since the acquisition price would be below the current book value, wipe out the current equity portion, and add \$36MM in equity.

With a \$90 MM purchase price, EV, derived including marketable securities as cash, would be \$30 MM, which is pricey compared to the cash flow. Unanticipated costs related to the Qumu acquisition and Signal rollout have hurt recent earnings and operating cash flow is negative. An additional \$5.4MM in interest expense would hit the cash flow. The company's business has expanded to disk publishing and online publishing. Disk publishing is still profitable, with a 6% EBIT margin, although sales have shrunk. The reported loss are attributed to the negative EBIT in the online publishing – QUMU and Signal, the newly developed online publishing solution.

Years of profitable earnings accumulated into a large cash balance, which half was used to finance the Qumu acquisition. However, with the declining publishing business and costs related to the acquisition and Signal development, the accumulated value may not be offset by the cost of the new business ventures.

Co. made roughly \$2.8 MM in BriefCam, an Israel based co. We believe the co. may use the cash flow for investments in small tech related co. for strategic purposes. \$612K investment into a 49% stake in RIT, a Chinese medical images JV.

SN VALUATION

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| | 2012-06-30 | "+ / -" | Adjusted Liquidation Value | % of Face Value | LBO Adjustment + | LBO Adjustment - | |
|---|----------------|----------------|----------------------------|-----------------|------------------|------------------|----------------|
| Current assets: | | | | | | | |
| Cash and cash equivalents | 49,099 | | 49,099 | 100% | | | 49,099 |
| Marketable securities | 13,243 | 0 | 13,243 | 100% | | | 13,243 |
| Receivables, net of allowance for doubtful accounts and sales returns of \$252 and \$219, respectively | 11,350 | -2,000 | 9,350 | 82% | | | 11,350 |
| Inventories | 5,727 | -4,000 | 1,727 | 30% | | | 5,727 |
| Prepaid expenses and other current assets | 2,752 | | 2,752 | 100% | | | 2,752 |
| Deferred income taxes - current | 3,517 | | 3,517 | 100% | | | 3,517 |
| Total current assets | 85,688 | | 79,688 | 93% | | | 85,688 |
| Property and equipment, net of accumulated depreciation and amortization of \$13,336 and \$12,221, respectively | 6,464 | -3,000 | 3,464 | 54% | | | 6,464 |
| Intangible assets, net of amortization of \$1,752 and \$705, respectively | 18,195 | -18,195 | 0 | 0% | | | 18,195 |
| Goodwill | 22,218 | -22,218 | 0 | 0% | | -34,183 | -11,965 |
| Deferred income taxes - non-current | 11,141 | | 11,141 | 100% | | | 11,141 |
| Other assets - non-current | 3,593 | | 3,593 | 100% | | | 3,593 |
| Total assets | 147,299 | | 97,886 | 66% | | | 113,116 |
| Current liabilities: | | | | | | | 0 |
| Trade accounts payable | 5,356 | | 5,356 | 100% | | | 5,356 |
| Accrued compensation | 4,209 | | 4,209 | 100% | | | 4,209 |
| Other accrued expenses | 743 | | 743 | 100% | | | 743 |
| Deferred income and customer deposits | 7,466 | | 7,466 | 100% | | | 7,466 |
| Other current liabilities | 42 | | 42 | 100% | | | 42 |
| Total current liabilities | 17,816 | | 17,816 | 100% | | | 17,816 |
| Long-term liabilities: | | | | | | | 0 |
| Deferred income - non-current | 4,478 | | 4,478 | 100% | | | 4,478 |
| Income taxes payable - non-current | 95 | | 95 | 100% | | | 95 |
| Other non-current liabilities | 727 | | 727 | 100% | 54,000 | | 54,727 |
| Total long-term liabilities | 5,300 | | 5,300 | 100% | | | 59,300 |
| Total liabilities | 23,116 | | 23,116 | 100% | | | 77,116 |
| Preferred stock, \$.01 par value, authorized 250,000 shares, no shares issued and outstanding | 0 | | 0 | 0% | | | 0 |
| Common stock, \$.01 par value, authorized 29,750,000 shares, issued and outstanding 10,127,948 and 10,203,734, respectively | 101 | | 101 | 100% | 0 | -101 | 0 |
| Additional paid-in capital | 55,870 | | 55,870 | 100% | 36,000 | -55,870 | 36,000 |
| Retained earnings | 68,053 | | 68,053 | 100% | | -68,053 | 0 |
| Accumulated other comprehensive income (loss) | -68 | | -68 | 100% | 68 | | 0 |
| Total Rimage stockholders' equity | 123,956 | | 123,956 | 100% | | | 36,000 |
| Noncontrolling interest | 227 | | 227 | 100% | | -227 | 0 |
| Total stockholders' equity | 124,183 | -49,413 | 74,770 | 60% | | | 36,000 |
| Total liabilities and stockholders' equity | 147,299 | -49,413 | 97,886 | 66% | 90,068 | -158,434 | 113,116 |