

CMG HOLDINGS GROUP, INC.  
Form 10-Q  
September 28, 2012

QUARTELY REPORT JUNE 30, 2011  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2012

Commission file number 000-51770

CMG HOLDINGS GROUP, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

87-0733770  
(I.R.S. Employer Identification  
No.)

5601 Biscayne Boulevard  
Miami, Florida, USA  
(Address of principal executive  
offices)

33137  
(Zip Code)

Registrant's telephone number including area code (305) 751-1667

-----  
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 x No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company x

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

As of September 28, 2012, the aggregate market value of the Registrant's voting and none-voting common stock held by non-affiliates of the registrant was approximately: \$5,530,638 at \$0.02 price per share, based

Edgar Filing: CMG HOLDINGS GROUP, INC. - Form 10-Q

on the closing price on the OTC Pink Sheets. As of September 28, 2012, there were 277,022,221 shares of common stock of the registrant issued and 276,985,047 outstanding.

CMG HOLDINGS GROUP, INC.  
FORM 10-Q

TABLE OF CONTENTS

Item #	Description	Page Numbers
<b>PART I</b>		<b>3</b>
ITEM 1	CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)	3
ITEM 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	9
ITEM 3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	10
ITEM 4	CONTROLS AND PROCEDURES	11
<b>PART II</b>		
ITEM 1	LEGAL PROCEEDINGS	18
ITEM 1A	RISK FACTORS	18
ITEM 2	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	18
ITEM 3	DEFAULTS UPON SENIOR SECURITIES	19
ITEM 4	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	25
ITEM 5	OTHER INFORMATION	28
ITEM 6	EXHIBITS	29
<b>SIGNATURES</b>		<b>29</b>
EXHIBIT 31.1	SECTION 302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER	
EXHIBIT 31.2	SECTION 302 CERTIFICATION OF CHIEF FINANCIAL OFFICER	
EXHIBIT 32.1	SECTION 906 CERTIFICATION OF CHIEF EXECUTIVE OFFICER	
EXHIBIT 32.2	SECTION 906 CERTIFICATION OF CHIEF FINANCIAL OFFICER	



PART I

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

CMG HOLDINGS GROUP, INC.  
UNAUDITED FINANCIAL STATEMENTS

FOR THE QUARTER ENDED JUNE 30, 2012 AND 2011

CONTENTS

Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011 (Unaudited)	4
Consolidated Statements of Operations for the three months and six months ended June 30, 2012 and 2011 (Unaudited)	5
Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011 (Unaudited)	6
Notes to Consolidated Financial Statements (Unaudited)	7

CMG HOLDINGS, INC  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 604,184	\$ 337,779
Marketable securities	5,901	1,949
Accounts receivable, net of allowance of \$59,003 and \$59,003 respectively	1,011,756	71,619
Prepaid and Other Current Assets	73,832	58,058
Current Assets of Discontinued Operations	159,641	69,451
<b>Total current assets</b>	<b>1,855,314</b>	<b>538,856</b>
Noncurrent Assets of Discontinued Operations	15,557	6,000
Intangible assets, net of accumulated amortization of \$894,998 and \$820,414, respectively	-	74,584
<b>TOTAL ASSETS</b>	<b>\$ 1,870,871</b>	<b>\$ 619,440</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Client payable	\$ 11,317	\$ 11,317
Accounts payable	1,006,802	1,093,548
Accounts payable – related party	56,045	169,550
Accrued liabilities	1,824,798	1,130,817
Deferred income	78,849	216,365
Derivative liabilities	564,811	444,150
Short term debt, net of unamortized discount of \$104,240 and \$183,110, respectively	1,178,205	1,211,389
Line of credit	109,921	107,560
Advances from related parties – current portion	74,328	86,328
Current Liabilities of Discontinued Operations	1,003,174	913,615
<b>TOTAL CURRENT LIABILITIES</b>	<b>5,908,250</b>	<b>5,384,639</b>
Long term liabilities of Discontinued Operations	1,593,756	1,245,843
<b>TOTAL LIABILITIES</b>	<b>7,502,006</b>	<b>6,630,482</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock:		
Series A Convertible Preferred Stock; 5,000,000 shares authorized; par value \$0.001 per share; none issued and outstanding		
Series B Convertible Preferred Stock; 5,000,000 shares authorized; par value \$0.001 per share; 50,000 and 0 shares issued and outstanding		
	50	50
Common Stock:		
	269,323	124,812

Edgar Filing: CMG HOLDINGS GROUP, INC. - Form 10-Q

450,000,000 shares authorized, par value \$.001 per share; 269,322,259 and  
124,811,383 shares issued, 269,322,221 and 124,774,209 outstanding

Additional paid in capital	13,951,017	12,254,301
Treasury Stock, 37,174 and 37,174 shares held, respectively.	37	37
Accumulated deficit	(19,851,562)	(18,390,242)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(5,631,135 )</b>	<b>(6,011,042 )</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 1,870,871</b>	<b>\$ 619,440</b>

See accompanying notes to unaudited consolidated financial statements.

CMG HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenues	\$ 6,159,910	\$ 4,700,528	\$ 7,143,059	\$ 5,400,369
Operating expenses:				
Cost of revenues	4,465,668	3,237,382	4,933,747	3,534,689
Depreciation and amortization expense	266	74,583	74,850	149,166
Operating expenses	905,387	856,427	1,957,866	1,613,175
Operating income (loss)	788,589	532,136	176,596	103,339
Other income (expense)				
Gain (loss) on derivative liability	(695,353)	1,495,723	(593,163)	2,402,933
Unrealized gain (loss) on marketable securities	--	(26,900)	--	(21,904)
Other income (expense)	13,655	-	--	--
Interest expense	(372,910)	(246,917)	(687,825)	(466,348)
Income (loss) from continuing operations	(266,019 )	1,754,042	(1,104,392 )	2,018,020
Income (loss) from discontinued operations	(167,487 )	(518,283 )	(356,928)	(980,641 )
Net Income (Loss)	\$ (433,506)	\$ 1,235,759	\$ (1,461,320)	\$ 1,037,379
Basic and diluted income (loss) per common share for discontinued operations	\$ (0.00)	\$ 0.03	\$ (0.00)	\$ 0.03
Basic and diluted income (loss) per common share for continuing operations	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Total basic and diluted income (loss) per common share	\$ (0.00)	\$ 0.02	\$ (0.01)	\$ 0.02
Basic weighted average common shares outstanding	210,246,724	64,223,763	191,449,287	62,077,496
Diluted weighted average common shares outstanding	210,246,724	64,223,763	191,449,287	62,195,289



See accompanying notes to unaudited consolidated financial statements

CMG HOLDINGS GROUP, INC  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended	
	June 30, 2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (1,461,320)	\$ 1,037,379
Net Loss from continuing operations	(1,104,392)	2,018,020
Net Loss from discontinued operations	(356,928)	(980,641)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of deferred financing costs	--	68,292
Shares issued for services	222,020	41,437
Amortization of intangible assets	74,584	149,166
Depreciation expense	--	--
Loss on settlement of debt	--	288,618
Unrealized loss on trading securities	-	21,904
Loss (gain) on derivatives	593,163	(2,402,933)
Bad debt expense	6,198	-
Amortization of debt discount	596,841	323,098
Changes in:		
Accounts receivable	(946,335)	(381,682)
Prepaid expense and other current assets	(19,726)	(55,676)
Deferred income	(137,516)	(58,050)
Accrued liabilities	700,218	368,022
Accounts payable	386,197	(114,724)
Accounts payable, related party	(113,505)	--
Cash used in continuing operations	(99,181)	(715,149)
Cash provided by discontinued operations	137,372	76,434
Net cash (used) provided by operating activities	38,191	(638,715 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash used in discontinued operations	(10,647)	(441 )
Net cash used in investing activities	(10,647 )	(441 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on related parties debt	(12,000)	(50,000)
Advances from related parties	-	306,749
Proceeds from issuance of debt	37,500	75,000
Stock issued for cash	--	157,000
Net borrowings on line of credit	2,361	19,180
Cash provided by continuing operations	27,861	507,929
Cash provided by discontinued operations	211,000	497,500
Net cash provided by financing activities	238,861	1,005,429
Net increase in cash	266,405	366,273

Edgar Filing: CMG HOLDINGS GROUP, INC. - Form 10-Q

Cash, beginning of period	337,779	9,013
Cash, end of period	\$ 604,184	\$ 375,286

Supplemental cash flow information:

Interest paid	\$ 4,735	\$ 61,108
Non-cash investing activity:		
Reclassification of accrued interest into debt	64,103	-
Reclassification of accounts payable to short term debt	\$ 472,943	\$ 204,878
Preferred stock issued for inventory	--	3,240,502
Discount on notes payable from derivative liability	517,970	160,000
Common stock issued for settlement of notes payable		191,398
Reclassification of derivative liabilities from additional paid-in-capital	-	10,857,628
Reclassification of derivative liabilities to additional paid-in capital	990,472	7,894,220
Conversion of debt to equity	628,735	-
Assignment of debt	--	-

See accompanying notes to unaudited consolidated financial statements.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1 –BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of CMG Holdings Group, Inc. (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes contained in its 2011 annual report on Form 10-K. In the opinion of management, these interim financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Our future results of operations may change materially from the historical results of operations reflected in our historical financial statements. The unaudited consolidated financial statements should be read in conjunction with the historical audited consolidated financial statements and footnotes of the Company and management’s discussion and analysis of financial condition and results of operations included in the Company’s Annual Report for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on Form 10-K. Notes to the financial statements that would substantially duplicate the disclosure contained in the audited financial statements for fiscal year 2011, as reported in the Form 10-K, have been omitted.

Principles of Consolidation

The consolidated financial statements include the accounts of CMG Holdings Group, Inc., CMG Acquisition, Inc., CMGO Capital, Inc., The Experiential Agency, Inc., Audio Eye, Inc., CMGO Logistics, Inc., , and Creative Management Group, Inc. USaveCT and USaveNJ, after elimination of all significant inter-company accounts and transactions. In September 2010, AudioEye, Inc., a wholly owned subsidiary of the Company formed Empire Technologies, LLC (“Empire”) as part of a joint venture with LVS Health Innovations, Inc. (“LVS”) whereby AudioEye owns 50% of Empire. Empire had no transactions as of as of June 30, 2012.

Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued ASC 820 which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of ASC 820 were effective January 1, 2008. ASC 820 delays the effective date for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008.

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs. ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy defined by ASC 820 are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category generally include non-exchange-traded derivatives such as commodity swaps, interest rate swaps, options and collars.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## NOTE 1 – BASIS OF PRESENTATION (continued)

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

The following table sets forth by level within the fair value hierarchy the Company’s financial assets and liabilities that were accounted for at fair value as of June 30, 2012 and 2011. As required by ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

June 30, 2012	Level 1	Level 2	Level 3	Total
Marketable trading securities	\$ 5,901	\$ -	\$ -	\$ 5,901
Derivative Liabilities	\$ -	\$ -	\$ 564,811	\$ 564,811
December 31, 2011	Level 1	Level 2	Level 3	Total
Marketable trading securities	\$ 1,949	\$ -	\$ -	\$ 1,949
Derivative Liabilities	\$ -	\$ -	\$ 444,150	\$ 444,150

The Company applies the provisions of Accounting Standards Codification 320, “Investments – Debt and Equity Securities”, regarding marketable securities. The Company invests in securities that are intended to be bought and held principally for the purpose of selling them in the near term, and as a result, classifies such investments as trading securities. Trading securities are recorded at fair value on the balance sheet with changes in fair value being reflected as unrealized gains or losses in the current period. In addition, the Company classifies the cash flows from purchases, sales, and maturities of trading securities as cash flows from operating activities.

Details of the Company's marketable trading securities as of June 30, 2012 and December 31, 2011 are as follows:

	2012	2011
Aggregate fair value	\$ 5,901	\$ 1,949
Gross unrealized holding gains	-	-
Gross unrealized holding losses	--	33,057
Proceeds from sales	\$ -	\$ -
Gross realized gains	-	--
Gross realized losses	-	--
Other than temporary impairment	-	--

## Discontinued Operations

In accordance with ASC 205-20, Presentation of Financial Statements – Discontinued Operations, we reported the results of our subsidiary, AudioEye Inc., as a discontinued operation. The application of ASC 205-20 is discussed in Note 2 below.

NOTE 2 - DISCONTINUED OPERATIONS

On August 17, 2012 the Company, AudioEye Acquisition Corporation and CMGO Investors, LLC finalized and completed their Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes and their Share Exchange pursuant to their Amended Master Agreement in order to allow the payment by AudioEye of the Company's outstanding Note and to cause the release of the Notes and security therefore. Pursuant to the Amended Master Agreement: The Company will retain 15% of AudioEye subject to transfer restrictions in accordance with the Agreement. The Company will distribute to its shareholders, in the form of a dividend, 5% of the capital stock of AudioEye in accordance with provisions of the Agreement. AudioEye has finalized a Royalty Agreement with the Company to pay to the Company 10% of cash received from income earned, settlements or judgments directly resulting from, AudioEye's patent enforcement and licensing strategy whether received by, AudioEye or any of its affiliates, net of any direct costs or tax implications incurred in pursuit of such strategy pertaining to the patents as fully described in the Agreement. AudioEye has finalized a Consulting Services Agreement with the Company whereby the Company will receive a commission of not less than 7.5% of all revenues received by AudioEye after the closing date from all business, clients or other sources of revenue procured by the Company or its employees, officers or subsidiaries and directed to AudioEye and 10% of net revenues obtained from a third party described in the agreement. AudioEye has finalized the release of the obligations of the Company under the Notes pursuant to a novation or other form of release of such obligation which shall include a termination of any security interest on any post Spin Off assets of the Company.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## NOTE 2 – DISCONTINUED OPERATIONS (continued)

As a result of the spin off, the Company has classified the assets and liabilities of Audioeye, Inc. as discontinued operations at June 30, 2012 and has segregated its operating results and presented them separately as a discontinued operation for all periods presented.

A summarized operating result for discontinued operations is as follows:

	Three months ended		Six months ended	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Revenues	(40,624 )	(24,118 )	(55,630 )	(111,760 )
Cost of revenues	68,673	69,735	158,408	104,759
Depreciation and amortization expense	824	19,046	824	39,366
Operating expenses	134,114	306,024	274,326	670,658
Operating Loss	162,987	370,687	377,928	703,023
Other income (expense)	-	-	25,500	-
Unrealized gain on marketable securities	(4,500 )	(7,000 )	(4,500 )	11,000
Interest Expense	-	(140,596 )	-	(288,618 )
Net Loss from discontinued operations	167,487	518,283	356,928	980,641

Summary of asset and liabilities of discontinued operations is as follows:

	6/30/2012	12/31/2011
Cash	26,090	27,425
Receivables	81,426	10,901
Receivables - related party	13,125	13,125
Investments	39,000	18,000
Intangibles	503	0
Property and Equipment	15,054	6,000
Total assets of discontinued operations	175,198	75,451
Accounts payable	302,103	319,825
Accrued liabilities	583,051	508,582
Deferred income	118,020	12,308
Short term debt	24,000	72,900
Long term debt	1,569,756	1,245,843
Total liabilities of discontinued operations	2,596,930	2,159,458



CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 3 - EQUITY

Common Stock:

Asher Enterprises, Inc. Agreements

On August 24, 2011 the company issued a convertible promissory note for \$37,500 to Asher Enterprises, Inc. On March 12, 2012, the Company issued 2,500,000 shares of common stock to settle \$12,000 of the note. On March 15, 2012, the Company issued 2,926,829 shares of common stock to settle \$12,000 of the note. On March 19, 2012, the Company issued 3,571,429 shares of common stock to settle \$12,500 of the note. On March 28, 2012, the Company issued 862,069 shares of common stock to settle the remaining \$1,000 of the note and \$1,500 of accrued interest.

On October 4, 2011 the company issued a convertible promissory note for \$45,000 to Asher Enterprises, Inc. On April 25, 2012, the Company issued 4,800,000 shares of common stock to settle \$12,000 of the convertible debenture note. On April 27, 2012, the Company issued 5,769,231 shares of common stock to settle \$15,000 of the convertible debenture note. On May 1, 2012, the Company issued 7,071,429 shares of common stock to settle the final \$18,000 of the convertible debenture note and \$1,800 of accrued interest.

Aware Capital Consultants Inc. Agreements

On August 8, 2011, the Company assigned \$60,000 of its accounts payable from a third party to Aware Capital Consultants, Inc. On August 10, 2011 the Company modified \$60,000 of the payables into a convertible debenture. As of December 31, 2011, the Company had an outstanding balance of notes payable due to Aware Capital Consultants Inc. of \$15,000. On February 6, 2012, the Company issued 4,000,000 shares of common stock to settle \$8,000 of the note. On March 20, 2012, the Company issued 3,500,000 shares of common stock to settle the remaining \$7,000 of the note.

Magna Group LLC. Agreements

On October 17, 2011, the Company assigned \$148,000 of its accounts payable from a third party to Magna Group, LLC. The convertible promissory note bears interest at 10% due on October 17, 2012. On January 13, 2012 the Company issued 2,463,055 shares of common stock to settle \$10,000 of the note. On February 3, 2012, the Company issued 4,056,796 shares of common stock to settle \$20,000 of the note. On February 23, 2012, the Company issued 2,638,987 shares of common stock to settle \$15,000 of the note.

On March 16, 2012, the Company issued 4,171,301 shares of common stock to settle \$15,000 of the note. On April 4, 2012, the Company issued 5,747,127 shares of common stock to settle \$15,000 of the note. On April 17, 2012, the Company issued 2,850,324 shares of common stock to settle \$5,000 of the note and \$2,935 of accrued interest. On May 2, 2012, the Company issued 2,567,866 shares of common stock to settle the remaining \$7,000 of the note.

Hanover Holdings, LLC. Agreement

On October 17, 2011, the Company issued a convertible promissory note for \$50,000 to Hanover Holdings, LLC. On May 18, 2012, the Company issued 7,928,957 shares of common stock to settle \$25,000 of the note. As of June 30, 2012, the Company has an outstanding of notes payable due to Hanover Holdings, LLC of \$25,000.

Hudson Capital Advisors, Inc. Agreement

On January 5, 2012, the Company modified its July 11, 2011 agreement with Hudson Capital Advisors, Inc. into a \$100,000 convertible debenture note bearing interest at 2% due on January 5, 2013. The new note was convertible at the lowest trading price in the three days prior to the day that the Holder requests conversion, with a floor of \$.01. On March 8, 2012, the Company issued 1,500,000 shares of common stock to settle \$15,750 of the convertible debenture note. On March 29, 2012, the Company issued 6,425,000 shares of common stock to settle \$64,250 of the convertible debenture note. On June 5, 2012 the Company assigned \$20,000 of its convertible debenture note to Paul Sweeney. On June 5, 2012 the Company issued 19,910,438 shares of common stock to settle the remaining \$20,000 of the convertible debenture note.

#### Braeden Storm Enterprises, Inc. Agreement

On January 5, 2012, the Company modified its July 6, 2011 agreement with Braeden Storm Enterprises, Inc. into a \$90,000 convertible debenture note bearing interest at 2% due on January 6, 2013. The new note was convertible at the lowest trading price in the three days prior to the day that the Holder requests conversion, with a floor of \$.01. On February 24, 2012, the Company issued 3,000,000 shares of common stock to settle \$30,000 of the convertible debenture note. On April 3, the Company issued 6,000,000 shares of common stock to settle the remaining \$60,000 of the convertible debenture note.

On February 10, 2012, the Company assigned \$56,000 of its accounts payable from a third party to Braeden Storm Enterprises, Inc. The convertible promissory note bears interest at 10% due on April 15, 2013 and is convertible at 50% of the lowest trading price in the three days prior to conversion. On April 3, 2012, the Company issued 7,000,000 shares of common stock to settle the remaining \$56,000 of the convertible debenture note.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 3 - EQUITY (Continued)

Martin Boyle Agreement

On January 5, 2012, the Company modified its September 2, 2011 agreement with Boyle into a \$35,000 convertible debenture note bearing interest at 2% due on January 8, 2013. The new note was convertible at the lowest trading price in the three days prior to the day that the Holder requests conversion, with a floor of \$.01. On March 5, 2012, the Company issued 2,800,000 shares of common stock to settle the full \$35,000 of the convertible debenture note.

Grassy Knolls, LLC Agreement

On January 4, 2012, the Company modified its July 5, 2011 agreement with Grassy Knolls, LLC into a \$72,000 convertible debenture note bearing interest at 2% due on January 4, 2013. The new note was convertible at the lowest trading price in the three days prior to the day that the Holder requests conversion, with a floor of \$.01. On April 10, 2012, The Company issued 7,200,000 shares of common stock to settle the remaining \$72,000 of the convertible debenture.

Scott Baily Agreement

On January 4, 2012, the Company modified its October 2, 2011 agreement with Scott Baily into a \$60,000 convertible debenture note bearing interest at 2% due on January 5, 2013. The new note was convertible at the lowest trading price in the three days prior to the day that the Holder requests conversion, with a floor of \$.01. On April 26, 2012, The Company issued 6,000,000 shares of common stock to settle the remaining \$60,000 of the convertible debenture.

Shares for Services

During the six months ended June 30, 2012, the Company engaged several consultants to perform services and issued 17,250,000 shares as compensation for services. The shares were valued at \$222,020 and were recorded to expense as of June 30, 2012.

NOTE 4 - NOTES PAYABLE

Asher Enterprises, Inc.

On February 6, 2012 the company issued a convertible promissory note for \$37,500 to Asher Enterprises, Inc. The note bears interest at 8% and is due on November 8, 2012 and any amount not paid by November 8, 2012 will incur a 22% interest rate. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date after 180 days. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as liabilities once the conversion option becomes effective after 180 days due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options.

On October 4, 2011 the company issued a convertible promissory note for \$45,000 to Asher Enterprises, Inc. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date after 180 days. The Company analyzed the conversion option for

derivative accounting consideration under ASC 815-15 “Derivatives and Hedging” and determined that the instrument should be classified as liabilities once the conversion option becomes effective after 180 days due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. As a result, the instrument was measured at fair value of the embedded conversion option and a full discount to the note was recorded on April 1, 2012. On April 25, 2012, the Company issued 4,800,000 shares of common stock to settle \$12,000 of the convertible debenture note. On April 27, 2012, the Company issued 5,769,231 shares of common stock to settle \$15,000 of the convertible debenture note. On May 1, 2012, the Company issued 7,071,429 shares of common stock to settle the final \$18,000 of the convertible debenture note and \$1,800 of accrued interest. As a result of the full conversion, the entire discount of \$45,000 was amortized to interest expense during the six months ended June 30, 2012.

On August 24, 2011 the company issued a convertible promissory note for \$37,500 to Asher Enterprises, Inc. The note is convertible at 50% of the average of the lowest three trading prices for the Company’s common stock during the ten trading day period prior to the conversion date after 180 days. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 “Derivatives and Hedging” and determined that the instrument should be classified as liabilities once the conversion option becomes effective after 180 days due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. As a result, the instrument was measured at fair value of the embedded conversion option and a full discount to the note was recorded on February 20, 2012. See note 5 for additional information on the derivative liability. On March 12, 2012, the Company issued 2,500,000 shares of common stock to settle \$12,000 of the note. On March 15, 2012, the Company issued 2,926,829 shares of common stock to settle \$12,000 of the note. On March 19, 2012, the Company issued 3,571,429 shares of common stock to settle \$12,500 of the note. On March 28, 2012 The Company issued 862,069 shares of common stock to settle the remaining \$1,000 of the note and \$1,500 of accrued interest. As a result of the full conversion, the entire discount of \$37,500 was amortized to interest expense during the six months ended June 30, 2012.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 4 - NOTES PAYABLE (Continued)

Hudson Capital Advisors, Inc.

On January 5, 2012, the Company modified its July 11, 2011 agreement with Hudson Capital Advisors, Inc. into a \$100,000 convertible debenture note bearing interest at 2% due on January 5, 2013. The new note was convertible at the lowest trading price in the three days prior to the day that the Holder requests conversion, with a floor of \$.01. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$87,614 on the date of the note. The discount will be amortized over the term of the note to interest expense. See note 5 for additional information on the derivative liability. On March 8, 2012, the Company issued 1,500,000 shares of common stock to settle \$15,750 of the convertible debenture note. On March 29, 2012, the Company issued 6,425,000 shares of common stock to settle \$64,250 of the convertible debenture note. On June 5, Hudson assigned the remaining \$20,000 of its convertible debenture note to Paul Sweeney. On June 5 the Company issued 19,910,448 shares of common stock to settle the remaining \$20,000 of the convertible debenture note. As a result of the full conversion, the entire discount of \$87,614 was amortized to interest expense during the six months ended June 30, 2012.

Braeden Storm Enterprises, Inc.

On January 5, 2012, the Company modified its July 6, 2011 agreement with Braeden Storm Enterprises, Inc. into a \$90,000 convertible debenture note bearing interest at 2% due on January 6, 2013. The new note was convertible at the lowest trading price in the three days prior to the day that the Holder requests conversion, with a floor of \$.01. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$79,254 on the date of the note. The discount will be amortized over the term of the note to interest expense. See note 5 for additional information on the derivative liability. On February 24, 2012, the Company issued 3,000,000 shares of common stock to settle \$30,000 of the convertible debenture note. On April 3, the Company issued 6,000,000 shares of common stock to settle the remaining \$60,000 of the convertible debenture note. As a result of the full conversion, the entire discount of \$79,254 was amortized to interest expense during the six months ended June 30, 2012.

On February 10, 2012, the Company assigned \$56,000 of its accounts payable from a third party to Braeden Storm Enterprises, Inc. The convertible promissory note bears interest at 10% due on April 15, 2013. The new note was convertible at 50% of the lowest trading price in the three days prior to the day that the Holder requests conversion. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a full discount on the date of the note. On April 3, 2012, the Company issued 7,000,000 shares of common stock to settle the remaining \$56,000 of the convertible debenture note. As a result of the full conversion, the entire discount of \$56,000 was amortized to interest expense during the six months ended June 30, 2012.

Martin Boyle

On January 5, 2012, the Company modified its September 2, 2011 agreement with Boyle into a \$35,000 convertible debenture note bearing interest at 2% due on January 8, 2013. The new note was convertible at the lowest trading price in the three days prior to the day that the Holder requests conversion, with a floor of \$.01. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$30,667 on the date of the note. The discount will be amortized over the term of the note to interest expense. See note 5 for additional information on the derivative liability. On March 5, 2012, the Company issued 2,800,000 shares of common stock to settle the full \$35,000 of the convertible debenture note. As a result of the full conversion, the entire discount of \$30,667 was amortized to interest expense during the six months ended June 30, 2012.

#### Scott Baily

On January 8, 2012, the Company modified its October 2, 2011 agreement with Scott Baily into a \$60,000 convertible debenture note bearing interest at 2% due on January 5 2013. The new note was convertible at the lowest trading price in the three days prior to the day that the Holder requests conversion, with a floor of \$.01. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$52,685 on the date of the note. On April 26, 2012, The Company issued 6,000,000 shares of common stock to settle the remaining \$60,000 of the convertible debenture. As a result of the full conversion, the entire discount of \$52,685 was amortized to interest expense during the six months ended June 30, 2012.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 4 - NOTES PAYABLE (Continued)

Grassy Knolls, LLC

On January 4, 2012, the Company modified its July 5, 2011 agreement with Grassy Knolls, LLC into a \$72,000 convertible debenture note bearing interest at 2% due on January 4, 2013. The new note was convertible at the lowest trading price in the three days prior to the day that the Holder requests conversion, with a floor of \$.01. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$70,375 on the date of the note. On April 10, 2012, the Company issued 7,200,000 shares of common stock to settle the final amount of the \$72,000 convertible debenture. As a result of the full conversion, the entire discount of \$70,375 was amortized to interest expense during the six months ended June 30, 2012.

CMGO Investors, LLC

During year ended December 31, 2010, the Company borrowed \$1,075,000 under five 13% Senior Secured Convertible Extendible Notes from third parties that originally matured on October 1, 2011. As part of the sale of Audioeye, Inc. described in Note 2 on August 17, 2012, these notes were repaid by AEAC.

Aware Capital Consultants Inc.

On August 8, 2011, the Company assigned \$60,000 of its accounts payable from a third party to Aware Capital Consultants, Inc. On August 10, 2011 the Company modified \$60,000 of the payables into a convertible debenture. As of December 31, 2011, the Company had an outstanding balance of notes payable due to Aware Capital Consultants Inc. of \$15,000. On February 6, 2012, the Company issued 4,000,000 shares of common stock to settle \$8,000 of the note. On March 20, 2012, the Company issued 3,500,000 shares of common stock to settle the remaining \$7,000 of the note. As a result of the full conversion, the remaining discount of \$9,136 was amortized to interest expense during the six months ended June 30, 2012.

Magna Group LLC.

On October 17, 2011, the Company assigned \$148,000 of its accounts payable from a third party to Magna Group, LLC. The convertible promissory note bears interest at 10% due on October 17, 2012. On January 13, 2012 the Company issued 2,463,055 shares of common stock to settle \$10,000 of the note. On February 03, 2012, the Company issued 4,056,796 shares of common stock to settle \$20,000 of the note. On February 23, 2012, the Company issued 2,638,987 shares of common stock to settle \$15,000 of the note. On March 16, 2012, the Company issued 4,171,301 shares of common stock to settle \$15,000 of the note. On April 4, 2012, the Company issued 5,747,127 shares of common stock to settle \$15,000 of the note. On April 17, 2012, the Company issued 2,850,324 shares of common stock to settle \$5,000 of the note. On May 2, 2012, the Company issued 2,567,866 shares of common stock to settle the remaining \$7,000 of the note.

On April 11, 2012, the Company assigned \$50,000 of its accounts payable from a third party to Magna Group, LLC. The convertible promissory note bears interest at 10% due on April 13, 2013. The note is convertible at 58% of the lowest trading price in the three days prior to the conversion date. During the six months ended June 30, 2012, the

Company amortized \$12,500 of the discount to interest expense.

#### Hanover Holdings, LLC. Agreement

On October 17, 2011, the Company issued a convertible promissory note for \$50,000 to Hanover Holdings, LLC. On May 18, 2012, the Company issued 7,928,957 shares of common stock to settle \$25,000 of the note. As of June 30, 2012, the Company has an outstanding of notes payable due to Magna Group, LLC of \$25,000. As of June 30, 2012, the Company has an outstanding of notes payable due to Hanover Holdings, LLC of \$25,000. During the six months ended June 30, 2012, the Company amortized \$34,375 of the discount to interest expense.

#### Paul Sherman Agreement

On May 12, 2012, the Company modified its July 24, 2011 agreement with Paul Sherman into a \$9,943 convertible debenture note bearing interest at 2% due on May 15, 2013. The note is convertible at a price equal to the close price on the day prior to the Holder's request for conversion, but not to go below \$.001. This convertible debenture has an outstanding balance of \$9,943. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$8,875 on the date of the note. \$1,109 of this discount has been amortized as of June 30, 2012.

Additionally, during the six months ended June 30, 2012, the Company amortized \$44,531 of discounts related to other notes not mentioned above to interest expense.



CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 5 - DERIVATIVE LIABILITIES

Connied, Inc.

The Company determined that the instruments embedded in the May 3, 2011 \$85,000 convertible note should be classified as liabilities and recorded at fair value due to their being no explicit limit to the number of shares to be delivered upon settlement of the conversion options. Under ASC 815-15 "Derivatives and Hedging" the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. The fair value of these instruments on June 30, 2012 was \$179,556 and \$31,780 was recognized as loss on derivative. Because the number of shares to be issued upon settlement cannot be determined under this instrument, the Company cannot determine whether it will have sufficient authorized shares at a given date to settle any other of its share-settleable instruments. As a result, under ASC 815-15 "Derivatives and Hedging", all other share-settleable instruments must be reclassified from equity to liabilities. The Company performed an analysis and determined all the following instruments should be classified as liabilities:

Asher Enterprises, Inc.

As discussed in Note 4, in February 2012 the Company determined that the instruments embedded in the August 24, 2011 \$37,500 convertible note should be classified as liabilities and recorded at fair value due to there being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The fair value of the instruments was determined to be \$39,575 using the Black-Scholes option pricing model of which \$37,500 was recorded as debt discount and \$2,075 was recognized as loss on derivatives.

For the six months end June 30, 2012, a total of 9,860,327 shares were issued to settle \$37,500 of the note. As a result of the conversion, the fair value of the related derivative on the date of settlement of \$44,207 was reclassified out of liabilities to equity and \$4,633 was recognized as a loss on derivative during the three months ended June 30, 2012.

As discussed in Note 4, in June 2012 the Company determined that the instruments embedded in the October 4, 2011 \$45,000 convertible note should be classified as liabilities and recorded at fair value due to there being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The fair value of the instruments was determined to be \$54,822 at April 1, 2012 using the Black-Scholes option pricing model of which \$45,000 was recorded as debt discount and \$9,822 was recognized as a loss on derivatives.

For the six months end June 30, 2012, a total of 17,640,660 shares were issued to settle \$45,000 of the note. As a result of the conversion, the fair value of the related derivative on the date of settlement of \$76,773 was reclassified out of liabilities to equity and \$21,951 was recognized as a loss on derivative during the three months ended June 30, 2012.

Aware Consultants, Inc.

On August 8, 2011, the Company assigned \$60,000 of its accounts payable from a third party to Aware Capital Consultants, Inc. On August 10, 2011 the Company modified \$60,000 of the payables into a convertible debenture.

For the six months ended June 30, 2012, a total of 7,500,000 shares were issued to settle the full \$15,000 of the note. As a result of the conversion, the fair value of the related derivative instrument on the date of settlement of \$59,531 was reclassified out of liabilities to equity and \$32,604 was recognized as a loss on derivative during the six months ended June 30, 2012.

#### Security Agreement – CMGO Investors, LLC

As discussed in Note 4 on October 31, 2011, the notes matured and became convertible the Company determined that the instruments embedded in the convertible note should be classified as liabilities and recorded at fair value due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options.

Under ASC 815-15 “Derivatives and Hedging” the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. The fair value of these instruments on June 30, 2012 was \$153,493 and \$102,978 was recognized as loss on derivative.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 5 - DERIVATIVE LIABILITIES (Continued)

Hanover Holdings, LLC.

On October 17, 2011 the Company determined that the instruments embedded in a \$50,000 convertible note should be classified as liabilities and recorded at fair value due to there being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options.

During the year, 7,928,957 shares were issued to settle \$25,000 of the note. As a result of the conversion, the fair value of the related derivative on the date of settlement of \$125,750 was reclassified out of liabilities to equity and \$200,808 was recognized as a loss on derivative.

Under ASC 815-15 "Derivatives and Hedging" the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. As of June 30, 2012, the fair value of the instrument was \$56,783 and a gain on derivative of \$68,967 was recognized.

Magna Group LLC.

October 17, 2011 the Company determined that the instruments embedded in the convertible note should be classified as liabilities and recorded at fair value due to there being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options.

For the year ended June 30, 2012, a total of 24,495,456 shares were issued to settle \$148,000 of the notes. As a result of the conversion, the fair value of the related derivative on the date of settlement of \$188,617 was reclassified out of liabilities to equity and \$52,448 was recognized as a loss on derivative during the year ended June 30, 2012.

On April 11, 2012, the company determined that instruments embedded in a \$50,000 convertible note should be classified as liabilities and recorded at fair value due to there being no explicit limit to the number of shares to be delivered upon settlement of the conversion option. The fair value of the instruments was determined to be \$89,124 at April 1, 2012 using the Black-Scholes option pricing model of which \$50,000 was recorded as debt discount and \$39,124 was recognized as a loss on derivatives.

Under ASC 815-15 "Derivatives and Hedging" the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. As of June 30, 2012, the fair value of the instrument was \$103,966 and a loss on derivative of \$14,842 was recognized.

Warrants

899,000 A Warrants and 899,000 B warrants were issued to individuals in the fiscal year 2011. The Company determined that the instruments embedded in the warrants should be classified as liabilities.

Under ASC 815-15 "Derivatives and Hedging" the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. The fair value of all outstanding warrants as of June 30, 2012 was \$64,431 and \$57,290 was recognized as loss on derivative.

Hudson Capital Advisors, Inc.

As discussed in Note 4, the Company determined that the instruments embedded in the convertible note should be classified as liabilities. The fair value of the instruments was determined to be \$87,614 using the Black-Scholes option pricing model and was recorded as a debt discount. For the year ended June 30, 2012, a total of 27,835,448 shares were issued to settle \$100,000 of the notes.

As a result of the conversion, the fair value of the related derivative instrument on the date of settlement of \$91,655 was reclassified out of liabilities to equity and \$4,039 was recognized as loss on derivative during the six months ended June 30, 2012.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 5 - DERIVATIVE LIABILITIES (Continued)

Braeden Storm Enterprises, Inc.

As discussed in Note 4, the Company determined that the instruments embedded in the convertible note should be classified as liabilities. The fair value of the instruments were determined to be \$182,809 using the Black-Scholes option pricing model. The fair value of the liability exceeded the principal balance of the note resulting in \$47,555 being recognized as loss on derivatives.

For the year ended June 30, 2012, a total of 9,000,000 shares were issued to settle \$90,000 of the notes. As a result of the conversion, the fair value of the related derivative instrument on the date of settlement of \$87,202 was reclassified out of liabilities to equity and \$34,084 was recognized as gain on derivative during the six months ended June 30, 2012. Another 7,000,000 shares were issued to settle \$56,000 of the notes. As a result of the conversion, the fair value of the related derivative instrument on the date of settlement of \$204,483 was reclassified out of liabilities to equity and \$100,928 was recognized as loss on derivative during the six months ended June 30, 2012.

Martin Boyle

As discussed in Note 4, the Company determined that the instruments embedded in the \$35,000 convertible note should be classified as liabilities. On March 5, 2012, the Company issued 2,800,000 shares of common stock to settle the full \$35,000 of the convertible debenture note. As a result of the conversion, the fair value of the related derivative instrument on the date of settlement of \$24,827 was reclassified out of liabilities to equity and \$5,840 was recognized as gain on derivative during the six months ended June 30, 2012.

Scott Bailly

As discussed in Note 4, the Company determined that the instruments embedded in the \$60,000 convertible note should be classified as liabilities. For the year end June 30, 2012, the Company issued 6,000,000 shares of common stock to settle the full \$60,000 of the convertible debenture note. As a result of the conversion, the fair value of the related derivative instrument on the date of settlement of \$35,380 was reclassified out of liabilities to equity and \$17,306 was recognized as gain on derivative during the six months ended June 30, 2012.

Grassy Knolls, LLC

As discussed in Note 4, the Company determined that the instruments embedded in the \$72,000 convertible note should be classified as liabilities. The fair value of the instruments were determined to be \$70,375 using the Black-Scholes option pricing model. For the year end June 30, 2012, the Company issued 7,200,000 shares of common stock to settle the full \$72,000 of the convertible debenture note. As a result of the conversion, the fair value of the related derivative instrument on the date of settlement of \$52,046 was reclassified out of liabilities to equity and \$18,328 was recognized as gain on derivative during the six months ended June 30, 2012.

Paul Sherman

As discussed in Note 4, the Company determined that the instruments embedded in the \$9,943 convertible note should be classified as liabilities. The fair value of the instrument was determined to be \$8,875 using the Black-Scholes

option pricing model.

Under ASC 815-15 “Derivatives and Hedging” the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. As of June 30, 2012, the fair value of these instruments was \$9,997 and \$1,122 was recognized as loss on derivative.

The following table summarizes the derivative liabilities included in the consolidated balance sheet:

Derivative Liabilities	
Balance at December 31, 2011	444,150
ASC 815-15 additions	616,546
Change in fair value	494,587
ASSC 815-15 deletions	(990,472 )
Balance at June 30, 2012	564,811

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## NOTE 5 - DERIVATIVE LIABILITIES (Continued)

The following table summarizes the derivative gain or loss recorded as a result of the derivative liabilities above:

Gain/(Loss) on Derivative Liability	
Change in fair value	494,587
Excess of fair value of liabilities over note payable	98,576
Balance at June 30, 2012	593,163

The Company values its warrant derivatives and all other share settable instrument using the Black-Scholes option pricing model. Assumption used include (1) 0.01% to 1.96% risk-free interest rate, (2) life is the remaining contractual life of the instrument (3) expected volatility 278% to 319%, (4) zero expected dividends, (5) exercise price as set forth in the agreements, (6) common stock price of the underlying share on the valuation date, and (7) number of shares to be issued if the instrument is converted.

## NOTE 6 - LEGAL PROCEEDINGS

We are subject to certain claims and litigation in the ordinary course of business. It is the opinion of management that the outcome of such matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

On April 21, 2011, the Company was served with a lawsuit that was filed in Clark County, Nevada against the Company by A to Z Holdings, LLC and seven other individuals or entities. The complaint alleges, among other things, that the Company's Board of Directors did not have the power to designate series A and B preferred stock without amending the articles of incorporation. The complaint also alleges any such amendment would require shareholder approval and filing of a proxy statement. On April 20, 2012, the Company settled with A to Z Holdings, LLC and seven other individuals or entities for \$10,000. The Company has accrued this settlement liability as of June 30, 2012.

On July 6, 2011, the Company was served with a lawsuit filed in the Circuit Court for the County of Multnomah, Oregon. The complaint alleges breach of contract and entitlement to consulting fees from the Company. The Company disagrees with the allegations contained in the Complaint and intends to vigorously defend the matter and otherwise enforce its rights with respect to the matter. The Company has retained counsel and is prepared to defend this lawsuit. The Company believes that the claims are frivolous pursuant to the terms of the contract. The case has been settled as of September 28, 2012 for \$30,000. The Company has accrued for this liability as of June 30, 2012.

## NOTE 7 - RELATED PARTY TRANSACTIONS

From time to time the Company borrows money from its officers. During the six months ended June 30, 2012, the Company received advances of \$220,000 and repaid \$21,000 to these related parties. These advances bear no interest and are due on demand. As of December 31, 2011 and June 30, 2012, the Company owed \$86,328 and \$74,328 as short term related party debt to three officers, respectively. As of June 30, 2012, the Company owes \$1,456,843 as long term related party debt to one of these officers.

During the six months ended June 30, 2012, the Company owes \$56,045 of reimbursable expenses paid for by an officer of the Company.

## NOTE 8 - SEGMENTS

We have three reportable segments: event marketing, commercial rights and consulting services, which are comprised within our specialist marketing service offerings. The profitability measure employed for allocating resources to operating divisions and assessing operating division performance are revenues and operating income, excluding the impact of restructuring and other reorganization-related charges (reversals) and long-lived asset impairment and other charges, if applicable. Summarized financial information concerning our reportable segments is shown in the following table.

	Six months ended June 30,	
	2012	2011
Revenue:		
Event marketing	\$ 7,005,362	\$ 5,354,672
Commercial rights	137,697	45,697
Total revenues from continuing operations	7,143,059	5,400,369
Consulting services (discontinued)	55,630	111,760
Total revenues	\$ 7,198,689	\$ 5,512,129
Operating income (loss)		
Event marketing	\$ 906,350	\$ 672,096
Commercial rights	(729,754 )	(568,757 )
Total operating income from continuing operations	176,596	103,339
Consulting services (discontinued)	(356,928 )	(703,023 )
Total Operating loss	\$ (180,332)	\$ (599,684)



CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## NOTE 8 - SEGMENTS (Continued)

	June 30, 2012	December 31, 2011
Assets		
Event marketing	\$ 1,689,106	\$ 535,760
Commercial rights	6,567	8,229
Consulting services (discontinued)	175,198	75,451
Total	\$ 1,870,871	\$ 619,440

## NOTE 9 - SALE OF CREATIVE MANAGEMENT OF DELAWARE, INC.

On June 25, 2012, the Company, as a result of desiring to exit from the talent management business, sold its wholly owned subsidiary Creative Management of Delaware, Inc. (formerly Creative Management Group, Inc.) to Creative Management Global, Inc. pursuant to a Stock Purchase Agreement. The Purchase Price this Agreement calls for Global, Inc. to pay to the Company as consideration for the shares of Creative Management, a royalty payment and deferred payment. The Royalty Payment is effective as of the closing of this agreement and for a period of nineteen (19) months, pays 10% of cash or other forms of payment or compensation received as Gross Revenues less Direct Costs earned. The remainder of the Purchase Price, following payment of the Royalty Payments, will consist of a final payment the Company by Global, Inc. in the amount of One Hundred Thirty Three Thousand (\$133,000). The final payment will be paid after Creative Management's year-end 2013 financial statements are completed and audited by an independent accounting firm and that will reflect the total Company Gross Revenues less Direct Costs for the years 2012, and 2013. No assets or liabilities have been sold in this transaction and, as a result, no gain or loss has been recorded in the sale of this subsidiary as of the six months ended June 30, 2012.

## NOTE 10 - SUBSEQUENT EVENTS

## Master Agreement of Share Exchange with Former Stockholders of AudioEye, Inc.

On August 17, 2012 the Company, AudioEye Acquisition Corporation and CMGO Investors, LLC finalized and completed their Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes and their Share Exchange pursuant to their Amended Master Agreement in order to allow the payment by AudioEye of the Company's outstanding Note and to cause the release of the Notes and security therefore. Pursuant to the Amended Master Agreement: The Company will retain 15% of AudioEye subject to transfer restrictions in accordance with the Agreement. The Company will distribute to its shareholders, in the form of a dividend, 5% of the capital stock of AudioEye in accordance with provisions of the Agreement. AudioEye has finalized a Royalty Agreement with the Company to pay to the Company 10% of cash received from income earned, settlements or judgments directly resulting from, AudioEye's patent enforcement and licensing strategy whether received by, AudioEye or any of its affiliates, net of any direct costs or tax implications incurred in pursuit of such strategy pertaining to the patents as fully described in the Agreement. AudioEye has finalized a Consulting Services Agreement with the Company whereby the Company will receive a commission of not less than 7.5% of all revenues received by AudioEye after the closing date from all business, clients or other sources of revenue procured by the Company or its employees, officers or subsidiaries and directed to AudioEye and 10% of net revenues obtained from a third party described in the agreement. AudioEye has finalized the release of the obligations of the Company under the

Notes pursuant to a novation or other form of release of such obligation which shall include a termination of any security interest on any post Spin Off assets of the Company.

Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes

On August 24, 2012, the company issued 1,000,000 and 5,000,000 restricted common shares in accordance with the Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes between AudioEye Acquisitions Corporation, CMGO Investors LLC and the Company April 13, 2012. These shares were issued in exchange for an extension of the maturity date on the note owed to CMGO Investors, LLC.

CMG HOLDINGS GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 10 - SUBSEQUENT EVENTS (Continued)

Continental Equities, LLC

On September 7, 2012 the company issued a convertible promissory note for \$50,000 to Continental Equities, LLC. The note bears interest at 12% and is due on May 15, 2013 and any amount not paid by May 15, 2013 will incur a 22% interest rate. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date after 180 days. 400,000 shares were issued in conjunction with these notes.

On September 7, 2012 the company issued a convertible promissory note for \$20,000 to Continental Equities, LLC. The note bears interest at 12% and is due on May 15, 2013 and any amount not paid by May 15, 2013 will incur a 22% interest rate. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date after 180 days. 200,000 shares were issued in conjunction with these notes.

On September 7, 2012, the Company assigned \$39,000 of its convertible Note from Asher Enterprises, Inc. to Continental Equities, LLC. The convertible promissory note bears interest at 10% due on December 31, 2012. The note is convertible at 58% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date.

Resignation of Alan Morell

On September 26, 2012 Alan Morell officially resigned as Chief Executive Officer and Director of the Company. In conjunction with the resignation, Morell was issued a convertible note for \$525,000 representing the amount of accrued salary owed to him by the Company up to the date of resignation. The note bears interest at 2% and is due on April 26, 2014. The note is convertible beginning on November 15, 2012 at a conversion price of \$0.06 per share. In further connection with the resignation, the Company assumed all obligations related to the Smith Barney Credit Line that was secured by Morell's security accounts and issued another convertible note to Morell for \$112,000. The note bears interest at 2% and is due on April 4, 2013. The note is convertible beginning on November 15, 2012 at a conversion price of \$0.04 per share.

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD LOOKING STATEMENTS

In addition to historical information, this Form 10-Q (this "Quarterly Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, which includes, but are not limited to, statements concerning expectations as to our revenues, expenses, and net income, our growth strategies and plans, the timely development and market acceptance of our products and technologies, the competitive nature of and anticipated growth in our markets, our ability to achieve cost reductions, the status of evolving technologies and their growth potential, the adoption of future industry standards, expectations as to our financing and liquidity requirements and arrangements, the need for additional capital, and other matters that are not historical facts. These forward-looking statements are based on our current expectations, estimates, and projections about our industry, management's beliefs, and certain assumptions made by it. Words such as "anticipates", "appears", "believe," "expects", "intends", "plans", "believes", "seeks", "assume," "estimates", "may", "will" these words or similar expressions are intended to identify forward-looking statements. All statements in this Quarterly Report regarding our future strategy, future operations, projected financial position, estimated future revenue, projected costs, future prospects, and results that might be obtained by pursuing management's current plans and objectives are forward-looking statements. Therefore, actual results could differ materially and adversely from those results expressed in any forward-looking statements, as a result of various factors. Readers are cautioned not to place undue reliance on forward-looking statements, which are based only upon information available as of the date of this report. You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this Quarterly Report was filed with the Securities and Exchange Commission ("SEC"). We expressly disclaim any obligation to revise or update publicly any forward-looking statements even if subsequent events cause our expectations to change regarding the matters discussed in those statements. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our stockholders. Unless the context indicates otherwise, the terms "Company", "Corporate", "CMGO", "our", and "we" refer to CMG Holdings Group, Inc. and its subsidiaries.

### RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2012

Gross revenues increased from \$4,700,528 for the three months ended June 30, 2011 to \$6,159,910 for the three months ended June 30, 2012. The increase in revenues was mainly due to additional organic growth from existing clients as well as new client business wins generated that were secured during the second quarter of 2012 in our events marketing, event management, public relations and consulting business of XA, The Experiential Agency, Inc. (XA). Organic revenues and new business revenues were serviced during first and second quarter of 2012 within our events marketing, public relations and consulting business of XA, The Experiential Agency, Inc. (XA).

Cost of revenue increased from \$3,237,382 for the three months ended June 30, 2011 to \$4,465,668 for the three months ended June 30, 2012. The increase in cost of goods sold was due to additional organic growth from existing clients as well as new client business wins generated that were secured during the second quarter of 2012 in our events marketing, event management, public relations and consulting business of XA, The Experiential Agency, Inc. (XA). Cost of sales increased as it was related to the organic revenues and new business revenues serviced during first and second quarter of 2012 within our events marketing, event management public relations and consulting business of XA, The Experiential Agency, Inc. (XA).

Operating expenses decreased from \$856,427 for the three months ended June 30, 2011 to \$905,387 for the three months ended June 30, 2012. The decrease in operating expenses is mainly due to fewer expenses incurred associated to spinoff transaction related to Audioeye, Inc. and lower operating expenses related to the talent agency business that was sold to Creative Management Global.

The net income of \$1,235,759 for the three months ended June 30, 2011 increased to a net loss of \$433,506 for the three months ended June 30, 2012. The increase in net loss was mainly due additional operating expenses associated with the Audioeye discontinued operations regarding the AudioEye share exchange, the non-operating expenses regarding losses on derivative liabilities, operating expenses and cost of revenues regarding event management XA, The Experiential Agency, Inc. (XA) to service new clients during the second quarter of 2012 that was not reflective in first quarter of 2011. There were also additional overhead legal expenses associated with corporate overhead that was in second quarter 2012 that was not reflective in 2011 second quarter.

RESULTS OF OPERATIONS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2012

Gross revenues increased from \$5,400,369 for the six months ended June 30, 2011 to \$7,143,059 for the six months ended June 30, 2012. The increase in revenues was mainly due to additional organic growth from existing clients as well as new client business wins generated that were secured during the second quarter of 2012 in our events marketing, event management, public relations and consulting business of XA, The Experiential Agency, Inc. (XA). Organic revenues and new business revenues were serviced during first and second quarter of 2012 within our events marketing, public relations and consulting business of XA, The Experiential Agency, Inc. (XA).

Cost of revenue increased from \$3,534,689 for the six months ended June 30, 2011 to \$4,933,747 for the six months ended June 30, 2012. The increase in cost of goods sold was due to additional organic growth from existing clients as well as new client business wins generated that were secured during the second quarter of 2012 in our events marketing, event management, public relations and consulting business of XA, The Experiential Agency, Inc. (XA). Cost of sales increased as it was related to the organic revenues and new business revenues serviced during first and second quarter of 2012 within our events marketing, event management public relations and consulting business of XA, The Experiential Agency, Inc. (XA).

Operating expenses increased from \$1,613,175 for the six months ended June 30, 2011 to \$1,957,866 for the six months ended June 30, 2012. The increase in operating expenses is mainly due to the increase in personnel, rent and operating expenses from six months of operations related to the launch of the digital media initiatives and digital coupon platform, additional expenses incurred associated with the spinoff transaction related to Audioeye, Inc. and the additional legal expenses, and operating expenses related to derivatives liabilities and operating expenses related to the new business clients serviced during first and second quarter of 2012 within our events marketing, public relations and consulting business of XA, The Experiential Agency, Inc. (XA).

The net income of \$1,037,379 for the six months ended June 30, 2011 increased to a net loss of \$1,461,320 for the six months ended June 30, 2012. The increase in net loss was mainly due additional operating expenses associated with the Audioeye discontinued operations regarding the AudioEye share exchange, the non-operating expenses regarding losses on derivative liabilities, non-operating expenses regarding interest expenses in the derivative liability expenses, higher cost of revenues regarding additional revenues for the event management XA, The Experiential Agency, Inc. (XA) to service new clients during the second quarter of 2012 that was not reflective in first quarter of 2011. There were also additional overhead legal expenses associated with corporate overhead that was in second quarter 2012 that was not reflective in 2011 second quarter.

LIQUIDITY AND CAPITAL RESOURCES:

As of June 30, 2012, the Company's cash on hand was \$604,184.

Cash used in operations for the six months ended June 30, 2011 was \$638,715, as compared to cash provided by operations of \$38,191 for the six months ended June 30, 2012. This change is primarily due to amortization of intangible assets, stock expenses for services, changes regarding derivative liabilities, changes in debt discounts, deferred revenue and accrued expenses related to the increase in operating expenses due to operations from the event marketing, public relations, and consulting business of XA.

Cash used in investing activities for the six months ended June 30, 2011 was \$441 as compared cash used in investing activities of \$10,647 for the six months ended June 30, 2012.

Cash provided by financing activities for the six months ended June 30, 2011 was \$1,005,429, as compared to \$238,861 provided for the six months ended June 30, 2012. The decrease during the six months ended June 30, 2012, was primarily due to the less money advanced by related parties and no proceeds from stock issuances as compared

with the prior year.

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of September 27, 2012, information with respect to the beneficial ownership of the Company's Common Stock by (i) each person known by the Company to own beneficially 5% or more of such stock, (ii) each Director of the Company who owns any Common Stock, and (iii) all Directors and Officers as a group, together with their percentage of beneficial holdings of the outstanding shares. The information presented below regarding beneficial ownership of our voting securities has been presented in accordance with the rules of the Securities and Exchange Commission and is not necessarily indicative of ownership for any other purpose. Under these rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of the security or the power to dispose or direct the disposition of the security. A person is deemed to own beneficially any security as to which such person has the right to acquire sole or shared voting or investment power within 60 days through the conversion or exercise of any convertible security, warrant, option or other right. More than one person may be deemed to be a beneficial owner of the same securities. The percentage of beneficial ownership by any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person, which includes the number of shares as to which such person has the right to acquire voting or investment power within 60 days, by the sum of the number of shares outstanding as of such date plus the number of shares as to which such person has the right to acquire voting or investment power within 60 days. Consequently, the denominator used for calculating such percentage may be different for each beneficial owner. Except as otherwise indicated below and under applicable community property laws, we believe that the beneficial owners of our common stock listed below have sole voting and investment power with respect to the shares shown.

## SECURITY OWNERSHIP OF MANAGEMENT:

Title of Class	Name	Shares	Percent
Common Stock	Alan Morell	18,622,944	6.8%
Common Stock	James J. Ennis	11,955,944	4.4%
Common Stock	Michael Vandetty	10,945,944	4.0%
All Directors and Executive Officers		41,524,832	15.2%

These tables are based upon 273,831,906 shares outstanding as of June 30, 2012 and information derived from our stock records. Unless otherwise indicated in the footnotes to these tables and subject to community property laws where applicable, we believe unless otherwise noted that each of the shareholders named in this table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned.

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned, subject to community property laws where applicable. The number and percentage of shares beneficially owned are based on 177,261,624 shares of common stock outstanding as of March 31, 2012. The address for those individuals for which an address is not otherwise indicated is: c/o CMG Holdings Group, Inc., 5601 Biscayne Boulevard, Miami, Florida 33137, USA.
- (2) Mr. Morell owns 3,500,000 shares of The Company directly, and is the beneficial owner of additional 6,607,000 shares owned by Commercial Rights Intl Corp. for a total of 10,107,000 shares.
- (3) Mr. Ennis owns 1,500,000 shares of The Company directly, and is the beneficial owner of an additional 2,000,000 shares owned by Hastings Creek Group, Inc. for a total of 3,500,000 shares.

## ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK FACTORS

## CURRENT ECONOMIC CONDITIONS AND THE GLOBAL FINANCIAL CRISIS MAY HAVE AN IMPACT ON OUR BUSINESS AND FINANCIAL CONDITION IN WAYS THAT WE CURRENTLY CANNOT PREDICT

The global economy has experienced a significant contraction, with an unprecedented lack of consumer credit within the credit markets and the shift away from discretionary spending within the marketing, communications. The decrease in the economic activity in the United States and in the commercial sectors in which we conduct business could adversely affect our financial condition and results of operations. Continued tightness within the credit markets, volatility, instability and economic weakness of our clients marketing budgets and decrease in discretionary consumer spending associated with our clients business spending may result in a reduction in our revenues.

## BUSINESS COULD BE ADVERSELY AFFECTED IF IT LOSES KEY CLIENTS AND KEY MANAGEMENT

The Company's loss of one or more significant clients could materially affect results of the Company on a consolidated basis. Our Management is critically important to ongoing results of the Company because, as in any service business, success of the Company is mainly dependent upon the leadership of key executives and management. If key



executives were to leave any of our operating divisions, the relationships that the Company has with its clients could be adversely affected.

## COMPETITION FOR CLIENTS IN HIGHLY COMPETITIVE INDUSTRIES

The Company operates in a very competitive industry characterized by numerous firms of varying sizes, with no group of firms having dominant positions in the marketplace. Competitive factors include creative expertise, executive management's, personal relationships, quality and reliability of service and expertise in particular niche areas of the marketplace. In addition, our company's principal asset is its people, barriers to entry are minimal, and relatively small firms may be on occasion able to take some portion of a client's business from a larger competitor. While many of the Company's client relationships are long-standing, clients may at times place their marketing services businesses up for competitive review from time to time, including at times when clients enter into strategic transactions. To the extent that the Company fails to maintain existing clients or attract new clients, the Company's business, financial condition and operating results may be affected in a materially adverse manner.

## ABILITY TO GENERATE NEW BUSINESS FROM NEW AND EXISTING CLIENTS MAY BE LIMITED

To increase revenues, the Company needs to obtain additional clients, generate demand for additional services from existing clients and partner with external marketing firms to mutually service as single or multiple of clients. The company's ability to generate demand for its services from new clients, additional demand from existing clients partner with external marketing firms to mutually service as single or multiple of clients is subject to clients' requirements, pre-existing vendor relationships, financial condition, strategic plans and internal resources, as well as the quality of the Company's employees, services and reputation and the breadth of its services. To the extent the Company cannot generate new business from new and existing clients due to these limitations; it will limit the Company's ability to grow its business and to increase its revenues.

## REVENUES ARE SUSCEPTIBLE TO DECLINES AS A RESULT OF GENERAL ADVERSE ECONOMIC DEVELOPMENTS

The marketing communications services industry is cyclical and is subject to the negative effects of economic downturns. The Company's marketing services operations are also exposed to the risk of clients changing their business plans and/or reducing their marketing budgets. As a result, if the U.S. markets and economies continue to weaken, our businesses, financial condition and gross revenues are likely to be negatively affected may be suspect to declines from quarter to quarter or from year to year.

## BENEFITS EXPECTED FROM CURRENT ACQUISITION OR PRIOR ACQUISITIONS MADE IN THE FUTURE MAY NOT BE REALIZED

The Company's business strategy includes ongoing efforts to engage in material acquisitions of ownership interests in entities in the marketing communications services industry. The Company intends to finance these acquisitions by using any available cash from operations, through incurrence of debt or bridge financing or by issuing equity, which may have a dilutive impact on its existing shareholders. At any given time the Company may be engaged in a number of discussions that may result in one or more material acquisitions. These opportunities require confidentiality and may involve negotiations that require quick responses by the Company. Although there is uncertainty that any of these discussions will result in definitive agreements or the completion of any transactions, the announcement of any such transaction may lead to increased volatility in the trading price of its securities. The success of acquisitions or strategic investments depends on the effective integration of newly acquired businesses into the Company's current operations. Such integration is subject to risks and uncertainties, including realization of anticipated synergies and cost savings, the ability to retain and attract personnel and clients, the diversion of management's attention from other business concerns, and undisclosed or potential legal liabilities of the acquired company. The Company may not realize the strategic and financial benefits that it expects from any of its past acquisitions, or any future acquisitions.

## BUSINESS COULD BE ADVERSELY AFFECTED IF IT LOSES OR FAILS TO ATTRACT KEY EMPLOYEES

Our executive management and our employees, including creative, research, media, account and their skills and relationships with clients, are among the Company's most critically important assets. An important aspect of the Company's competitiveness is its ability to retain key employee and executive management. The compensation for these key employees is an essential factor in attracting and retaining them and the Company may not offer a level of compensation sufficient to attract and retain these key employees. If the Company fails to hire and retain a sufficient number of these key employees, it may not be able to compete effectively.

#### BUSINESS EXPOSED TO THE RISK OF CLIENT MEDIA ACCOUNT DEFAULTS

The Company often incurs expenses on behalf of its clients in order to secure a variety of opportunities in exchange for which it receives a fee. While the Company acts to prevent against default on payment for these services and have historically had a very low incidence of default, the Company is still exposed to the risk of significant uncollectible receivables from our clients.

## SUBJECT TO REGULATIONS THAT COULD RESTRICT ITS ACTIVITIES OR NEGATIVELY IMPACT ITS REVENUES

Marketing communications businesses are subject to government regulation, both domestic and foreign. There has been an increasing tendency in the United States on the part of advertisers to resort to litigation and self-regulatory bodies to challenge comparative advertising on the grounds that the advertising is false and deceptive. Moreover, there has recently been an expansion of specific rules, prohibitions, media restrictions, labeling disclosures and warning requirements with respect to advertising for certain products. Representatives within government bodies, both domestic and foreign, continue to initiate proposals to ban the advertising of specific products and to impose taxes on or deny deductions for advertising which, if successful, may have an adverse effect on advertising expenditures and consequently the Company's revenues.

## THE RESULTS OF OPERATIONS ARE SUBJECT TO CURRENCY FLUCTUATION RISKS

Although the Company's financial results are reported in U.S. dollars, a portion of its revenues and operating costs may be denominated in currencies other than the US dollar. As a result, fluctuations in the exchange rate between the U.S. dollar and other currencies, may affect the Company's financial results and competitive position.

## COMPANY DIRECTORS AND EXECUTIVE OFFICERS BENEFICIALLY OWN A SUBSTANTIAL PERCENTAGE OF THE COMPANY'S OUTSTANDING COMMON STOCK, WHICH GIVES THEM CONTROL OVER CERTAIN MAJOR DECISIONS ON WHICH STOCKHOLDERS MAY VOTE, WHICH MAY DISCOURAGE AN ACQUISITION OF THE COMPANY

In the aggregate, the directors and executive officers as a group collectively own approximately 22% of the Company's outstanding shares. The interests of the Company's management may differ from the interests of other stockholders and as a result, the Company's executive management may have the ability to control virtually all corporate actions requiring stockholder approval, irrespective of how the Company's other stockholders may vote, including electing or defeating the election of directors; amending or preventing amendment of the Company's certificate of incorporation or bylaws; effecting or preventing a merger, sale of assets or other corporate transaction; and controlling the outcome of any other matter submitted to the stockholders for vote. The Company's management's stock ownership may discourage a potential acquirer from seeking to acquire shares of the Company's common stock or otherwise attempting to obtain control of the Company, which in turn could reduce the Company's stock price or prevent the Company's stockholders from realizing a premium over the Company's stock price.

## OUTSTANDING INDEBTEDNESS; SECURITY INTEREST AND UNREGISTERED SALES OF EQUITY SECURITIES

On April 1, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$725,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 3,625,000 shares of the Company's Common Stock. The Note bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on July 1, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be

adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 942,500 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

On April 23, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$125,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 625,000 shares of the Company's Common Stock. The Note bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on July 28, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 162,500 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

On June 1, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$150,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 750,000 shares of the Company's Common Stock. The Note bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on September 1, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 195,500 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

On June 18, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$50,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 250,000 shares of the Company's Common Stock. The Note

bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on September 18, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 65,000 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

On June 30, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$20,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 125,000 shares of the Company's Common Stock. The Note bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on September 30, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 32,500 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

#### SALE OF SUBSIDIARIES

On June 22, 2011 the Company entered into a Master Agreement subject to shareholder approval as may be required under applicable law and subject to closing conditions with AudioEye Acquisition Corp., a Nevada corporation pursuant to which the shareholders of AudioEye Acquisition Corp. will exchange 100% of the stock in AudioEye Acquisition Corp. for 80% of the capital stock of AudioEye, Inc. The Company will retain 15% of AudioEye Inc. subject to transfer restrictions in accordance with the Master Agreement. The Company will distribute to its shareholders on the closing date, in the form of a dividend, 5% of the capital stock of AudioEye, Inc. in accordance with provisions of the Agreement. AudioEye, Inc. will pay to the Company 10% of cash received from income earned, settlements or judgments directly resulting from the AudioEye, Inc. patent enforcement and licensing strategy whether received by, AudioEye, Inc. or any of its affiliates, net of any direct costs or tax implications incurred in pursuit of such strategy pertaining to the patents as fully described in the Agreement. AudioEye Inc. will enter into a consulting agreement with the Company whereby the Company will receive a commission of not less than 7.5% of all revenues received by AudioEye, Inc. after the closing date from all business, clients or other sources of revenue procured by the Company or its employees, officers or subsidiaries and directed to AudioEye, Inc. and 10% of net revenues obtained from a third party described in the agreement. AudioEye, Inc. will arrange the release of the obligations of the Company under outstanding 13% Senior Secured Convertible Extendible Notes due in 2011 with a current aggregate balance of \$1,075,000 pursuant to a novation or other form of release of such obligation which shall include a termination of any security interest on any post Spin Off assets of the Company. The Company believes that such a distribution, when combined with the other transactions contemplated in the Agreement, will allow AudioEye, Inc. to raise capital and grow its business in such manner as it no longer can as a subsidiary of the Company, thus generating increased value for the Company's stockholders. October 24, 2011, AudioEye, Inc. filed a registration statement to register the issuance of shares of its common stock, which will be distributed on a pro rata basis to the Company's shareholders. In connection with a Master Agreement dated as of June 22, 2011 between the Company and AudioEye Acquisition Corporation, the parties agreed, among other things that the shareholders of AudioEye Acquisition Corporation will exchange all of their shares of the capital stock of AudioEye Acquisition Corporation for 80% of the capital stock of AudioEye, Inc. and the Company will distribute to its shareholders in the form of a



dividend 5% of the outstanding capital stock of AudioEye, Inc. Concurrently with the filing of the registration statement, the Company has filed a proxy statement relating to a special meeting of the Company shareholders to consider and vote on the spinoff, the share exchange and related matters.

On April 13, 2012, related to the Company's amendment of its Jun 22, 2011 Master agreement with AudioEye Acquisitions Corporation on April 13, 2012, the Company signed an Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes between AudioEye Acquisitions Corporation, CMGO Investors LLC and the Company. The Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes are scheduled to close on or before May 31, 2012, time being of the essence, in accordance with the Amended Master Agreement, On April 13, 2012. The Company amended the Jun 22, 2011 Master agreement with AudioEye Acquisitions Corporation pursuant to which the shareholders of AudioEye Acquisitions Corporation will acquire 80% of the capital stock of AudioEye, Inc. from the Company, and the Company will distribute to its shareholders, in the form of a dividend, 5% of the capital stock of Audioeye, Inc. The parties have concluded that it is in the best interests of all shareholders to amend the Master Agreement to separate the Spin-off and Share Exchange and to cause the satisfaction and release of the Notes to be effective as soon as practicable but no later than the closing of the Share Exchange.

On August 17, 2012 the Company, AudioEye Acquisition Corporation and CMGO Investors, LLC finalized and completed their Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes and their Share Exchange pursuant to their Amended Master Agreement in order to allow the payment by AudioEye of the Company's outstanding Note and to cause the release of the Notes and security therefore. Pursuant to the Amended Master Agreement: The Company will retain 15% of AudioEye subject to transfer restrictions in accordance with the Agreement. The Company will distribute to its shareholders, in the form of a dividend, 5% of the capital stock of AudioEye in accordance with provisions of the Agreement. AudioEye has finalized a Royalty Agreement with the Company to pay to the Company 10% of cash received from income earned, settlements or judgments directly resulting from, AudioEye's patent enforcement and licensing strategy whether received by, AudioEye or any of its affiliates, net of any direct costs or tax implications incurred in pursuit of such strategy pertaining to the patents as fully described in the Agreement. AudioEye has finalized a Consulting Services Agreement with the Company whereby the Company will receive a commission of not less than 7.5% of all revenues received by AudioEye after the closing date from all business, clients or other sources of revenue procured by the Company or its employees, officers or subsidiaries and directed to AudioEye and 10% of net revenues obtained from a third party described in the agreement. AudioEye has finalized the release of the obligations of the Company under the Notes pursuant to a novation or other form of release of such obligation which shall include a termination of any security interest on any post Spin Off assets of the Company.

On June 25, 2012, the Company, as a result of desiring to exit from the talent management business, has sold its wholly owned subsidiary Creative Management of Delaware, Inc. (formerly Creative Management Group, Inc.) to Creative Management Global, Inc. pursuant to a Stock Purchase Agreement. Creative Management is a talent management agency that provides custom marketing solutions that optimize profitability by concentrating in the sector of talent management. Creative Management has managed the careers of entertainment figures and personalities throughout sectors of literary, television, media training, image marketing, endorsements, licensing, contract negotiations and speaking appearances. On June 19, 2012, CMG Holdings Group, Inc. changed the name of its subsidiary, Creative Management Group, Inc. to Creative Management Partners Group, Inc. On June 20, 2012 CMG Holdings Group, Inc. changed the name of Creative Management Partners Group, Inc. to Creative Management of Delaware, Inc. The Purchase Price this Agreement calls for Global, Inc. to pay to the Company as consideration for the shares of Creative Management, a royalty payment and deferred payment. The Royalty Payment is effective as of the closing of this agreement and for a period of nineteen (19) months, pays 10% of cash or other forms of payment or compensation received as Gross Revenues less Direct Costs earned pursuant to the sectors of management of entertainment figures and personalities throughout sectors of literary, television, media training, image marketing, endorsements, licensing, contract negotiations and speaking appearances. The remainder of the Purchase Price, following payment of the Royalty Payments, will consist of a final payment the Company by Global, Inc. in the amount of One Hundred Thirty Three Thousand (\$133,000). The final payment will be paid after Creative Management's year-end 2013 financial statements are completed and audited by an independent accounting firm and that will reflect the total Company Gross Revenues less Direct Costs for the years 2012, and 2013.

#### **PUBLIC COMPANY COMPLIANCE MAY MAKE IT MORE DIFFICULT TO ATTRACT AND RETAIN OFFICERS AND DIRECTORS**

The Sarbanes-Oxley Act of 2002 and new rules subsequently implemented by the SEC have required changes in corporate governance practices of public companies. As a public entity, the Company expects these new rules and regulations to increase compliance costs in 2010 and beyond and to make certain activities more time consuming and costly. As a public entity, the Company also expects that these new rules and regulations may make it more difficult and expensive for the Company to obtain director and officer liability insurance in the future and it may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for the Company to attract and retain qualified persons to serve as directors or as executive officers.

**THERE IS CURRENTLY NO LIQUID TRADING MARKET FOR THE COMPANY'S COMMON STOCK AND THE COMPANY CANNOT ENSURE THAT ONE WILL EVER DEVELOP OR BE SUSTAINED**

The Company's common stock is currently approved for quotation on the OTC Bulletin Board trading under the symbol CMGO.OB. However, there is limited trading activity and not currently a liquid trading market. There is no assurance as to when or whether a liquid trading market will develop, and if such a market does develop, there is no assurance that it will be maintained. Furthermore, for companies whose securities are quoted on the Over-The-Counter Bulletin Board maintained by the National Association of Securities Dealers, Inc. (the "OTCQB"), it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about such companies, and (3) to obtain needed capital. As a result, purchasers of the Company's common stock may have difficulty selling their shares in the public market, and the market price may be subject to significant volatility.

#### THE COMPANY'S STOCK PRICE MAY BE VOLATILE

The market price of the Company's common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond the Company's control, including the following: technological innovations or new products and services by the Company or its competitors; additions or departures of key personnel; limited "public float" following the Reorganization, in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for the common stock; the Company's ability to execute its business plan; operating results that fall below expectations; loss of any strategic relationship; industry developments; economic and other external factors; and period-to-period fluctuations in the Company's financial results. In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of the Company's common stock.

#### OFFERS OR AVAILABILITY FOR SALE OF A SUBSTANTIAL NUMBER OF SHARES OF THE COMPANY'S COMMON STOCK MAY CAUSE THE PRICE OF THE COMPANY'S COMMON STOCK TO DECLINE OR COULD AFFECT THE COMPANY'S ABILITY TO RAISE ADDITIONAL WORKING CAPITAL

If the Company's current stockholders seek to sell substantial amounts of common stock in the public market either upon expiration of any required holding period under Rule 144 or pursuant to an effective registration statement, it could create a circumstance commonly referred to as "overhang," in anticipation of which the market price of the Company's common stock could fall substantially. The existence of an overhang, whether or not sales have occurred or are occurring, also could make it more difficult for the Company to raise additional financing in the future through sale of securities at a time and price that the Company deems acceptable.

#### THE COMPANY'S COMMON STOCK IS CURRENTLY DEEMED TO BE "PENNY STOCK", WHICH MAKES IT MORE DIFFICULT FOR INVESTORS TO SELL THEIR SHARES

The Company's common stock is currently subject to the "penny stock" rules adopted under section 15(g) of the Exchange Act. The penny stock rules apply to companies whose common stock is not listed on the NASDAQ Stock Market or other national securities exchange and trades at less than \$5.00 per share or that have tangible net worth of less than \$5,000,000 (\$2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than "established customers" complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. If the Company remains subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for the Company's securities. If the Company's securities are subject to the penny stock rules, investors will find it more difficult to dispose of the Company's securities.

#### THE ELIMINATION OF MONETARY LIABILITY AGAINST THE COMPANY'S DIRECTORS, OFFICERS AND EMPLOYEES UNDER NEVADA LAW AND THE EXISTENCE OF INDEMNIFICATION RIGHTS TO THE COMPANY'S DIRECTORS, OFFICERS AND EMPLOYEES MAY RESULT IN SUBSTANTIAL EXPENDITURES BY THE COMPANY AND MAY DISCOURAGE LAWSUITS AGAINST THE COMPANY'S DIRECTORS, OFFICERS AND EMPLOYEES

The Company's certificate of incorporation does not contain any specific provisions that eliminate the liability of directors for monetary damages to the Company and the Company's stockholders; however, the Company is prepared to give such indemnification to its directors and officers to the extent provided by Nevada law. The Company may also have contractual indemnification obligations under its employment agreements with its executive officers. The

foregoing indemnification obligations could result in the Company incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which the Company may be unable to recoup. These provisions and resultant costs may also discourage the Company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties and may similarly discourage the filing of derivative litigation by the Company's stockholders against the Company's directors and officers even though such actions, if successful, might otherwise benefit the Company and its stockholders

## ITEM 4: CONTROLS AND PROCEDURES

### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) as of the end of the period covered by this report and concluded that our disclosure controls and procedures were not effective to ensure that all material information required to be disclosed in this Quarterly Report on Form 10-Q has been made known to them in a timely fashion. We are in the process of improving our internal control over financial reporting in an effort to remediate these deficiencies through improved supervision and training of our accounting staff. These deficiencies have been disclosed to our Board of Directors. We believe that this effort is sufficient to fully remedy these deficiencies and we are continuing our efforts to improve and strengthen our control processes and procedures. Our Chief Executive Officer, Chief Financial Officer and directors will continue to work with our auditors and other outside advisors to ensure that our controls and procedures are adequate and effective.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No change in the Company's internal control over financial reporting occurred during the month ended March 31, 2012, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II

### ITEM 1 – LEGAL PROCEEDINGS

We are subject to certain claims and litigation in the ordinary course of business. It is the opinion of management that the outcome of such matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

In February, 2011, the Company was served with a lawsuit filed by a former employee in the United States District Court for the Southern District of Florida. The complaint alleges breach of employee contract and entitlement to additional equity in the Company. The complaint has been dismissed on September 2, 2011 with prejudice, as to the Company and is therefore no longer a potential liability for the Company.

On April 21, 2011, the Company was served with a lawsuit that was filed in Clark County, Nevada against the Company by A to Z Holdings, LLC and seven other individuals or entities. The complaint alleges, among other things, that the Company's Board of Directors did not have the power to designate series A and B preferred stock without amending the articles of incorporation. This lawsuit has been settled for \$10,000 and has been accrued for as of June 30, 2012.

On July 6, 2011, the Company was served with a lawsuit filed in the Circuit Court for the County of Multnomah, Oregon. The complaint alleges breach of contract and entitlement to consulting fees from the Company. This lawsuit has been settled for \$30,000 and has been accrued for as of June 30, 2012.

### ITEM 1A – RISK FACTORS

The Company is a smaller reporting company and is therefore not required to provide this information.

### ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

CAPITAL INVESTMENT CMGO INVESTORS, LLC.

On April 1, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$725,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 3,625,000 shares of the Company's Common Stock. The Note bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on July 1, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 942,500 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

On April 23, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$125,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 625,000 shares of the Company's Common Stock. The Note bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on July 28, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 162,500 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

On June 1, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$150,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 750,000 shares of the Company's Common Stock. The Note bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on September 1, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 195,500 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

On June 18, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$50,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 250,000 shares of the Company's Common Stock. The Note



bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on September 18, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 65,000 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

On June 30, 2010, the Company entered into a Note Purchase Agreement with CMGO Investors, LLC, a Delaware limited liability company, providing for the sale and issuance of (i) \$20,000 of its 13% Senior Secured Convertible Extendible Notes due 2011 and (ii) warrants to purchase 125,000 shares of the Company's Common Stock. The Note bears interest at a rate of 13% per annum payable quarterly. The entire amount of the Note, together with all accrued but unpaid interest thereon, is due and payable in full on September 30, 2011; provided that, so long as there is no continuing Event of Default, the Company may in its sole discretion extend the Maturity Date for a period of three months by paying an extension fee equal to 5% of the principal amount of the outstanding Notes. In the event of Default on the Note, the Note shall bear interest at the rate per annum equal to 18%. The Notes rank senior in right of payment with all indebtedness of the Company, whether currently existing or issued in the future. The Notes are secured by a security interest in all of the assets of the Company and the Company's subsidiaries pursuant to a Security Agreement and Subsidiary Guarantee. The Notes are convertible into shares of Common Stock of the Company at any time after the Maturity Date at an initial conversion price of \$0.10 per share. The warrants are exercisable for seven years at an exercise price of \$0.10 per share. The conversion price of the Notes and the exercise price of the warrants will be adjusted in connection with stock splits, dividends, mergers, reclassifications and similar transactions. In addition, if at any time the closing market price of the Common Stock is less than the conversion price or exercise price for a period of 90 consecutive trading days, then the conversion price or exercise price in effect shall be reduced to the closing market price of the Common Stock on such 90th trading day; provided that in no event shall the conversion price or exercise price be reduced to less than \$0.07 per share pursuant to this provision. The investors also received certain registration rights pursuant to a Registration Rights Agreement. In connection with this transaction, the Company paid the placement agent 10% of the gross proceeds and warrants to purchase 32,500 shares of Common Stock. The sale of securities discussed above was made solely to accredited investors and was exempt from registration under Section 4(2) and/or Rule 506 of Regulation D of the Securities Act of 1933, as amended.

On April 13, 2012, the Company signed an Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes between AudioEye Acquisitions Corporation, CMGO Investors LLC and the Company. The Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes are scheduled to close on or before May 31, 2012, time being of the essence, in accordance with the Amended Master Agreement, On April 13, 2012. The Company amended the Jun 22, 2011 Master agreement with AudioEye Acquisitions Corporation pursuant to which the shareholders of AudioEye Acquisitions Corporation will acquire 80% of the capital stock of AudioEye, Inc. from the Company, and the Company will distribute to its shareholders, in the form of a dividend, 5% of the capital stock of Audioeye, Inc. The parties have concluded that it is in the best interests of all shareholders to amend the Master Agreement to separate the Spin-off and Share Exchange and to cause the satisfaction and release of the Notes to be effective as soon as practicable but no later than the closing of the Share Exchange.

On August 17, 2012 the Company, AudioEye Acquisition Corporation and CMGO Investors, LLC finalized and completed their Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes and their Share Exchange pursuant to their Amended Master Agreement in order to allow the payment by AudioEye of the Company's outstanding Note and to cause the release of the Notes and security therefore. Pursuant to the Amended Master Agreement: The Company will retain 15% of AudioEye subject to transfer restrictions in accordance with the Agreement. The Company will distribute to its shareholders, in the form of a dividend, 5% of the capital stock of AudioEye in accordance with provisions of the Agreement. AudioEye has finalized a Royalty Agreement with the Company to pay to the Company 10% of cash received from income earned, settlements or judgments directly resulting from, AudioEye's patent enforcement and licensing strategy whether received by, AudioEye or any of its affiliates, net of any direct costs or tax implications incurred in pursuit of such strategy pertaining to the patents as fully described in the Agreement. AudioEye has finalized a Consulting Services Agreement with the Company whereby the Company will receive a commission of not less than 7.5% of all revenues received by AudioEye after the closing date from all business, clients or other sources of revenue procured by the Company or its employees, officers or subsidiaries and directed to AudioEye and 10% of net revenues obtained from a third party described in the agreement. AudioEye has finalized the release of the obligations of the Company under the

Notes pursuant to a novation or other form of release of such obligation which shall include a termination of any security interest on any post Spin Off assets of the Company.

ITEM 3 – DEFAULT UPON SENIOR SECURITIES

None

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 – OTHER INFORMATION

None

ITEM 6 – EXHIBITS

Exhibit No. Document Description

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.

32.1 Certification of Chief 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 Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

Reports on Form 8-K:

The Company filed a Form 8-K on April 27, 2012 - Item 1.01: Entry into a Material Definitive Agreement

The Company filed a Form 8-K on May 02, 2012 - Item 2.01. Item 8.01: Other Events - Settlement Agreement

The Company filed a Form 8-K on May 03, 2012 - Item 1.02. Item 8.01: Other Events - Note Modification Purchase Agreement

The Company filed a Form 8-K on June 01, 2012 - Item 8.01. Other Event - Note Modification Purchase Agreement

The Company filed a Form 8-K on June 29, 2012 - Item 2.01 - Completion of Acquisition or Disposition of Assets - Sale of Creative Management of Delaware, Inc.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

CMG HOLDINGS GROUP,  
INC.  
(Registrant)

Edgar Filing: CMG HOLDINGS GROUP, INC. - Form 10-Q

Date: September 28, 2012

By: /s/ JAMES J. ENNIS  
James J. Ennis  
Chief Executive Officer,  
Chief Financial Officer and  
Chairman of the Board

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	NAME	TITLE	DATE
/s/James J. Ennis	James J. Ennis	CEO, CFO & Chairman of the Board	September 28, 2012
/s/Michael Vandetty	Michael Vandetty	Secretary & Director	September 28, 2012