CrowdGather, Inc.
Form 10-Q
December 14, 2011

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

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2011

[ ] 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	20-2706319
(State or other jurisdiction of incorporation or organization)	(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. x Yes o 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). x Yes o No

Indicate by check mark whether the registrant is a large accelerated file, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	x

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

As of December 14, 2011, there were 58,148,943 shares of the issuer's $.001 par value common stock issued and outstanding.

1

TABLE OF CONTENTS

PART I

Item 1.	Financial Statements	3
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	18
Item 4.	Controls and Procedures	18
	PART II	
Item 1.	Legal Proceedings	18
Item 1A.	Risk Factors	18
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	19
Item 3.	Defaults Upon Senior Securities	19
Item 4.	(Removed and Reserved)	19
Item 5.	Other Information	19
Item 6.	Exhibits	19

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2011 (Unaudited)	April 30, 2011
ASSETS		
Current assets		
Cash	$ 3,120,982	$ 6,667,901
Accounts receivable	25,701	243,917
Inventory	18,490	-
Prepaid expenses and deposits	128,555	49,729
Total current assets	3,293,728	6,961,547
Property and equipment, net of accumulated depreciation of $189,024 and $140,804, respectively	177,121	172,751
Intangible and other assets, net of accumulated amortization of $46,410 and $30,940, respectively	9,500,272	5,811,707
Goodwill	4,360,176	4,360,176
Total assets	$ 17,331,297	$ 17,306,181
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 11,383	$ 82,805
Accrued vacation	22,211	13,111
Other accrued liabilities	41,983	30,617
Total current liabilities	75,577	126,533
Stockholders' equity		
Preferred Series A stock, $0.001 par value, 25,000,000 shares authorized,-0- shares issued and outstanding	-	-
Common stock, $0.001 par value, 975,000,000 shares authorized, 58,068,785 and 57,089,408 issued and outstanding, respectively	58,069	57,089
Common stock obligation	1,084,600	3,784,322
Additional paid-in capital	26,836,379	22,432,597
Accumulated deficit	(10,723,328)	(9,094,360)
Total stockholders' equity	17,255,720	17,179,648

Total liabilities and stockholders' equity	$ 17,331,297	$ 17,306,181

See accompanying notes to financial statements.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2011 AND 2010
(UNAUDITED)

	Three Months Ended October 31, 2011	Three Months Ended October 31, 2010	Six Months Ended October 31, 2011	Six Months Ended October 31, 2010
Revenue	$ 468,296	$ 462,925	$ 802,332	$ 793,004
Cost of revenue	-	177,991	108,740	326,720
Gross profit	468,296	284,934	693,592	466,284
Operating expenses				
Payroll and related expenses	403,306	221,446	760,380	432,404
General and administrative	824,895	774,760	1,567,145	1,381,317
Total operating expenses	1,228,201	996,206	2,327,525	1,813,721
Loss from operations	(759,905)	(711,272)	(1,633,933)	(1,347,437)
Other income, net	2,172	-	5,765	21,068
Net loss before provision for income taxes	(757,733)	(711,272)	(1,628,168)	(1,326,369)
Provision for income taxes	-	-	800	800
Net loss	$ (757,733)	$ (711,272)	$ (1,628,968)	$ (1,327,169)
Weighted average shares outstanding-basic and diluted	58,735,772	43,540,220	58,484,532	43,446,664
Net loss per share – basic and diluted	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.03)

See accompanying notes to financial statements.

CROWDGATHER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED OCTOBER 31, 2011 AND 2010
(UNAUDITED)

	2011	2010
Cash flows from operating activities:		
Net loss	$ (1,628,968)	$ (1,327,169)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	63,690	42,097
Stock-based compensation	405,600	322,000
Stock issued for services	103,533	404,100
Changes in operating assets and liabilities:		
Accounts receivable	218,216	37,405
Inventory	(18,490)	-
Prepaid expenses and deposits	(32,459)	1,734
Accounts payable and accrued liabilities	(50,957)	(78,668)
Net cash used in operating activities	(939,835)	(598,501)
Cash flows from investing activities:		
Purchase of property and equipment	(52,590)	(10,341)
Purchase of intangible assets	(2,554,494)	(57,392)
Acquisitions, net of cash	-	(16,107)
Net cash used in investing activities	(2,607,084)	(83,840)
Cash flows from financing activities:		
Proceeds from the issuance of preferred stock	-	1,300,000
Proceeds from the issuance of common stock, net of expenses	-	90,363
Net cash provided by financing activities	-	1,390,363
Net increase (decrease) in cash	(3,546,919)	708,022
Cash, beginning of period	6,667,901	589,408
Cash, end of period	$ 3,120,982	$ 1,297,430
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ -	$ -
Income taxes	$ 800	$ 1,600
Non-cash transactions:		
Issuance of common stock for acquisitions	$ 1,149,541	$ 4,600,000
Stock issuance obligation	$ 2,699,722	3,679,322
Stock-based compensation	$ 405,600	$ 322,000
Stock issued for services	$ 103,533	$ 404,100
Stock issued for prepaid expenses	$ 46,367	$ -

See accompanying notes to financial statements.

5

CROWDGATHER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2011
(UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background and Nature of Operations

CrowdGather, Inc. (hereinafter referred to as “we”, “us”, “our”, or “the company”) is an internet company that specializes in developing and hosting forum based websites and is headquartered in Woodland Hills, California. The Company was incorporated under the laws of the State of Nevada on April 20, 2005.

On June 9, 2010, we acquired Adisn, Inc. through an exchange of stock. As a result, Adisn, Inc. became our wholly-owned subsidiary and provides targeted advertising and marketing services for our online customers.

The accompanying condensed consolidated financial statements include our activities and our wholly-owned subsidiary, Adisn, Inc. 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 our annual report on Form 10-K for the year ended April 30, 2011. 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 and six months ended October 31, 2011, 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 our audited financial statements for the year ended April 30, 2011, included in our 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 us 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.

Identifiable Intangible Assets

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 350, Intangibles – Goodwill and Other (ASC 350), 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, we compare 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, we calculate the impairment as the excess of the carrying value over the estimate of fair value and accordingly record 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.

CROWDGATHER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2011
(UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFIANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

In accordance with ASC 360, we estimate 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 our estimate of future undiscounted cash flows, we then calculate the impairment as the excess of the carrying value of the asset over our estimate of its fair value.

Revenue Recognition

We currently work with third-party advertising networks and advertisers pay for advertising on a cost per thousand views, cost per click or cost per action basis. 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.

Stock Based Compensation

We account 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

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

Reclassifications

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

7

CROWDGATHER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2011
(UNAUDITED)

2. ASSET ACQUISITIONS

On May 17, 2011 we acquired for $99,900 certain brand assets and stock from Human Pheromone Sciences, Inc., a company engaged in the research, development, manufacturing and marketing of consumer products containing synthetic human pheromones.

On May 20, 2011, we entered into a Website and Domain Name Purchase and Sale Agreement (“PB Purchase Agreement”) with PbNation, LLC (“PbNation”), to acquire the websites and domain names (“Websites”) set forth below:

www.pbnation.com
www.pbnation.mobi
www.pbnation.name
www.pbnation.net
www.pbnation.org
www.pbnation.tv
www.paintballnation.com
www.paintballnation.org
www.pbnation.biz
www.pbnation.bz
www.pbnation.cc
www.pbnation.us
www.pbnation.us.com

The PB Purchase Agreement also provides that we acquire all associated software used in building the Websites, along with the associated user lists, databases, add-ons installed with these forums and associated accounts for the Websites.

The total purchase price of the Websites was $3,200,000, consisting of: (i) $1,400,000 payable in cash; (ii) $1,000,000 payable in 1,149,425 shares of our $.001 par value common stock (“Shares Payment”); and (iii) certain additional cash and stock compensation totaling approximately $800,000 based on certain monthly website visitor traffic milestones as specified in the PB Purchase Agreement. The Shares Payment was calculated by dividing $1,000,000 by $0.87, which was the 10 day volume weighted average price of our common stock as of May 20, 2011. During the six months ended October 31, 2011, we paid $300,000 of additional cash consideration for the traffic milestones reached related to the acquisition of the Websites.

Also, on May 20, 2011 we issued 117,647 shares of our $.001 par value common stock valued at $100,000 for the remaining amount due in connection with our acquisition of Pocketables.com.

On June 27, 2011 we acquired the domain name, website, and assets related to Writers.net in exchange for a total purchase price of $100,000 consisting of: (i) $70,000 payable in cash and (ii) $30,000 payable in 37,500 shares of our $.001 par value common stock. Writers.net is an Internet directory of writers, editors, publishers and literary agents. The site’s founder, Stephan Spencer, joined our Advisory Board.

On September 7, 2011, we purchased certain websites, domain names and related assets from Inform Technologies, Inc. for $575,000. In connection with our purchase, we entered into a consulting agreement that requires us to pay an additional $3,333 per month for three (3) months and other contingent consideration of up to $165,000 if certain conditions are met following the term of the consulting agreement.

CROWDGATHER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2011
(UNAUDITED)

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	October 31, 2011	April 30, 2011
Furniture, fixtures and office equipment	$ 30,919	$ 17,614
Computers, servers and equipment	335,226	295,941
	366,145	313,555
Less: accumulated depreciation	(189,024)	(140,804)
	$ 177,121	$ 172,751

Depreciation expense was $48,220 for the six months ended October 31, 2011.

4. CONCENTRATIONS OF CREDIT RISK

As of October 31, 2011, two customers accounted for 100% of our outstanding receivables. In addition, two customers accounted for approximately 63% of our sales for the period ended October 31, 2011.

5. INTANGIBLE ASSETS

We purchased online forums, message boards and website domain names for cash in the amount of $2,554,494 and stock valued at $1,149,541 during the six months ended October 31, 2011 as detailed in Note 2. Intangibles are either amortized over their estimated lives, if a definite life is determined, or are not amortized if their life is considered indefinite. We account for the 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 October 31, 2011, we recorded $46,410 of amortization associated with its definite lived intangibles. Intangibles consist of the following:

	Est. Life	October 31, 2011	April 30, 2011
Online forums and related websites	Indefinite	$ 6,966,682	$ 3,262,647
Target advertising technology	Indefinite	2,250,000	2,250,000
Trademarks and trade names	10 years	190,000	190,000
Customer lists	3 years	140,000	140,000
		9,546,682	5,842,647
Less: accumulated amortization		(46,410)	(30,940)
		$ 9,500,272	$ 5,811,707

As of October 31, 2011, we determined that the fair value of our intangible assets exceeded their carrying amounts and therefore our intangible assets were not impaired.

CROWDGATHER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2011
(UNAUDITED)

6. GOODWILL

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. Goodwill is not amortized, but is tested for impairment on an annual basis and between annual tests in certain circumstances. The performance of the goodwill impairment test involves a two-step process. The first step involves comparing the fair value of our reporting units to their carrying values, including goodwill. We determine fair value based on estimated future cash flows of each reporting unit discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. The cash flow projections for each reporting unit are based on a five-year forecast of cash flows, derived from the most recent annual financial forecast. If the carrying value of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed by comparing the carrying value of the goodwill in the reporting unit to its implied fair value. An impairment charge is recognized for the excess of the carrying value of goodwill over its implied fair value.

As of October 31, 2011, we determined that the fair value of the goodwill exceeded its carrying value and therefore goodwill was not impaired.

7. COMMON STOCK

On May 1, 2011, we issued 60,000 shares of restricted common stock to a consultant for a six month service contract. The shares were valued at $61,200 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 six months ended October 31, 2011 was $61,200.

On May 20, 2011, we issued 1,149,425 shares of restricted common stock in connection with our purchase of intangible assets pursuant to the PB Nation Agreement valued at $1,000,000.

Also, on May 20, 2011, we issued 117,647 shares of restricted common stock in connection with our purchase of intangible assets of Pocketables.com valued at $100,000.

On May 26, 2011, we issued 22,989 shares of restricted common stock in connection with a forum purchased valued at $19,541.

On June 24, 2011, we issued 37,500 shares of restricted common stock in connection with our purchase of intangible assets of Writers.net valued at $30,000.

On July 21, 2011, we issued 178,724 shares of restricted common stock to a consultant for a twelve month service contract. The shares were valued at $84,000 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 six months ended October 31, 2011 was $23,333 with the remaining $60,667 to be amortized over the remaining life of the contract.

On July 23, 2011, we issued 482,029 shares of restricted common stock for certain service agreements in connection with our Lefora acquisition in the prior year that was previously accrued and recorded as a common stock issuance obligation. The shares have a total value of $300,000.

On September 21, 2011, we issued the final allotment of 759,304 shares of our common stock to the Adisn, Inc. shareholders in connection with our acquisition of Adisn, Inc. in July 2010. The remaining 1,089,436 shares of our common stock that were held per the acquisition escrow instructions were returned to us and immediately cancelled. As such, our common stock obligation decreased by $1,299,722.

CROWDGATHER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2011
(UNAUDITED)

7. COMMON STOCK (Continued)

On October 1, 2011, we entered into an agreement for consulting services with a term of six months. This agreement calls for a monthly fee of $6,500 and the issuance of 60,000 warrants to purchase our common stock $0.26 per share. The warrants vest over the six month term at 10,000 warrants per month, expire in three years and have a cashless exercise provision. The stock-based expense for these shares included in operating expenses for the six months ended October 31, 2011 was $2,600 with the remaining $13,000 to be amortized over the remaining life of the contract.

On October 4, 2011, we entered into an agreement for consulting services with a term of three months. This agreement calls for monthly cash compensation of $2,000 and monthly stock compensation of $1,000. We recorded the 12,000 shares of our common stock as a common stock issuance obligation, valued at $3,000 per the agreement. The stock-based expense for these shares included in operating expenses for the six months ended October 31, 2011 was $1,000 with the remaining $2,000 to be amortized over the remaining life of the contract.

8. STOCK OPTIONS

In May 2008 our board of directors 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 six months ended October 31, 2011, we issued stock options for 1,131,000 shares of our common stock, exercisable at various dates through May 2016 at fair market value at the date of grant of $0.26 to $0.85 per share to recipients pursuant to the Plan.

For the six months ended October 31, 2011, we recognized $390,000 of stock-based compensation costs as a result of the issuance of stock options to employees, directors and consultants in accordance with ASC 505.

Stock option activity was as follows for the six months ended October 31, 2011:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (Years)	Aggregate Intrinsic Value
Outstanding, May 1, 2011	3,678,750	$ 1.13	4.50	$ 3,616,656
Granted	1,181,000	0.37	9.77	461,843
Forfeited/Expired	-	-	-	-
Exercised	-	-	-	-
Outstanding, October 31, 2011	4,759,750	$ 1.02	9.07	$ 4,078,499
	1,598,750	$ 1.18	7.16	$ 1,884,141

Exercisable, October 31, 2011

CROWDGATHER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2011
(UNAUDITED)

8. STOCK OPTION (Continued)

A summary of the status of our unvested shares as of October 31, 2011 is presented below:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Non-vested balance, May 1, 2011	2,624,062	$ 1.13
Granted	1,081,000	0.65
Vested	(524,061)	0.83
Forfeited/Expired	-	-
Non-vested balance, October 31, 2011	3,181,001	$ 0.66

As of October 31, 2011, total unrecognized stock-based compensation cost related to unvested stock options was $1,892,728, which is expected to be recognized over a weighted-average period of approximately 2.49 years.

The fair val