

CMG HOLDINGS GROUP, INC.  
Form 10-Q  
August 23, 2011

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, 2011

Commission file number 000-51770

CMG HOLDINGS, 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  
As of August 22, 2011, there were 66,163,847 common stock of the registrant issued and outstanding.



CMG HOLDINGS, INC.  
FORM 10-Q

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PART I

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

CMG HOLDINGS, INC.  
UNAUDITED FINANCIAL STATEMENTS

FOR THE QUARTER ENDED JUNE 30, 2011 AND 2010

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CMG HOLDINGS, INC  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

	June 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 420,917	\$ 13,695
Investments	53,602	49,006
Accounts receivable	654,755	204,147
Inventory	3,240,502	--
Prepaid and other current assets	58,881	71,497
Total current assets	4,428,657	338,345
Property and equipment, net of accumulated depreciation of \$95,723 and \$56,357	112,595	151,520
Intangible assets, net accumulated amortization of \$671,248 and \$522,082, respectively	245,590	394,756
<b>TOTAL ASSETS</b>	<b>\$ 4,786,842</b>	<b>\$ 884,621</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Client payable	\$ 11,317	\$ 11,317
Accounts payable	1,443,217	1,713,300
Accrued liabilities	1,328,784	829,052
Deferred income	41,365	78,721
Derivative liabilities	770,475	--
Short term debt, net of unamortized discount of \$119,121 and \$67,063, respectively	1,115,879	1,007,937
Line of credit	102,658	183,478
Advances from related parties – net of unamortized discount of \$676,668 and \$0, respectively	1,251,721	127,438
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,065,416</b>	<b>3,951,243</b>
Advance from related parties – net of unamortized discount of \$841,824 and \$0, respectively	--	204,878
<b>TOTAL LIABILITIES</b>	<b>6,065,416</b>	<b>4,156,121</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 and 0 shares issued and outstanding	50	--

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Common stock:

150,000,000 shares authorized, par value \$0.001 per share; 66,163,847 and 58,165,988 shares issued, 66,126,673 and 58,128,814 outstanding	66,164	58,166
Additional paid in capital	8,220,161	7,272,662
Treasury stock, 37,174 and 37,174 shares held, respectively.	37	37
Accumulated deficit	(9,564,986)	(10,602,365)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(1,278,574)</b>	<b>(3,271,500)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 4,786,842</b>	<b>\$ 884,621</b>

See accompanying notes to unaudited consolidated financial statements

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

	Three months ended June 30, 2011		Six months ended June 30, 2011		2010			
Revenues	\$	4,724,646	\$	1,567,654	\$	5,512,129	\$	2,854,253
Cost of revenues		3,307,117		729,295		3,639,448		1,438,301
Gross profit		1,417,529		838,359		1,872,681		1,415,952
Operating expenses		1,256,080		1,223,270		2,472,365		2,122,781
Operating income (loss)		161,449		(384,911)		(599,684)		(706,829)
Other income (expense)								
Gain on derivative liability		1,495,723		-		2,402,933		-
Loss on settlement of debt		(140,596)		-		(288,618)		-
Unrealized loss on marketable securities		(33,900)		(10,000)		(10,904)		(10,000)
Bargain purchase gain		--		--		--		405,759
Interest expense		(246,917)		(64,800)		(466,348)		(80,200)
Interest income		--		49		--		49
Net income (loss)	\$	1,235,759	\$	(459,662)	\$	1,037,379	\$	(391,221)
Basic and diluted income (loss) per common share	\$	0.02	\$	(0.01)	\$	0.02	\$	(0.01)
Basic weighted average common shares outstanding		64,223,763		40,509,406		62,077,496		39,490,565
Diluted weighted average common shares outstanding		64,223,763		40,509,406		62,195,289		39,490,565

See accompanying notes to unaudited consolidated financial statements



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

	Six Months Ended	
	June 30, 2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 1,037,379	\$ (391,221)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Bargain purchase gain	--	(405,759)
Amortization of deferred financing costs	68,292	21,631
Shares issued for services	41,437	34,812
Amortization of intangible assets	149,166	149,166
Depreciation expense	39,366	11,039
Loss on settlement of debt	288,618	--
Realized loss on trading securities	10,904	10,000
Gain on derivative liability	(2,402,933)	--
Amortization of debt discount	323,098	30,844
Changes in:		
Accounts receivable	(466,108)	(507,613)
Prepaid expense and other current assets	(55,676)	2,954
Deferred income	(37,356)	(19,600)
Accrued liabilities	499,732	373,577
Accounts payable	(93,688)	63,384
Net cash used in operating activities	(597,766)	(626,786)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of Audio Eye, Inc. net of cash received	-	(26,783)
Purchase of fixed assets	(441)	(11,287)
Net cash used in investing activities	(441)	(38,070)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on related parties debt	(50,000)	--
Payments of debt	--	(125,000)
Payments of Financing fees	--	(107,500)
Advances from related parties	804,249	84,938
Proceeds from issuance of debt	75,000	1,075,000
Stock issued for cash	157,000	--
Net borrowings on line of credit	19,180	(9,645)
Cash provided by financing activities	1,005,429	917,793
Net increase in cash	407,222	252,937
Cash: beginning of period	13,695	32,968
Cash: end of period	420,917	285,905
<b>Supplemental cash flow information</b>		
Interest paid	61,108	32,615
Income taxes paid	--	--

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Non cash investing activity	--	--
Acquisition of AcuideoEye, Inc.	--	502,542
Warrants issued recorded as debt discount	--	142,931
Warrants issued recorded as deferred financing costs	--	43,127
Preferred stock issued for inventory	3,240,502	--
Discount on notes payable from derivative liability	160,000	--
Common stock issued for settlement of notes payables	191,398	--
Reclassification of derivative liabilities from additional paid in capital	10,857,628	--
Reclassification of derivative liabilities to additional paid in capital	7,894,220	--
Reclassification of long term related parties debt to short term	204,878	--

See accompanying notes to unaudited consolidated financial statements

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

## NOTE 1 –BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of CMG Holdings, Inc. (“we”, “our” or 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 2010 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, 2010 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 2010, as reported in the Form 10-K, have been omitted.

## Principles of Consolidation

The consolidated financial statements include the accounts of CMG Holdings, Inc., CMG Acquisition, Inc., CMGO Capital, Inc., The Experiential Agency, Inc, Audio Eye, Inc., CMGO Logistics, Inc., Empire Technologies, LLC and Creative Management Group, Inc. after elimination of all significant inter-company accounts and transactions.

## Earnings per share

Basic earnings per share (“EPS”) is calculated by dividing net income available to common stockholders by the weighted average number of shares of the Company’s common stock outstanding during the period. Diluted EPS reflect the potential dilution that could occur if the Company’s share-based awards were exercised into common stock. The dilutive effect of our share-based awards is computed using the treasury stock method, which assumes all share-based awards are exercised and the hypothetical proceeds from exercise are used to purchase common stock at the average market price during the period. The incremental shares (difference between shares assumed to be issued versus purchased), to the extent they would have been dilutive, are included in the denominator of the diluted EPS calculation. The following represents a reconciliation of the numerators and denominators of the basic and diluted EPS computations:

	Three Months Ended June 30, 2011			Three Months Ended June 30, 2010		
	Net Income (Loss) Numerator	Shares Denominator	Per Shares Amount	Net Income (Loss) Numerator	Shares Denominator	Per Shares Amount
Basic EPS	1,235,759	64,223,763	0.02	(459,662)	40,509,406	(0.01)
Effect of dilutive securities	-	-		-	-	
Warrants	-	-		-	-	
Diluted EPS	1,235,759	64,223,763	0.02	(459,662)	40,509,406	(0.01)

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	Six Months Ended June 30, 2011			Six Months Ended June 30, 2010		
	Net Income (Loss) Numerator	Shares Denominator	Per Shares Amount	Net Income (Loss) Numerator	Shares Denominator	Per Shares Amount
Basic EPS	1,037,379	62,077,496	0.02	(391,221)	39,490,565	(0.01)
Effect of dilutive securities	-	-		-	-	
Warrants	-	117,793		-	-	
Diluted EPS	1,037,379	62,195,289	0.02	(391,221)	39,490,565	(0.01)

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## CMG HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

## Fair Value Measurements

As defined in ASC 820 “Fair Value Measurements”, 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.

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, 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, 2011			
	Level 1	Level 2	Level 3	Total
Derivative Liabilities	-	-	770,475	770,475

## Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

## Recent Accounting Pronouncements

The Company has evaluated all the recent accounting pronouncements through the filing date and believes that none of them will have a material effect on the Company.

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

NOTE 2: EQUITY

Preferred Stock

Series B Preferred Stock and Inventory Purchase

On March 31, 2011 the Company acquired 20,000 cartoon animated cels (the “Cel Art”) from Continental Investments Group, Inc. (the “Agreement”). The Company issued 50,000 shares of its Series B Convertible Preferred Stock to Continental Investments Group, Inc. as consideration for the Cel Art, such shares of Series B Convertible Preferred Stock having a stated value per share of \$100. The Cel Art consists of collectible, hand-painted cartoon animation cels. The shares of Series B Preferred Stock are convertible into common shares of the Company at the stated value of \$100 per share divided by the volume weighted average trading price for the 30 days prior to conversion. The preferred shares are non-voting and do not receive dividends. The Company determined the fair value of the preferred stock to be \$3,240,502 on the acquisition date based on the number of shares of common stock the preferred shares could be converted into and the market price of the common stock on the agreement date. This amount was recorded as inventory in the consolidated balance sheet as of June 30, 2011.

The cartoon animated cels are valued at the lower of cost or market. Management will writes down the inventories to market value if it is below cost. The Company also analyzed the embedded conversion option for derivative accounting consideration under ASC 815-15 “Derivatives and Hedging” and determined that the conversion option should be classified as equity.

Series A Preferred Stock Issuance and Rescission

On March 31, 2011 the Company approved the issuance of 51 shares of preferred stock designated as Series A Convertible Preferred Stock (the “Series A Preferred Stock”) to three officers of the Company in consideration for the officers forgiving \$300,000 of accrued salaries. Each share of Series A Preferred Stock is convertible into 1% of the Company’s common stock. The number of votes for the Series A Preferred Stock shall be the same number as the amount of shares of Common Stock that would be issued upon conversion. The Series A Preferred Stock is not entitled to dividends or preference upon liquidation.

On May 16, 2011 the Company rescinded the above agreement with an effective date of March 31, 2011. There are no shares of Series A Preferred Stock issued or outstanding as June 30, 2011. There was no impact to the consolidated financial statements as a result of the above issuance and rescission.

Common Stock:

Garlette LLC

On January 6, 2011 the Company assigned \$50,000 of debt owed to Morgan Stanley Smith Barney to Garlette, LLC. On the same date, the Company amended the assigned debt to add a conversion feature. The new note was convertible at 25% of the average of the five lowest closing prices for the Company's stock during the previous 30 trading days. 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 (see below) 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 \$50,000 on January 6, 2011. See Note 4 for additional information on the derivative liability.

\$25,000 of the note was converted on January 7, 2011 into 357,143 shares of common stock. The remaining \$25,000 was converted on January 18, 2011 into 357,143 shares of common stock. As a result of the conversion, the entire discount of \$50,000 was amortized to interest expense during the six months ended June 30, 2011.



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

American Settlement LLC

On February 17, 2011 the Company assigned \$25,000 of debt owed to Morgan Stanley Smith Barney to American Settlements, LLC. On the same date, the Company issued 548,246 shares of common stock with a fair value of \$98,684 to settle 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 three months ended March 31, 2011. On March 21, 2011 the company assigned 25,000 of debt owed to Morgan Stanley Smith Barney to American Settlements, LLC. On the same date, the Company issued 735,835 shares of common stock with a fair value of \$99,338 to settle 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 six months ended June 30, 2011.

Aware Capital Consultants, Inc.

On April 18, 2011, the Company assigned \$41,398 of its accounts payable from a third party to Aware Capital Consultants, Inc. On May 6, 2011 the Company modified \$20,000 of the payables into a convertible debenture. On the same date, the Company issued 655,737 shares of common stock with a fair value of \$49,180 to settle the note. On May 24, 2011 the Company modified the remaining payables of \$21,398 into a convertible debenture. On the same date, the Company issued 1,426,553 shares of common stock with a fair value of \$85,592 to settle 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 six months ended June 30, 2011.

Connied, Inc.

On April 11, 2011 the Company assigned \$135,000 of its account payable from a third party to Connied, Inc. 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 six months ended June 30, 2011. The remaining balance of \$85,000 was recorded as short term debt in the consolidated balance sheet as of June 30, 2011. 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 (see below) 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 will be amortized over the term of the note to interest expense. As of June 30, 2011, \$11,712 of the discount had been amortized to interest expense. See Note 4 for additional information on the derivative liability.

Shares Issued for Services

During the six months ended June 30, 2011, a total of 658,333 shares were issued to six individuals for services provided by third parties over a period of one year and were valued at \$41,137.



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

### Shares and Warrants Issued for Cash

During the six months ended June 30, 2011, eight individuals purchased 1,870,000 shares of common stock, 374,000 A Warrants and 374,000 B Warrants for \$157,000. The A Warrants are exercisable at a strike price of \$0.25 for three years, and the B Warrants are exercisable at a strike price of \$0.50 for three years. The Company can call each of the Warrants after twelve months if the price of the Common Shares of the Company in the Market is 150% of the Warrant strike price for 10 consecutive days.

A summary of warrant activity for the six months ended June 30, 2011 is as follows:

	Outstanding and Exercisable	Weighted average Exercise Price
December 31, 2010	250,000	\$ 0.07
Granted	748,000	0.38
Exercised	-	-
Forfeited	-	-
June 30, 2011	998,000	\$ 0.30

The warrants have a weighted average remaining life of 3.0 years with \$0 intrinsic value.

### NOTE 3: Notes Payable

#### Asher Enterprises, Inc.

On March 15, 2011 the company issued a convertible promissory note for \$75,000 to Asher Enterprises, Inc. The note bears interest at 8% and is due on December 17, 2011. The convertible promissory note calls 4,510,826 shares to be reserved for issuance upon conversion of the note and any amount not paid by December 17, 2011 will incur a 22% interest rate. 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.

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 due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The instrument is measured at fair value at the end of each reporting period or termination of the instrument with the change in fair value recorded to earnings. The fair value of the embedded conversion option resulted in a full discount to the note on March 15, 2011 of \$75,000. The discount will be amortized over the term of the note to interest expense. As of June 30, 2011, \$29,167 of the discount had been amortized to interest expense. See Note 4 for additional information on the derivative liability.

#### CMGO Investors, LC

During year ended December 31, 2010, the Company borrowed \$1,075,000 under five 13% convertible notes from third parties that will mature on July 1, 2011. The notes are convertible into common shares at any time after the

maturity date at \$0.10 per share. The Company has exercised the option to extend the maturity date of the notes for three months by paying an extension fee of 5% of the principal amount. During the six months ended June 30, 2011, the Company amortized \$67,063 of the original discount recorded on these notes and \$68,292 of the original deferred financing costs to interest expense.

The note agreements have various covenants. The agreements require the purchaser provide the Company with notice and a cure period of 10 days prior to an event qualifying as an event of default under the agreement. The agreements require a) the Company within 90 days after the close of each fiscal year of the Company, deliver to the note holders the balance sheet of the Company as of the end of such fiscal year and the related statements of income and retained earnings and statement of cash flows for such fiscal year certified by an independent registered accounting firm of recognized national standing, accompanied by an opinion of such accounting firm (which opinion shall be without any qualification or exception as to scope of audit) stating that in the course of its regular audit of the financial statements of the Company, which audit was conducted in accordance with GAAP, such accounting firm obtained no knowledge of any Default or an Event of Default relating to financial or accounting matters which has occurred and is continuing or, if in the opinion of such accounting firm such a Default or an Event of Default has occurred and is continuing, a statement as to the nature thereof, and management's discussion and analysis of the important operational and financial developments during such fiscal year. The timely public filing of the items described on EDGAR shall satisfy the delivery requirement under this provision but only with respect to the financial statements but not the opinion of the independent registered public accounting firm; and b) the Company deliver written Notice to the Purchaser within three Business Days after any Officer of the Company has knowledge of the occurrence of any event that, with the giving of notice or the lapse of time or both, would become an Event of Default under the agreement. As of August 22, 2011, the Company has not delivered to the purchaser the aforementioned information under a) or notice under b). As of August 22, 2011, the Company has not received notice of default from the purchaser.

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

NOTE 4: Derivative Liabilities

Garlette LLC

As discussed in Note 2, 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. The fair value of the instruments was determined to be \$246,314 using the Black-Scholes option pricing model. 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 of this, under ASC 815-15 “Derivatives and Hedging”, all other share-settleable instruments must be reclassified from equity to liabilities. The company had conversion options embedded in related parties notes payable agreements and accrued expenses and 398,000 warrants to purchase the Company’s common stock that were classified in equity as of the date that the Company entered in to the convertible note. The fair value of these instruments on January 7, 2011 was \$7,969,599 of which \$7,723,285 was reclassified to liabilities, \$50,000 recorded as debt discount and \$196,314 was recognized as loss on derivatives.

As a result of the note conversion in January 2011, under ASC 815-15 “Derivatives and Hedging”, the instrument is measured at fair value at the date of termination with the change in fair value recorded to earnings. The fair value of these instruments on January 18, 2011 was \$7,923,055 and this value was reclassified out of liabilities to equity and \$46,544 was recognized as a gain on derivatives during the six months ended June 30, 2011.

Asher Enterprises, Inc.

As discussed in Note 3, 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. The fair value of the instruments was determined to be \$85,106 using the Black-Scholes option pricing model. 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 of this, under ASC 815-15 “Derivatives and Hedging”, all other share-settleable instruments must be reclassified from equity to liabilities. The company had conversion options embedded in related parties notes payable agreements and accrued expenses and 948,000 warrants to purchase the Company common stock that were classified in equity as of the date that the Company entered in to the convertible note. The fair value of these instruments on March 15, 2011 was \$3,245,833 of which \$3,160,727 was reclassified to liabilities, \$75,000 recorded as debt discount and \$10,106 was recognized as 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. The fair value of these instruments on June 30, 2011 was \$599,224 and \$2,646,609 was recognized as gain on derivative.

Under ASC 815-15 “Derivatives and Hedging”, due to the convertible note – Asher Enterprises, Inc. remain outstanding as of June 30, 2011, all other share-settleable instruments that are issued subsequently 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 Company performed an analysis and determined all the following instruments should be classified as liabilities:

(1) Warrants

On May 20, 2011, 25,000 A Warrants and 25,000 B Warrants were issued to an individual in addition to shares purchase for cash as described in Note 2. The A Warrants are exercisable at a strike price of \$0.25 for three years, and the B Warrants are exercisable at a strike price of \$0.50 for three years. The fair value of the instruments was determined to be \$2,451 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. The change in fair value of these instruments on June 30, 2011 was \$1,364 and \$1,087 was recognized as gain on derivative.

CMG HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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## (2) Connied, Inc.

As discussed in Note 2, 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. The fair value of the instruments was determined to be \$162,467 using the Black-Scholes option pricing model of which \$85,000 recorded as debt discount and \$77,467 was recognized as 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. The fair value of these instruments on June 30, 2011 was \$169,887 and \$7,420 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, 2010	\$ -
ASC 815-15 additions (Garlette, LLC)	7,969,599
Change in fair value (Garlette, LLC)	(46,544)
ASC 815-15 deletion (Garlette, LLC)	(7,923,055)
ASC 815-15 additions (Asher Enterprises, LLC)	3,245,833
Change in fair value (Asher Enterprises, LLC)	(2,646,609)
ASC 815-15 additions (Warrant)	2,451
Change in fair value (Warrant)	(1,087)
ASC 815-15 additions (Connied, Inc)	162,467
Change in fair value (Connied, Inc.)	7,420
Balance at June 30, 2011	\$ 770,475

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

	Six Months Ended June 30, 2011
Gain/(Loss) on derivative liabilities	
Change in fair value (Garlette, LLC)	\$ 46,544
Excess of fair value of liabilities over note payable (Garlette, LLC)	(196,314)
Change in fair value (Asher Enterprises, LLC)	2,646,609
Excess of fair value of liabilities over note payable (Asher Enterprises, LLC)	(10,106)
Change in fair value (Warrants)	1,087
Change in fair value (Connied, Inc.)	(7,420)
Excess of fair value of liabilities over note payable (Connied, Inc.)	(77,467 )
Total	\$ 2,402,933

The company values its warrant derivatives and all other share settleable instrument using the Black-Scholes option pricing model. Assumption used include (1) 0.10% to 1.96% risk-free interest rate, (2) life is the remaining contractual life of the instrument (3) expected volatility 204% to 488%, (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.



CMG HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 5: 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 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. A motion to dismiss the complaint has been filed and said motion is presently pending a ruling by the Court. The Company believes that all of the employee's claims are frivolous or are barred pursuant to the terms of the contract or various releases executed in favor of the Company by the employee. The Company intends to seek damages against the former employee regarding breach of his employment agreement, his non-compete agreements and other causes of action. The case is still ongoing and the matter remains unresolved.

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. The company has retained counsel in Nevada to represent it in this matter and intends to vigorously defend same. The Company believes that most, if not all, of the allegations contained in the lawsuit are moot and/or not actionable and further believes that the Plaintiffs lack standing to pursue their claim against the company. The Company, through counsel, is in the process of conducting discovery to ascertain the validity of the Plaintiffs' claims and their standing to bring this lawsuit and, upon completion of discovery, will file appropriate pleadings with the Nevada court to attempt to have the complaint, as filed, dismissed.

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 is still ongoing and the matter remains unresolved.

Management believes the likelihood of a loss in any of the pending litigations is remote.

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## NOTE 6: COMMITMENTS AND CONTINGENCIES

On February 25, 2011, The Company's subsidiary XA Scenes and XA, The Experiential Agency, Inc. signed a separation agreement with Waterfront NY Realty Corporation regarding their office space located at 640 West 28th Street, New York NY. The separation agreement included the vacating of the premises on February 25, 2011, the payment of \$50,000 on February 25, 2011, the full release from all of obligations under the Lease for &e. subject commercial premises located at 636-.642 West 28th Street, New York, NY 10001. The \$50,000 payment was accrued as of June 30, 2011.

On February 25, 2011, The Company's subsidiary XA, The Experiential Agency, Inc. signed a lease agreement with Whitehall Property Management, Inc. regarding their office space located at 333 Hudson Street New York, NY. The lease agreement commences April 2011 and ends on March 2014 unless sooner terminated or extended.

On April 26, 2011, The Company's subsidiary XA, The Experiential Agency, Inc. signed a lease agreement with Golub JHC Realty, LLC regarding their office space located at 875 North Michigan Avenue, Chicago, IL. The lease agreement commences April 2011 and ends on March 2021 unless sooner terminated or extended.

Future minimum lease payments for the above lease schedule are as follow:

2011	71,927
2012	147,522
2013	152,137
2014	100,158
2015	84,248
Thereafter	481,286
Total	1,037,278

## NOTE 7: RELATED PARTY TRANSACTIONS

From time to time the Company borrows money from its officers. These advances from the officers bear no interest and they are due on demand. During the six months ended June 30, 2011, \$804,249 was advanced from and \$50,000 was paid back to the officers. As of June 30, 2011, the Company owes \$881,687 as related party debt to executive officers and management. There were a total of related party payables of \$127,438 due to the officers at December 31, 2010.

On September 30, 2010 and December 31, 2010, the Company and its executive management entered into a deferred salary conversion agreements in order to assists with the working capital needs of the Company. The \$1,046,702 unsecured notes carries an interest rate of 1% with a maturity date on March 31, 2012. The notes are convertible into the Company's common shares at \$0.06 and \$0.02 for the agreements entered on September 30, 2010 and December 31, 2010 respectively. The Company analyzed the conversion option under ASC 470-20 "Debt with Conversion and Other Options" and determined there was a beneficial conversion feature resulting in a discount to the note of \$879,161. During the six months ended June 30, 2011 \$165,156 of the discount was amortized to interest expense. As of June 30, 2011 and December 31, 2010, the principal balance for the related party's debt is \$1,046,702, net of amortized discount of \$676,668 and \$841,824, respectively.



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## 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.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Revenue:				
Event marketing	\$ 4,698,331	\$ 1,484,099	\$ 5,354,672	\$ 2,750,328
Commercial rights	2,197	16,089	45,697	36,459
Consulting services	24,118	67,466	111,760	67,466
Total	\$ 4,724,646	\$ 1,567,654	\$ 5,512,129	\$ 2,854,253

Operating income (loss)				
Event marketing	\$ 823,158	\$ 119,074	\$ 672,096	\$ 34,076
Commercial rights	(291,022)	(267,079)	(568,757)	(503,999)
Consulting services	(370,687)	(236,906)	(703,023)	(236,906)
Total	\$ 161,449	\$ (384,911)	\$ (599,684)	\$ (706,829)

	June	December
Assets	30, 2011	31, 2010
Event marketing	\$ 1,237,556	\$ 583,476
Commercial rights	3,254,109	103,418
Consulting services	295,177	197,727
Total	\$ 4,786,842	\$ 884,621

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NOTE 9: POTENTIAL SPIN OFF OF AUDIOEYE

On June 22, 2011, the Company signed a Master Agreement, with AudioEye Acquisition Corp., a Nevada Corporation, in which the shareholders of AudioEye Acquisition Corp. will exchange 100% of the stock in AudioEye Acquisition Corp. for 80% of capital stock of AudioEye, Inc. The Company will retain 15% stock in AudioEye Inc. and will distribute to its shareholders 5% of capital stock of AudioEye, in the form of a dividend on the closing date subject to transfer restrictions. The Master Agreement was approved by the Board of Directors and is subject to shareholder approval and subject to closing conditions. AudioEye, Inc. will pay to the Company, 10% of cash received from income earned, settlements or judgments directly resulting from its 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 and will enter into a consulting agreement where the Company will receive a commission of not less than 7.5% of all revenues received by AudioEye, Inc. and 10% of net revenues obtained from a third party described in the agreement. AudioEye, Inc. will arrange the release of obligations of the Company under outstanding 13% Senior Secured Convertible Extendable Notes due in 2011 with a current 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.

As of June 30, 2011, AudioEye is still presented as a consolidated subsidiary in the consolidated financial statements and will continue to be consolidated until the above agreement is approved by the Company's shareholders.

NOTE 10: AUDIOEYE ACQUISITION

On March 31, 2010, the Company and AudioEye executed the final Stock Purchase Agreement where the Company acquired all outstanding shares of Audio Eye, Inc. in exchange for \$30,000 cash, 1.5 million shares, warrants to purchase 250,000 shares at an exercise price of \$0.07 per share and a term of 5 years plus other contingent considerations. Audio Eye develops patented internet content publication and distribution software enabling conversion of any media into accessible formats and allowing for real time distribution to end users on any internet connected device. The AudioEye, Inc. operations prior to the closing date of March 31, 2010 were insignificant in terms of revenues, operating expenses, assets and liabilities relative to the Company's current operations. Therefore due to limited operations, the Company has not presented pro forma financial results for the six months ended June 30, 2010.

## 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, Inc. and its subsidiaries.

### RESULTS OF OPERATIONS FOR THE PERIOD SIX MONTHS ENDED JUNE 30, 2010

Gross revenues increased from \$2,854,253 for the six months ended June 30, 2010 to \$5,512,129 for the six months ended June 30, 2011. The increase in gross revenues was primarily due to additional client wins and organic business generated that was secured and serviced over the first quarter and second quarter of 2011 within our events marketing, public relations and consulting business of XA, The Experiential Agency, Inc. (XA), AudioEye Inc. and our talent management divisions.

Cost of revenue increased from \$1,438,301 for the six months ended June 30, 2010 to \$3,639,448 for the six months ended June 30, 2011. The increase in cost of goods sold was due to additional cost of sales associated with servicing additional clients and newly secured gross revenues serviced during the first and second quarter of 2011 within our events marketing, public relations and consulting business of XA, The Experiential Agency, Inc., AudioEye Inc. and our talent management divisions.

Operating expenses increased from \$2,122,781 for the six months ended June 30, 2010 to \$2,472,365 for the six months ended June 30, 2011. The increase in operating expenses is mainly due to the increase in operating expenses related to AudioEye, Inc. that was not included in 2010. Also included was the increased accounting and legal

expenses related to corporate overhead during the six months ended June 30, 2011.

The net loss of \$391,221 for the six months ended June 30, 2010 increased to net income of \$1,037,380 for the six months ended June 30, 2011. The increase in net income was due to gain recognized for derivative liability of approximately \$2.4 million and increased gross revenues and gross profits related to XA, The Experiential Agency, Inc. AudioEye Inc. as part of the company for a full six months during 2011 as the acquisition of AudioEye was finalized during the end of the first quarter for 2010, which is netted against additional operating expenses such as legal, technology and accounting expenses for AudioEye, Inc.. There are additional operating expenses associated with the events marketing, public relations and consulting business of XA, The Experiential Agency, Inc. to service new clients during six months of 2011. There were also additional overhead accounting and legal expenses associated with corporate overhead that was in six months 2011 that was not reflective in the six months of 2010.

RESULTS OF OPERATIONS FOR THE PERIOD THREE MONTHS ENDED JUNE 30, 2010

Gross revenues increased from \$1,567,654 for the three months ended June 30, 2010 to \$4,724,646 for the three months ended June 30, 2011. The increase in gross revenues was primarily due to additional client wins and organic business generated that was secured and serviced over second quarter of 2011 within our events marketing, public relations and consulting business of XA, The Experiential Agency, Inc. (XA), AudioEye Inc. and our talent management divisions.

Cost of revenue increased from \$729,295 for the three months ended June 30, 2010 to \$3,307,117 for the three months ended June 30, 2011. The increase in cost of goods sold was due to additional cost of sales associated with servicing additional clients and newly secured gross revenues serviced during the second quarter of 2011 within our events marketing, public relations and consulting business of XA, The Experiential Agency, Inc., AudioEye Inc. and our talent management divisions.

Operating expenses increased from \$1,223,270 for the three months ended June 30, 2010 to \$1,256,080 for the three months ended June 30, 2011. The increase in operating expenses is mainly due to the increase in operating expenses related to AudioEye, Inc. such as legal, technology, accounting expenses. Also included was the increased accounting and legal expenses related to corporate overhead during the three months ended June 30, 2011.

The net loss of \$459,662 for the three months ended June 30, 2010 increased to a net income of \$1,235,759 for the three months ended June 30, 2011. The increase in net income was due to increased gross revenues and gross profits related to XA, The Experiential Agency, Inc. AudioEye Inc. which is netted against additional operating expenses such as legal, technology and accounting expenses regarding AudioEye, Inc. patents. There are additional operating expenses associated with the events marketing, public relations and consulting business of XA, The Experiential Agency, Inc. to service new clients during six months of 2011. There were also additional overhead accounting and legal expenses associated with corporate overhead that was in three months ended June 30, 2011 that was not reflective in the three months ended June 30, 2010. The Company also recognized approximately \$1.5 million of gain on derivative liability during the three months ended June 30, 2011.

LIQUIDITY AND CAPITAL RESOURCES:

As of June 30, 2011, the Company's cash on hand was \$420,917. Cash used by operations for the six months ended June 30, 2010 was \$626,786, as compared to cash used by operations of \$597,766 for the six months ended June 30, 2011. This change is primarily due to amortization of intangible assets, derivative expenses, stock expenses for services, deferred revenue and accrued expenses related to the increase in overhead and corporate expenses, events associated to event management, public relations, and consulting business of XA, The Experiential Agency, Inc. and additional operating expenses such as legal, technology and accounting expenses regarding AudioEye, Inc.

Cash used in investing activities for the six months ended June 30, 2010 was \$38,070 as compared cash used in investing activities of \$441 for the six months ended June 30, 2011. For the six months ended June 30, 2011, the cash invested of \$441 resulted from acquisition of fixed assets.

Cash provided by financing activities for the for the six months ended June 30, 2010 was \$917,793, as compared to \$1,005,429 provided for the six months ended June 30, 2011. The increase during the six months ended June 30, 2011, was primarily due to the company's borrowings from related parties of \$804,249, borrowings from third parties of \$75,000 and increased cash from sale of restricted common stock to third parties by \$157,000 which were only offset by \$50,000 in repayments.





## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of August 22, 2011, 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	10,107,000	13.2%
Common Stock	James J. Ennis	3,500,000	4.6%
Common Stock	Michael Vandetty	1,000,000	1.3%
All Directors and Executive Officers		14,607,000	19.1%

These tables are based upon 66,201,021 shares outstanding as of August 22, 2011 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 76,284,347 shares of common stock outstanding. The address for those individuals for which an address is not otherwise indicated is: c/o CMG Holdings, 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 19% 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.

#### SPINOUT 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 Extendable 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.

**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 2011 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.QB. 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 "OTCBB"), 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 three months ended June 30, 2011, 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 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. A motion to dismiss the complaint has been filed and said motion is presently pending a ruling by the Court. The Company believes that all of the employee's claims are frivolous or are barred pursuant to the terms of the contract or various releases executed in favor of the Company by the employee. The Company intends to seek damages against the former employee regarding breach of his employment agreement, his non-compete agreements and other causes of action. The case is still ongoing and the matter remains unresolved.

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. The company has retained counsel in Nevada to represent it in this matter and intends to vigorously defend same. The company believes that most, if not all, of the allegations contained in the lawsuit are moot and/or not actionable and further believes that the Plaintiffs lack standing to pursue their claim against the company. The company, through counsel, is in the process of conducting discovery to ascertain the validity of the Plaintiffs' claims and their standing to bring this lawsuit and, upon completion of discovery, will file appropriate pleadings with the Nevada court to attempt to have the complaint, as filed, dismissed.

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 is still ongoing and the matter remains unresolved.

### 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 February 1, 2011, an individual purchased 250,000 units at \$0.10 each for a total sum of \$25,000. Each Unit consists one Common Share and with a detachable A and B Warrant. The A Warrant is for 20% of the Shares represented herein at a strike price of \$0.25 for three years, and the B Warrant is for 20% of the Shares represented herein at a strike price of \$0.50 for three years. The Company can call each of the Warrants after twelve months if the price of the Common Shares of the Company in the Market is 150% of the Warrant strike price for 10 consecutive days.

On March 11, 2011, an individual purchased 333,333 units at \$0.06 each for a total sum of \$20,000. Each Unit consists one Common Share and with a detachable A and B Warrant. The A Warrant is for 20% of the Shares represented herein at a strike price of \$0.25 for three years, and the B Warrant is for 20% of the Shares represented herein at a strike price of \$0.50 for three years. The Company can call each of the Warrants after twelve months if the price of the Common Shares of the Company in the Market is 150% of the Warrant strike price for 10 consecutive days.

On March 11, 2011, an individual purchased 416,667 units at \$0.06 each for a total sum of \$25,000. Each Unit consists one Common Share and with a detachable A and B Warrant. The A Warrant is for 20% of the Shares represented herein at a strike price of \$0.25 for three years, and the B Warrant is for 20% of the Shares represented herein at a strike price of \$0.50 for three years. The Company can call each of the Warrants after twelve months if the price of the Common Shares of the Company in the Market is 150% of the Warrant strike price for 10 consecutive days.

On March 14, 2011 the company signed a convertible promissory note agreement with Asher Enterprises, Inc. for the sum of \$75,000, together with any interest as set forth herein due on December 16, 2011 and to pay interest on the unpaid principal balance hereof at an interest rate of eight percent (8%) per annum from the date hereof until the same becomes due and payable, whether at maturity or upon acceleration or by prepayment or otherwise. The convertible promissory note calls 4,510,826 shares to be reserved for issuance upon conversion of this Note and any amount not paid by December 16, 2011 will incur a 22% interest rate. The conversion price will be 58% multiplied by market

price which is the average of the lowest three trading prices for the Common Stock during the ten trading day period ending on the latest complete Trading Day prior to the Conversion Date.

ITEM 3 – DEFAULT UPON SENIOR SECURITIES

None

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

None

ITEM 5 – OTHER INFORMATION

None

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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 6, 2011 - Item 3.02. Unregistered Sales of Equity Securities

The Company filed a Form 8-K on April 12, 2011 - Item 2.01. Completion of Acquisition or Disposition of Assets

The Company filed a Form 8-K on May 16, 2011 - Item 1.02. Termination of a Material Definitive Agreement

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, INC.  
(Registrant)

Date: August 22, 2011

Chief Executive Officer and Chairman of the Board

By: /s/ ALAN MORELL  
Alan Morell  
Chief Executive Officer  
and Chairman of the Board

Date: August 22, 2011

By: /s/ JAMES J. ENNIS  
James J. Ennis  
Chief Financial Officer  
and Director

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/Alan Morell	Alan Morell	CEO & Chairman of the Board	August 22, 2011

/s/James I. Ennis

James I. Ennis

CFO & Director

August 22, 2011

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