Zacks Equity Research

September 9, 2010
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CrowdGather Inc (CRWG-OTC)

CRWG: Zacks Company Report - OUTPERFORM

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	08/01/2010
Current Price (09/08/10)	$1.00
Six- Month Target Price	**$2.00**

OUTLOOK

CrowdGather, Inc. is an Internet company that specializes in the development and hosting of forum based Web sites.The firm endeavors to monetize a network of online forums and message boards. Forums remain a much undervalued part of the internet pie with $4.8 billion and CrowdGather is the only public company dedicated to monetizing this area. More page results equate to more revenue as page views have jumped from 12 million to 80 million through several mergers. CRWG is now in acquisition mode. We see value in the shares and initiate our outperform rating on CRWG.

SUMMARY DATA

52-Week High	**$2.25**
52-Week Low	**$0.85**
One-Year Return (%)	**24.71**
Beta	**0.36**
Average Daily Volume (sh)	**56,812**
Shares Outstanding (mil)	**44**
Market Capitalization ($mil)	**$47**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**56**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Growth**
Industry	**Internet-Contnt**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in thousands of $)

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2009	$10 A	$21 A	$35 A	$47 A	$113 A
2010	$53 A	$58 A	$83 A	$116 A	$310 A
2011	$330 E	$430 E	$380 E	$440 E	$1,580 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2009	-$0.01 A	-$0.02 A	-$0.01 A	-$0.02 A	-$0.06 A
2010	-$0.03 A	-$0.02 A	-$.0.01 A	-$0.02 A	-$0.08 A
2011	-$0.02 E	-$0.01 E	-$0.02 E	$0.00 E	-$0.05 E

Zacks Projected EPS Growth Rate - Next 5 Years % **25**

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KEY POINTS

- Forums remain undervalued partly because advertisers have shied away from them in the past due to the unpredictability of members and content.
- CrowdGather deals with the unpredictable factor by aggregating niche forums into verticals.
- Page hits have jumped from 12 million to 80 million due to two key acquisitions in the past year. After the recent Lefora acquisition combined page views will exceed 90 million. More page hits equate to more revenue.
- Advertising on forums remains very affordable compared to other Internet advertising. This affordability opens the firm up to advertising placements from business of all sizes.
- After acquisitions the firm is debt-free after the voluntary conversion by investors of approximately $2.5 million in outstanding debt and accrued interest from prior financing transactions into equity
- CRWG CEO, Sanjay Sabnani voluntarily surrendered 5 million shares of his beneficial holdings in CrowdGather in order to mitigate the dilution caused by the convertible debt conversion.

OVERVIEW

CrowdGather, Inc. is an Internet company that specializes in the development and hosting of forum based Web sites. It monetizes a network of online forums and message boards to engage, provide information to, and build community around users. The company is in the process of building social, advertising, and user generated content networks by consolidating existing groups of online users that post on message boards and forums. Its forum communities connect people sharing their questions, expertise, and experiences. The company holds approximately 70 Web properties hosting around 44,000 forum communities, as well as a portfolio of 300 domain names. The firm has three areas of expertise.

Premium Communities

CrowdGather acquires forums and provides them with high-quality infrastructure, software and services. Their destination forums allow for precise, targeted campaigns crafted along their verticals and command higher than market level CPMs. CrowdGather retains full control of advertising on these highly trafficked sites. Leading sites include:

Premium Communities	Targeted Vertical
Ngemu.com	Software emulators
Nsider2.com	Nintendo enthusiast community
GenMay.com	Off-topic and humor
Anythingbutipod.com	Consumer electronics media player community
AquaticPlantCentral.com	Aquascapes
Clubxb.com	Scion xB owner community
DemocracyForums.com	Politics
ABXZone.com	Computer help
Zealot.com	Hobby enthusiast forum
MotorcycleForum.com	Motorcycles
Pocketbikeplanet.com	Mini-bike owner society
Wiispace.com	Nintendo Wii enthusiast community
ZuneBoards.com	Microsoft Zune community

Forum Hosting
It also allows third-party forum owners to build their own forums for free on its proprietary free forum hosting platform; in exchange CrowdGather places advertising on these forums or offers subscription based ad-free forum creation and hosting options. There are thousands of sites in this network and it is conducive to cost-effective, large-scale ad campaigns. The primary forum hosting sites owned by CrowdGather are:

- Lefora.com
- Freeforums.org
- Freepowerboards.com
- Makeforums.org
- Eamped.com

Advertising
In coordination with ADISN, CrowdGather's digital media agency, CrowdGather aggregates forums into key verticals to provide brand marketers relevant channels for their advertising including rich-media solutions and campaign analytics. ADISN'sexpertise in targeted dynamic campaigns combined with CrowdGather's expert knowledge in site aggregation and demographic targeting guarantees a brand marketer's message reaches receptive enthusiasts in their network and beyond.

CrowdGather intellectual property assets include domain names and websites; trademarks related to its brands, products and services; copyrights in software and creative content; trade secrets; and other intellectual property rights and licenses of various kinds. The firm also currently owns the web domain www.crowdgather.com, which serves as the corporate website and the future home of its new forum software platform which is currently in development. The CRWG portfolio currently consists of over 300 domain names and approximately 44,000 message board communities at various stages of development.

Forums are unique
People are there precisely to discuss products or services, even specific brands. They pose questions to the community, ask for guidance or simply look to connect with people who share their passions. The audience is primed and ready for – even actively seeking – product-specific messages.

Forums remain a much undervalued piece of the internet advertising sales puzzle partly because advertisers in the past have been fearful of hate speech or other noise emanating from a few negative posts. CrowdGather reduces this risk by bringing enthusiasts together in narrowed down niche markets in the Gaming and Entertainment, Technology, and Leisure and Lifestyle areas. For instance members of Ironmass.com, a body building forum, are more likely to talk about training, nutrition, and equipment than

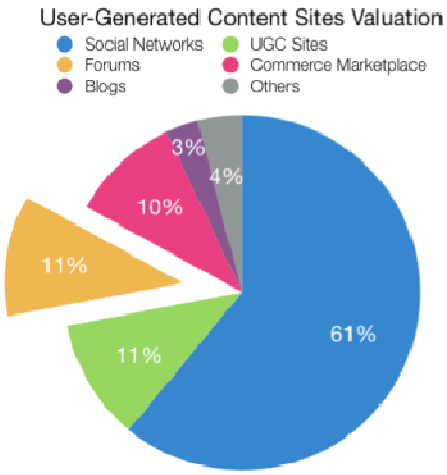
engage in hate speech or other noise. CrowdGather then uses Google Ad Sense to sell advertising to members of the forum.

Forums remain a much undervalued piece of the internet advertising sales puzzle in part because of fear of negative feedback to a particular brand or company. However, many companies are changing their approach with the advent of social media and there is an increasing interest to listen to consumers and a value placed on the feedback through forums and message boards.[1]68%[2] of active social media users are increasing their use of message boards as a means to communicate on specific topics or to provide feedback and reviews on products or companies. In addition, CrowdGather mitigates the risk of negative brand feedback by providing oversight of their sites.

Those who contribute to online forums are[3]:

- 10 times more likely than non-contributors to also publish a blog.
- 9 times more likely to take an active role in organizing events or meet-ups for group that originally met online.
- 3.5 times more likely to proactively recommend a particular purchase to someone else
- 3.5 times more likely to share links about new products
- 4 times more likely to post online ratings and reviews, and almost twice as likely to share advice -- offline and in person -- based on information they had read online.
- Of the top 20 social networking sites in 2009, 2 of them are message boards: Yahoo Message Boards and Gaiaonline.com.[4]
- 2217% of US Internet users read message boards daily, compared to 11% of US Internet users that read blogs daily[5], 8% that watch videos online and only 6% who use Twitter daily.

With 50 billion posts and 300 million members worldwide,[6] community forums are 5 times larger than the blogosphere. According to Internet Brands user generated content sites are valued at $27 billion and forums represent $4.8 billion of this. CrowdGather remains the only public company dedicated to monetizing this opportunity. Forums have very high leverage and require very little upkeep since nearly all of the content is user generated. Further, the sites are generally staffed by volunteers.



[1] Groundswell Harvard Business School Press; 2008
[2] eMarketer BlogHer and iVillage, “2010 Social Media Matters Study” co-sponsored by Ketchum and The Nielsen Company, April 15, 2010
[3] 2010 study conducted by Synovate on behalf of forum marketer PostRelease
[4] Hitwise, “US Data Center,” August 14,2009
[5] eMarketer BlogHer and iVillage, “2010 Social Media Matters Study” co-sponsored by Ketchum and The Nielsen Company, April 15, 2010
[6] BoardTracker

Demographics

The firm has very valuable demographics with

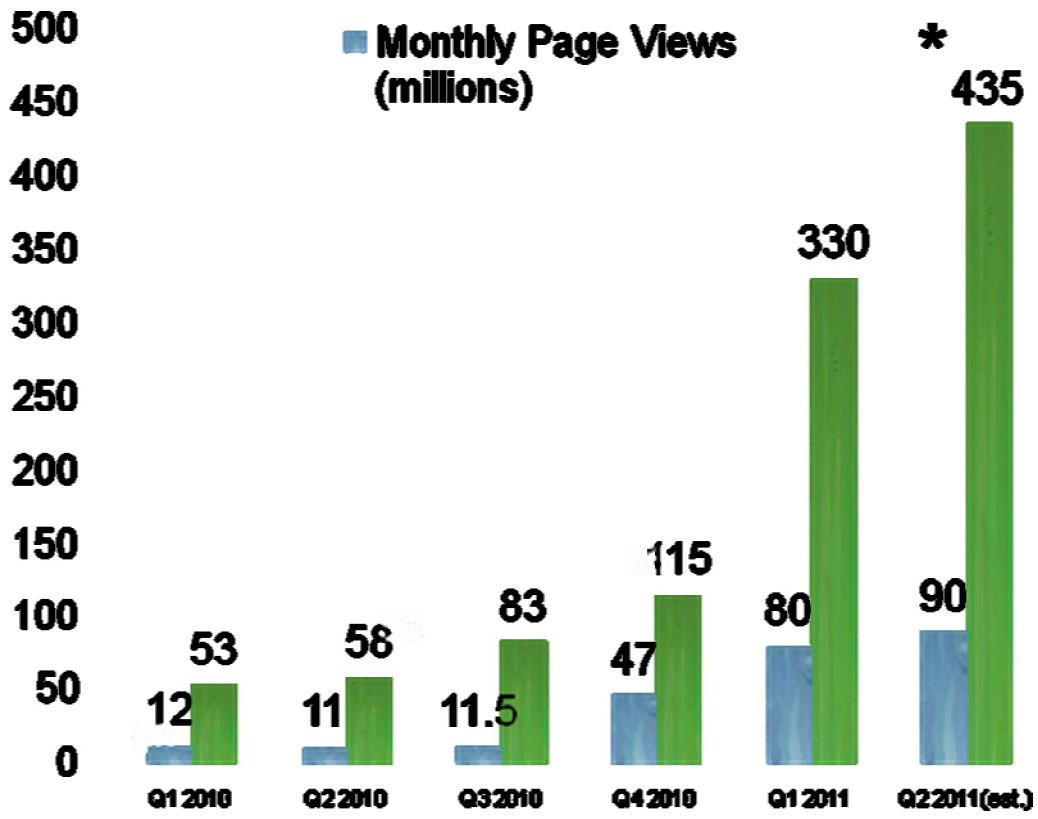
- 67% Male.
- 45% Age 18-34
- 42% Age 35+
- 38% Have Children
- 47% College or Grad School Educated

FreeForums
On March 12, 2010, CRWG entered into a website and domain name acquisition agreement with Phil Santoro in which it acquired the website, www.freeforums.org. The total purchase price of the Websites was $1,000,000, which consisted of cash and stock. The Agreement also provides for payment of conditional traffic bonus compensation in the form of an additional $200,000 payable to Santoro in shares of common stock, if, during the following twelve months, the average monthly visitor traffic to the Websites is greater than or equal to 59.13 million monthly page views, as measured by Google analytics.

Adisn
On June 10th 2010 CRWG announced that it acquired Adisn, a next generation Digital Ad Agency that uses relationship data from the social web to enhance targeting, for $5.5 million, the largest acquisition in CrowdGather's history. CrowdGather will issue 4,621,849 shares of common stock for the purchase. Adisn will operate as a wholly owned subsidiary of the Company. Adisn negotiates advertising rates with its customers and then purchases ad inventory from real-time advertising exchanges and online publishers at a lower cost, thus capturing the difference as net revenues. CrowdGather's unfilled ad inventory will also provide zero cost advertising inventory for Adisn's performance campaigns thus generating incremental revenue for CrowdGather. With Adisn, CrowdGather has effectively achieved two objectives: the addition of a sales force for our growing advertising network; and ad server technology that can provide analytics and tracking that are required for higher value advertising campaigns.

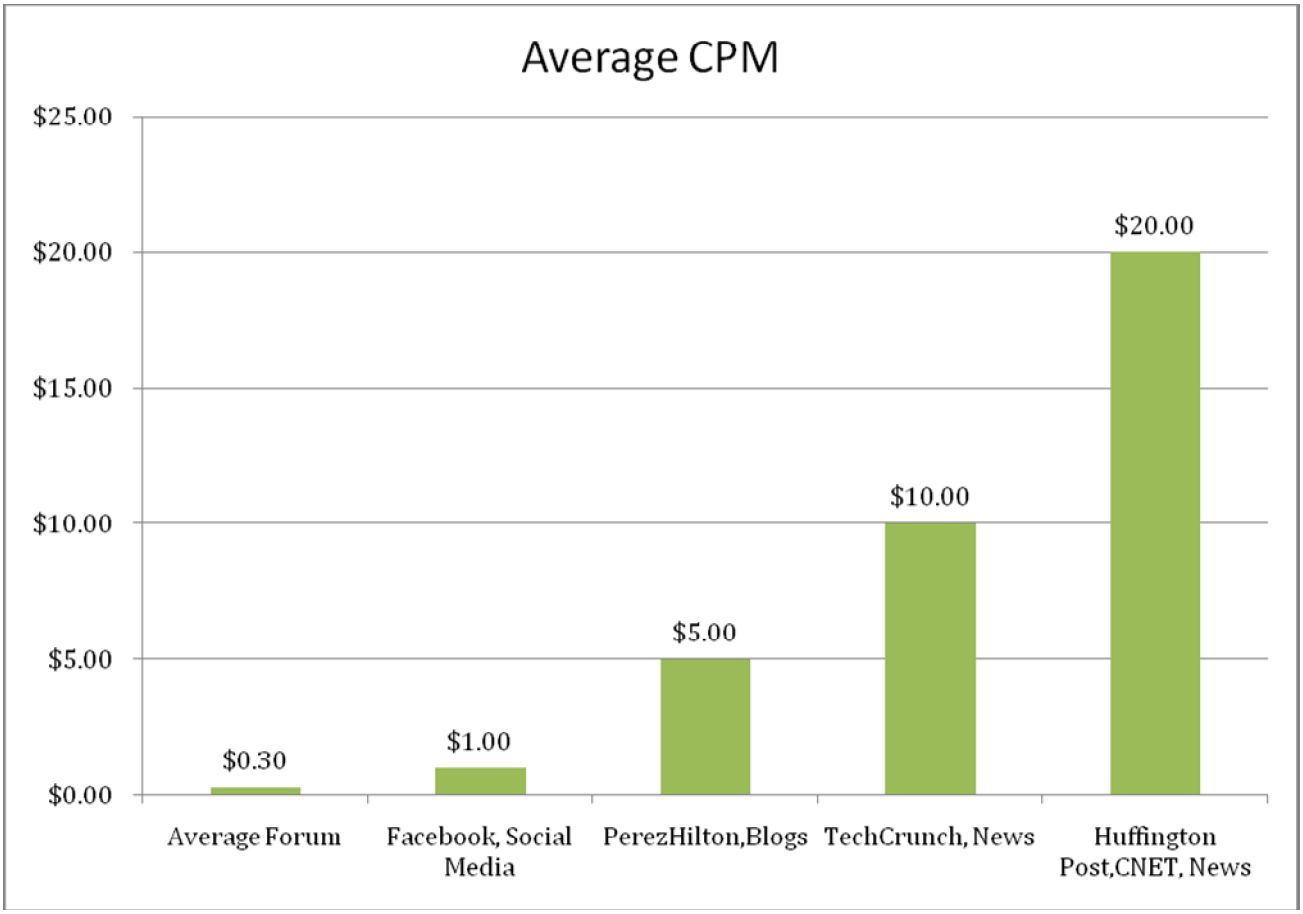
Lefora
On July 26, 2010 CrowdGather announced that it had signed a definitive agreement to acquire the technical assets from Lefora, to consolidate CrowdGather's market leadership in the hosted forum market. The CrowdGather network combined with Lefora's hosted forum properties will offer a search engine and social media-friendly network of forum communities that serves over 90 million monthly page views. Lefora has built up a user base of over 100,000 forum communities by virtue of its advanced functionality, combined with the simple user experience. Lefora allows less technical people to start their own community with a form-based editor to set up a forum that is also enabled for social media and search engine optimization. We believe the combination of Lefora's technology and CrowdGather's network and monetization capabilities will make CrowdGather one of the leaders in the hosted forum market by both reach and user experience.

↑Page Hits = ↑Revenue
Based upon current statistics from Google analytics, CrowdGather's network of forums including all recent acquisitions have approximately 90 million monthly page views and 4 to 4.5 million monthly unique visitors Additionally, approximately 5.5 million users have registered on CrowdGather Network sites to date with 5.7 million monthly discussions comprising over 82.5 million individual replies.



*=Estimated

CPM is an internet advertising term that stands for cost per thousand ad views. While the major internet sites such as ESPN, can be as much as $20 CPM forums can be as little as $0.30 to $0.60 this opens the firm up to advertising revenue from both small and large businesses.



With the acquisition of Adisn and Lefora the firm essentially issued $6.5 million in shares in exchange for a substantial increase in revenues and page views. That stake will not be dilutive given the cancellation of 5 million shares of CEO, Sanjay Sabnani's beneficial holdings in CrowdGather. Investors that buy the stock today are essentially getting a firm that is debt free, growing page views at 750% (12 million to 90 million), revenues at a $1.3 million run rate based upon the company's guidance for its' fiscal 2011 first quarter ended July 31, 2010. The company appears to be on track to achieve cash flow break-even before the end of its' 2011 fiscal year and should be EPS positive in fiscal 2012.

According to the Kauffman Index of Entrepreneurial Activity entrepreneurs have remained a strength of the U.S. economy amid one of the worst recessions on record. More entrepreneurs launched new businesses in 2009 than at any other time in the past 14 years. This makes sense from a logical standpoint as well. In the simplest of terms when things get rough entrepreneurs tend to take matters in to their own hands. Small businesses tend to lead economic growth, whereas large firms tend to follow it. Among small businesses, very small businesses (VSB), which the California Association for Micro Enterprise Opportunity (CAMEO) defines as 5 or less employees, come into being to meet immediate and local needs or to develop new or emerging markets by using innovation and technology. They tend to make markets. Large businesses tend to shy away from small or unestablished markets. They most frequently do not make investments until they are fairly certain that markets exist, conducting long studies and spending heavily to break into a market that already has been “pioneered” by smaller and bolder ventures.

INDUSTRY OUTLOOK

The outlook for the online advertising industry is positive. According to the research firm DeSilva and Phillips, online advertising networks have emerged as an essential vehicle for monetizing the Long Tail of the Internet. By aggregating traffic that was previously too difficult to buy or which was otherwise undesirable, ad networks provide small and mid-sized online publishers with significantly more advertising revenues than would otherwise be possible. And by finding ways to make this inventory more palatable to more advertisers, ad networks are positioned to grow faster than the broader market.

INDUSTRY POSITION

CrowdGather operates in the Internet products, services, and content markets, which are highly competitive and characterized by rapid change, converging technologies, and increasing competition from companies offering communication, information, and entertainment services integrated into other products and media properties.

CRWG competes for users, advertisers, publishers, and developers with many other providers of online services, including Web businesses where expertise in a particular market segment may provide a competitive advantage and with social media and networking competitors. Ad networks (such as Yahoo!’s Yahoo! Properties, Google Inc.’s “Google” Ad sense, Ad.com, and Valueclick), which create specialized marketing solutions for specific advertiser or publishers segments, also compete with the firm for a share of marketing budgets.

The firm competes with several companies to attract users and developers as well as attract advertisers and publishers to its forums. The principal competitive factors relating to attracting and retaining users include the usefulness, accessibility, integration, and personalization of the forums offered and the overall user experience on its site.

Many of CrowdGather’s current and potential competitors have longer operating histories, more industry experience, larger customer or user bases, greater brand recognition and significantly greater financial, marketing and other resources. CRWG’s ability to compete will depend on the ability to obtain users of its products without spending any significant funds to market and promote these products.

RECENT NEWS

The firm realized revenues of $309,781 for the year ended April 30, 2010, as compared to revenues of $112,546 for the year ended April 30, 2009. The increased revenue is a result of increasing advertising related revenue and higher service revenues. The services revenues relate to leveraging excess engineering capabilities towards developing web services applications for third-party customers. This will not be a significant focus of CrowdGather's business going forward, but will help towards reducing net monthly deficit.

On May 21, 2009, CRWG closed a private offering of 18-month secured convertible debentures. As of the closing, the firm received cash proceeds of $1,300,000, and approximately $1,075,000 in previously issued short-term convertible promissory notes were exchanged for the new debentures. In February 2010, the debentures were converted into shares of common stock. Prior to conversion, the debentures bore interest at a rate of 8 % per annum and were due and payable upon conversion or upon maturity in November 2010. The majority of the debentures were convertible into common stock, at the holder's option, at an initial conversion price of the greater of $0.50 or a 20% discount to the volume weighted average share price (VWAP) for the 10 days prior to the date of conversion.

The remaining debentures ($532,500 of initial principal value) that were exchanged by the holders of existing short-term promissory notes were convertible into common stock, at the holder's option, at an initial conversion price of the greater of $0.50 or a 32% discount to the VWAP for the 10 days prior to the date of conversion. In February 2010, all of the outstanding convertible notes payable described above were converted into shares of CRWG common stock.

VALUATION

With the acquisition of Adisn and Lefora the firm essentially leveraged $6.5 million in equity in exchange for an increase in revenues and page views. That stake will not be dilutive given the cancellation of 5 million shares of CEO, Sanjay Sabnani's beneficial holdings in Crowd Gather. Investors that buy the stock today are essentially getting a firm that is debt free, growing page views at 750% (12 million to 90 million), revenues at over 400%, and has not suffered dilution.

Forum discussion topics reveal that consumers are in the middle of the research process and are seeking more information to help them make purchase decisions, and CrowdGather remains the only public company dedicated to monetizing this area. Forum contributors are simply more active on and off-line. We see value in the shares and set our price target at $2.00.

RISKS

- The firm faces significant competition from large internet service aggregators such as Google, Yahoo and Microsoft.

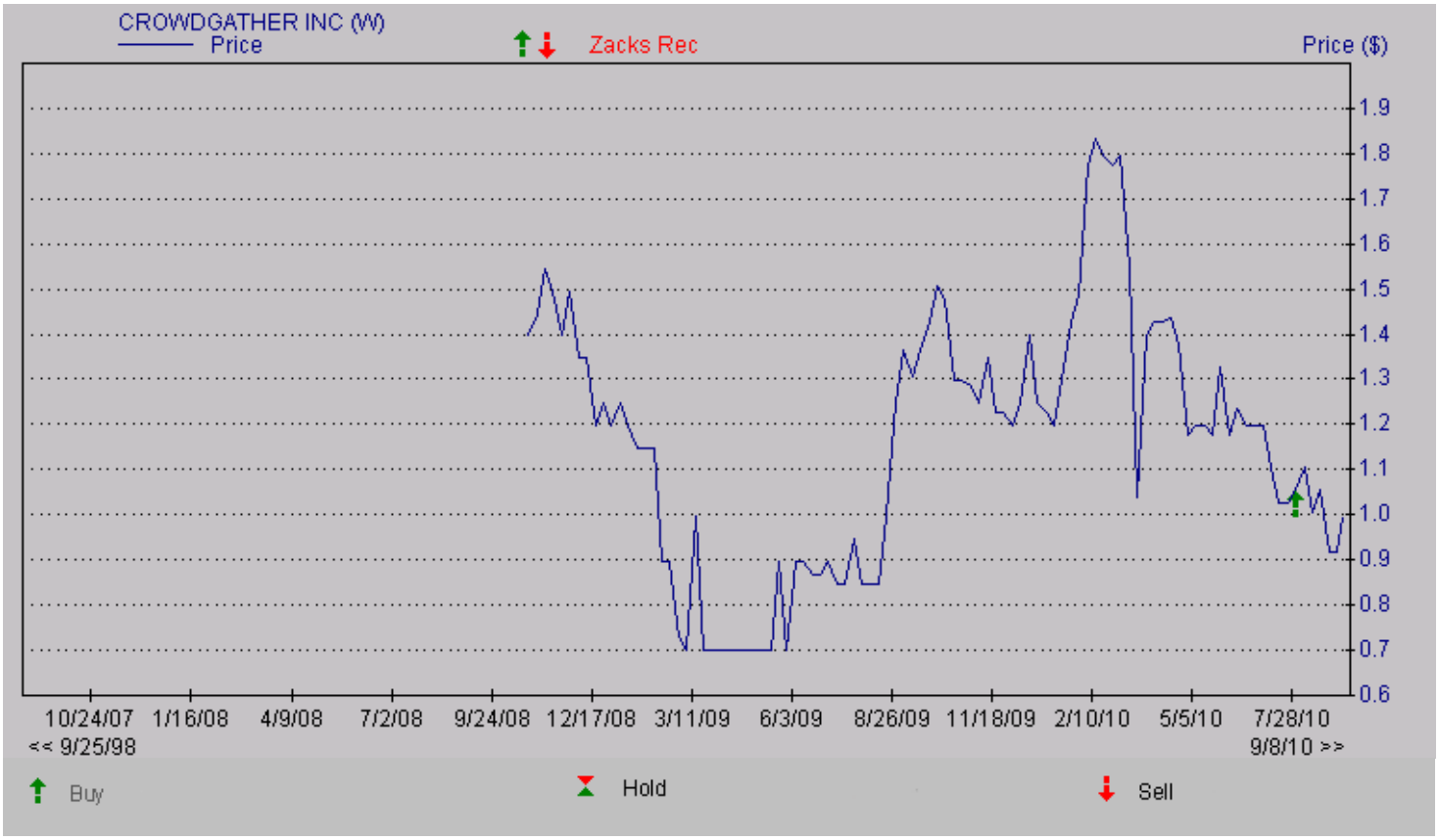
- While the overall world economy and the semiconductor markets have rebounded, the possibility of a double dip or a slow growth environment remains.

PROJECTED INCOME STATEMENT & BALANCE SHEET

INCOME STATEMENT ($ Thousands	Apr-09 Q409	Jul-09 Q1 10	Oct-09 Q2 10	Jan-10 Q3 10	Apr-10 Q4 10	Jun-10 Q1 11 E	FY 2008	FY 2009	FY 2010 E	FY 2011 E
REVENUE										
Net Revenue	**47.1**	**53.1**	**58.0**	**83.0**	**115.6**	**330.0**	**20.8**	**112.5**	**309.8**	**1580.0**
Sequential Growth		*13%*	*9%*	*43%*	*39%*	*185%*				
OPERATING EXPENSES										
Cost of Revenues	428.00	652.16	529.14	523.60	598.53	750.00	431.5	2489.7	2303.5	2800.0
% of Revenue	*909.7%*	*1228.9%*	*912.3%*	*630.8%*	*517.6%*	*227.3%*				
Gross Profit -	**-381.0**	**-599.1**	**-471.1**	**-440.6**	**-482.9**	**-420.0**	**-410.8**	**-2377.2**	**-1993.7**	**-1220.0**
Proforma Gross Margin	*-809.7%*	*-1128.9%*	*-812.3%*	*-530.8%*	*-417.6%*	*-127.3%*	*-1978.7%*	*-2112.3%*	*-643.6%*	*-77.2%*
Depreciation + Amort	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0	0.0
% of Revenue	*6.7%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Corp Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0	0
% of Revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
GW Amort, Restructuring, other	-	-	-	-			-	-		
% of Revenue										
Total Operating Expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0	0
% of Revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0%*	*0%*
Operating Income -	**-380.95**	**-599.09**	**-471.14**	**-440.60**	**-482.90**	**-420.0**	**-410.8**	**-2377.2**	**-1994**	**-1220**
Operating Margin	*-809.7%*	*-1128.9%*	*-812.3%*	*-530.8%*	*-417.6%*	*-127.3%*	*-1979%*	*-2112%*	*-644%*	*-77%*
NON-OPERATING ITEMS										
Non operating Income/Expense	-273.4	-666.6	-140.5	-155.0	-473.1	-475	1.4	-61.1	-1435	-400
% of Revenue	*-581.04%*	*-1256.11%*	*-242.17%*	*-186.75%*	*-409.13%*	*-143.94%*	*6.71%*	*-54.25%*	*-463.29%*	*-25.32%*
Tax Provision	0.0	0.8	0.0	0.00	0.0	0.0	0.80	0.0	1	0
Effective Tax Rate										
Net Income -	**-654.33**	**-1266.51**	**-611.60**	**-595.60**	**-955.98**	**-895.00**	**-410.18**	**-2438.21**	**-3429.7**	**-1620.0**
Net Income Margin	*-1390.7%*	*-2386.5%*	*-1054.5%*	*-717.6%*	*-826.8%*	*-271.2%*	*-1975.8%*	*-2166.5%*	*-1107%*	*-103%*
EARNINGS PER SHARE										
EPS - Basic	-$0.02	-$0.03	-$0.02	-$0.01	-$0.02	-$0.02	-$0.01	-$0.06	-$0.08	-$0.05
EPS - Diluted	-$0.02	-$0.03	-$0.02	-$0.01	-$0.02	-$0.02	-$0.01	-$0.06	-$0.08	-$0.05

Ken Nagy, CFA Zacks Investment Research 9/7/2010

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

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