

CMG HOLDINGS GROUP, INC.  
Form 10-Q  
May 20, 2013

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 March 31, 2013

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

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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

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As of May 20, 2013, the aggregate market value of the Registrant's voting and none-voting common stock held by non-affiliates of the registrant was approximately: \$2,760,278 at \$0.01 price per share, based on the closing price on the OTC Pink Sheets. As of May 20, 2013, there were 294,650,743 shares of common stock of the registrant issued and 294,650,743 outstanding.

CMG HOLDINGS GROUP, INC.  
FORM 10-Q

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PART I

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

CMG HOLDINGS GROUP, INC.  
UNAUDITED FINANCIAL STATEMENTS

FOR THE QUARTER ENDED MARCH 31, 2013 AND 2012

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CMG HOLDINGS, INC  
BALANCE SHEETS  
(unaudited)

|  | March 31,<br>2013<br>(Unaudited) | December 31,<br>2012 |
|--|----------------------------------|----------------------|
| <b>ASSETS</b>  |                                  |                      |
| <b>CURRENT ASSETS:</b>   |                                  |                      |
| Cash   | \$ 1,189,512                     | \$ 238,124           |
| Marketable securities  | 274,651                          | 274,651              |
| Accounts receivable  | 135,110                          | 252,567              |
| Prepaid assets   | 399,645                          | 15,000               |
| <b>Total Current Assets</b>  | <b>1,998,918</b>                 | <b>780,342</b>       |
| Other non-current assets   | 70,526                           | 57,833               |
| <b>TOTAL ASSETS</b>  | <b>\$ 2,069,444</b>              | <b>\$ 838,175</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |                                  |                      |
| <b>CURRENT LIABILITIES:</b>  |                                  |                      |
| Accounts payable   | \$ 301,788                       | \$ 546,852           |
| Accounts payable – related party   | 57,275                           | 19,625               |
| Accrued liabilities  | 757,228                          | 722,549              |
| Deferred income  | 1,576,671                        | 13,370               |
| Derivative liabilities   | 268,496                          | 145,970              |
| Short term convertible debt, net of unamortized discount of \$43,579 and \$47,012, respectively                                      | 265,864                          | 150,431              |
| <b>Total Current Liabilities</b>   | <b>3,227,322</b>                 | <b>1,598,797</b>     |
| Long Term Convertible debt, net of debt discount of \$4,249 and \$7,739, respectively  | 520,751                          | 629,261              |
| <b>TOTAL LIABILITIES</b>   | <b>3,748,073</b>                 | <b>2,228,058</b>     |
| <b>STOCKHOLDERS' DEFICIT</b>   |                                  |                      |
| <b>Preferred stock:</b>  |                                  |                      |
| 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 shares issued and outstanding | 50                               | 50                   |
| <b>Common Stock:</b>   |                                  |                      |
| 450,000,000 shares authorized, par value \$.001 per share; 294,650,743 shares issued, 294,650,743 outstanding                        | 294,614                          | 294,614              |
| Additional paid in capital   | 14,469,341                       | 14,469,341           |
| Treasury Stock, 37,174 and 37,174 shares held, respectively.   | 37                               | 37                   |
| Accumulated deficit  | (16,442,671)                     | (16,153,925)         |
| <b>TOTAL STOCKHOLDERS' DEFICIT</b>   | <b>(1,678,629)</b>               | <b>(1,389,883)</b>   |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   | <b>\$ 2,069,444</b>              | <b>\$ 838,175</b>    |

See accompanying notes to unaudited consolidated financial statements.

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CMG HOLDINGS, INC.  
STATEMENTS OF OPERATIONS  
(unaudited)

|  | For the Three Months Ended<br>March 31, |                |
|--|---|----------------|
|  | 2013                                    | 2012           |
| Revenues   | \$ 1,023,169                            | \$ 983,149     |
| Operating Expenses:                                      |   |                |
| Cost of revenues   | 542,034                                 | 468,079        |
| Depreciation and amortization expense                    | -                                       | 74,584         |
| General and administrative expenses                      | 624,938                                 | 1,052,479      |
| Total Operating Expenses                                 | 1,166,972                               | 1,595,142      |
| Operating Loss   | (143,803)                               | (611,993)      |
| Other Income (Expense):                                  |   |                |
| Gain (loss) on derivative liability                      | (56,929)                                | 102,190        |
| Other income (expense)                                   | (5,400)                                 | (13,655)       |
| Interest expense   | (82,614)                                | (314,915)      |
| Total Other Income (Expense)                             | (144,943)                               | (226,380)      |
| Loss from continuing operations                          | (288,746)                               | (838,373)      |
| Loss from discontinued operations                        | -                                       | (189,441)      |
| Net Loss   | \$ (288,746)                            | \$ (1,027,814) |
| Basic loss per common shares for discontinued operations |   | \$ (0.01)      |
| Basic loss per common shares for continued operations    | \$ (0.00)                               | \$ (0.01)      |
| Total basic loss per common share                        | \$ (0.00)                               | \$ (0.01)      |
| Basic weighted average common shares outstanding         | 294,650,743                             | 147,143,694    |

See accompanying notes to unaudited consolidated financial statements

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

|   | For the Three Months<br>Ended<br>March 31, |                |
|---|--|----------------|
|   | 2013                                       | 2012           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |  |                |
| Net loss  | \$ (288,746)                               | \$ (1,027,814) |
| Adjustments to reconcile net income (loss)<br>to net cash provided by (used in) operating activities: |  |                |
| Shares issued for services  | -  | 97,100         |
| Amortization of intangible assets   | -  | 74,584         |
| Unrealized gain on trading securities   | -  | (25,500)       |
| (Gain) loss on derivatives  | 56,929                                     | (102,190)      |
| Amortization of debt discount   | 72,519                                     | 264,140        |
| Changes in:   |  |                |
| Accounts receivable   | 117,457                                    | (171,658)      |
| Prepaid expense and other current assets  | (397,338)                                  | (216,195)      |
| Deferred income   | 1,563,301                                  | 842,870        |
| Accrued liabilities   | 34,680                                     | 493,920        |
| Accounts payable  | (245,064)                                  | (156,080)      |
| Accounts payable, related party   | 37,650                                     | (79,842)       |
| Cash provided by (used in) operating activities   | 951,388                                    | (6,665)        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |  |                |
| Cash paid for purchase of fixed assets  | -  | (3,288)        |
| Net cash used in investing activities   | -  | (3,288)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |  |                |
| Payments on related parties debt  | -  | (6,000)        |
| Advance from related parties  | -  | 175,000        |
| Proceeds from issuance of debt  | -  | 37,500         |
| Net change in line of credit  | -  | 1,107          |
| Net cash provided by financing activities   | -  | 207,607        |
| Net increase in cash  | 951,388                                    | 197,654        |
| Cash, beginning of period   | 238,124                                    | 365,204        |
| Cash, end of period   | 1,189,512                                  | \$ 562,858     |
| <b>Supplemental cash flow information:</b>  |  |                |
| Interest paid   | \$ -                                       | \$ -           |
| Income taxes paid   | \$ -                                       | \$ -           |
| <b>Non-cash investing and financing activity:</b>   |  |                |
| Reclassification of accounts payable to short term debt   | \$ -                                       | \$ 413,000     |
| Discount on notes payable from derivative liability   | \$ 65,597                                  | \$ 414,095     |
| Reclassification of derivative liabilities to additional paid-in capital                              | \$ -                                       | \$ 316,694     |
| Common stock issued for settlement of notes payable   | \$ -                                       | \$ 194,750     |

|   |            |      |
|---|------------|------|
| Reclassification of debt from short term to long term | \$ 525,000 | \$ - |
|---|------------|------|

See accompanying notes to unaudited consolidated financial statements.

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CMG HOLDINGS GROUP, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

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 2012 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, 2012 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 2012, 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., XA The Experiential Agency, Inc., CMGO Logistics, Inc., USaveCT and USaveNJ, after elimination of all significant inter-company accounts and transactions.

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.

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.

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

## NOTE 1 – BASIS OF PRESENTATION (continued)

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 March 31, 2013 and December 31, 2012. 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.

| March 31, 2013                | Level 1  | Level 2 | Level 3    | Total      |
|-------------------------------|----------|---------|------------|------------|
| Marketable trading securities | \$ 3,000 | \$ -    | \$ -       | \$ 3,000   |
| Derivative Liabilities        | \$ -     | \$ -    | \$ 268,496 | \$ 268,496 |
|                               |          |         |            |            |
| December 31, 2012             | Level 1  | Level 2 | Level 3    | Total      |
| Marketable trading securities | \$ 3,000 | \$ -    | \$ -       | \$ 3,000   |
| Derivative Liabilities        | \$ -     | \$ -    | \$ 145,970 | \$ 145,970 |

## 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 – NOTES PAYABLE

## Asher Enterprises, Inc.

On October 16, 2012 the company issued a convertible promissory note for \$32,500 to Asher. The convertible promissory note bears interest at 8% and is due on July 18, 2013 and any amount not paid by July 18, 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. 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.

In conjunction with the issuance of the promissory note, \$2,500 was recorded as debt discount. The discount is being amortized over the term of the note to interest expense. The discount balance was \$991 and \$1,809 as of March 31, 2013 and December 31, 2012, respectively. Amortization of \$818 was recognized as interest expense as of March 31, 2013. The convertible promissory notes have an outstanding balance of \$32,500 and \$32,500 as of March 31, 2013 and December 31, 2012, respectively.

## Paul Sherman Agreement

On May 12, 2012, the Company modified its July 24, 2011 agreement with Paul Sherman into a \$9,943 convertible promissory note bearing interest at 2% and due on May 15, 2013. The convertible promissory note is convertible at a

price equal to the close price on the day prior to Paul Sherman's request for conversion, but not to go below \$.001. 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. The discount is being amortized over the term of the note to interest expense. The discount balance was \$1,188 and \$3,376 as of March 31, 2013 and December 31, 2012, respectively. Amortization of \$2,188 was recognized as interest expense as of March 31, 2013. The convertible promissory note has an outstanding balance of \$9,943 and \$9,943 as of March 31, 2013 and December 31, 2012, respectively.

#### Continental Equities, LLC

On September 7, 2012 the company issued a convertible promissory note for \$50,000 to Continental Equities, LLC ("Continental") for the assignment of an equivalent amount of the Company's account payable to Continental. The convertible promissory note bears interest at 12% and is due on May 15, 2013, any amount not paid by May 15, 2013 will incur a 22% interest rate.

On September 7, 2012 the company issued a convertible promissory note for \$20,000 to Continental Equities, LLC for the assignment of an equivalent amount of the Company's accrued interest to Continental. The convertible promissory note bears interest at 12% and is due on May 15, 2013, any amount not paid by May 15, 2013 will incur a 22% interest rate.

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CMG HOLDINGS GROUP, INC.  
NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 2 – NOTES PAYABLE (continued)

The convertible promissory notes are 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. The Company analyzed the conversion options for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instruments should be classified as liabilities. The fair value of the embedded conversion option resulted in a discount of \$65,597 on the date of the note. The discount balance was \$28,221 as of March 31, 2013. Amortization of \$37,376 was recognized as interest expense as of March 31, 2013. The convertible promissory notes have an outstanding balance of \$70,000 and \$70,000 as of March 31, 2013 and December 31, 2012, respectively.

As inducement for entering into the convertible promissory notes, the Company issued 600,000 shares, which were recorded as a debt discount of \$11,486, which represents the relative fair value of the shares with the note principal. The discount balance was \$2,552 and \$7,657 as of March 31, 2013 and December 31, 2012, respectively. Amortization of \$5,105 was recognized as interest expense as of March 31, 2013.

Connied, Inc.

On April 11, 2011 the Company assigned \$135,000 of its account payable from a third party to Connied, Inc. ("Connied"). On May 3, 2011, the Company amended the assigned account payable to add a conversion feature. The new note was convertible at 50% of the average of the five lowest closing prices for the Company's stock during the previous 30 trading days. On the same date, the Company issued 1,388,889 shares of common stock with a fair value of \$97,222 to settle \$50,000 of the note. The difference between the fair value of the common stock and the debt was recorded as a loss on settlement of debt during the year ended December 31, 2011. The remaining balance of \$85,000 was recorded as short term debt. The note bears interest at 20% and is due on May 2, 2013.

The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the embedded conversion feature should be classified as a liability due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The embedded conversion feature was measured at fair value at inception and on the date of conversion with the change in fair value recorded to earnings. The addition of the embedded conversion option resulted in a full discount to the note of \$85,000 on May 3, 2011. The discount is being amortized over the term of the note to interest expense. The discount balance was \$10,533 and \$34,170 as of March 31, 2013 and December 31, 2012, respectively. Amortization of \$23,637 and \$3,963 was recognized as interest expense as of March 31, 2013 and 2012, respectively. The convertible promissory note has an outstanding balance of \$85,000 and \$85,000 as of March 31, 2013 and December 31, 2012, respectively.

Alan Morell

On September 26, 2012, the Company issued two convertible promissory notes for \$112,000 and \$525,000 to Alan Morell for outstanding amounts owed for the Company's line of credit and accrued salary, respectively. The notes bear interest at 2% and are due on April 4, 2013 and April 26, 2014, respectively. The notes became convertible at \$0.04 and \$0.06, respectively, as of November 15, 2012.

The Company analyzed the conversion options for derivative accounting consideration under ASC 815-15 “Derivatives and Hedging” and determined that the embedded conversion feature should be classified as a liability due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The embedded conversion feature was measured at fair value at inception and on the date of conversion with the change in fair value recorded to earnings. The addition of the embedded conversion options resulted in a discount to the notes of \$27,573 on November 15, 2012. The discounts are being amortized over the terms of the notes to interest expense. The discount balances were \$4,342 and \$7,739 as of March 31, 2013 and December 31, 2012, respectively. Amortization of \$3,396 was recognized as interest expense as of March 31, 2013. The convertible promissory notes have an outstanding balance of \$637,000 and \$637,000 as of March 31, 2013 and December 31, 2012, respectively. \$520,751 of which is classified as a long term liability, net of discount of \$4,342 as of March 31, 2013.

#### NOTE 3 - DERIVATIVE LIABILITIES

The Company has various convertible instruments outstanding more fully described in Note 2. Because the number of shares to be issued upon settlement cannot be determined under these instruments, 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 classified as liabilities.

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 NOTES TO UNAUDITED FINANCIAL STATEMENTS

## NOTE 3 - DERIVATIVE LIABILITIES (Continued)

## Embedded Derivative Liabilities in Convertible Notes

During the three months ended March 31, 2013 and the year ended December 31, 2012, the Company recognized new derivative liabilities of \$65,597 and \$734,839, respectively, as a result of new convertible debt issuances. The Company recognized \$61,012 as a loss on derivatives and \$97,658 as a gain on derivatives due to change in fair value of the liability for the three months ended March 31, 2013 and 2012, respectively. The fair value of the Company's embedded derivative liabilities was \$260,572 and \$133,963 at March 31, 2013 and December 31, 2012, respectively

## Warrants

During the fiscal year 2011, 899,000 A Warrants and 899,000 B warrants were issued to individuals. 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 March 31, 2013 and December 31, 2012 was \$7,924 and \$12,007, respectively. The Company recognized \$4,083 and \$4,532 as gain on derivative related to the warrants for the three months ended March 31, 2013 and 2012, respectively.

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

|                              |            |
|------------------------------|------------|
| Derivative Liabilities       |            |
| Balance at December 31, 2012 | \$ 145,970 |
| ASC 815-15 additions         | 65,597     |
| Change in fair value         | 56,929     |
| ASC 815-15 deletions         | -          |
| Balance at March 31, 2013    | \$ 268,496 |

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

|   |  |             |
|---|--|-------------|
| Gain/(Loss) on Derivative Liability                   | For the Three Months<br>Ended<br>March 31, |             |
|   | 2013                                       | 2012        |
| Change in fair value                                  | \$ 56,929                                  | \$ (49,630) |
| Excess of fair value of liabilities over note payable | -  | 151,820     |
| Total   | \$ 56,929                                  | \$ 102,190  |

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 71% to 426%, (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.



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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 MARCH 31, 2013

Gross revenues increased from \$983,149 for the three months ended March 31, 2012 to \$1,023,169 for the three months ended March 31, 2013. The increase in revenues was mainly due to organic revenues that were recorded in the fourth quarter of 2012 compared from existing clients and new client business revenues in our event marketing, event management and public relations and consulting business of XA, The Experiential Agency, Inc. (XA) that were serviced in the second quarter during year 2013. However, the Company has deferred \$1,576,671 in income at March 31, 2013 in accordance with US Generally Accepted Accounting Principles, compared to \$13,370 in the same period of the prior year. March 31, 2013 deferred income is related to several large projects for which the Company has been preparing for during the current quarter, collected cash deposits, but which we are unable to recognize revenue due to the event not having taken place prior to March 31, 2013.

Cost of revenue increased from \$468,079 for the three months ended March 31, 2012 to \$542,034 for the three months ended March 31, 2013. 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 first quarter of 2013 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 the first

quarter of 2013 within our events marketing, event management public relations and consulting business of XA, The Experiential Agency, Inc. (XA).

Operating expenses decreased from \$1,595,142 for the three months ended March 31, 2012 to \$1,166,972 for the three months ended March 31, 2013. 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 loss of \$1,027,814 for the three months ended March 31, 2012 decreased to a net income of \$288,746 for the three months ended March 31, 2013. 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.

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## LIQUIDITY AND CAPITAL RESOURCES:

As of March 31, 2013, the Company's cash on hand was \$1,189,512.

Cash provided by operations for the three months ended March 31, 2012 was \$951,388, as compared to cash used by operations of \$6,665 for the three months ended March 31, 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 three months ended March 31, 2012 was \$3,288 as compared cash used in investing activities of \$0 for the three months ended March 31, 2013.

Cash provided by financing activities for the three months ended March 31, 2012 was \$207,607, as compared to \$0 provided for the three months ended March 31, 2013. The decrease during the three months ended March 31, 2013, 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 March 31, 2013, 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:

| Title of Class  | Name           | Shares     | Percent |
|---|----------------|------------|---------|
| Common Stock  | Alan Morell    | 18,622,944 | 6.3%    |
| Common Stock  | Jeffrey Devlin | 0          | 0%      |
| All Directors, Executive Officers and 5% shareholders |                | 18,622,944 | 6.3%    |

These tables are based upon 294,650,743 shares outstanding as of March 31, 2013 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.

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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.

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**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.

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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.

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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.

**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 OTCQB trading under the symbol CMGO.PK. 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.



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**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.

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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 September 30, 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.

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 March 31, 2013.

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 case was settled in 2012 for \$30,000. The Company has accrued for this liability as of March 31, 2013.

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

None



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ITEM 3 – DEFAULT UPON SENIOR SECURITIES

None

ITEM 4 – MINE SAFETY DISCLOSURES

None

ITEM 5 – OTHER INFORMATION

On June 22, 2011 the Registrant entered into a Master Agreement (hereinafter the “Agreement”) with AudioEye Acquisition Corp., a Nevada corporation (hereinafter “AudioEye Acquisition”) pursuant to which: (i) the shareholders of AudioEye Acquisition acquired from the Registrant 80% of the capital stock of AudioEye and (ii) the Registrant has on February 21, 2013 distribute to its shareholders, in the form of a dividend, 5% of the capital stock of AudioEye.

On August 21, 2012, the Board of Directors of the Registrant declared October 26, 2012 as the dividend date in accordance with the provisions of the June 22, 2011 Master Agreement, which is 5% of the capital stock of AudioEye, Inc (hereinafter "AudioEye"). AudioEye has obtained an active S1 registration completing the required registration process on January 29, 2013. In accordance with the provisions of the Master Agreement, the dividend, which is 5% of AudioEye’s common stock was paid to the shareholders of record as of the close of business on October 26, 2012. AudioEye, inc. issued the shares on February 21, 2013.

On April 5, 2012 the Registrant and AudioEye Acquisition amended their Agreement in order to separate the Spin-off and Share Exchange so as to allow the payment by AudioEye Acquisition of the outstanding Registrant Note and to cause the release of the Notes upon final payment which was made by AudioEye Acquisition allowing it to proceed with closing of the Share Exchange with AudioEye,inc which is now underway.

On February 21, 2013 AudioEye, Inc. distributed 15% or its common stock to Registrant and 5% to shareholders of record of Registrant as of the October 26, 2012 dividend date in accordance with the provisions of the June 22, 2011 Master Agreement, which is 5% of the capital stock of AudioEye, Inc.

1. The Registrant will retain 15% of the capital stock of AudioEye, Inc. subject to transfer restrictions in accordance with the provisions of the Master Agreement.
2. The Registrant has distributed on February 21, 2013 to its shareholders, in the form of a dividend, 5% of the capital stock of AudioEye, Inc. in accordance with provisions of the Agreement.

ITEM 6 – EXHIBITS

Exhibit No. Document Description

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



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Reports on Form 8-K:

The Company filed a Form 8-K on January 21, 2013 - Item 7.01 - Regulation FD Disclosure - Message to Shareholders.

The Company filed a Form 8-K on February 25, 2013 - Item 8.01 - AudioEye Distribution.

The Company filed a Form 8-K on March 20, 2013 - Item 7.01 - Regulation FD Disclosure - Message to Shareholders.

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)

Date: May 20, 2013

By: /s/ JEFFREY DEVLIN  
Jeffrey Devlin  
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/Jeffrey Devlin | Jeffrey Devlin | CEO, CFO &<br>Chairman of the Board | May 20, 2013 |

