

CMG HOLDINGS GROUP, INC.
Form 10-Q
November 19, 2012

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

FORM 10-Q

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

For the quarter ended September 30, 2012

Commission file number 000-51770

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

Nevada
(State or other jurisdiction of
incorporation or organization)

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

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

33137
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

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

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

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

As of November 19, 2012, the aggregate market value of the Registrant's voting and none-voting common stock held by non-affiliates of the registrant was approximately: \$2,957,030 at \$0.01 price per share, based

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on the closing price on the OTC Pink Sheets. As of November 19, 2012, there were 290,093,370 shares of common stock of the registrant issued and 290,130,544 outstanding.

CMG HOLDINGS GROUP, INC.
FORM 10-Q

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PART I

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

CMG HOLDINGS GROUP, INC.
UNAUDITED FINANCIAL STATEMENTS

FOR THE QUARTER ENDED SEPTEMBER 30, 2012 AND 2011

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CMG HOLDINGS, INC
CONSOLIDATED BALANCE SHEETS
(unaudited)

| | September 30, 2012 | December 31, 2011 |
|--|-----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 465,944 | \$ 337,779 |
| Marketable securities | 5,901 | 1,949 |
| Accounts receivable, net of allowance of \$59,003 and \$59,003 respectively | 160,344 | 71,619 |
| Prepaid and Other Current Assets | 58,833 | 58,058 |
| Current Assets Held for Sale | -- | 69,451 |
| Total current assets | 691,022 | 538,856 |
| Investment – Cost Method | 268,750 | - |
| Noncurrent Assets Held for Sale | -- | 6,000 |
| Intangible assets, net of accumulated amortization of \$894,998 and \$820,414, respectively | -- | 74,584 |
| TOTAL ASSETS | \$ 959,772 | \$ 619,440 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES: | | |
| Client payable | \$ 11,317 | \$ 11,317 |
| Accounts payable | 507,307 | 1,093,548 |
| Accounts payable – related party | 56,045 | 169,550 |
| Accrued liabilities | 1,317,847 | 1,130,817 |
| Deferred income | 186,329 | 216,365 |
| Derivative liabilities | 390,107 | 444,150 |
| Short term debt, net of unamortized discount of \$131,334 and \$183,110, respectively | 155,149 | 1,211,389 |
| Line of credit | -- | 107,560 |
| Advances from related parties | 79,132 | 86,328 |
| Current Liabilities Held for Sale | -- | 913,615 |
| TOTAL CURRENT LIABILITIES | 2,703,233 | 5,384,639 |
| Notes Payable | 637,000 | -- |
| Long term liabilities Held for Sale | -- | 1,245,843 |
| TOTAL LIABILITIES | 3,340,233 | 6,630,482 |
| STOCKHOLDERS' DEFICIT | | |
| Preferred stock: | | |
| Series A Convertible Preferred Stock; 5,000,000 shares authorized; par value \$0.001 per share; none issued and outstanding | | |
| Series B Convertible Preferred Stock; 5,000,000 shares authorized; par value \$0.001 per share; 50,000 and 0 shares issued and outstanding | 50 | 50 |

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| | | |
|---|---------------------|---------------------|
| Common Stock: | | |
| 450,000,000 shares authorized, par value \$.001 per share; 275,922,221 and 124,811,383 shares issued, 275,959,395 and 124,774,209 outstanding | 275,923 | 124,812 |
| Additional paid in capital | 14,120,457 | 12,254,301 |
| Treasury Stock, 37,174 and 37,174 shares held, respectively. | 37 | 37 |
| Accumulated deficit | (16,776,928) | (18,390,242) |
| TOTAL STOCKHOLDERS' DEFICIT | (2,380,461) | (6,011,042) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 959,772 | \$ 619,440 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues | \$ 374,104 | \$ 513,999 | \$ 7,517,163 | \$ 5,914,368 |
| Operating expenses: | | | | |
| Cost of revenues | 422,233 | 400,967 | 5,355,980 | 3,935,656 |
| Depreciation and amortization expense | -- | 74,583 | 74,850 | 223,749 |
| Operating expenses | 794,688 | 1,324,952 | 2,752,554 | 2,938,127 |
| Operating income (loss) | (842,817) | (1,286,503) | (666,221) | (1,183,164) |
| Other income (expense) | | | | |
| Gain (loss) on derivative liability | (4,990) | (466,283) | (598,153) | 1,936,650 |
| Gain (loss) on extinguishment of debt | 75,618 | - | 75,618 | - |
| Unrealized gain (loss) on marketable securities | - | (8,153) | -- | (30,057) |
| Other income (expense) | (19,083) | - | (19,083) | -- |
| Interest expense | (103,167) | (252,866) | (790,992) | (719,214) |
| Income (loss) from continuing operations | (894,439) | (2,013,805) | (1,998,831) | 4,215 |
| Income (loss) from discontinued operations | (146,698) | (449,425) | (503,626) | (1,430,066) |
| Income (loss) on sale of discontinued operations | 4,115,771 | - | 4,115,771 | - |
| Net Income (Loss) | \$ 3,074,634 | \$ (2,463,230) | \$ 1,613,314 | \$ (1,425,851) |
| Basic and diluted income (loss) per common share for discontinued operations | \$ 0.01 | \$ (0.03) | \$ 0.02 | \$ (0.00) |
| Basic and diluted income (loss) per common share for continuing operations | \$ (0.00) | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Total basic and diluted income (loss) per common share | \$ 0.00 | \$ (0.04) | \$ 0.01 | \$ (0.02) |
| Basic weighted average common shares outstanding | 272,515,699 | 69,587,150 | 218,628,520 | 64,735,695 |
| | 293,562,646 | 69,587,150 | 239,675,467 | 64,735,695 |

Diluted weighted average common
shares outstanding

See accompanying notes to unaudited consolidated financial statements

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

| | Nine Months Ended | |
|---|-----------------------|----------------|
| | September 30, 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income (Loss) | \$ 1,613,314 | \$ (1,425,851) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Amortization of deferred financing costs | -- | 68,292 |
| Shares issued for services | 194,100 | 116,437 |
| Loss on debt servicing | 19,879 | - |
| Gain on sale of subsidiary | (4,115,771) | - |
| Amortization of intangible assets | 74,580 | 223,749 |
| Loss on settlement of debt | - | 288,618 |
| Unrealized loss on trading securities | - | 30,057 |
| Loss (gain) on derivatives | 598,153 | (1,936,650) |
| Loss on extinguishment of debt | (75,618) | - |
| Amortization of debt discount | 659,280 | 528,330 |
| Changes in: | | |
| Accounts receivable | (88,725) | (66,770) |
| Prepaid expense and other current assets | (4,727) | (70,654) |
| Deferred income | (30,036) | 126,950 |
| Accrued liabilities | 943,444 | 957,099 |
| Accounts payable | (63,292) | 92,227 |
| Accounts payable, related party | (113,505) | -- |
| Cash used in continuing operations | (388,924) | (1,068,166) |
| Cash provided by discontinued operations | 73,625 | (177,880) |
| Net cash (used) provided by operating activities | (315,299) | (1,246,046) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash transferred upon sale of Audio Eye, Inc. | (4,841) | - |
| Cash used in continuing operations | (4,841) | - |
| Cash used in discontinued operations | - | (6,528) |
| Net cash used in investing activities | (4,841) | (6,528) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on related parties debt | (16,000) | (35,110) |
| Advances from related parties | 8,804 | - |
| Proceeds from issuance of debt | 37,500 | 37,600 |
| Stock issued for cash | | 197,000 |
| Net borrowings on line of credit | 2,361 | 23,370 |
| Cash provided by continuing operations | 32,665 | 222,860 |
| Cash provided by discontinued operations | 415,640 | 1,159,124 |
| Net cash provided by financing activities | 448,305 | 1,381,984 |

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| | | |
|--|------------|------------|
| Net increase in cash | 128,165 | 129,410 |
| Cash, beginning of period | 337,779 | 9,013 |
| Cash, end of period | \$ 465,944 | \$ 138,423 |
| Supplemental cash flow information: | | |
| Interest paid | \$ 4,675 | \$ 68,571 |
| Non-cash investing activity: | | |
| Reclassification of accrued liabilities into debt | 545,000 | -- |
| Reclassification of accounts payable to short term debt | \$ 522,943 | \$ 219,900 |
| Preferred stock issued for inventory | -- | 3,240,502 |
| Discount on notes payable from derivative liability | 596,019 | 257,500 |
| Discount on shares issued with notes payable | 11,486 | - |
| Common stock issued for settlement of notes payable | | 250,648 |
| Common stock issued for convertible debt | | 52,000 |
| Reclassification of long term related parties debt to short term | - | 204,878 |
| Reclassification of derivative liabilities from additional paid-in-capital | - | 10,883,382 |
| Reclassification of derivative liabilities to additional paid-in capital | 991,596 | 7,975,967 |
| Conversion of debt to equity | 628,735 | - |
| Gain on debt restructure | - | 121,934 |

See accompanying notes to unaudited consolidated financial statements.

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

NOTE 1 –BASIS OF PRESENTATION

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

Principles of Consolidation

The consolidated financial statements include the accounts of CMG Holdings Group, Inc., CMG Acquisition, Inc., CMGO Capital, Inc., XA The Experiential Agency, Inc., CMGO Logistics, Inc., USaveCT and USaveNJ, after elimination of all significant inter-company accounts and transactions.

On August 17, 2012 the Company, AudioEye Acquisition Corporation and CMGO Investors, LLC finalized and completed their Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes and their Share Exchange. As a result, AudioEye, Inc., Empire Technologies, LLC (“Empire”) as part of a joint venture with LVS Health Innovations, Inc. (“LVS”) whereby AudioEye owns 50% of Empire are no longer included in the Consolidation of the financial statements.

Fair Value Measurements

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

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

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

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

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

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

NOTE 1 – BASIS OF PRESENTATION (continued)

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

The following table sets forth by level within the fair value hierarchy the Company’s financial assets and liabilities that were accounted for at fair value as of September 30, 2012 and December 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, 2012 | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------|----------|---------|------------|------------|
| Marketable trading securities | \$ 5,901 | \$ - | \$ - | \$ 5,901 |
| Derivative Liabilities | \$ - | \$ - | \$ 390,107 | \$ 390,107 |
| December 31, 2011 | Level 1 | Level 2 | Level 3 | Total |
| Marketable trading securities | \$ 1,949 | \$ - | \$ - | \$ 1,949 |
| Derivative Liabilities | \$ - | \$ - | \$ 444,150 | \$ 444,150 |

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

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

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

Discontinued Operations

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

NOTE 2 - SALE OF AUDIO EYE, INC. AND DISCONTINUED OPERATIONS

On August 17, 2012 the Company sold its subsidiary Audio Eye, Inc. The Company will retain 15% of AudioEye, Inc. subject to transfer restrictions in accordance with the Agreement. The Company will distribute to its shareholders, in the form of a dividend, 5% of the capital stock of AudioEye, Inc.. AudioEye, Inc. has finalized a Royalty Agreement with the Company to pay to the Company 10% of cash received from income earned, settlements or judgments directly resulting from, AudioEye Inc's patent enforcement and licensing strategy. Additionally, AudioEye, Inc. has finalized a Consulting Services Agreement with the Company whereby the Company will receive a commission of not less than 7.5% of all revenues received by AudioEye, 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.

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

NOTE 2 – SALE OF AUDIO EYE, INC. AND DISCONTINUED OPERATIONS (continued)

On August 21, 2012, the board of directors of the company declared October 26, 2012 as the record date for the dividend of 5% of Audio Eye, Inc. stock. The dividend will be paid to the shareholders of record as of the close of business on October 26, 2012 and issued when AudioEye, Inc. completes its registration process and issues the share to the company.

As consideration for the sale, the purchaser repaid \$1,075,000 of debt previously owed by CMG to the CMGO Investors group. As a result of the sale of AudioEye, the net assets of AudioEye, Inc. and the related accrued interest of \$203,590 were written off during the nine months ended September 30, 2012. In addition, the Company is currently holding 20% of AudioEye shares with a fair value of \$268,750. A gain of \$4,115,771 was recorded for the sale of AudioEye as of the nine months ended September 30, 2012.

| | |
|-----------------------------------|-------------|
| Gain on Sale of Audio Eye, Inc. | |
| Repayment of CMGO Debt | \$1,075,000 |
| Accrued Interest on CMGO Debt | 203,590 |
| Shares of AudioEye, Inc. Retained | 268,750 |
| Net Assets of AudioEye, Inc. Sold | 2,568,431 |
| | \$4,115,771 |

As a result of the sale of AudioEye, the Company has classified the assets and liabilities of AudioEye, Inc. as held for sale at December 31, 2011 and has segregated its operating results and presented them separately as a discontinued operations for all periods presented. The results of operations for the nine months ended September 30, 2012 only reflect activity of AudioEye, Inc. up until the finalization of the sale on August 17, 2012.

A summarized operating result for discontinued operations is as follows:

| | Three months ended | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | 9/30/2012 | 9/30/2011 | 9/30/2012 | 9/30/2011 |
| Revenues | (40,106) | (15,124) | (95,736) | (126,884) |
| Cost of revenues | 40,160 | 261,029 | 198,568 | 365,788 |
| Depreciation and amortization expense | 1,254 | 13,536 | 2,078 | 13,536 |
| Operating expenses | 148,013 | (95,066) | 422,339 | 614,958 |
| Operating Loss | 149,321 | 164,375 | 527,249 | 867,398 |
| Other income (expense) | (25,500) | -- | - | -- |
| Unrealized gain on marketable securities | 28,500 | (5,000) | 24,000 | 6,000 |
| Interest Expense | (377) | (280,050) | (377) | (568,668) |
| Net Loss from discontinued operations | 146,698 | 449,425 | 503,626 | 1,430,066 |

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

NOTE 2 – SALE OF AUDIO EYE, INC. AND DISCONTINUED OPERATIONS (continued)

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

| | 8/17/12 | 12/31/2011 |
|--|-----------|------------|
| Cash | 4,841 | 27,425 |
| Receivables | 47,429 | 10,901 |
| Receivables - related party | 15,250 | 13,125 |
| Investments | 42,000 | 18,000 |
| Intangibles | 0 | 0 |
| Property and Equipment | 7,688 | 6,000 |
| Total assets of discontinued operations | 117,208 | 75,451 |
| Accounts payable and accrued liabilities | 1,195,622 | 828,407 |
| Deferred income | 114,378 | 12,308 |
| Short term debt | 24,000 | 72,900 |
| Long term debt | 1,351,640 | 1,245,843 |
| Total liabilities of discontinued operations | 2,685,640 | 2,159,458 |

NOTE 3 - EQUITY

Common Stock:

Shares Issued for Conversion of Debt

During the nine months ended September 30, 2012, the Company issued 127,260,838 shares of common stock to convert \$628,735 of notes payable.

Shares Issued for Services

During the nine months ended September 30, 2012, the Company engaged several consultants to perform services and issued 14,150,000 shares as compensation for services. The shares were valued at \$194,100 and were recorded to expense as of September 30, 2012.

Shares Issued Related to Debt

On June 5, 2012, the Company issued 2,000,000 restricted common shares to modify the terms of a convertible note. A fee for debt servicing of \$17,800 was recorded for the issuance of these shares.

In August 2012, the Company issued 1,100,000, 1,000,000 and 5,000,000 restricted common shares in exchange for an extension of the maturity date on the note owed to CMGO Investors, LLC. As the note was extinguished on August 17, 2012 as a part of the sale of AudioEye, Inc., a loss on debt extinguishment of \$173,550 was recorded for the issuance of these shares.

On September 7, 2012, the Company issued 600,000 restricted common shares in conjunction with two convertible notes. A debt discount was recorded of \$11,486 for the relative fair value of the shares.

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

NOTE 4 - NOTES PAYABLE

Asher Enterprises, Inc.

On February 6, 2012 the company issued a convertible promissory note for \$37,500 to Asher Enterprises, Inc. The note bears interest at 8% and is due on November 8, 2012 and any amount not paid by November 8, 2012 will incur a 22% interest rate. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date after 180 days. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as liabilities once the conversion option becomes effective after 180 days due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. On September 7, 2012, the Company assigned \$39,000 of its convertible note from Asher Enterprises, Inc. to Continental Equities, LLC. The convertible promissory note bears interest at 8% due on December 31, 2012. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date.

On October 4, 2011 the company issued a convertible promissory note for \$45,000 to Asher Enterprises, Inc. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date after 180 days. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as liabilities once the conversion option becomes effective after 180 days due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. As a result, the instrument was measured at fair value of the embedded conversion option and a full discount to the note was recorded on April 1, 2012. The entire principal balance was converted into common stock and the entire discount of \$45,000 was amortized to interest expense during the nine months ended September 30, 2012.

On August 24, 2011 the company issued a convertible promissory note for \$37,500 to Asher Enterprises, Inc. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date after 180 days. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as liabilities once the conversion option becomes effective after 180 days due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. As a result, the instrument was measured at fair value of the embedded conversion option and a full discount to the note was recorded on February 20, 2012. See note 5 for additional information on the derivative liability. The entire principal balance was converted into common stock and the entire discount of \$37,500 was amortized to interest expense during the nine months ended September 30, 2012.

Hudson Capital Advisors, Inc.

On January 5, 2012, the Company modified its July 11, 2011 agreement with Hudson Capital Advisors, Inc. into a \$100,000 convertible debenture note bearing interest at 2% due on January 5, 2013. The new note was convertible at the lowest trading price in the three days prior to the day that the Holder requests conversion, with a floor of \$.01. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$87,614 on the date of the note. The discount will be amortized over the term of the note to interest expense. See note 5 for additional information on the derivative liability. The entire principal balance was converted into common stock and the entire discount of \$87,614 was amortized to interest

expense during the nine months ended September 30, 2012.

Braeden Storm Enterprises, Inc.

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

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

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

NOTE 4 - NOTES PAYABLE (Continued)

Martin Boyle

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

Scott Baily

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

Grassy Knolls, LLC

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

CMGO Investors, LLC

During year ended December 31, 2010, the Company borrowed \$1,075,000 under five 13% Senior Secured Convertible Extendible Notes from third parties that originally matured on October 1, 2011. The Company issued 7,100,000 shares of common stock to extend the maturity date of the note on April 13, 2012. This resulted in a loss on debt extinguishment of \$173,550, and a debt discount of \$6,509 which has been amortized into interest expense during the nine months ended September 30, 2012. As part of the sale of AudioEye, Inc. described in Note 2 on August 17, 2012, these notes were repaid by AEAC and the liability was eliminated from the company.

Aware Capital Consultants Inc.

As of December 31, 2011, the Company had an outstanding balance of notes payable due to Aware Capital Consultants Inc. of \$15,000. The entire principal balance was converted into common stock and the remaining discount of \$9,136 was amortized to interest expense during the nine months ended September 30, 2012.

Magna Group LLC.

On October 17, 2011, the Company assigned \$148,000 of its accounts payable from a third party to Magna Group, LLC. The convertible promissory note bears interest at 10% due on October 17, 2012. The entire principal balance was converted into common stock and the remaining discount of \$70,470 was amortized to interest expense during the nine months ended September 30, 2012.

On April 11, 2012, the Company assigned \$50,000 of its accounts payable from a third party to Magna Group, LLC. The convertible promissory note bears interest at 10% due on April 13, 2013. The note is convertible at 58% of the lowest trading price in the three days prior to the conversion date. During the nine months ended September 30, 2012, the Company amortized \$25,000 of the discount to interest expense.

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

NOTE 4 - NOTES PAYABLE (Continued)

Hanover Holdings, LLC

On October 17, 2011, the Company issued a convertible promissory note for \$50,000 to Hanover Holdings, LLC. During the nine months ended September 30, 2012, the Company converted \$25,000 of the note into common stock and amortized \$34,375 of the discount into interest expense.

On June 5, 2012, Hanover assigned the remaining \$25,000 principal and related interest to Seymour Flicks and modified the terms of the note. The new \$34,040 convertible debenture note, bearing interest at 10% and due June 5, 2013, is convertible at a 42% discount of the lowest trading price for the Company's common stock during the three trading day period prior to the conversion date, with a floor of \$0.009. The Company recognized a \$7,451 loss on debt extinguishment in relation to the debt modification. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$34,040 on the date of the note of which \$11,347 has been amortized into interest expense as of September 30, 2012.

As of September 30, 2012, the Company has an outstanding of notes payable due to Seymour Flicks of \$34,040. During the nine months ended September 30, 2012, the Company amortized \$11,347 of the discount to interest expense.

Paul Sherman Agreement

On May 12, 2012, the Company modified its July 24, 2011 agreement with Paul Sherman into a \$9,943 convertible debenture note bearing interest at 2% due on May 15, 2013. The note is convertible at a price equal to the close price on the day prior to the Holder's request for conversion, but not to go below \$.001. This convertible debenture has an outstanding balance of \$9,943. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$8,875 on the date of the note. \$3,328 of this discount has been amortized as of September 30, 2012.

Continental Equities, LLC

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

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

The 600,000 shares issued in conjunction with the aforementioned promissory notes were recorded as a debt discount for \$11,486, which represents the relative fair value of the shares with the note principal. During the nine months ended September 30, 2012, the Company amortized \$1,436 of the debt discount to interest expense.

On September 7, 2012, the Company assigned \$39,000 of its convertible note from Asher Enterprises, Inc. to Continental Equities, LLC. The convertible promissory note bears interest at 8% due on December 31, 2012. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of \$37,500 on the date of the note. \$18,750 of this discount has been amortized as of September 30, 2012.

Alan Morell

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

Additionally, during the nine months ended September 30, 2012, the Company amortized \$19,835 of discounts related to other notes not mentioned above to interest expense.

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

NOTE 5 - DERIVATIVE LIABILITIES

The Company has various convertible instruments outstanding more fully described in Note 4. Because the number of shares to be issued upon settlement cannot be determined under these instruments, the Company cannot determine whether it will have sufficient authorized shares at a given date to settle any other of its share-settleable instruments. As a result, under ASC 815-15 “Derivatives and Hedging”, all other share-settleable instruments must be classified as liabilities.

Embedded Derivative Liabilities in Convertible Notes

During the nine months ended September 30, 2012, the Company recognized new derivative liabilities of \$734,839 as a result of new convertible debt issuances. The fair value of these derivative liabilities exceeded the principal balance of the related notes payable by \$138,820 which was recorded as a loss on derivatives for the nine months ended September 30, 2012.

As a result of conversion of notes payable described in Note 4, the Company reclassified \$991,596 of derivative liabilities to equity and \$256,619 to gain/loss on extinguishment of debt.

The fair value of the Company’s embedded derivative liabilities was \$390,107 as of September 30, 2012 and \$445,256 was recognized as a loss on derivatives due to change in fair value of the liability.

Warrants

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

Under ASC 815-15 “Derivatives and Hedging” the liabilities were subsequently measured at fair value at the end of each reporting period with the change in fair value recorded to earnings. The fair value of all outstanding warrants as of September 30, 2012 was \$62,329 and \$50,656 was recognized as loss on derivative.

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

| | |
|-------------------------------|-------------|
| Derivative Liabilities | |
| Balance at December 31, 2011 | 444,150 |
| ASC 815-15 additions | 734,839 |
| Change in fair value | 459,333 |
| ASSC 815-15 deletions | (1,248,215) |
| Balance at September 30, 2012 | 390,107 |

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

| | |
|---|---------|
| Gain/(Loss) on Derivative Liability | |
| Change in fair value | 459,333 |
| Excess of fair value of liabilities over note payable | 138,820 |

Balance at September 30, 2012

598,153

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

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

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.

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

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

NOTE 7 - RELATED PARTY TRANSACTIONS

From time to time the Company borrows money from its officers. During the nine months ended September 30, 2012, the Company received advances of \$8,804 and repaid \$16,000 to these related parties. These advances bear no interest and are due on demand. As of December 31, 2011 and September 30, 2012, the Company owed \$86,328 and \$79,132 as short term related party debt to three officers, respectively. During the nine months ended September 30, 2012, the Company owes \$56,045 of reimbursable expenses paid for by an officer of the Company.

NOTE 8 - SEGMENTS

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

| | Nine months ended September 30, | |
|-------------------|------------------------------------|--------------|
| | 2012 | 2011 |
| Revenue: | | |
| Event marketing | \$ 7,379,466 | \$ 5,803,384 |
| Commercial rights | 137,697 | 110,984 |

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| | | |
|---|----------------|----------------|
| Total revenues from continuing operations | 7,517,163 | 5,914,368 |
| Consulting services (discontinued) | 95,736 | 126,884 |
| Total revenues | \$ 7,612,899 | \$ 6,041,252 |
| Operating income (loss) | | |
| Event marketing | \$ 281,231 | \$ (24,942) |
| Commercial rights | (947,452) | (1,158,222) |
| Total operating income from continuing operations | (666,221) | (1,183,164) |
| Consulting services (discontinued) | (527,249) | (984,212) |
| Total Operating loss | \$ (1,193,470) | \$ (2,167,376) |

| Assets | September 30, 2012 | December 31, 2011 |
|------------------------------------|-----------------------|----------------------|
| Event marketing | \$ 685,105 | \$ 535,760 |
| Commercial rights | 274,667 | 8,229 |
| Consulting services (discontinued) | -- | 75,451 |
| Total | \$ 959,772 | \$ 619,440 |

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

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

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

NOTE 10 – RESIGNATION OF CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF THE BOARD.

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

NOTE 11 - SUBSEQUENT EVENTS

Magna Group, LLC

On April 11, 2012, the Company assigned \$50,000 of its accounts payable from a third party to Magna Group, LLC. On October 3, 2012, the Company issued 5,358,910 shares of common stock to settle remaining \$50,000 of the note and accrued interest of \$2,839.

Hanover Holdings, LLC

On October 17, 2011, the Company issued a convertible promissory note for \$50,000 to Hanover Holdings, LLC. On June 5, 2012 the Company assigned the remaining \$25,000 and accrued interest of the note to Seymour Flick. On October 5, 2012, the company issued 5,673,239 shares of common stock to settle the remaining \$25,000 and remaining accrued interest \$9,034 of the convertible promissory note.

Asher Enterprises, Inc.

On October 16, 2012 the company issued a convertible promissory note for \$32,500 to Asher Enterprises, Inc. The note bears interest at 8% and is due on July 18, 2012 and any amount not paid by July 18, 2012 will incur a 22% interest rate. The note is convertible at 50% of the average of the lowest three trading prices for the Company's

common stock during the ten trading day period prior to the conversion date after 180 days.

Continental Equities, LLC

On October 1, 2012, the Company issued 1,176,471 shares of common stock to settle \$10,000 of the \$37,500 convertible debenture note (see note 4).

On October 9, 2012, the Company issued 1,142,857 shares of common stock to settle \$10,000 of the convertible debenture note.

On October 22, 2012, the Company issued 819,672 shares of common stock to settle the \$5,000 of the convertible debenture note.

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

FORWARD LOOKING STATEMENTS

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

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

Gross revenues decreased from \$513,999 for the three months ended September 30, 2011 to \$374,014 for the three months ended September 30, 2012. The decrease in revenues was mainly due to organic revenues that were recorded in the second quarter of 2012 compared from existing clients and new client business revenues in our event marketing, event management and public relations and consulting business of XA, The Experiential Agency, Inc. (XA) that were serviced in the third quarter during year 2011.

Cost of revenue increased from \$400,967 for the three months ended September 30, 2011 to \$422,233 for the three months ended September 30, 2012. The increase in cost of goods sold was due to additional organic growth from existing clients as well as new client business wins generated that were secured during the third quarter of 2012 in our events marketing, event management, public relations and consulting business of XA, The Experiential Agency, Inc. (XA). Cost of sales increased as it was related to the organic revenues and new business revenues serviced during third quarter of 2012 within our events marketing, event management public relations and consulting business of XA, The Experiential Agency, Inc. (XA).

Operating expenses decreased from \$1,324,952 for the three months ended September 30, 2011 to \$794,688 for the three months ended September 30, 2012. The decrease in operating expenses is mainly due to fewer expenses incurred associated to spinoff transaction related to AudioEye, Inc. and lower operating expenses related to the talent agency business that was sold to Creative Management Global.

The net loss of \$2,463,230 for the three months ended September 30, 2011 increased to a net income of \$3,074,634 for the three months ended September 30, 2012. The increase in net income was mainly due to the recorded gain on the sale of AudioEye, Inc. As consideration for the sale, the \$1,075,000 of debt previously owed by CMG to the CMGO Investors Group was repaid. As a result of the sale of AudioEye, the net assets of AudioEye, Inc. and the related accrued interest of \$203,590 were written off during the nine months ended September 30, 2012. In addition, the Company is currently holding 20% of AudioEye shares with a fair value of \$268,750. A gain of \$4,115,771 was recorded for the sale of AudioEye as of the nine months ended September 30, 2012.

This gain on discontinued asset sale was offset by additional operating expenses associated with AudioEye, Inc. discontinued operations, and the non-operating expenses regarding losses on derivative liabilities, operating expenses and cost of revenues regarding event management XA, The Experiential Agency, Inc. (XA) to service new clients during the second quarter of 2012 that was not reflective in third quarter of 2011. There were also additional overhead legal expenses associated with corporate overhead that was in third quarter 2012 that was not reflective in 2011 third quarter.

RESULTS OF OPERATIONS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012

Gross revenues increased from \$5,914,368 for the nine months ended September 30, 2011 to \$7,517,163 for the nine months ended September 30, 2012. The increase in revenues was mainly due to additional organic growth from existing clients as well as new client business wins generated that were secured during the second quarter of 2012 in our events marketing, event management, public relations and consulting business of XA, The Experiential Agency, Inc. (XA). Organic revenues and new business revenues were serviced during first three quarters of 2012 within our events marketing, public relations and consulting business of XA, The Experiential Agency, Inc. (XA).

Cost of revenue increased from \$3,935,656 for the nine months ended September 30, 2011 to \$5,355,980 for the nine months ended September 30, 2012. The increase in cost of goods sold was due to additional organic growth from existing clients as well as new client business wins generated that were secured during the second quarter of 2012 in our events marketing, event management, public relations and consulting business of XA, The Experiential Agency, Inc. (XA). Cost of sales increased as it was related to the organic revenues and new business revenues serviced during first three quarters of 2012 within our events marketing, event management public relations and consulting business of XA, The Experiential Agency, Inc. (XA).

Operating expenses decreased from \$2,938,127 for the nine months ended September 30, 2011 to \$2,752,554 for the nine months ended September 30, 2012. The decrease in operating expenses is mainly due to the elimination of overhead expenses and expenses related to the initial launch of digital media initiative that were included in nine month totals for year 2011 that were not eliminated during nine months 2012.

The net loss of \$1,425,851 for the nine months ended September 30, 2011 increased to a net income of \$1,613,314 for the nine months ended September 30, 2012. The increase in net income was mainly due to the recorded gain on the sale of AudioEye, Inc. As consideration for the sale, the \$1,075,000 of debt previously owed by CMG to the CMGO Investors Group was repaid. As a result of the sale of AudioEye, the net assets of AudioEye, Inc. and the related accrued interest of \$203,590 were written off during the nine months ended September 30, 2012. In addition, the Company is currently holding 20% of AudioEye shares with a fair value of \$268,750. A gain of \$4,115,771 was recorded for the sale of AudioEye as of the nine months ended September 30, 2012. This gain on discontinued asset sale was offset by additional operating expenses associated with AudioEye, Inc. discontinued operations, and the non-operating expenses regarding losses on derivative liabilities, operating expenses and cost of revenues regarding event management XA, The Experiential Agency, Inc. (XA) to service new clients during the second quarter of 2012 that was not reflective in first quarter of 2011. There were also additional overhead legal expenses associated with corporate overhead that was in third quarter 2012 that was not reflective in 2011 third quarter.

LIQUIDITY AND CAPITAL RESOURCES:

As of September 30, 2012, the Company's cash on hand was \$465,944.

Cash used in operations for the nine months ended September 30, 2011 was \$1,246,046, as compared to cash used in operations of \$315,299 for the nine months ended September 30, 2012. This change is primarily due to amortization of intangible assets, stock expenses for services, changes regarding derivative liabilities, changes in debt discounts, deferred revenue and accrued expenses related to the increase in operating expenses due to operations from the event marketing, public relations, and consulting business of XA.

Cash used in investing activities for the nine months ended September 30, 2011 was \$6,528 as compared cash used in investing activities of \$4,841 for the nine months ended September 30, 2012.

Cash provided by financing activities for the nine months ended September 30, 2011 was \$1,381,984, as compared to \$448,305 provided for the nine months ended September 30, 2012. The decrease during the nine months ended

September 30, 2012, was primarily due to the less money advanced by related parties and no proceeds from stock issuances as compared with the prior year.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

SECURITY OWNERSHIP OF MANAGEMENT:

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

These tables are based upon 275,959,395 shares outstanding as of September 30, 2012 and information derived from our stock records. Unless otherwise indicated in the footnotes to these tables and subject to community property laws where applicable, we believe unless otherwise noted that each of the shareholders named in this table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned.

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned, subject to community property laws where applicable. The number and percentage of shares beneficially owned are based on 275,959,395 shares of common stock outstanding as of September 30, 2012. The address for those individuals for which an address is not otherwise indicated is: c/o CMG Holdings Group, Inc., 5601 Biscayne Boulevard, Miami, Florida 33137, USA.
- (2) Mr. Morell owns 3,500,000 shares of The Company directly, and is the beneficial owner of additional 6,607,000 shares owned by Commercial Rights Intl Corp. for a total of 10,107,000 shares.
- (3) Mr. Ennis owns 1,500,000 shares of The Company directly, and is the beneficial owner of an additional 2,000,000 shares owned by Hastings Creek Group, Inc. for a total of 3,500,000 shares.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK FACTORS

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

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

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

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

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

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COMPETITION FOR CLIENTS IN HIGHLY COMPETITIVE INDUSTRIES

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

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

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

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

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

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

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

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

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

BUSINESS EXPOSED TO THE RISK OF CLIENT MEDIA ACCOUNT DEFAULTS

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

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

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

THE RESULTS OF OPERATIONS ARE SUBJECT TO CURRENCY FLUCTUATION RISKS

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

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

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

OUTSTANDING INDEBTEDNESS; SECURITY INTEREST AND UNREGISTERED SALES OF EQUITY SECURITIES

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

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

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

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

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

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

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

SALE OF SUBSIDIARIES

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

80% of the capital stock of AudioEye, Inc. and the Company will distribute to its shareholders in the form of a dividend 5% of the outstanding capital stock of AudioEye, Inc. Concurrently with the filing of the registration statement, the Company has filed a proxy statement relating to a special meeting of the Company shareholders to consider and vote on the spinoff, the share exchange and related matters.

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

On August 17, 2012 the Company, AudioEye Acquisition Corporation and CMGO Investors, LLC finalized and completed their Option, Note Purchase, Modification and Escrow Agreement for the Purchase of the Convertible Notes and their Share Exchange pursuant to their Amended Master Agreement in order to allow the payment by AudioEye, Inc. of the Company's outstanding Note and to cause the release of the Notes and security therefore. Pursuant to the Amended Master Agreement: The Company will retain 15% of AudioEye, Inc. subject to transfer restrictions in accordance with the Agreement. The Company will distribute to its shareholders, in the form of a dividend, 5% of the capital stock of AudioEye, Inc. in accordance with provisions of the Agreement. AudioEye, Inc. has finalized a Royalty Agreement with the Company to pay to the Company 10% of cash received from income earned, settlements or judgments directly resulting from, AudioEye, Inc.'s 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. has finalized a Consulting Services Agreement with the Company whereby the Company will receive a commission of not less than 7.5% of all revenues received by AudioEye, 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. has finalized the release of the obligations of the Company under the Notes pursuant to a novation or other form of release of such obligation which shall include a termination of any security interest on any post Spin Off assets of the Company.

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

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

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

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

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

THE COMPANY'S STOCK PRICE MAY BE VOLATILE

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

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

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

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

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

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

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

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

ITEM 4: CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No change in the Company's internal control over financial reporting occurred during the month ended September 30, 2012, that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1 – LEGAL PROCEEDINGS

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

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

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

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

ITEM 1A – RISK FACTORS

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

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

CAPITAL INVESTMENT CMGO INVESTORS, LLC.

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

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

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

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

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

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

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

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

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

ITEM 3 – DEFAULT UPON SENIOR SECURITIES

None

ITEM 4 – MINE SAFETY DISCLOSURES

None

ITEM 5 – OTHER INFORMATION

None

ITEM 6 – EXHIBITS

Exhibit No. Document Description

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

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

Reports on Form 8-K:

The Company filed a Form 8-K on August 1, 2012 - Item 8.01 - Extension of Note Modification Purchase Agreement.
The Company filed a Form 8-K on August 7, 2012 - Item 8.01 - Extension of Note Modification Purchase Agreement.
The Company filed a Form 8-K on August 17, 2012 - Item 2.01 and Item 9.01 - Completion of Acquisition or Disposition of Assets - Sale of Subsidiary.

The Company filed a Form 8-K on August 22, 2012 - Item 7.01 and Item 8.01 - Regulation FD Disclosure - Notice of Record Date.

The Company filed a Form 8-K on September 4, 2012 - Item 7.01 - Regulation FD Disclosure - Explanation of the Delay in Filing the Form 10-Q for the three months ended June 30, 2012.

The Company filed a Form 8-K on September 28, 2012 - Item 5.02 and Item 9.01 - Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers - Retirement of Alan Morell as the CEO and Chairman of the Registrant.

SIGNATURES

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

CMG HOLDINGS GROUP,
INC.
(Registrant)

Date: November 19, 2012

By: /s/ JAMES J. ENNIS

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James J. Ennis
Chief Executive Officer,
Chief Financial Officer and
Chairman of the Board

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

| SIGNATURE | NAME | TITLE | DATE |
|---------------------|------------------|-------------------------------------|-------------------|
| /s/James J. Ennis | James J. Ennis | CEO, CFO & Chairman of the Board | November 19, 2012 |
| /s/Michael Vandetty | Michael Vandetty | Secretary & Director | November 19, 2012 |