

CrowdGather, Inc.
Form 10-Q
September 14, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 31, 2010
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 000-52143

CrowdGather, Inc.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction
of incorporation or organization)

20-2706319
(I.R.S. Employer
Identification No.)

20300 Ventura Blvd. Suite 330, Woodland Hills, California 91364
(Address of principal executive offices) (Zip Code)

(818) 435-2472
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-----------------------|---------------------------|----------------------------------|
| Large accelerated filer | <input type="radio"/> | Accelerated filer | <input type="radio"/> |
| Non-accelerated filer | <input type="radio"/> | Smaller reporting company | <input checked="" type="radio"/> |

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of September 13, 2010, there were 45,969,536 shares of the issuer's \$.001 par value common stock issued and outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CROWDGATHER, INC.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JULY 31, 2010 AND 2009

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CROWDGATHER, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
FOR THE THREE MONTHS ENDED JULY 31, 2010 AND 2009
(UNAUDITED)

| | July 31, 2010 (Unaudited) | April 30, 2010 |
|--|---------------------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 115,706 | \$ 589,408 |
| Accounts receivable | 89,865 | - |
| Advance to employee | 25,615 | 25,615 |
| Prepaid expenses and deposits | 14,998 | 17,224 |
| Total current assets | 246,184 | 632,247 |
| Property and equipment, net of accumulated depreciation of \$94,506 and \$62,849, respectively | 115,484 | 82,721 |
| Intangible assets, net of accumulated amortization of \$7,735 and \$0, respectively | 5,632,472 | 1,980,663 |
| Goodwill | 4,360,176 | - |
| Total assets | \$ 10,354,316 | \$ 2,695,631 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 517,222 | \$ 103,193 |
| Accrued vacation | 43,788 | 40,633 |
| Other accrued liabilities | 28,000 | 63,871 |
| Total current liabilities | 589,010 | 207,697 |
| Stockholders' equity | | |
| Common stock, \$0.001 par value, 975,000,000 shares authorized, 43,353,108 and 39,822,748 issued and outstanding, respectively | 43,353 | 39,823 |
| Common stock obligation | 3,525,988 | - |
| Additional paid-in capital | 13,127,412 | 8,763,661 |
| Accumulated deficit | (6,931,447) | (6,315,550) |
| Total stockholders' equity | 9,765,306 | 2,487,934 |

| | | |
|--|--------------|-------------|
| Total liabilities and stockholders' equity | \$10,354,316 | \$2,695,631 |
|--|--------------|-------------|

See accompanying notes to financial statements.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JULY 31, 2010 AND 2009
(UNAUDITED)

| | 2010 | 2009 |
|--|---------------|-----------------|
| Revenue | \$ 330,079 | \$ 53,071 |
| Cost of revenue | 148,729 | - |
| Gross profit | 181,350 | 53,071 |
| Operating expenses | | |
| Payroll and related expenses | 210,958 | 184,502 |
| General and administrative | 605,757 | 467,658 |
| Total operating expenses | 816,715 | 652,160 |
| Loss from operations | (635,365) | (599,089) |
| Other income (expense): | | |
| Interest income | - | 802 |
| Interest expense | (4,404) | (39,571) |
| Interest expense, debt discount amortization | - | (64,283) |
| Penalties | (48,156) | - |
| Gain (loss) on settlement of debt | 73,628 | (563,571) |
| Other income (expense), net | 21,068 | (666,623) |
| Net loss before provision for income taxes | (614,297) | (1,265,712) |
| Provision for income taxes | 1,600 | 800 |
| Net loss | \$ (615,897) | \$ (1,266,512) |
| Weighted average shares outstanding- basic and diluted | 41,818,479 | 40,684,818 |
| Net loss per share – basic and diluted | \$ (0.01) | \$ (0.03) |

See accompanying notes to financial statements.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
JULY 31, 2010 AND 2009
(UNAUDITED)

| | 2010 | 2009 |
|---|---------------|----------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (615,897) | \$ (1,266,512) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 20,385 | 8,349 |
| Stock-based compensation | 167,000 | 157,000 |
| Stock issued for services | 96,267 | 122,160 |
| Amortization of debt discount | - | 64,283 |
| Loss on extinguishment of debt | - | 563,571 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (24,026) | - |
| Prepaid expenses and deposits | 6,868 | 5,000 |
| Accounts payable and accrued liabilities | (69,023) | 28,993 |
| Unearned revenue | - | (7,500) |
| Net cash used in operating activities | (418,426) | (324,656) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (3,885) | (2,511) |
| Purchase of intangible assets | (51,391) | (7,800) |
| Net cash used in investing activities | (55,276) | (10,311) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of debt | - | 1,354,000 |
| Repayment of debt | - | (254,000) |
| Net cash provided (used) by financing activities | - | 1,100,000 |
| Net increase (decrease) in cash | (473,702) | 765,033 |
| Cash, beginning of period | 589,408 | 2,601 |
| Cash, end of period | \$ 115,706 | \$ 767,634 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for: | | |
| Interest | \$ - | \$ - |
| Income taxes | \$ 1,600 | \$ 800 |
| Non-cash transactions: | | |
| Issuance of common stock for acquisitions | \$ 4,600,000 | \$ - |
| Stock issuance obligation | \$ 3,525,988 | |
| Stock-based compensation | \$ 167,000 | \$ 157,000 |
| Stock issued for services | \$ 96,267 | \$ 122,160 |

See accompanying notes to financial statements.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JULY 31, 2010 AND 2009
(UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background and Nature of Operations

CrowdGather, Inc. is an internet company that specializes in developing and hosting forum based websites and is headquartered in Woodland Hills, California.

CrowdGather, Inc. (formerly WestCoast Golf Experiences, Inc., or “WestCoast”), (the "Company") was incorporated under the laws of the State of Nevada on April 20, 2005.

On April 2, 2008, the Company, General Mayhem LLC (“General”) and the Company’s wholly- owned subsidiary, General Mayhem Acquisition Corp. (the “Acquisition Subsidiary”), entered into an agreement and plan of merger (the “Merger Agreement”). The merger contemplated by the Merger Agreement (“the “Merger”) closed on April 8, 2008. The Merger resulted in General merging into the Acquisition Subsidiary, with the Acquisition Subsidiary surviving. Prior to the Merger, the Company effected a 13-for-1 stock split of its Shares. All share numbers presented in the accompanying financial statements have been adjusted to reflect the stock split. Each share of General was converted into and became one (1) share, on a post-stock split basis, such that former members of General held 21,000,000, or approximately 52.8%, of the outstanding shares of the Company at the time. On April 8, 2008, pursuant to the Agreement of Merger and Plan of Merger and Reorganization dated April 8, 2008 by and between WestCoast and Acquisition Subsidiary, the Acquisition Subsidiary merged with and into WestCoast, with WestCoast surviving. In connection with the latter merger, WestCoast changed its name to CrowdGather, Inc.

On June 9, 2010, the Company acquired Adisn, Inc. through an exchange of stock. As a result, Adisn, Inc. became a wholly-owned subsidiary of the Company.

These condensed consolidated unaudited financial statements include the activities of the Company and its wholly-owned subsidiary, Adisn, Inc. from the date of acquisition June 9, 2010 through July 31, 2010. All intercompany transactions have been eliminated.

Basis of Presentation

The condensed consolidated unaudited financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Item 10 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material changes in the information disclosed in the notes to the financial statements included in the Company’s annual report on Form 10-K of CrowdGather, Inc. for the year ended April 30, 2010. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended July 31, 2010, are not necessarily indicative of the results that may be expected for any other interim period or the entire year. For further information, these unaudited financial statements and the related notes should be read in conjunction with the Company’s audited financial statements for the year ended April 30, 2010, included in the Company’s annual report on Form 10-K.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Actual results could materially differ from those estimates.

Cash Equivalents

For purposes of the balance sheets and statements of cash flows, the Company considers all highly liquid instruments purchased with maturity of three months or less to be cash equivalents.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JULY 31, 2010 AND 2009
(UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the related lease term.

Identifiable Intangible Assets

In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 350, Intangibles – Goodwill and Other, goodwill and intangible assets with indefinite lives are not amortized but instead are measured for impairment at least annually in the fourth quarter, or when events indicate that impairment exists. As required by ASC 350, in the impairment tests for indefinite-lived intangible assets, the Company compares the estimated fair value of the indefinite-lived intangible assets, website domain names, using a combination of discounted cash flow analysis and market value comparisons. If the carrying value exceeds the estimate of fair value, the Company calculates the impairment as the excess of the carrying value over the estimate of fair value and accordingly, records the loss.

Intangible assets that are determined to have definite lives are amortized over the shorter of their legal lives or their estimated useful lives and are measured for impairment only when events or circumstances indicate the carrying value may be impaired in accordance with ASC 360, Property, Plant and Equipment discussed below.

Impairment of Long-Lived Assets

In accordance with ASC 360, the Company estimates the future undiscounted cash flows to be derived from the asset to assess whether or not a potential impairment exists when events or circumstances indicate the carrying value of a long-lived asset may be impaired. If the carrying value exceeds the Company’s estimate of future undiscounted cash flows, the Company then calculates the impairment as the excess of the carrying value of the asset over the Company’s estimate of its fair value.

Income Taxes

The Company accounts for income taxes under ASC 740, Income Taxes. Under the asset and liability method of ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in

the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the enactment occurs. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations.

Basic and Diluted Loss Per Share

In accordance with ASC 260, Earnings Per Share, basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. As of July 31, 2009, the Company had \$2,374,283 convertible debt that could potentially be converted into 3,690,282 shares of the Company's common stock, 1,599,997 warrants and approximately 610,625 of vested stock options that could be converted into 610,625 shares of the Company's common stock. As of July 31, 2010 the Company had vested stock options that could be converted into 1,225,000 shares of the Company's common stock. These potential common shares are excluded from the diluted loss per share computation in net loss periods as their inclusion would have been anti-dilutive.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JULY 31, 2010 AND 2009
(UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Company currently works with third-party advertising networks and advertisers pay for advertising on a cost per thousand views, cost per click or cost per action basis. Additionally the Company has entered into a web-based software development contract with a customer, for which revenue is accounted for in accordance with ASC 985-605, Software – Revenue Recognition, and all related interpretations. All sales are recorded in accordance with ASC 605, Revenue Recognition. Revenue is recognized when all the criteria have been met:

- When persuasive evidence of an arrangement exists.
- The services have been provided to the customer.
- The fee is fixed or determinable.
- Collectability is reasonably assured.

Revenue deferrals relate to the timing of revenue recognized for the sale of software in which the customer has already paid for the development costs in advance. Revenue is recognized ratably over the periods in which the services are performed.

Stock Based Compensation

The Company accounts for employee stock option grants in accordance with ASC 718, Compensation – Stock Compensation. ASC 718 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. ASC 718 requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award - the requisite service period (usually the vesting period).

For options and warrants issued as compensation to non-employees for services that are fully vested and non-forfeitable at the time of issuance, the estimated value is recorded in equity and expensed when the services are performed and benefit is received as provided by ASC 505-50, Equity – Disclosure. For unvested shares, the change in fair value during the period is recognized in expense using the graded vesting method.

Recent Accounting Pronouncements

Recently Issued

In May 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-19, Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates. The amendments in this Update are effective as of the announcement date of March 18, 2010. The Company does not expect the provisions of ASU 2010-19 to have a material effect on the financial position, results of operations or cash flows of the Company.

In April 2010, the FASB issued ASU 2010-17, Revenue Recognition-Milestone Method (Topic 605): Milestone Method of Revenue Recognition. The amendments in this Update are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. If a vendor elects early adoption and the period of adoption is not the beginning of the entity's fiscal year, the entity should apply the amendments retrospectively from the beginning of the year of adoption. The Company does not expect the provisions of ASU 2010-17 to have a material effect on the financial position, results of operations or cash flows of the Company.

There were various other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Reclassifications

Certain amounts in the 2009 financial statements have been reclassified for comparative purposes to conform to the current year presentation.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JULY 31, 2010 AND 2009
(UNAUDITED)

2. GOING CONCERN

The Company has incurred a net loss of \$615,897 for the three months ended July 31, 2010 and has an accumulated deficit of \$6,931,447 as of July 31, 2010, and additional debt or equity financing will be required by the Company to fund its activities and to support its operations. There is no assurance that the Company will be able to obtain additional financing if necessary. Furthermore, there is no assurance that rapid technological changes, changing customer needs and evolving industry standards will enable the Company to introduce new products on a continual and timely basis so that profitable operations can be attained.

Management is currently devoting its efforts to assimilate its recent business acquisitions to enhance its product offerings and revenues as further described in Note 3. There can be no assurance that the Company's efforts will translate in a beneficial manner to the Company. The accompanying statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

3. ACQUISITIONS

Agreement and Plan of Merger

On June 9, 2010, the Company entered into an Agreement and Plan of Merger among the Company, Adisn, Inc., a Delaware corporation ("Adisn") and the Company's wholly-owned subsidiary, Adisn Acquisition Corp., pursuant to which Adisn Acquisition Corp. merged with and into Adisn and Adisn survived as the wholly-owned subsidiary of the Company. Pursuant to the merger, the shareholders of Adisn received 4,621,849 shares of common stock of the Company valued at \$5,500,000, or \$1.19 per share, subject to the escrow obligations of the securities escrow agreement, as discussed below, plus a right to receive the Earn-Out Shares, as defined below, if and when they become issuable.

In connection with the merger, issued and outstanding warrants to purchase 825,000 shares of Adisn common stock became warrants to purchase shares of common stock of Company. The exercise price and number of shares was proportionately adjusted based on the exchange ratio for Adisn common stock issued in connection with the merger, such that the holder of the warrants will have the right to purchase 161,997 shares of the Company's common stock at \$1.018 per share.

The merger agreement also provides that the Company will issue an additional \$1,000,000 to the Adisn stockholders, which shall be payable in shares of the Company's common stock ("Earn-Out Shares") to be distributed on a pro-rata basis. The number of Earn-Out Shares to be issued to the Adisn stockholders shall be calculated by dividing \$1,000,000 by the 20-day volume weighted average price of the Company's common stock, the 20th day of which shall be the trading day immediately preceding the one year anniversary date of June 9, 2010. The Earn-Out Shares will only be issued to the Adisn stockholders if, during the next twelve months, Adisn generates gross revenues, as defined according to generally accepted accounting principals, of more than \$1,562,500.

The merger agreement further provides that in the event the Company files a registration statement with the Securities and Exchange Commission (SEC) pursuant to the Securities Act of 1933, as amended, Adisn Stockholders have the right to request that the Company include in that registration statement the shares of common stock then held by Adisn stockholders.

Securities Escrow Agreement

As an inducement to the Company to enter into the merger agreement, on June 9, 2010, the Company and certain of the Adisn stockholders entered into a securities escrow agreement, pursuant to which those Adisn stockholders agreed to place stock certificates of the Company's common stock representing an aggregate of 2,172,603 shares of common stock ("Escrow Shares") into escrow for the benefit of the Company (i) to secure certain indemnification obligations of the merger agreement, and (ii) in the event the Company fails to achieve certain financial performance thresholds for the six and twelve month periods following the closing of the merger relative to the Adisn business.

Lock-up Agreements

Concurrently with the closing of the merger, the Company entered into lock-up agreements with certain of the Adisn stockholders for the merger shares. The Adisn stockholders agreed that during the period from the closing of the merger on June 9, 2010, until the first anniversary thereof, the Adisn stockholders will not sell, transfer, or otherwise dispose of more than (i) fifty percent of the merger shares during the first three month period after the six month period from June 9, 2010, and (ii) fifty percent of the merger shares during the second three month period after the six month period from June 9, 2010, other than in connection with an offer made to all stockholders of the Company in connection with a merger, consolidation, or similar transaction involving the Company.

The acquisition was accounted for as a purchase, with the assets acquired and liabilities assumed recorded at fair value, and the results of Adisn's operations included in the Company's financial statements from the date of acquisition.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JULY 31, 2010 AND 2009
(UNAUDITED)

3. ACQUISITIONS (continued)

Asset Purchase Agreement and Plan of Reorganization and Software License Agreement

On July 23, 2010, the Company entered into and closed an Asset Purchase Agreement and Plan of Reorganization ("Purchase Agreement") and a Software License Agreement ("License Agreement") with Team Awesome Productions, Inc. d/b/a Lefora ("Lefora") for total consideration of \$1,000,000 payable in shares of the Company's common stock.

Purchase Agreement

Pursuant to the Purchase Agreement the Company acquired the websites and domain names ("Websites") set forth below:

- www.lefora.com
- www.eamped.com
- www.makeforum.com
- www.maxforum.com
- www.takeforum.com
- www.forumnotifier.com
- www.forumnotification.com
- www.foruminvite.com

Pursuant to the Purchase Agreement the Company also acquired the web forums associated with the websites and domain names listed above, along with the all assets that constitute those forums, plus the technology and intellectual property needed for conducting the business on each of those forums, all associated accounts for these websites, including users lists, databases, along with associated intellectual property, trade secrets and past and future infringement claims.

The total purchase price for the Websites and the associated assets was \$990,000 payable to Lefora in 970,859 shares of the Company's common stock ("Purchase Shares"), which was calculated by dividing \$990,000 by \$1.02, the 15-day volume weighted average price of the Company's common stock, the 15th day of which was the trading day immediately preceding July 23, 2010.

The Purchase Agreement further provides that in the event the Company files a registration statement with the SEC pursuant to the Securities Act of 1933, as amended, Lefora has the right to request that the Company include in that registration statement the Purchase Shares held by Lefora.

License Agreement

Pursuant to the License Agreement the Company acquired an exclusive, worldwide, perpetual, royalty-free and fully paid up license to the source code used in developing the computer software program generally known as "Talki", which allows the Company its use to develop additional websites in the future. The consideration paid by the Company pursuant to the License Agreement was \$10,000 payable to Lefora in 9,804 shares of the Company's

common stock (“License Shares”), which was calculated by dividing \$10,000 by \$1.02, the 15-day volume weighted average price of the Company’s common stock, the 15th day of which was the trading day immediately preceding July 23, 2010.

Services Agreements

In connection with the Purchase Agreement, the Company entered into six independent contractor agreements (“Services Agreements”) with consultants of Lefora to operate the Websites. The Services Agreements contemplate: (i) collective base compensation of \$300,000 payable in shares of the Company’s common stock, (ii) terms of no less than six (6) months; and (iii) six-month vesting provisions, which provide that such shares will vest if such Consultant continues to serve as a Consultant to the Company for a minimum period of six (6) months after closing date of the Purchase Agreement.

Each of the Services Agreements also provides for payment of certain conditional traffic bonus compensation payable to each Consultant in shares of Company's common stock if, during the next twelve months, the average monthly visitor traffic to www.lefora.com is greater than or equal to 9.2 million monthly page views as measured by Google Analytics, or if the average monthly visitor traffic is greater than 8.5 million but below 9.2 million monthly page views. No conditional traffic bonus payment will be due if the average monthly visitor traffic is below 8.5 million monthly page views. Additionally, one of the Consultants will be paid compensation of \$500 per month for the term of that particular Services Agreement.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JULY 31, 2010 AND 2009
(UNAUDITED)

4. ADVANCE TO EMPLOYEE

The Company periodically provides cash advances to employees on a short term basis. These advances bear no interest, are due on demand and are to be repaid as cash becomes available, typically within six (6) months. If the advance is unpaid following the short term, then the Company may at its discretion include the advance as part of the employee's compensation. As of July 31, 2010, there was an advance of \$25,615 outstanding to one employee.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at July 31, 2010:

| | 2010 | 2009 |
|--|------------|-----------|
| Furniture, fixtures and office equipment | \$ 17,614 | \$ 16,416 |
| Computers, servers and equipment | 192,376 | 99,132 |
| | 209,990 | 115,548 |
| Less: accumulated depreciation | (94,506) | (37,435) |
| | \$ 115,484 | \$ 78,113 |

Depreciation expense was \$12,649 and \$8,349 for the three months ended July 31, 2010 and 2009, respectively.

6. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

At July 31, 2010, the Company calculated the fair value of its assets and liabilities pursuant to ASC 820 for disclosure purposes as described below.

The carrying value of cash and cash equivalents, employee advances, prepaid expenses, accounts payable and accrued liabilities approximate their fair value due to the short period to maturity of these instruments pursuant to ASC 825.

Valuation Hierarchy

ASC 820 establishes a three-level valuation hierarchy for the use of fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date:

Level 1. Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 1 assets and liabilities include debt and equity securities and derivative financial instruments actively traded on exchanges, as well as U.S. Treasury securities and U.S. Government and agency mortgage-backed

securities that are actively traded in highly liquid over the counter markets.

Level 2. Observable inputs other than Level 1 prices such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs that are observable or can be corroborated, either directly or indirectly, for substantially the full term of the financial instrument.

Level 2 assets and liabilities include debt instruments that are traded less frequently than exchange traded securities and derivative instruments whose model inputs are observable in the market or can be corroborated by market observable data. Examples in this category are certain variable and fixed rate non-agency mortgage-backed securities, corporate debt securities and derivative contracts.

Level 3. Inputs to the valuation methodology are unobservable but significant to the fair value measurement. Examples in this category include interests in certain securitized financial assets, certain private equity investments, and derivative contracts that are highly structured or long-dated.

CROWDGATHER, INC.
 CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
 JULY 31, 2010 AND 2009
 (UNAUDITED)

6. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

Application of Valuation Hierarchy

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following is a description of the valuation methodology used to measure fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Convertible notes payable, net of debt discount.

Market prices are not available for the Company's convertible notes payable, nor are market prices of similar convertible notes available. The Company assessed that the fair value of this liability approximates its carrying value due to its nature, the stated interest rate of the notes and the embedded conversion features as calculated.

The method described above may produce a current fair value calculation that may not be indicative of net realizable value or reflective of future fair values. If readily determined market values became available or if actual performance were to vary appreciably from assumptions used, assumptions may need to be adjusted, which could result in material differences from the recorded carrying amounts. The Company believes its method of determining fair value is appropriate and consistent with other market participants. However, the use of different methodologies or different assumptions to value certain financial instruments could result in a different estimate of fair value.

The following table presents the fair value of financial instruments as of July 31, 2010 and 2009, by caption on the balance sheet and by ASC 820 valuation hierarchy described above.

| Liabilities measured at fair value on a recurring and nonrecurring basis at July 31, 2010: | Level 1 | Level 2 | Level 3 | Total carrying value |
|--|-------------|-------------|-------------|----------------------|
| Nonrecurring: | | | | |
| Convertible notes payable, net of debt discount | \$ - | \$ - | \$ - | \$ - |
| Total liabilities at fair value | \$ - | \$ - | \$ - | \$ - |

| Liabilities measured at fair value on a recurring and nonrecurring basis at July 31, 2009: | Level 1 | Level 2 | Level 3 | Total carrying value |
|--|-------------|-------------|---------------------|----------------------|
| Nonrecurring: | | | | |
| Convertible notes payable, net of debt discount | \$ - | \$ - | \$ 1,711,209 | \$ 1,711,209 |
| Total liabilities at fair value | \$ - | \$ - | \$ 1,711,209 | \$ 1,711,209 |

7. CONCENTRATION OF CREDIT RISK

The Company maintains its cash deposits in two bank accounts which at times have exceeded the federally insured limits of \$250,000. The Company has not experienced any losses with respect to its cash balances.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JULY 31, 2010 AND 2009
(UNAUDITED)

8. INTANGIBLE ASSETS

The Company purchased online forums, message boards and website domain names for cash in the amount of \$51,391 and stock valued at \$3,580,000 during the three months ended July 31, 2010 in connection with the Company's transactions with Adisn, Inc. and Lefora and \$7,800 during the three months ended July 31, 2009. Intangibles are either amortized over their estimated lives, if a definite life is determined, or are not amortized if their life is considered indefinite. The Company accounts for its intangible assets at cost. Intangible assets acquired in a business combination, if any, are recorded under the purchase method of accounting at their estimated fair values at the date of acquisition. As of July 31, 2010, the Company recorded \$7,735 of amortization associated with its definite lived intangibles. Intangibles consist of the following as of July 31:

| | Est. Life | 2010 | 2009 |
|------------------------------------|------------|--------------|--------------|
| Online forums and related websites | Indefinite | \$ 3,060,207 | \$ 1,980,663 |
| Target advertising technology | Indefinite | 2,250,000 | - |
| Trademarks and tradenames | 10 years | 190,000 | - |
| Customer lists | 3 years | 140,000 | - |
| | | 5,640,207 | 1,980,663 |
| Less: accumulated amortization | | (7,735) | - |
| | | \$ 5,632,472 | \$ 1,980,663 |

As of July 31, 2010, the Company does not believe any impairment of intangible assets has occurred.

9. COMMON STOCK

In June 2010, the Company entered into a consulting and advisory agreement with a third party. Pursuant to the agreement, the Company is required to compensate the advisory firm a non-refundable fee of \$2,000 in two payments and 20,000 shares of its restricted common stock over two months. The shares were valued at \$24,600 based on the fair value of the shares on the date of the contract. The term of the agreement was for two months and expired July 31, 2010. The stock-based expense for these shares included in operating expenses for the three months ended July 31, 2010 was \$24,600 and the shares are obligated to be issued.

As of July 31, 2010, the Company is obligated to issue 24,999 shares of its restricted common stock in connection with certain service agreements with consultants that were fully earned and due on July 12, 2010. The shares were valued at \$30,000 based on the fair value of services received per the agreements. The stock-based expense for these shares included in operating expenses for the three months ended July 31, 2010 was \$18,750, and the remaining \$11,250 was earned and expensed during the year ended April 30, 2010.

As of July 31, 2010, the Company is obligated to issue 61,856 shares of its restricted common stock to a consultant for services rendered. The shares were valued at \$60,000 based on the fair value of shares on the date of the agreement. The stock-based expense for these shares included in operating expenses for the three months ended July 31, 2010 was \$60,000.

As of July 31, 2010, the Company is obligated to issue 13,846 shares of its common stock to six consultants in connection with certain service agreements related to the Lefora transaction. The service agreements are for six months and will result in a total of 294,120 shares to be issued at the end of the service term. The shares were valued in total at \$300,000 based on the 15-day volume weighted average price of the Company's common stock, the 15th day of which was the trading day immediately preceding July 23, 2010 as stated in the agreements.

During the three months ended July 31, 2010 and in connection with the Company's acquisitions during the quarter, the Company issued 3,529,646 shares of its common stock, valued at approximately \$4,200,000 related to the acquisition of Adisn, Inc. and there are 1,092,203 remaining to be issued under the agreement. In addition, the Company is obligated to issue 980,383 of its common stock, valued at approximately \$1,000,000 for the purchase of Lefora as described in Note 3.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
JULY 31, 2010 AND 2009
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10. STOCK OPTIONS

In May 2008 the board of directors of the Company approved the CrowdGather, Inc. 2008 Stock Option Plan (the "Plan"). The Plan permits flexibility in types of awards, and specific terms of awards, which will allow future awards to be based on then-current objectives for aligning compensation with increasing long-term shareholder value.

During the three months ended July 31, 2010, the Company issued stock options for 50,000 shares of the Company's common stock, exercisable at various dates through June 2014 at fair market value at the date of grant of \$0.81 per share, to a consultant pursuant to the Plan. The compensation cost for the three months ended July 31, 2010 was \$167,000, and is included in operating expenses.

For the three months ended July 31, 2010 and 2009, the Company recognized \$167,000 and \$157,000, respectively, of stock-based compensation costs as a result of the issuance of stock options to employees, directors and consultants. These costs were calculated in accordance with ASC 505 and are reflected in operating expenses.

Stock option activity was as follows for the three months ended July 31, 2010:

| | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contract Term (Years) | Aggregate Intrinsic Value |
|----------------------------|----------------------|------------------------------------|---|------------------------------|
| Outstanding, May 1, 2010 | 2,955,000 | \$ 1.14 | 2.14 | \$ 1,539,348 |
| Granted | 50,000 | 1.17 | 3.82 | 40,650 |
| Forfeited/Expired | - | - | - | - |
| Exercised | - | - | - | - |
| Outstanding, July 31, 2010 | 3,005,000 | \$ 1.14 | 2.02 | \$ 1,579,998 |
| Exercisable, July 31, 2010 | 1,225,000 | \$ 1.14 | 1.92 | \$ 1,105,173 |

A summary of the status of the Company's unvested shares as of July 31, 2010 is presented below:

| | Number of Shares | Weighted-Average Grant-Date Fair Value |
|---------------------------------|---------------------|--|
| Non-vested balance, May 1, 2010 | 1,803,437 | \$ 0.89 |
| Granted | 50,000 | 0.81 |

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| | | | |
|-----------------------------------|-----------|----|------|
| Vested | (189,062) | | 0.89 |
| Forfeited/Expired | - | | - |
| <hr/> | | | |
| Non-vested balance, July 31, 2010 | 1,664,375 | \$ | 0.89 |

As of July 31, 2010, total unrecognized stock-based compensation cost related to unvested stock options was \$1,325,256, which is expected to be recognized over a weighted-average period of approximately 2.02 years.

CROWDGATHER, INC.
 CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
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10. STOCK OPTIONS (continued)

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model based on the following weighted-average assumptions:

| | Three Months Ended July 31 2010 |
|---------------------------------|---|
| Risk-free interest rate | 2.0% |
| Expected volatility | 100.00% |
| Expected option life (in years) | 4.00 |
| Expected dividend yield | 0.00 |

The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero coupon issues. The expected volatility is primarily based on historical volatility levels of the Company's public company peer group. The expected option life of each award granted was calculated using the "simplified method" in accordance with ASC 718.

11. PROVISION FOR INCOME TAXES

For the three months ended July 31, 2010, the Company has recognized the minimum amount of franchise tax required under California corporation law of \$1,600. The Company is not currently subject to further federal or state tax since it has incurred losses since its inception.

As of July 31, 2010, the Company had federal and state net operating loss carry forwards of approximately \$6,000,000 which can be used to offset future federal income tax. The federal and state net operating loss carry forwards expire at various dates through 2029. Deferred tax assets resulting from the net operating losses are reduced by a valuation allowance, when, in the opinion of management, utilization is not reasonably assured.

As of July 31, 2010, the Company had the following deferred tax assets related to net operating losses. A 100% valuation allowance has been established due to the uncertainty of the Company's ability to realize future taxable income and to recover its net deferred tax assets.

| | 2010 |
|-------------------------------------|--------------|
| Federal net operating loss (at 34%) | \$ 2,040,000 |
| State net operating loss (at 8.84%) | 530,400 |
| | 2,570,400 |
| Less: valuation allowance | (2,570,400) |
| Net deferred tax assets | \$ - |

The Company's valuation allowance increased by approximately \$428,400 during the three months ended July 31, 2010.

12. SUBSEQUENT EVENTS

In accordance with ASC 855 the Company has evaluated its subsequent events through September 14, 2010, the date the financial statements were issued.

During August 2010, the Company issued 45,678 shares of its common stock related to its stock issuance obligation for the acquisition of Adisn, Inc.

On September 1, 2010, the Company issued 142,857 shares to a foreign institutional investor in exchange for the exercise of warrants at \$0.70 per share, or approximately \$100,000.

Item 2. Plan of Operation

This following information specifies certain forward-looking statements of management of the company.

Forward-looking statements are statements that estimate the happening of future events and are not based on historical fact. Forward-looking statements may be identified by the use of forward-looking terminology, such as “may”, “shall”, “could”, “expect”, “estimate”, “anticipate”, “predict”, “probable”, “possible”, “should”, “continue”, or similar terms, variations of those terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.

The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. We cannot guaranty that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.

Critical Accounting Policies and Estimates. Our Management’s Discussion and Analysis of Financial Condition and Results of Operations section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources.

The following discussion of our financial condition and results of operations should be read in conjunction with our audited financial statements for the year ended April 30, 2010, together with notes thereto as previously filed with our Annual Report on Form 10-K. In addition, these accounting policies are described at relevant sections in this discussion and analysis and in the notes to the financial statements included in our Quarterly Report on Form 10-Q for the period ended July 31, 2010.

Overview. We are an Internet company that specializes in monetizing a network of online forums and message boards designed to engage, provide information to and build community around users. We are in the process of building what we hope will become one of the largest social, advertising, and user generated content networks by consolidating existing groups of online users that post on message boards and forums. Our goal is to create the world's best user experience for forum communities, and world class service offerings for forum owners. We believe that the communities built around message boards and forums are one of the most dynamic sources of information available on the web because forums are active communities built around interest and information exchange on specific topics.

Part of our growth strategy includes identifying and acquiring web properties. Since our inception we have been researching potential opportunities to acquire online forums within targeted content and advertising verticals in our industry in order to expand our operations. In addition to the over 70 properties and 450 domain names acquired to date, we also maintain ongoing discussions with representatives of certain web properties and other companies that may be interested in being acquired by us or entering into a joint venture agreement with us.

Our network is comprised of two segments-branded forum communities and third-party hosted communities that are built on one of our forum hosting platforms. The branded communities are wholly owned by us and we monetize them through a combination of text and display ads. The third-party hosted communities, which comprise the majority of our revenues, traffic, and page views, are sites built upon one of our leading forum hosting platforms. On these sites we are usually free to monetize through a combination of Internet advertising mediums at our discretion in exchange for providing free software, support, and hosting. In some instances, we may derive subscription revenues in lieu of advertising revenues because the creator of the site has decided to pay us a monthly fee in exchange for providing an ad free experience for their members. Our goal is to ultimately build an advertising network that allows for us to leverage the targeted demographics of the combined network in order to generate the highest advertising rates for all of our member sites.

Acquisition of Adisn, Inc. On June 9, 2010, we entered into an agreement and plan of merger among us, Adisn, Inc., a Delaware corporation (“Adisn”) and our wholly-owned subsidiary, Adisn Acquisition Corp. (the “Adisn Merger Agreement”), pursuant to which Adisn Acquisition Corp. merged with and into Adisn and Adisn survived as our wholly-owned subsidiary. Pursuant to the Adisn Merger Agreement, the shareholders of Adisn received 4,621,849 shares of our common stock (the “Merger Shares”) valued at \$5,500,000, or \$1.19 per share, subject to the escrow obligations of a securities escrow agreement, as discussed below, plus a right to receive the Earn-Out Shares, as defined below, if and when they become issuable.

The Merger Shares will be issued to the Adisn stockholders in a transaction which we believe satisfies the requirements of that exemption from the registration and prospectus delivery requirements of the Securities Act of 1933, which exemption is specified by the provisions of Section 4(2) of that act and Regulation D promulgated pursuant to that act by the Securities and Exchange Commission (SEC).

The Adisn Merger Agreement also provides that we will issue an additional \$1,000,000 to the Adisn stockholders, which shall be payable in shares of our common stock (“Earn-Out Shares”) to be distributed on a pro-rata basis. The number of Earn-Out Shares to be issued to the Adisn stockholders shall be calculated by dividing \$1,000,000 by the 20-day volume weighted average price of our common stock, the 20th day of which shall be the trading day immediately preceding the one year anniversary date of June 9, 2010. The Earn-Out Shares will only be issued to the Adisn stockholders if, during the next twelve months, Adisn generates gross revenues, as defined according to generally accepted accounting principles in the United States of America, of more than \$1,562,500.

The Adisn Merger Agreement further provides that in the event we file a registration statement with the SEC pursuant to the Securities Act of 1933, as amended, Adisn stockholders have the right to request that we include in that registration statement the shares of common stock then held by Adisn stockholders.

Securities Escrow Agreement.

As an inducement to us to enter into the Adisn Merger Agreement, on June 9, 2010, we and certain of the Adisn stockholders entered into a securities escrow agreement, pursuant to which those Adisn stockholders agreed to place stock certificates of our common stock representing an aggregate of 2,172,603 shares of common stock (“Escrow Shares”) into escrow for our benefit of (i) to secure certain indemnification obligations in the Adisn Merger Agreement, and (ii) in the event we fail to achieve certain financial performance thresholds for the six and twelve month periods following the closing of the Adisn merger.

Lock-up Agreements

Concurrently with the closing of the Adisn Merger Agreement, we entered into lock-up agreements with certain of the Adisn stockholders for the Merger Shares. The Adisn stockholders agreed that during the period from the closing of the Adisn Merger Agreement on June 9, 2010, until the first anniversary thereof, the Adisn stockholders will not sell, transfer, or otherwise dispose of more than (i) fifty percent of the Merger Shares during the first three month period after the six month period from June 9, 2010, and (ii) fifty percent of the Merger Shares during the second three month period after the six month period from June 9, 2010, other than in connection with an offer made to all of our stockholders in connection with merger, consolidation, or similar transaction involving us.

Concurrently with the closing of the Adisn Merger Agreement, we entered into lock-up agreements with certain of the Adisn stockholders for the Escrow Shares. Each holder agreed that during the period from the closing of the Adisn Merger Agreement on June 9, 2010, until the eighteen month anniversary thereof, the Adisn stockholders will not sell, transfer, or otherwise dispose of more than (i) fifty percent of the Escrow Shares during the first three month period after the twelve month period from June 9, 2010, and (ii) fifty percent of the Escrow Shares during the second three

month period after the twelve month period from June 9, 2010, other than in connection with an offer made to all our stockholders in connection with merger, consolidation, or similar transaction involving us.

Acquisition of Lefora Websites.

On July 23, 2010, we entered into and closed an Asset Purchase Agreement and Plan of Reorganization (“Purchase Agreement”) and a Software License Agreement (“License Agreement”) with Team Awesome Productions, Inc. d/b/a Lefora (“Lefora”) for total consideration of \$1,000,000 payable in shares of our common stock.

Purchase Agreement

Pursuant to the Purchase Agreement we acquired the websites and domain names (“Websites”) set forth below:

- www.lefora.com
- www.eamped.com
- www.makeforum.com
- www.maxforum.com
- www.takeforum.com
- www.forumnotifier.com
- www.forumnotification.com
- www.foruminvite.com

Pursuant to the Purchase Agreement we also acquired the web forums associated with the websites and domain names listed above, along with the all assets that constitute those forums, plus the technology and intellectual property needed for conducting the business on each of those forums, all associated accounts for these websites, including users lists, databases, along with associated intellectual property, trade secrets and past and future infringement claims.

The total purchase price for the Websites and the associated assets was \$990,000 payable to Lefora in 970,859 shares of our common stock (“Purchase Shares”), which was calculated by dividing \$990,000 by \$1.02, the 15-day volume weighted average price of our common stock, the 15th day of which was the trading day immediately preceding July 23, 2010. The Purchase Shares will be issued to Lefora in a transaction which we believes satisfies the requirements of that exemption from the registration and prospectus delivery requirements of the Securities Act of 1933, which exemption is specified by the provisions of Section 4(2) of that act and Regulation D promulgated pursuant to that act by the Securities and Exchange Commission.

The Purchase Shares were issued to Lefora in a transaction which we believes satisfies the requirements of that exemption from the registration and prospectus delivery requirements of the Securities Act of 1933, which exemption is specified by the provisions of Section 4(2) of that act and Regulation D promulgated pursuant to that act by the Securities and Exchange Commission.

The Purchase Agreement further provides that in the event we file a registration statement with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, Lefora has the right to request that we include in that registration statement the Purchase Shares held by Lefora.

License Agreement

Pursuant to the License Agreement we acquired an exclusive, worldwide, perpetual, royalty-free and fully paid up license to the source code used in developing the computer software program generally known as “Talki”, which allows us its use to develop additional websites in the future. The consideration paid by us pursuant to the License Agreement is \$10,000 payable to Lefora in 9,804 shares of our common stock (“License Shares”), which was calculated by dividing \$10,000 by \$1.02, the 15-day volume weighted average price of our common stock, the 15th day of which was the trading day immediately preceding July 23, 2010.

The License Shares of common stock were issued to Lefora in a transaction which we believe satisfies the requirements of that exemption from the registration and prospectus delivery requirements of the Securities Act of 1933, which exemption is specified by the provisions of Section 4(2) of that act and Regulation D promulgated pursuant to that act by the Securities and Exchange Commission.

Services Agreements

In connection with the Purchase Agreement, we entered into six independent contractor agreements (“Services Agreements”) with consultants of Lefora (each a “Consultant” and, collectively, the “Consultants”) to operate the Websites. The Services Agreements contemplate: (i) collective base compensation of \$300,000 payable in shares of our common stock, (ii) terms of no less than six (6) months; and (iii) six-month vesting provisions, which provide that such shares will vest if such Consultant continues to serve as a Consultant to us for a minimum period of six months after closing date of the Purchase Agreement.

Each of the Services Agreements also provides for payment of certain conditional traffic bonus compensation payable to each Consultant in shares of our common stock if, during the next twelve months, the average monthly visitor traffic to www.lefora.com is greater than or equal to 9.2 million monthly page views as measured by Google Analytics, or if the average monthly visitor traffic is greater than 8.5 million but below 9.2 million monthly page views. No conditional traffic bonus payment will be due if the average monthly visitor traffic is below 8.5 million monthly page views. Additionally, one of the Consultants will be paid compensation of \$500 per month for the term of that particular Services Agreement.

Acquisition of Freeforums.org. On March 12, 2010, we entered into a website and domain name acquisition agreement (“Agreement”) with Phil Santoro (“Santoro”) pursuant to which we acquired the website, www.freeforums.org and domain names (“Websites”) set forth below:

- <http://www.freeforums-dev.org>; and
- <http://www.freeforums-inc.org>.

Pursuant to the Agreement we acquired all associated software used in building the Websites, along with the associated users lists, databases, add-ons installed with these forums and associated accounts for these websites. 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 our common stock, using the 20-day volume weighted average price of our common stock, the 20th day of which shall be the trading day immediately preceding the one year anniversary date of March 12, 2010. The additional payment will only be due to Santoro 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.

Our Community of Online Forums. Our forum community connects what we believe is a robust and vibrant network of people sharing their questions, expertise and experiences. We hope that this collection of forums will help users easily access relevant, dynamic, and compelling user-generated content, conversations and commerce. Some of our representative wholly-owned, branded properties include:

Branded Forums

| Site Name | Target Community/Discussion Topic |
|-------------------------|---|
| Ngemu.com | Software emulators |
| Nsider2.com | Nintendo enthusiast community |
| GenMay.com | Off-topic and humor |
| Anythingbutipod.com | Consumer electronics media player community |
| ZuneBoards.com | Microsoft Zune 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 |
| IronMass.com | Bodybuilding |
| Eternal-Allegiance.com | Celebrities and their fans |
| FoodForums.com | Food and dining |

Forum Hosting Platforms

| Site Name |
|----------------|
| Freeforums.org |
| Lefora.com |
| Eamped.com |
| Makeforum.org |
| Maxforum.org |
| Takeforum.com |

Freepowerboards.com

Based upon current statistics from Google analytics, CrowdGather's network of forums including all recent acquisitions have approximately 80 to 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.

Our belief is that the strong search engine rankings of many of our properties will continue to result in increased page views and registered members as we go forward.

We seek to continually add to the number of communities our website services by acquiring additional active forums, thereby increasing traffic to our site and the number of forums we host.

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For the three months ended July 31, 2010, as compared to the three months ended July 31, 2009.

Results of Operations

Revenues. We realized revenues of \$330,079 for the three months ended July 31, 2010, as compared to revenues of \$53,071 for the three months ended July 31, 2009. The increased revenue is a result of increasing advertising related revenue as well as revenues of Adisn, our wholly-owned subsidiary, from the date of acquisition June 9, 2010 through July 31, 2010. The Adisn revenues are generated by delivering advertising campaigns on behalf of direct advertisers and their agencies. We anticipate that as we continue to operate our business and expand our holdings of websites and domain names, we will begin to generate more significant advertising related revenues as we implement the advertising and sponsorship initiatives for all of our web properties.

Our cost of revenue for the three months ended July 31, 2010 was \$148,729, as compared to cost of revenue of \$0 for the three months ended July 31, 2009. The increase in the cost of revenue was primarily due to the acquisition of Adisn and its revenue model which requires that we purchase ad inventory in order for us to deliver advertising campaigns on behalf of direct advertisers and their agencies.

Our gross profit for the three months ended July 31, 2010 was \$181,350, as compared to gross profit of \$53,071 for the three months ended July 31, 2009. The increase in gross profit was primarily attributed to the increase in advertising related revenue.

To implement our business plan during the next twelve months, we need to generate increased revenues by expanding our online forum offerings and increasing the capabilities of our existing online forums. Our failure to do so will hinder our ability to increase the size of our operations and to generate additional revenues. If we are not able to generate additional revenues to cover our operating costs, we may not be able to expand our operations.

Our recent acquisition of Adisn will contribute to CrowdGather's revenues in two ways. First, we will realize Adisn's existing revenues which are generated by delivering advertising campaigns on behalf of direct advertisers and their agencies. 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. Many of the campaigns that Adisn delivers have a performance incentive whereby the effectiveness of the campaign as measured by successful conversions on behalf of the advertiser can result in increased pay out on a per action basis. For these types of campaigns, Adisn utilizes its industry knowledge and ad server technology in order to buy targeted placements for the lowest possible cost. Secondly, as a wholly owned subsidiary of CrowdGather, it is our belief that Adisn will be able to represent some of our forum properties to their existing and future advertisers where there is a good fit between the products and services being advertised and the demographics of the sites visitors. 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.

Operating Expenses. For the three months ended July 31, 2010, our operating expenses were \$816,715, as compared to total operating expenses of \$652,160 for the three months ended on July 31, 2009. The increase between the comparable periods is primarily due to an increase in general and administrative expenses, which increased from \$467,658 for the three months ended July 31, 2009, to \$605,757 for the three months ended July 31, 2010. The increase in general and administrative expenses between the comparable periods was primarily due to the costs related to the acquisitions of Adisn and Lefora during the three months ended July 31, 2010. We also experienced an increase in payroll and related expenses from \$184,502 for the three months ended July 31, 2009 to \$210,958 for the three months ended July 31, 2010.

Barring any additional overhead related to large acquisitions as we anticipate raising additional capital for further acquisitions, we believe our future monthly operating expenses in 2010 will be similar to our current expense levels, plus only incremental direct costs relating to newly acquired websites. We will continue to incur significant general and administrative expenses, but expect to generate increased revenues after further developing our business.

Our subsidiary, Adisn, currently operates at a minimal fixed overhead comprised of personnel and server costs. The majority of Adisn's future expense increase will be directly related to the need to purchase ad inventory on behalf of the revenues generated from advertisers they service, reflected as cost of revenues.

Our loss from operations for the three months ended July 31, 2010 was \$635,365, as compared our loss from operations of \$599,089 for the three months ended July 31, 2009.

Other Income and Expense. For the three months ended July 31, 2010, we had interest expense of \$4,404, penalties of \$48,156, and a gain on the settlement of debt of \$73,628, resulting in net other income of \$21,068. By comparison, for the three months ended July 31, 2009, we had other expense (net) of \$666,623, consisting of interest income of \$802, interest expense of \$39,571, interest expense for debt discount amortization of \$64,283, and loss on extinguishment of debt of \$563,571. The significant loss of settlement on debt that we incurred for the three months ended July 31, 2009 resulted from the secured convertible debenture financing that we closed in May 2009.

Net Loss. For the three months ended July 31, 2010, our net loss was \$615,897, as compared to a net loss of \$1,266,712 for the three months ended on July 31, 2009. The decrease in our net loss between the two periods was primarily due to the loss on settlement of debt in 2009 which resulted from the secured convertible debenture financing that we closed in May 2009, as discussed above.

Liquidity and Capital Resources. Our total current assets were \$246,184 as of July 31, 2010, which consisted of cash of \$115,706, accounts receivable of \$89,865, advance to employee of \$25,615, and prepaid expenses and deposits of \$14,998. As of July 31, 2010, we had total assets of \$10,354,316, consisting of property and equipment with a net value of \$115,484, intangible assets of \$5,632,472, represented by our domain names and other intellectual property owned, and goodwill of \$4,360,176 from our acquisitions of Adisn and Lefora.

Our current liabilities as of July 31, 2010, totaled \$589,010, consisting of accounts payable of \$517,222, accrued vacation of \$43,788 and other accrued liabilities of \$28,000. We had no other liabilities and no long-term commitments or contingencies at July 31, 2010.

On May 21, 2009, we closed a private offering of 18-month secured convertible debentures. As of the initial closing, we 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. The debentures bore interest at a rate of 8 % per annum, which is 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. Following the closing, we had no short-term debt obligations. In February 2010, all of the outstanding convertible notes payable described above were converted into shares of our common stock as follows:

- On February 27, 2010, we issued 1,004,875 shares of our common stock to one foreign institutional investor who elected to convert an 18-month secured convertible debenture issued as described above in May 2009. The investor converted the debenture in the principal amount of \$1,300,000 together with accrued interest of \$80,066 for a total of \$1,380,066, into 1,004,875 shares of our common stock, or approximately \$1.37 per share.
- On the same date, we issued 903,038 shares to a second foreign institutional investor who elected to convert two debentures that were issued as described above in May 2009. The investor converted one debenture in the principal amount of \$532,500 together with accrued interest of \$32,796 for a total of \$565,296, into 484,250 shares of our common stock, or approximately \$1.17 per share. The investor also converted a second debenture in the principal amount of \$541,783 together with accrued interest of \$33,368, for a total of \$575,151, into 418,788 shares of our common stock, or approximately \$1.37 per share.

In connection with the issuances of the debentures and in order to mitigate the impact of dilution to our stockholders, Sanjay Sabnani, our Chairman and CEO, agreed to surrender 5,000,000 shares of common stock to our treasury for cancellation if and when at least \$2 million of debentures was converted into shares of common stock. As a result of more than \$2 million of the debentures being converted, as described above, 5,000,000 shares of common stock held by Mr. Sabnani were cancelled, effective February 27, 2010, in exchange for par value.

On February 3, 2010, we sold 250,000 shares of our common stock to one investor in exchange for \$300,000, or \$1.20 per share. The price per share of the issuance is subject to certain anti-dilution provisions as specified in the subscription agreement filed as an exhibit to our Report on Form 8-K filed on March 15, 2010. In connection with the sale of shares, the investor also received warrants to purchase 125,000 shares of our common stock at a purchase price of \$1.68 per share, which was the closing price of our common stock on February 3, 2010. The warrant agreement provides for an expiration period of three years from the date of the investment.

On February 27, 2010, we issued 285,715 shares to one foreign institutional investor in exchange for the exercise of warrants at \$0.70 per share, or approximately \$200,000. On the same date, we also issued 671,426 shares to a second foreign institutional investor in exchange for the exercise of warrants at \$0.70 per share, or approximately

\$470,000. These warrants were granted in connection with the debentures transaction described above and reported on our Form 8-K filed on May 26, 2009. The disclosures in that report are incorporated herein by reference and the instruments were filed as exhibits to that report.

On April 29, 2010, we sold 428,571 shares of our common stock to an investor in exchange for \$450,000, or \$1.05 per share. The price per share of the issuance is subject to certain anti-dilution provisions as specified in the subscription agreement. In connection with the sale of shares, the investor also received warrants to purchase 215,285 shares of our common stock at a purchase price of \$1.17 per share. The warrant agreement provides for an expiration period of three years from the date of the investment. In addition, on April 29, 2010, we issued 35,714 shares of our common stock to that investor, pursuant to the anti-dilution provisions of the subscription agreement dated February 3, 2010, between us and that same investor. Specifically, we issued an additional 35,714 shares of our common stock, which is the difference in the amount of shares that would have been issued to the investor if the price per share for the initial investment would have been \$1.05 per share.

On September 1, 2010, we issued 142,857 shares to a foreign institutional investor in exchange for the exercise of warrants at \$0.70 per share, or approximately \$100,000.

As of July 31, 2010, we had cash of \$115,706. We estimate that our cash on hand will not be sufficient for us to continue and expand our current operations for the next twelve months. Our forecast for the period for which our financial resources will be adequate to support our operations involves risks and uncertainties and actual results could differ as a result of a number of factors. In addition to generating revenues from our current operations, we will need to raise additional capital to expand our operations to the point at which we are able to operate profitably. Accordingly, we believe we will need to raise additional capital to sustain our operations and to expand our business to the point at which we are able to operate profitably. We are pursuing capital through public or private financing as well as borrowings and other sources, including our officers, directors and principal shareholders. We cannot guaranty that additional funding will be available on favorable terms, if at all. If adequate funds are not available from external sources, we are dependent on our officers, directors and/or shareholders to loan us funds to pay for our expenses to achieve our objectives over the next twelve months. In the event that we are unable to raise additional capital or borrow additional funds, we may be forced to undertake significant cost reductions or curtail operations.

The majority of our research and development activity is focused on development of our proprietary software systems such as our forum Content Management System (CMS), CrowdReport™, as a result most of the cost of this is covered within our engineering budgets. We expect to invest under \$50,000 for research and development over the next 12 months.

We do not anticipate that we will purchase any significant equipment except for computer equipment and furniture which we anticipate will cost approximately \$50,000 over the next twelve months.

We do not anticipate any significant changes in the number of employees unless we are able to significantly increase the size of our operations. Our management believes that we do not require the services of additional independent contractors to operate at our current level of activity. However, if our level of operations increases beyond the level that our current staff can provide, then we may need to supplement our staff in this manner.

Off Balance Sheet Arrangements

We had no off balance sheet arrangements at July 31, 2010.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures. We maintain controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed as of July 31, 2010, the date of this report, our chief executive officer and the principal financial officer concluded that our disclosure controls and procedures were effective.

Changes in internal controls. There were no changes in our internal control over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

None.

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

None.

Item 4. Submission of Matters to Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

31.1 Certification of Principal Executive Officer, pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934

31.2 Certification of Principal Financial Officer, pursuant to Rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934

32.1 Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CrowdGather, Inc.,
a Nevada corporation

September 14, 2010

By: /s/ Sanjay Sabnani
Sanjay Sabnani
Its: President, Secretary, Director
(Principal Executive Officer)

September 14, 2010

By: /s/ Gaurav Singh
Gaurav Singh
Its: Chief Financial Officer
(Principal Financial and Accounting
Officer)