Goldman
Small Cap Research

The Goldman Guide

February 5, 2012 Volume 2, Number 37

In This Issue

The Facebook Effect

Last week's stock market performance was off the hook. The S&P 500 Index was up around 2.0% for the week but was overshadowed by the huge moves recorded by the NASDAQ Composite and the Russell 2000 Index, which were up over 3% and 4%, respectively. We have been stressing for months that unemployment changes for the better are the key to economic recovery and the results were fantastic on Friday. In fact, it caps off a few months worth of good numbers so hopefully, we are heading in the right direction.

But it wasn't just the strong employment figures that are making investors feel warm and fuzzy inside. Last week's rise was due in large part to what we call "The Facebook Effect." On the one hand, it's great that Facebook has bred optimism and taken stocks we have written up with it, but we have real concerns that the media is setting us up for a big fall.

Disclosure: I have never really been a huge fan of Facebook. I understand how great it is from the social and social media aspects and how it has been a paradigm-changing service or club or whatever it really is. In case you have been in an alternate universe, Facebook filed the documents necessary for IPO of Class A shares last week, in what may be the most widely-anticipated IPO of all time. I get it. It is a cause for celebration, right?

What I don't get is how the media has portrayed this whole process as something as important as a cure for cancer (or politicians.) And the comments made by management are nothing short of God-complex-like. But it is not just the impact on my sensibility that has me charged.

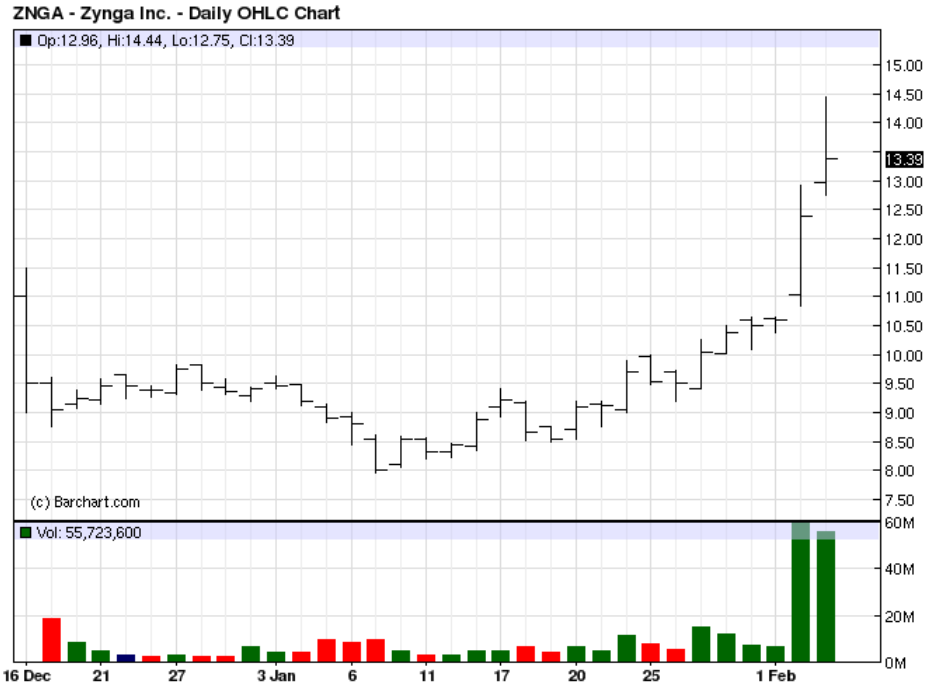
It is the simple fact that if this IPO flops, or if advertising revenue and other revenue-generating initiatives stumble, it could have a real effect on the market at large. The valuation is very high and will get a big pop to start, but is it sustainable even if things go well?

While the market cap will surely pale in comparison to Apple or ExxonMobil initially, it will not likely be too far off. The fact that the impending Facebook *filing* has generated front page business news for days on end is scary. Expectations are just too high.

So, I guess I am shooting a warning shot across the bow of the ship that is the stock market, in case we see a few hiccups for what we may term as the Facebook Effect.

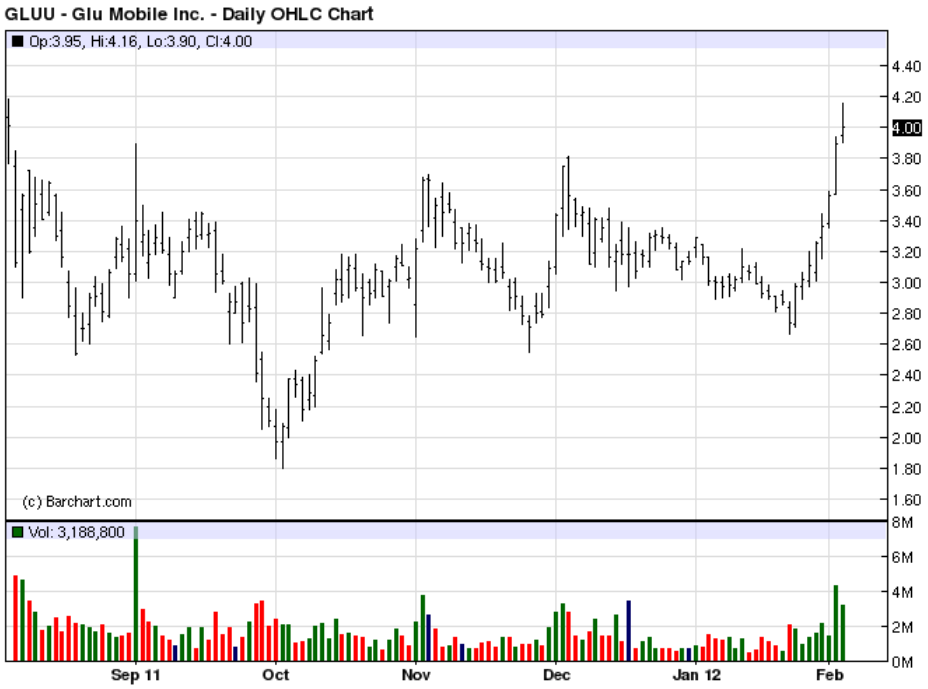
Facebook Effect Stocks and Preview

As noted above, there were some stocks that were bud substantially higher and thus were clear tremendous beneficiaries of the Facebook Effect.



Zynga Corp. (NASDAQ – ZNGA - $13.39), the online gaming company which derives the bulk of its revenue from its relationship with Facebook, soared for two straight days on 4-5x average daily volume, and is up 50% since we discussed it in late December. GSCR-featured stock GLUU Mobile (NASDAQ – GLUU - $4.00), a mobile gaming firm, also benefited from the Facebook Effect, rising 30% on huge volume.

We believe the rise in GLUU was attributed more to ZNGA rather than Facebook directly, as a number of gaming software firms enjoyed a bump last week. However, we infer from the stock's price movement that some investors believe that as one of the leaders in mobile gaming, GLUU could be a Facebook target.



As noted in its filing, one of the primary risks to its current model lies in the fact that Facebook is weak in the mobile space and needs to enhance mobile features and applications. With that in mind, we believe that some investors believe that a partnership or takeover of GLUU could be in the cards. It is possible that a relationship between the two firms could occur, but we are dismissive of any M&A outcome.

Investors will get more clarity on GLUU's prospects this week as the Company, along with other featured stocks are expected to release quarterly financial results. The female condom maker The Female Health Company (NASDAQ – FHCO - $5.36) reported strong results for its most recent quarter last week and made very positive comments regarding the current year.

We expect the management teams of the companies below to *also* predict a favorable outlook for their respective companies. In the case of GLUU, we would not be surprised to see some short term profit-taking on the news, unless substantive news is released in conjunction with the financials report.

We recommend readers keep an eye out for the quarterly releases on the following companies this week, and would continue to accumulate the shares if prospects remain favorable, as valuations are really attractive:

QC Holdings (NASDAQ – QCCO – $3.49)
Napco Security Systems (NASDAQ – NSSC – $2.86)

Super Bowl Indicator Revisited

You may recall that we published a piece on the *Super Bowl Indicator* a few weeks ago. In years that a team with roots dating back to the old NFL such as the New York Giants wins the Super Bowl, the Indicator tells us that the average market return has been a rise of 13.2%. In years that a team representing the old AFL, such as the New England Patriots wins, the average return is a decline of 15.3%. The Indicator has been right 27 out of 32 years, or 85% of the time. With the New York Giants winning Super Bowl XLVI over the New England Patriots 21-17, it may portend we continue to have a good year for the stock market. Let's hope so.

Until next week…

Analyst: Robert Goldman

Rob Goldman 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*.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this newsletter report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

Disclaimer

This newsletter was prepared for informational purposes only. *Goldman Small Cap Research*, (a division of Two Triangle Consulting Group, LLC) produces research via two formats: *Goldman Select Research,* which typically highlights small cap and mid cap companies, and *Goldman Opportunity Research,* which includes micro cap companies. The *Select* product reflects the Firm's internally generated stock ideas while the *Opportunity* product reflects sponsored research reports.

It is important to note that while we may track performance separately, we utilize the same coverage criteria in determining coverage of all stocks in both research formats. Please view the company's individual disclosures for each engagement, which can be found in each company-specific report. All information contained in this newsletter and in our reports were provided by the Companies or generated from our own due diligence. Our analysts are responsible only to the public, and are paid in advance to eliminate pecuniary interests, retain editorial control, and ensure independence. Analysts are compensated on a per report basis and not on the basis of his/her recommendations.

The Firm has not been compensated nor does it expect to be compensated for the any research services for any of the companies mentioned in this newsletter. Please read the disclaimers found on the initiation reports for compensation disclosure and research subscription terms.

The information used and statements of fact made have been obtained from sources considered reliable but we neither guarantee nor represent the completeness or accuracy. *Goldman Small Cap Research* did not make an independent investigation or inquiry as to the accuracy of any information provided by the Company, or other firms. *Goldman Small Cap Research* relied solely upon information provided by the Company through its filings, press releases, presentations, and through its own internal due diligence for accuracy and completeness. Such information and the opinions expressed are subject to change without notice. A *Goldman Small Cap Research* report, note, or newsletter is not intended as an offering, recommendation, or a solicitation of an offer to buy or sell the securities mentioned or discussed.

This report or newsletter does not take into account the investment objectives, financial situation, or particular needs of any particular person. This report or newsletter does not provide all information material to an investor's decision about whether or not to make any investment. Any discussion of risks in this presentation is not a disclosure of all risks or a complete discussion of the risks mentioned. Neither *Goldman Small Cap Research*, nor its parent, is registered as a securities broker-dealer or an investment adviser with the FINRA or with any state securities regulatory authority.