Goldman SMALL CAP RESEARCH

The Goldman Guide

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E.F. Hutton Who?

I am feeling a little bit like I am the star of an E.F. Hutton commercial from the early 1980's. For those unfamiliar with what I am referring to, the commercial would be two people having a conversation about finance and investments in public place. When one person would cite what his broker at E.F. Hutton was recommending, everyone around them would stop talking and listen carefully to what the gospel of the day might be. The tag line was "When E.F. Hutton talks, people listen."

Of course I am no prophet or psychic, and you should take all commentary with a grain of salt. Still, over the course of the past 2 months I noted that the market needed some M&A to feel confident. Enter Verizon Wireless/Vodafone and Microsoft/Nokia. We also cited the fact that future IPOs would bode well also. Last week, Twitter made a surprise announcement that it filed an S-1.

I just noticed that on Seeking Alpha, two companies I highlighted recently for another website (www.TheStockJunction.com) were written up yesterday with the same premise, outlook, etc. Coincidental? Maybe. But considering they are small volume traders, I am not so sure.

Yesterday's trading activity was quite significant. The NYSE was up 0.8% while NASDAQ was down. For both indices, the ratio of 10:1 for new highs/lows which is odd considering one index was down and the other was up. Of course Apple (NASDAQ—APPL) is down 11% since late last week as some iPhone early adopters and snobs don't like the iPhone 5c (saying the "c" stands for children.) Anyway, this index oddity, combined with the fact that the Russell 2000 Index was up tells us that small is the place to be—and we agree. After all, advancers versus decliners were basically even.

With the beginning of negative earnings preannouncements likely to begin in full swing soon, these weird index days may not be so unusual. We still maintain that stocks with big exposure to Europe are a good place to be and that has not changed, if you have more than a short term perspective.

Although the stock has already dropped quite a bit, I bet another 5-8% decline in Apple is in the cards. If you're daring, consider buying some puts.

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- ⇒ *One index down, one index up. What gives?*
- ⇒ *Small stocks will continue to rock*
- ⇒ *Big stocks are vulnerable to earnings preannouncements*
- ⇒ *Why Apple is falling far from the tree*
- ⇒ *This gaming company just got paid $50M+ and no one has noticed.*
- ⇒ *This tech company is on the verge of huge earnings growth*

KEY STATISTICS

Index	Close	2013
DJIA	15495	18.2%
S&P 500	1698	19.1%
NASDAQ	3718	23.1%
Russell 2K	1056	24.4%

(figures are rounded)

Two for[2] Tuesday

For those of you wondering what were those 2 stocks I referred to, I am glad you asked…Veteran readers and aficionados of The Goldman Guide know that I sometimes take a sentimental and nostalgic approach to certain stocks.

I was the first analyst to cover **Top Image Systems, Ltd. (NASDAQ – TISA - $3.35)** about 15 years ago when I was a senior analyst and team leader at Josephthal & Co, a leading New York regional small cap investment bank that has long been acquired. While I have a soft spot for the Company, I also take a pragmatic approach to its business model and valuation.

Top Image Systems is in the content capture, validation and management arena, and counts major governmental entities as its customers. The Company offers enterprise solutions for capturing and validating content entering organizations from various sources and managing content-driven business processes. Whether originating from mobile, electronic, paper or other sources, Top Image solutions automatically capture, process and deliver content across enterprise applications such as those run by Oracle and others. The Company's flagship eFLOW platform, diverse business processes and mobile image processing solutions are marketed in more than 40 countries through a multi-tier network of distributors, system integrators, value-added resellers and strategic partners.

TIS recently introduced its latest web-enabled eFLOW platform which offers Software as a Service (SaaS)-based business model that is in line with evolving customer expectations and better matches the economic challenges in Europe. This model helps customers reduce up-front capital expenditures and provides more predictable expenses throughout the life of the agreement. While the revenue is recognized in smaller increments spread out over several quarters, the business model itself provides a steady and stable stream of predictable revenue. Management expects to see strong SaaS and overall revenue, particularly in the U.S, due to its solid pipeline of workflow solutions prospects thanks to a partnership with Amazon Web Services.

The Company already has signature customers in Europe including a six-figure deal with a Central bank in Europe for its mailroom automation system which handles 300,000 documents each year, and its census management system to an agency of the United Nations, for use in executing and managing census statistics. The Company is on track to generate $26M - $28M in revenue this year and return to profitability next year, with revenue well north of $30M. At current levels, this software solutions provider trades at a paltry 1.3x FY13E revenue. Typical firms in this segment trade around 2x the current year's projected revenue. If the Company hits our target, we believe it could come close to the $5.00 level in the coming quarters. The stock should be afforded a slight discount to the aforementioned 2.0x revenue multiple, because much of its revenue is still generated abroad. However, as more revenue is booked in the U.S. in 2H13, we believe that will be a catalytic event for TISA, and foster a higher valuation.

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VOLUME 4 | ISSUE 19 | SEPTEMBER 17, 2013

Two for Tuesday (cont'd)

Based its unique model and recent events, we believe that Lakes Entertainment, Inc. (NASDAQ – LACO - $4.13), which owns a new casino in the Mid-Atlantic, is a great under-the radar play in the gaming arena. Lakes Entertainment currently owns the Rocky Gap Casino Resort near Cumberland, Maryland and has a 10% investment share in Rock Ohio Ventures, LLC's casino and racing developments in Ohio. These investments include the Horseshoe Casinos in Cleveland and Cincinnati, and an investment in Dania Entertainment Center, LLC's Dania Jai Alai fronton in Dania Beach, Florida.

By design or by the luck of the house, all of the Company's gaming operations, whether directly owned like Rocky Gap, or indirectly owned through Rock Ohio Ventures, have just opened or are slated to open gaming soon. As a result, the Company and investors get to enjoy the typical big growth wave that accompanies newly opened casinos in small - midsize markets.

For example, the Rocky Gap Casino opened in mid-2Q13 yet still contributed $4.9M in revenue to the Company. Rocky Gap features 558 video lottery terminals, 10 table games, a casino bar and a new lobby food and beverage outlet. The AAA Four Diamond Award® winning property also includes a hotel, restaurants, spa, and the only Jack Nicklaus signature golf course in Maryland. A new event center is being constructed which will be able to accommodate large groups and will feature multiple flexible use meeting rooms and is expected to be available for use in the fourth quarter of 2013.

Separately, the Horseshoe Casino Cleveland opened in 2012 while the Horseshoe Casino Cincinnati opened in 2013.

In addition to the exciting casino properties, Lakes just received a cash payment of $57.1 million per the terms of the Debt Termination Agreement that Lakes entered into with the Shingle Springs Band of Miwok Indians on July 16, 2013. Upon receipt of such payment, the management agreement, under which Lakes had been managing the Red Hawk Casino for the Tribe, was terminated. With this huge influx of cash the total net cash per share on the Company's books is now around $2.80. Therefore, LACO trades only 1.4x net cash per share, which is a ridiculous valuation. Clearly, management intends to invest a portion or all of the $57.1M in new opportunities similar to the models reflected in its current portfolio.

At current levels, the market cap of $112M assumes that the current gaming portfolio is only worth roughly $35M, when the net cash is subtracted from the total market cap figure. We believe that management will find favorable investment that mirror the current model and that once the money is put to use, a greater premium will be afforded these shares. Meanwhile, as a reward for the debt termination payment and in anticipation of future investments, LACO hit a new 52-week high earlier this week. We believe it could rise another 30-40%, due to the expected strong operating performance from Rocky Gap, along with the execution of future investments and deals.

The Goldman Guide

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Rob Goldman founded Goldman Small Cap Research in 2009. Rob has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*. As an investment manager, Rob's model portfolio was once ranked the 4th best small cap growth performer in the U.S. by *Money Manager Review*. In addition to his work at GSCR, Rob is the editor of The Stock Junction (www.TheStockJunction.com.)

Analyst Certification

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