CMG HOLDINGS GROUP, INC.
Form 10-K
April 19, 2013

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

FORM 10-K

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

For the fiscal year ended December 31, 2012

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.)
333 Hudson Street, Suite 303 New York, New York (Address of principal executive offices)	10013 (Zip Code)

Registrant's telephone number including area code
(646) 688-6381

(Former Name or Former Address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Exchange Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.001 par value

Indicate by check mark if the registrant is a well-known seasonal issuer, as defined in Rule 405 of the Securities Act.
No Yes x

1

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. No Yes x

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10- K or any amendment to this Form 10-K. x

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 April 15, 2013, the aggregate market value of the Registrant's voting and none-voting common stock held by non-affiliates of the registrant was approximately: $2,013,073 at $0.0068 price per share, based on the closing price on the OTC Pink Sheets. As of April 19, 2013, there were 337,564,955 shares of common stock of the registrant issued and outstanding.

Documents Incorporated by Reference: None

CMG HOLDINGS GROUP, INC.
FORM 10-K

TABLE OF CONTENTS

Part I

3

Table of Content

FORWARD LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements which include, 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", "expects", "intends", "plans", "believes, "seeks", "estimates", "may", "will" and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections, or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements, which are included in accordance with the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, are not guarantees of future performance and are subject to risks, uncertainties, and assumptions that are difficult to predict. 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. We undertake no obligation to revise or update publicly any forward-looking statements for any reason. Unless the context indicates otherwise, the terms "Company", "Corporate", "CMGO", "our", and "we" refer to CMG Holdings Group, Inc. and its subsidiaries.

ITEM 1: DESCRIPTION OF BUSINESS

THE COMPANY

Our Business

CMG Holdings Group, Inc. was incorporated in Nevada in July 2004 under the name of Pebble Beach Enterprises, Inc. The Company has operated under the CMG Holdings Group, Inc. name since February 2008.

Overview

CMG Holdings Group, Inc. is a marketing communications holding company focused on the acquisition and operation of organizations in the alternative advertising, digital media, experiential and interactive marketing, entertainment, Internet content publication and distribution technology sectors. Our Company was formed by a core group of executives who have held senior level positions with several of the largest companies in the entertainment and marketing management industry. Our Company delivers customized marketing solutions at to optimize profitability by concentrating our resources in those segments of the marketing communications and entertainment industry. Our Company operates in the sectors of experiential marketing, event marketing, Internet content publication and distribution software, commercial rights, and talent management.

Experiential marketing includes production and promotion, event designs, sponsorship evaluation, negotiation and activation, talent buying, show production, stage and set designs, data analysis and management. We also offer branding and design including graphic, industrial and package designs across traditional and new media and public relations, social media, media development and relations and interactive marketing platforms to provides our clients with a custom private digital media networks to design and develop individual broadcasting digital media channels for our clients' to sell, promote and enhance their digital media video contents through mobile, online and social mediums.

Event Management includes marquis hospitality, sponsorships and licensing, broadcast production, and implementation of events including hospitality services to the most discriminating of clients in sports sectors including golf, tennis, equine and motor sports pairing corporate sponsors and premier events and leveraging that experience to ensure our clients receive the highest return on their investment and level of brand exposure. Our Company is dedicated to pursuing intellectual property rights of entertainment properties and offering these events through long-term entertainment hospitality packages for corporate sponsors' and manage and implement on-site operations and logistical concerns. Our broadcast and production services secures, and negotiates electronic production, broadcast and syndication opportunities for our clients via network, cable television, radio and digital media.

Internet content publication and distribution software includes the offering of embedded audio navigation and Internet content publication and distribution software that enables conversion of any media into accessible formats and allows for real time distribution to end users on any Internet connected device. Our Company also offers a more comprehensive access to devices, Internet, print, broadcast and other media to all people regardless of their network connection, device, location, or disabilities. Our solutions include comprehensive E-Learning and E-Commerce systems, Internet publishing products and services that enable customers to create and deliver highly scalable web-based applications. We provide technology solutions that facilitate information accessibility via the web, mobile phones, and other devices for all people, with a special emphasis on those that have physical, learning, or visual impairment, as well Internet novices such as seniors, non-English readers, and children. Our subsidiary division, Audioeye Inc. owns the "Method and Apparatus for Website Navigation by the Visually Impaired" and "Method and System for Audible Website Navigation" patent portfolios which protect the rights to its proprietary technology. Our Company believes this technology is an indispensable component of the Internet accessibility industry as it exists today. Our focus is to create more comprehensive access to devices, internet, print, broadcast and other media through our technology solutions including comprehensive E-Learning and E-Commerce systems that enable interaction between brands and consumers.

Table of Content

Commercial Rights includes branding, consulting, endorsement, licensing and sponsorships and sales and marketing. Our Company creates branding and distributes image marketing tools to strategic outlets to generate premier brand recognition for our clients. Our consulting focuses on developing high-profile programs utilizing creative solutions to improve cost-efficiency and increase client revenues. Following the development of the strategy solutions, our Company oversees implementation of programs to ensure client satisfaction. Our endorsement, licensing and sponsorship services works with premier corporations regarding contract negotiations for client endorsements, secure domestic and international licensing opportunities provide implementation and execution services for client sponsorships. Our marketing services leverage our clients to increase their presence in the global market through research of business environments and creative solutions to take advantage of given market conditions. Our sales services include creating commercial rights opportunities, identifying sales targets and strategically selling commercial rights to maximize client revenues.

Talent Management includes representation of personalities in the entertainment and arts, athletes, literary industries through a full service representation to enable our clients realize their utmost potential for endorsements, licensing, contract negotiations, speaking appearances, literary and television image marketing. Our Company represents athletes and sports personalities' in team and non-team sports in a full-service approach ensuring individualized attention and commitment to manage our client's business opportunities. Our Company manages broadcasters and actors careers and assists in engineering business opportunities in film, broadcast and television and packaging with corporate sponsors. Our literary services provides full service representation to authors for publishing in traditional houses as well as electronic media including television, film, radio and after-market licensing to ensure greatest possible exposure and to increase client revenues.

Our consolidated marketing service offerings for our clients is specific to their unique needs and our solutions vary from project-based activities to long-term, fully-integrated campaigns on behalf of our clients in a single region or operating globally across all major world markets. It is our intention to create a holding company to provide resources, support and ensure meet our clients' needs. The company sets company-wide financial objectives and corporate strategy, directs collaborative inter-agency programs, establishes financial management and operational controls, guides personnel policy, conducts investor relations and initiates, manages and approves mergers and acquisitions. In addition, we provide limited centralized functional services that offer operational efficiencies, including accounting and finance, market information retrieval and analysis, legal services, real estate expertise, travel services, recruitment aid, employee benefits and executive compensation management. To keep our Company well-positioned, we support our initiatives to expand high-growth capabilities and build its offerings in key developing markets. When appropriate, we also develop relationships with companies that are building leading-edge marketing tools that complement our operating subsidiary and the programs they are developing for clients. In addition, we look for opportunities within our Company to modernize operations through mergers, strategic alliances and the development of internal programs that encourage intra-company collaboration.

Market Strategy

We have taken strategic steps to position the Company as a marketing communications company servicing clients in domestic and international markets. We operate in a marketing landscape that has vastly changed over the last few years and continues to fragment as clients are presented with complex strategies to improve brand awareness and increase market share. To achieve our objectives of providing strategic solutions for our clients, we have invested in companies and talent and have concentrated in high-growth areas to align our capabilities to meet the market demands of our clients. In order to grow with our clients, we have accelerated our investment in technologies, professional talent, and training throughout our Company. Our market strategy and offerings can improve our organic revenue growth and operating income margin, with our ultimate objective to be fully competitive with our industry peer groups. To increase our revenues and improve our operating margins, we will concentrate on controlling our staff expenses in non-revenue producing capacities, controlling real estate expenses such as office rent, reducing the complexity of our organization and divesting of underperforming business sectors.

Through our wholly-owned subsidiary: XA, The Experiential Agency, Inc. an integrated experiential marketing services company, we develop, manage and execute sales promotion programs at both national and local levels, utilizing both online and offline marketing programs. Our programs assist our clients effectively promote their platforms and services directly to retailers and consumers and are intended to assist in achieving maximum impact and return on their marketing investment. Our activities reinforce brand awareness, provide incentives to retailers to motivate consumers to purchase those products, and are designed to meet the needs of our clients by focusing on communities of consumers who want to engage brands as part of their lifestyles.

Table of Content

XA, The Experiential Agency, Inc. ("XA")

XA, The Experiential Agency, Inc. (XA) is CMG's wholly owned subsidiary engaged in event marketing and management. Acquired in 2009, XA engages in a diverse range of marketing services, including interactive event strategy and planning, creative development, public relations, and nontraditional marketing. XA has staged movie and show premiers, cross country tours, hosted VIP events, staged press stunts, and other types of media events and services for leading shows, production houses, non-profit agencies and local communities across the United States. In addition to the physical planning, logistics and event implementation, XA typically takes over responsibility for the interactive side of the events to increase branding awareness over the Internet.

Key differentiators that provide the Company strong competitive advantage are its long-term presence and is in its 20th year as a successful top tier event marketing agency; outstanding long-term vendor relationships that help deliver exceptional programs to its clients; vertical integration gives its clients a single-source for all their event marketing needs, which management believes will require less outsourcing and increased profitability and delivering superior customer service and creates one-of-a-kind events and programs

XA, The Experiential Agency, Inc. ("XA") Business Model

Rooted in brand creativity and client partnerships, XA maintains unique client relationships by anticipating client challenges and providing innovative solutions. The XA business model is taking strategic marketing programs to new levels of audience experience through alternative advertising and experiential marketing and interactive media solutions. The XA marketing capabilities enable their clients and audience to "Experience" events compared to just hearing or seeing their client's messages through holistic experiences to boost sales and increase brand awareness and customer affinity.

While XA continues to seek opportunities and win projects from Fortune 100 clients in the larger enterprise segment, their management team believes that rapid revenue growth opportunities and margin improvements are available in the comprehensive advisory services of the small to medium enterprise (SME) segment. Typically, the SME segment tends not to attract the attention of the very large players in the marketing industry as the focus is on multinationals and other national corporate clients. The SME market has many smaller firms that specialize in only a few aspects of the event marketing and business communications segments, yet SME's face equally important challenges in terms of brand building and content management. By acting as a comprehensive integrated single source for the total marketing needs of the SME's, XA has created a niche for itself on a national scale and will replicate the same success strategy internationally under the Company's holding company model. Given the fact that brand marketers are demanding a full service agency for developing and executing integrated marketing campaigns, management believes that XA will take advantage of the accelerating secular trend of shifts in corporate emphasis toward face-to-face and online event / promotional marketing versus traditional media driven selling efforts. XA is specifically focused to strategically target key segments within the event marketing space in order to capture market share in its existing geographic locations as well as enhance its national and international presence via expansion. XA is positioning itself as the Single Source Marketing Partner with its unique selling point being the ability to act as a single source for the client's total marketing needs. This would encompass the entire spectrum of services associated with marketing, from strategizing and defining an event portfolio, conceptualization of the event theme and content creation to the final implementation / management of events. XA will also provide an ultimate client Return on Investment assessment following each implementation

Through our wholly-owned subsidiary: AudioEye, Inc., a technology company offering Internet content publication and distribution software includes the offering of embedded audio navigation and Internet content publication and distribution software that enables conversion of any media into accessible formats and allows for real time distribution to end users on any Internet connected device.

AudioEye, Inc. (“AE”)

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.

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 was paid to the shareholders of record as of the close of business on October 26, 2012 and issued March 22, 2013, when AudioEye completed its registration process and issued the shares 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 and the related accrued interest of $203,590 were written off during the year ended December 31, 2012. In addition, the Company is currently holding 20% of AudioEye shares with a fair value of $268,750. A gain of $4,339,564 was recorded for the sale of AudioEye for the year ended December 31, 2012 as follows:

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	2,792,224
	$ 4,339,564

As a result of the sale of AudioEye, the Company has classified the assets and liabilities of AudioEye, 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 year ended December 31, 2012 only reflect activity of AudioEye up until the finalization of the sale on August 17, 2012.

Table of Content

A summarized operating result for discontinued operations is as follows:

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Revenues	$ (95,736)	$ (126,884)
Cost of revenues	198,568	365,788
Depreciation and amortization expense	2,078	13,536
Operating expenses	422,339	614,958
Operating Loss	527,249	867,398
Unrealized gain on marketable securities	24,000	6,000
Interest Expense	(377)	(568,668)
Net Loss from discontinued operations	$ 503,626	$ 1,430,066

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

	August 17, 2012	December 31, 2011
Cash	$4,841	$27,425
Receivables	47,429	10,901
Receivables - related party	15,250	13,125
Investments	42,000	18,000
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

Table of Content
Sources of Revenue

Our revenues are generated through the execution of marketing and communications programs derived primarily across the sectors of event management, talent management and commercial rights as well as various media, planning and execution of other management programs. The majority of our contracts with our clients are negotiated individually and the terms of engagement with our clients and basis in which we earn fees and commissions will vary significantly. Contracts with our client are multifaceted arrangements that may include incentive compensation provisions and may include vendor credits. Our largest clients are corporations where they may arrange for our services to be provided via locally or nationally across various sectors and across multiple divisions. Similar to larger marketing communications holdings companies operating in our sector; our revenues are primarily derived from planning and executing marketing and communications programs in various operating sectors. Most of our client contracts are individually negotiated where terms of engagements and consideration in which we earn revenues vary among planning, creation, implementation and executions of marketing and communications programs specific to the sectors of talent management, event management, and commercial rights. Several of our clients have complex contract arrangements; therefore we provide services to our clients out of our own offices as well events that we service onsite. In arranging for such services, we may enter into national or local agreements and estimates are involved in determining both amount and timing of revenue recognition under these arrangements.

Our fees are calculated to reflect our expertise based on monthly rates as well as mark-up percentages and the relative overhead expenses to execute services provided to our clients. Clients may seek to include incentive compensation components for successful execution as part of the total compensation. Commissions earned are based on services provided and are usually calculated on a percentage over the total revenues generated for our clients. Our revenues can also be generated when clients pay gross rates before we pay reduced rates; the difference is commissions earned which is either retained in total or shared with the client depending on the nature of the services agreement. To reduce risks from non-payments from our clients, we typically pay company generated expenses only after we have received funds from our clients. Our generated revenues are dependent upon the marketing and communications requirements of our corporate clients and depend on the terms of the client contract. The revenues for services performed can be recognized as proportional performance, monthly basis and execution of the completed contracts. Revenues recognized on a completed contract basis and as customary in the industry, our contracts generally provide for termination by either party on relatively short notice, usually 90 days.

Competition

In the competitive, highly fragmented marketing and communications industry, our company competes for business with midsize marketing firms such as Mktg, Inc. as well as large global holding companies such as International Management Group, Interpublic Group of Companies, Inc., MDC Partners, Inc. and Omnicom. These global holding companies generally have greater resources than those available us, and such resources may enable them to aggressively compete with the Company’s marketing communications businesses. We also face competition from numerous independent agencies that operate in multiple markets and we must compete with these other companies to maintain existing client relationships and to obtain new clients and assignments. We compete at this level by providing clients with marketing strategies that are focused on increasing clients’ revenues and profits.

Industry Trends

Historically, event management and talent management have been primary service provided by global holding companies in the marketing communications industry. However, as clients aim to establish individual and enhanced relationships with their customers to more accurately measure the effectiveness of their marketing expenditures, specialized and digital communications services are consuming a growing portion of marketing dollars. This increases the demand for a broader range of marketing communications services. The mass market audience is giving way to life-style segments, social events/networks, and online/mobile communities, each segment requiring a different message and/or different, often non-traditional, channels of communication. Global marketers now seek innovative strategies, concepts and programs for new opportunities for small to mid-sized communications companies.

Clients

The Company serves clients across the marketing communication industry and may have same clients across various sectors. Marketing agreements and talent representation for our clients rarely means that the company handles marketing communications multiple brands, product lines of the client in every geographical location. We have written contracts with many of our clients and as is customary in the industry, these contracts provide for termination by either party on relatively short notice. See "Management's Discussion and Analysis — Executive Overview" for a further discussion of our arrangements with our clients.

Table of Content
Employees

As of April 15, 2013, the company and its subsidiaries have 18 employees. The personal service character of the marketing communications sector, the quality of personnel and executive management is crucially important to the company's continuing success.

Effect of Environmental Laws

The company believes it is compliance with all regulations concerning the discharge of materials into the environment, and such regulations have not had a material effect on the capital expenditures or operations of the company.

Company Organization

The legal office of the Company, is located at 333 Hudson Street, Suite 303, New York 10013 with our corporate telephone number (646) 688-6381. The Company's subsidiary, The Experiential Agency, Inc. has main sales and marketing offices located at 875 North Michigan Avenue, Chicago, IL 60611, 333 Hudson Street, New York NY 10013, 9070.

Available Information

The Company is subject to the informational requirements of the Securities Exchange Act and files reports and other information with the Securities and Exchange Commission. Such reports and other information filed by the Company may be inspected and copied at the Securities and Exchange Commission's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, as well as in the Securities and Exchange Commission's public reference rooms in New York, New York and Chicago, Illinois. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the Securities and Exchange Commission's public reference rooms. The Securities and Exchange Commission also maintains an Internet site that contains reports, proxy statements and other information about issuers, like us, who file electronically with the Securities and Exchange Commission. The address of the Securities and Exchange Commission's web site is http://www.sec.gov. In addition, the Company makes available free of charge through its Web site, www.ckx.com, its Annual Reports on Form 10-KSB and Form 10-K, quarterly reports on Form 10-QSB and Form 10-Q, current reports on Form 8-K and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such documents are electronically filed with the Securities and Exchange Commission. This reference to our Internet website does not constitute incorporation by reference in this report of the information contained on or hyperlinked from our Internet website and such information should not be considered part of this report.

ITEM 1A: RISK FACTORS

Risks Related to Our Business

Our independent registered accounting firm has expressed doubt about our ability to continue as a going concern.

Because we have a working capital deficit and recurring net losses, our independent registered accounting firm has included in their report for the years ended December 31, 2012, an uncertainty with respect to the Company's ability to continue as a going concern.

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.

Table of Content

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.

Table of Content

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 23% 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.

Table of Content

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.

Table of Content

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.

Table of Content

On April 11, 2011 the Company assigned $135,000 of its account payable from a third party to Connied, Inc. On May 3, 2011, the Company amended the assigned account payable to add a conversion feature. The new note was convertible at 50% of the average of the five lowest closing prices for the Company's stock during the previous 30 trading days. On the same date, the Company issued 1,388,889 shares of common stock with a fair value of $97,222 to settle $50,000 of the note. The difference between the fair value of the common stock and the debt was recorded as a loss on settlement of debt during the year ended December 31, 2011. The remaining balance of $85,000 was recorded as short term debt in the consolidated balance sheet as of December 31, 2011. The note bears interest at 20% and is due on May 2, 2013. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the embedded conversion feature should be classified as a liability due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The embedded conversion feature was measured at fair value at inception and on the date of conversion (see below) with the change in fair value recorded to earnings. The addition of the embedded conversion option resulted in a full discount to the note of $85,000 on May 3, 2011. The discount will be amortized over the term of the note to interest expense.

On March 15, 2011 the company issued a convertible promissory note for $75,000 to Asher Enterprises, Inc. The note bears interest at 8% and is due on December 17, 2011 and any amount not paid by December 17, 2011 will incur a 22% interest rate. The note is convertible at 58% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date 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 will be classified as a liability once the conversion option become 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. The fair value of the embedded conversion option resulted in a full discount to the note of $75,000 on the day the conversion option became effective. On September 13, 2011, the Company issued 884,956 shares of common stock to settle $10,000 of the note. On September 20, 2011, the Company issued 1,081,081 shares of common stock to settle $12,000 of the note. On September 22, 2011, the Company issued 1,428,571 shares of common stock to settle $15,000 of the note. On October 3, 2011, the Company issued 1,782,178 shares of common stock to settle $18,000 of the note. On October 12, 2011, the Company issued 1,263,158 shares of common stock to settle $12,000 of the note. On October 13, 2011, the Company issued 1,182,796 shares of common stock to settle $8,000 of the final amount of this note. For the final conversion, the Company issued more shares than was allowed under the agreement and therefore recognized a loss on settlement of debt for the fair value of the additional shares issued of $4,419.

On August 24, 2011 the company issued a convertible promissory note for $37,500 to Asher Enterprises, Inc. The note bears interest at 8% and is due on May 29, 2012 and any amount not paid by May 29, 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 will be classified as a liability once the conversion option become effective after 180 days due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options..

On October 4, 2011 the company issued a convertible promissory note for $45,000 to Asher Enterprises, Inc. The note bears interest at 8% and is due on July 6, 2012 and any amount not paid by July 6, 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 will be classified as a liability once the conversion option become 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..

Table of Content

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 note is convertible at 58% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date. On October 28, 2011 the Company issued 1,915,709 shares of common stock to settle $20,000 of the note. On November 14, 2011, the Company issued 2,194,358 shares of common stock to settle $14,000 of the note. On November 28, 2011, the Company issued 2,089,553 shares of common stock to settle $7,000 of the note. On December 13, the Company issued 2,239,141 shares of common stock to settle $10,000 of the note. On December 29, 2011, the Company issued 2,463,055 shares of common stock to settle $10,000 of the note. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as liabilities due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The instrument is measured at fair value at the end of each reporting period or termination of the instrument with the change in fair value recorded to earnings. The fair value of the embedded conversion option resulted in a full discount to the note on October 17, 2011 of $148,000. The discount will be amortized over the term of the note to interest expense. See Note 5 for additional information on the derivative liability.

On October 17, 2011 the company issued a convertible promissory note for $50,000 to Hanover Holding, LLC. The note bears interest at 10% and is due on June 17, 2012 and any amount not paid by June 17, 2012 will incur a 22% interest rate. The note is convertible at 55% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as liabilities due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The instrument is measured at fair value at the end of each reporting period or termination of the instrument with the change in fair value recorded to earnings. The fair value of the embedded conversion option resulted in a full discount to the note on October 17, 2011 of $50,000. The discount will be amortized over the term of the note to interest expense. See Note 5 for additional information on the derivative liability.

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. 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 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.

Table of Content

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 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: DESCRIPTION OF PROPERTY

The following properties are used in the operation of our business:

Corporate

Our legal office of the Company is located at 5601 Biscayne Boulevard, Miami Florida 33137 and our telephone number is (305) 751-1667. The company shares this office space with a law firm whose owners are the principal owners of the company. The company does not pay rent and does not have lease for this office space as of December 31, 2011.

Table of Content

Sales, Marketing, Public Relations, Internet Content Publication and Distribution

The Company also has main sales and marketing offices located at 875 North Michigan Avenue, Chicago, IL 60611, 333 Hudson Street, New York NY 10013, 9070 and Rita Road Tucson, AZ 85747.

Digital Media and Digital Coupon Sales and Marketing

The company also has satellite office presence for our digital media coupons expansion located at 116 Court Street, New Haven, CT 06511 and 20 Harrison Avenue, New Jersey 07463.

ITEM 3. 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 July 6, 2011, the Company was served with a lawsuit filed in the Circuit Court for the County of Multnomah, Oregon. The complaint alleges breach of contract and entitlement to consulting fees from the Company. The Company disagrees with the allegations contained in the Complaint and intends to vigorously defend the matter and otherwise enforce its rights with respect to the matter. The Company has retained counsel and is prepared to defend this lawsuit. The Company believes that the claims are frivolous pursuant to the terms of the contract. The case is still ongoing and the matter remains unresolved.

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

ITEM 4: SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS

On November 26, 2012, the holders of 162,186,624 shares of the Company's $0.001 par value per share common stock constituting approximately 55% of CMGO's total outstanding Common Stock have acted by written consent to replace James Ennis and Michael Vandetty as directors as well as to make the following changes to the CMGO By-Laws:

Article II, Section 5 has been replaced with the following:

SECTION 5. VACANCIES. Newly created directorships resulting from an increase in the number of directors and vacancies occurring in the board of directors for any reason may only be filled by the vote of not less than a majority of the outstanding shares of the corporation entitled to vote.

Article IX, Section 1 has been replaced with the following:

SECTION 1. PROCEDURE FOR AMENDING BY-LAWS. By-laws of the corporation may be adopted, amended or repealed at any meeting of the shareholders notice of which shall have referred to the proposed action or by the affirmative vote of the holders of a majority of the outstanding voting stock of the corporation; and be it further

PART II

ITEM 5 MARKET FOR REGISTRANT’S COMMON EQUITY, RELATEDSTOCKHOLDERMATTERS, AND ISSUER PURCHASES OF EQUITYSECURITIES

Our common stock has been quoted on the Over the Counter Markets (OTC) since October 2007 and currently lists at OTCQB which is the middle tier of the OTC Market. OTCQB companies report to the SEC or a U.S. banking regulator, making it easier for investors to identify companies that are current in their reporting obligations. There are no financial qualities standards to be in this middle tier and OTCQB securities such as ours may also be quoted on the FINRA BB. The OTCQB allows investors to easily identify reporting companies traded in the OTC market regardless of where they are quoted. For additional information regarding the Over the Counter Markets (OTC), please refer to the following http://www.otcmarkets.com/home.

Table of Content

Our symbol is “CMGO”. For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

	HIGH	LOW
FISCAL YEAR ENDED DECEMBER 31, 2011		
First Quarter	0.02	0.0048
Second Quarter	0.04	0.01
Third Quarter	0.04	0.02
Fourth Quarter	0.03	0.0066
FISCAL YEAR ENDED DECEMBER 31, 2011		
First Quarter	0.15	0.08
Second Quarter	0.15	0.02
Third Quarter	0.07	0.02
Fourth Quarter	0.05	0.01

Holders of Shares of Common Stock

The Company has authorized 450,000,000 shares of common stock with a par value of $.001 per share. As of April 19, 2013, the Company had 337,564,955 shares of common stock of the registrant issued and outstanding. As of April 19, 2013, there were approximately 206 stockholders of record of our common stock. This stockholder of record total number does not reflect full amount of shares held beneficially or those shares held in “street” name. It is anticipated that the number of stockholders may increase if the total amount of stockholders that own shares held beneficially or those held in “street” name.

Dividend Policy

We did not pay cash dividends in the past, nor do we expect to pay cash dividends for the foreseeable future. We anticipate that earnings, if any, will be retained for the development of our business.

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 where the shareholders of AudioEye Acquisition Corp. will exchange 100% of the stock in AudioEye Acquisition Corp for 80% of the capital stock of AudioEye. The Company will retain 15% of AudioEye subject to transfer restrictions in accordance with the 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 in accordance with provisions of the Agreement. The conditions of the June 22, 2011 Master Agreement are as follows: 1. The shareholders of AudioEye Acquisition Corp. will exchange 100% of the stock in AudioEye Acquisition Corp for 80% of the capital stock of AudioEye; 2. The Company will retain 15% of AudioEye subject to transfer restrictions in accordance with the Agreement; 3. The Company will distribute to its shareholders on the closing date, in the form of a dividend, 5% of the capital stock of AudioEye in accordance with provisions of the Agreement; 4. AudioEye will 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. 5. AudioEye 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 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. 6. AudioEye will arrange 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. The Company believes that such a distribution, when combined with the other transactions contemplated in the Agreement, will allow AudioEye 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.

Table of Content

Preferred Stock

The Company has 10,000,000 shares of preferred stock authorized with a par value of $.001. As of December 31, 2011, the Company issued 50 shares of series B preferred stock of the total outstanding.

Transfer Agent

The Company's transfer agent and registrar of the common stock is Corporate Stock Transfer, Inc. 3200 Cherry Creek Dr. South Suite 430 Denver, CO 80209. (303) 282-4800

Penny Stock Considerations

Because our shares trade at less than $5.00 per share, they are "penny stocks" as that term is generally defined in the Securities Exchange Act of 1934 to mean equity securities with a price of less than $5.00. Our shares thus will be subject to rules that impose sales practice and disclosure requirements on broker-dealers who engage in certain transactions involving a penny stock. Under the penny stock regulations, a broker-dealer selling a penny stock to anyone other than an established customer or accredited investor must make a special suitability determination regarding the purchaser and must receive the purchaser's written consent to the transaction prior to the sale, unless the broker-dealer is otherwise exempt. Generally, an individual with a net worth in excess of $1,000,000 or annual income exceeding $100,000 individually or $300,000 together with his or her spouse is considered an accredited investor. In addition, under the penny stock regulations the broker-dealer is required to deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt; disclose commissions payable to the broker-dealer and our registered representatives and current bid and offer quotations for the securities; Send monthly statements disclosing recent price information pertaining to the penny stock held in a customer's account, the account's value and information regarding the limited market in penny stocks; and make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction, prior to conducting any penny stock transaction in the customer's account. Because of these regulations, broker-dealers may encounter difficulties in their attempt to sell shares of our common stock, which may affect the ability of selling shareholders or other holders to sell their shares in the secondary market and have the effect of reducing the level of trading activity in the secondary market. These additional sales practice and disclosure requirements could impede the sale of our securities, if our securities become publicly traded. In addition, the liquidity for our securities may be decreased, with a corresponding decrease in the price of our securities. Our shares in all probability will be subject to such penny stock rules and our shareholders will, in all likelihood, find it difficult to sell their securities.

Unregistered Sales Of Equity Securities and Issuance of Equity Securities And Use Of Proceeds

The following is information for all securities that the Company sold during the quarter ended December 31, 2012. Information with respect to previously reported sales prior to January 1, 2013 may be found in the Company's prior filings. 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, a loss on debt extinguishment of $173,550 was recorded for the issuance of these shares during the year ended December 31, 2012. 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. Amortization of the debt discount to interest expense totaled $5,663 during the year ended December 31, 2012.

The following is information for all securities that the Company sold during the year ended December 31, 2012. Information with respect to previously reported sales prior to January 1, 2013 may be found in the Company's prior filings. 145,989,360 shares were issued in 2012 for the conversion of $764,079 of note payables into equity. 14,150,000 shares were issued in 2012 as compensation for services and the Company recognized stock based compensation valued at $194,100.

Outstanding Indebtedness; Security Interest and Unregistered Sales of Equity Securities

On August 24, 2011 the company issued a convertible promissory note for $37,500 to Asher Enterprises, Inc. ("Asher"). The convertible promissory note was 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 year ended December 31, 2012.

Table of Content

On October 4, 2011 the company issued a convertible promissory note for $45,000 to Asher. The convertible promissory note was 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 year ended December 31, 2012.

On February 6, 2012 the company issued a convertible promissory note for $37,500 to Asher. The convertible promissory note bears interest at 8% and was due on November 8, 2012. The note was 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 the convertible promissory note and accrued interest to Continental Equities, LLC, see Continental Equities, LLC below.

On October 16, 2012 the company issued a convertible promissory note for $32,500 to Asher. The convertible promissory note bears interest at 8% and is due on July 18, 2013 and any amount not paid by July 18, 2013 will incur a 22% interest rate. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date after 180 days. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as liabilities once the conversion option becomes effective after 180 days due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options.

Hudson Capital Advisors, Inc.

On January 5, 2012, the Company modified its July 11, 2011 agreement with Hudson Capital Advisors, Inc. ("Hudson") 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 Hudson 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. 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 year ended December 31, 2012.

Braeden Storm Enterprises, Inc.

On January 5, 2012, the Company modified its July 6, 2011 agreement with Braeden Storm Enterprises, Inc. ("Braeden") 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 Braeden 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. 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 year ended December 31, 2012.

On February 10, 2012, the Company assigned $56,000 of its accounts payable from a third party to Braeden. 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 Braeden 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 year ended December 31, 2012.

Martin Boyle

On January 5, 2012, the Company modified its September 2, 2011 agreement with Martin Boyle into a $35,000 convertible debenture note bearing interest at 2% due on January 8, 2013. The new convertible debenture note was convertible at the lowest trading price in the three days prior to the day Martin Boyle 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 year ended December 31, 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 convertible debenture note was convertible at the lowest trading price in the three days prior to the day that Scott Baily 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 year ended December 31, 2012.

Table of Content

Grassy Knolls, LLC

On January 4, 2012, the Company modified its July 5, 2011 agreement with Grassy Knolls, LLC (“Grassy Knolls”) into a $72,000 convertible debenture note bearing interest at 2% due on January 4, 2013. The new convertible debenture note was convertible at the lowest trading price in the three days prior to the day that Grassy Knolls 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 year ended December 31, 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, resulting 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 year ended December 31, 2012. As part of the sale of AudioEye on August 17, 2012 described in Note 2, these notes were repaid by AudioEye 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 year ended December 31, 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 (“Magna”). The convertible promissory note bore interest at 10%, was due on October 17, 2012 and was convertible at 58% of the lowest trading price in the three days prior to the conversion date. The entire principal balance was converted into common stock and the remaining debt discount of $70,470 was amortized to interest expense during the year ended December 31, 2012.

On April 11, 2012, the Company assigned $50,000 of its accounts payable from a third party to Magna. The convertible promissory note bore interest at 10%, was due on April 13, 2013 and was convertible at 58% of the lowest trading price in the three days prior to the conversion date. The entire principal balance was converted into common stock and the Company amortized $50,000 of the related discount to interest expense during the year ended December 31, 2012.

Hanover Holdings, LLC and Seymour Flicks

On October 17, 2011, the Company issued a convertible promissory note for $50,000 to Hanover Holdings, LLC. On June 5, 2012, Hanover assigned $25,000 principal and related interest to Seymour Flicks and modified the terms of the convertible promissory note. The new convertible promissory of $34,040 bore interest at 10%, was due June 5, 2013 and was 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 options for derivative accounting consideration under ASC 815-15 “Derivatives and Hedging” and determined that the instruments should be classified as liabilities (see also Note 5). The fair value of the embedded conversion options resulted in debt discounts of $34,375 and $34,040 on the dates of the convertible promissory notes. During the year ended December 31, 2012, the entire principal balance of both convertible notes was converted into common stock and the Company amortized a total of $68,415 of the related debt 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% and due on May 15, 2013. The convertible debenture note is convertible at a price equal to the close price on the day prior to Paul Sherman’s request for conversion, but not to go below $.001. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 “Derivatives and Hedging” and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of $8,875 on the date of the note. $5,499 of this discount has been amortized to interest expense as of December 31, 2012. The convertible debenture note has an outstanding balance of $9,943 as of December 31, 2012.

Table of Content
Continental Equities, LLC

On September 7, 2012 the company issued a convertible promissory note for $50,000 to Continental Equities, LLC (“Continental”) for the assignment of an equivalent amount of the Company’s account payable to Continental. The convertible promissory note bears interest at 12% and is due on May 15, 2013, any amount not paid by May 15, 2013 will incur a 22% interest rate. 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. Additionally, 400,000 shares were issued as inducement for assignment 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 convertible promissory note bears interest at 12% and is due on May 15, 2013, any amount not paid by May 15, 2013 will incur a 22% interest rate. 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. Additionally, 200,000 shares were issued as inducement for assignment 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 year ended December 31, 2012, the Company amortized $5,663 of the debt discount to interest expense.

On September 7, 2012, the Company assigned $39,000 of its convertible promissory note and accrued interest from Asher to Continental. The convertible promissory note bore interest at 8% and was due on December 31, 2012. The note was 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. During the year ended December 31, 2012, the entire principal balance of the convertible note was converted into common stock and the Company amortized the related debt discount to interest expense.

Connied, Inc.

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

The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 “Derivatives and Hedging” and determined that the embedded conversion feature should be classified as a liability due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The embedded conversion feature was measured at fair value at inception and on the date of conversion with the change in fair value recorded to earnings. The addition of the embedded conversion option resulted in a full discount to the note of $85,000 on May 3, 2011. The discount is being amortized over the term of the note to interest expense. As of December 31, 2012, $26,495 of the discount had been amortized to interest expense.

Alan Morell

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

Additionally, during the year ended December 31, 2012, the Company amortized $19,835 of discounts related to other notes not mentioned above to interest expense.

Table of Content

ITEM 6: SELECTED FINANCIAL DATA

As a smaller reporting company, as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we are not required to provide the information required by this item.

ITEM 7: MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion should be read in conjunction with the financial statements for the year ended December 31, 2012 included with this Form 10-K. The following discussion and analysis provides certain information, which the Company’s management believes is relevant to an assessment and understanding of the Company’s results of operations and financial condition for the year ended December 31, 2012. The statements contained in this section that are not historical facts are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” should” or “anticipates” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. From time to time, we or our representatives have made or may make forward-looking statements, orally or in writing. Such forward-looking statements may be included in our various filings with the SEC, or press releases or oral statements made by or with the approval of our authorized executive officers.

These forward-looking statements, such as statements regarding anticipated future revenues, capital expenditures and other statements regarding matters that are not historical facts, involve predictions. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. We do not undertake any obligation to publicly release any revisions to these forward-looking statements or to reflect the occurrence of unanticipated events. Many important factors affect our ability to achieve our objectives, including, among other things, technological and other developments within a given field, intense and evolving competition, the lack of an “established trading market” for our shares, and our ability to obtain additional financing, as well as other risks detailed from time to time in our public disclosure filings with the SEC.

Background

CMG Holdings Group, Inc. was incorporated in Nevada in July 2004 under the name of Pebble Beach Enterprises, Inc. The Company has operated under the CMG Holdings Group, Inc. name since February 2008. The Company was formed in July of 2004 as Pebble Beach Enterprises, Inc. in the state of Nevada. From the date of incorporation until August of 2004, it was a wholly-owned subsidiary of Fresh Veg Broker.com, Inc., a Nevada corporation. In August of 2004, the company was spun off from Fresh Veg. The Company until this Reorganization was a real estate investment company with three areas of operation: a) real estate acquisition and re-sale; b) real estate development and re-sale; and c) real estate consulting and joint ventures. Due to the inability to execute the real estate business plan and expand the business over the past three years, on February 20, 2008 in anticipation of this Reorganization, a majority of the existing shares of the Company were sold by the shareholders who were actively involved in the Company’s prior real estate business, and as a result, we had a change of direction and a change of control of our Company.

The Reorganization

On May 27, 2008, the Company entered into an Agreement and Plan of Reorganization (the “Reorganization Agreement” with its controlling shareholder, Creative Management Group, Inc., a privately held Delaware corporation (“Creative Management Group”). Upon the closing under the Reorganization Agreement on May 27, 2008, (open to filing date) the eighty shareholders of Creative Management Group delivered all of their equity interests in Creative Management Group to the Company in exchange for shares of common stock in the Company owned by Creative Management Group, as a result of which Creative Management Group became a wholly-owned subsidiary of the

Company (the “Reorganization”). Pursuant to the Reorganization Agreement, at closing, the shareholders of Creative Management Group received one share of the Company’s common stock previously owned by Creative Management Group for each issued and outstanding common share owned of Creative Management Group. As a result, 22,135,148 shares of the Company that were issued and previously owned by Creative Management Group are now owned directly by its shareholders. The 22,135,148 of Creative Management Group previously owned by its shareholders are now owned by the Company, thereby making Creative Management Group a wholly-owned subsidiary of the Company. The Company did not issue any new shares as part of the Reorganization. Upon completion of the closing under the Reorganization Agreement, the Company had a total of 42,400,000 shares issued and 25,255,148 outstanding of which 20,264,852, or approximately 47.8% are held by persons who were previously shareholders of the Registrant, 22,135,148 shares, or approximately 52.2% are held by persons who were previously shareholders of Creative Management Group. Neither the Company nor Creative Management Group had any options or warrants to purchase shares of capital stock outstanding immediately prior to or following the Reorganization. All the shares of the Company’s common stock issued in connection with the Reorganization were registered under Section 12(b) or (g) of The Securities Exchange Act of 1934 when the Registrant filed Form 10-SB/A on June 28, 2006. All shares issued in connection with the Reorganization were issued from a “Control Shareholder”, which is a shareholder that is now or has been within the last 90 days a director or officer of the Company, or now owns or controls or within the last 90 days has owned or controlled 10% or more of the Company’s outstanding voting securities and is therefore subject to the restriction in accordance with Rule 144 of the Securities Act of 1934.

Changes Resulting from the Reorganization.

Creative Management Group is a business that delivers innovative, value-added marketing communications and strategic consulting services to its clients. Creative Management Group strives to be a premier marketing communications and consulting company whose strategic, creative and innovative solutions achieve superior results for clients and shareholders. Following completion of the Reorganization, the Company intends to carry on the business of Creative Management Group as its line of business. The Company has located its executive offices at 333 Hudson Street, Suite 303, New York, New Yor 10013, USA and its telephone number is 1 (646) 688-6381 which is the executive office of Creative Management Group.

Table of Content

Changes to the Board of Directors.

In conjunction with the closing under the terms of the Reorganization Agreement and the February 20, 2008 acquisition of shares in the Registrant by Creative Management Group, Alan Morell, James J. Ennis and Michael Vandetty were appointed to the board of directors and Alan Morell was appointed as Chairman of the board of directors. On September 26, 2012, Alan Morell retired and separated from service as the Chief Executive Officer of the Company and as the Chairperson of the Company's Board of Directors. On December 18, 2012, the Company entered into Separation agreements with James Ennis and Michael Vandetty pursuant to which each of Messrs. Ennis and Vandetty resigned each of their positions with the Company, agreed to termination of their employment agreements, agreed to lockup provisions with respect to their Company shares and shares of AudioEye, Inc. and each received 45% of the stock of the Company's UsaveNJ, Inc. and UsaveNJ, Inc. subsidiaries. On November 26, 2012, the holders of 162,186,624 shares of the Company's $0.001 par value per share common stock, constituting approximately 55% of the Company's total outstanding Common Stock have acted by written consent to replace James Ennis and Michael Vandetty as directors with Jeffrey Devlin, Barry Kernan, Declan Keegan and Ian Thompson. All of the Company's directors will hold this office until the next annual meeting of the stockholders or until the election and qualification of their successors. The Company's officers are elected by the board of directors and serve at the discretion of the board of directors.

Executive Summary

References in this Current Report on Form 10-K to "CMG Holdings Group", "CMG", the "Company," "we," "us" and "our" fo periods prior to the closing of the Reorganization refer to the Registrant, and for periods subsequent to the closing of the Reorganization refer to the Registrant and its subsidiaries. The Company reports its financial results in accordance with generally accepted accounting principles ("GAAP") of the United States of America ("US GAAP"). The Company's objective is to create shareholder value by building market-leading strategies that deliver innovative, value-added marketing communications and strategic consulting to our clients. The company manages the business by monitoring several financial and non-financial performance indicators. The key indicators that we review focus on the areas of revenues and operating expenses. Revenue growth is analyzed by reviewing the components and mix of the growth, including: growth by major geographic location and growth from acquisitions.

RECENT DEVELOPMENTS

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.

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 was paid to the shareholders of record as of the close of business on October 26, 2012 and issued March 22, 2013, when AudioEye completed its registration process and issued the shares 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 and the related accrued interest of

$203,590 were written off during the year ended December 31, 2012. In addition, the Company is currently holding 20% of AudioEye shares with a fair value of $268,750. A gain of $4,339,564 was recorded for the sale of AudioEye for the year ended December 31, 2012 as follows:

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	2,792,224
	$ 4,339,564

As a result of the sale of AudioEye, the Company has classified the assets and liabilities of AudioEye, 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 year ended December 31, 2012 only reflect activity of AudioEye up until the finalization of the sale on August 17, 2012.

Table of Content

A summarized operating result for discontinued operations is as follows:

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
Revenues	$ (95,736)	$ (138,021)
Cost of revenues	198,568	641,124
Depreciation and amortization expense	2,078	14,925
Operating expenses	398,825	943,324
Operating Loss	503,735	1,461,352
Unrealized gain on marketable securities	24,000	(3,000)
Interest Expense	(61,773)	(280,050)
Net Loss from discontinued operations	$ 541,508	$ 1,744,402

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

	August 17, 2012	December 31, 2011
Cash	$ 4,842	$ 27,425
Receivables	47,429	10,901
Receivables - related party	13,250	13,125
Investments	42,000	18,000
Property and Equipment	7,688	6,000
Total assets of discontinued operations	115,209	75,451
Accounts payable and accrued liabilities	1,417,415	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	$ 2,907,433	$ 2,159,458

Table of Content

Year ended December 31, 2012 compared to the year ended December 31, 2011

Overview

We have were profitable in fiscal year 2012, after a significant loss in Fiscal 2011, primarily as a result of significant income from the sale of discontinued operations and a dcrease in total operating expenses.

Liquidity and capital resources

As of December 31, 2012 our cash on hand was $238,124, as compared to $337,779 in fiscal year ended December 31, 2011.

Revenues

The Company had revenues of $8,125,196 in our fiscal year ended December 31, 2012, as compared to $7,093,048 in fiscal year ended December 31, 2011. The increase in revenues is mainly due to new and additional business revenues generated in experiential marketing, event marketing, public relations, social media and event management consulting business regarding operations of XA, The Experiential Agency, Inc.

Cost of Sales

The Company had cost of sales of revenues of $5,792,283 in our fiscal year ended December 31, 2012, as compared to $4,444,833 in fiscal year ended December 31, 2011. The increase in cost of sales is mainly associated to the additional event business additional revenues generated in our experiential marketing, event marketing, public relations, social media and event management consulting business regarding operations of XA, The Experiential Agency, Inc.

Expenses

The Company had total operating expenses of $9,754,802 in our fiscal year ended December 31, 2012, as compared to $12,354,305 in fiscal year ended December 31, 2011. The decrease in operating expense due to the decrease in General and Administrative Expenses during the year.

Table of Content

Income

The Company had a net income of $2,236,317 in our fiscal year ended December 31, 2012, as compared to a net loss of ($7,787,877) in fiscal year ended December 31, 2011. The increase in the net income is from the Company recognizing $4,339,564 income on the sale of discontinued operations in fiscal year ended December 31, 2012 as compares to $0 in fiscal year ended December 31, 2011. Loss from discontinued operations decreased from ($541,508) for fiscal year ended December 31, 2012 as compared to ($1,744,402) for fiscal year ended December 31, 2011. Interest Expenses decreased from ($1,777,493) for fiscal year ended December 31, 2011 to ($907,916) for fiscal year ended December 31, 2012. Operating Loss decreased from ($5,261,257) in fiscal year ended December 31, 2011 to ($1,629,606) in fiscal year ended December 31, 2012.

Capital Resources

At December 31, 2012, we had assets recorded at $838,175, as compared to $619,440 in fiscal year ended December 31, 2012. Assets in 2011 primarily consisting of cash of $238,124, marketable securities of $274,651, accounts receivables of $252,567 and prepaid assets of $15,000.

Liabilities

Our liabilities at December 31, 2012 totaled $2,228,058, primarily consisting of $1,598,797 of short term liabilities and $629,261 of notes payable, as compared to a $6,630,482 total liabilities balance in fiscal year ended December 31, 2011.

Going Concern

Our indendent registered accounting firm has expressed doubt about our ability to continue as a going concern. Because we have a working capital deficit and recurring net losses, our independent registered accounting firm has included in their report for the years ended December 31, 2012, an uncertainty with respect to the Company's ability to continue as a going concern.

Critical Accounting Policies and Estimates

For all periods following closing under the Reorganization Agreement, the Company intends to prepare consolidated financial statements of the Company and its subsidiaries, which will be prepared in accordance with the generally accepted accounting principles in the United States. During the preparation of the financial statements the Company will be required to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company will evaluate its estimates and judgments, including those related to sales, returns, pricing concessions, bad debts, inventories, investments, fixed assets, intangible assets, income taxes and other contingencies. The Company intends to base its estimates on historical experience and on various other assumptions that it believes are reasonable under current conditions. Actual results may differ from these estimates under different assumptions or conditions. In response to the SEC’s Release No. 33-8040, “Cautionary Advice Regarding Disclosure About Critical Accounting Policy,” the Registrant identified the most critical accounting principles upon which its financial status depends. The Registrant determined that those critical accounting principles are related to the use of estimates, revenue recognition, income tax and impairment of intangibles and other long-lived assets. The Company presents these accounting policies in the relevant sections in this management’s discussion and analysis, including the Recently Issued Accounting Pronouncements discussed below.

Revenue Recognition

The Company recognizes revenues generated from clients are subject to contracts requiring the Company to provide services within specified time periods generally ranging up to twelve months. As a result, we have projects in process at various stages of completion on any given date and stages may extend from one quarter to the next quarter and from one year to the next year. Revenue for our services is recognized when the following criteria are satisfied: evidence of an arrangement exists; price is agreed upon at a fixed or determinable agreement level; services have been performed and collection is assured. Depending on terms of a client contract, fees for services performed can be recognized in three principal ways: individual project performances as is such in our event marketing division, monthly base retainers in our public relations, consulting or talent management division, and completed contracts were the Company work is based on success fee of the engagement and paid a percentage of the revenue generated by our clients. Depending on the terms of the client contract, revenue is derived from arrangements involving fees for services performed, commissions, performance or a combinations of each or all three. The revenues and commissions are generally earned on the date of the signing of the contract and then an invoice is distributed to the client with approvals. Our revenue is recorded as gross revenues less cost of goods sold or less pass-through expenses charged to a client because there may be various pass-through expenses, such as external production and marketing costs.

If the Company does not accurately manage our projects properly within the planned periods of time to satisfy our obligations under the contracts, then future profit margins may be significantly and negatively affected or losses on existing contracts may need to be recognized. Outside production costs consist primarily of costs to purchase media and program merchandise; costs of production; merchandise warehousing and distribution; third party contract fulfillment costs; and other costs directly related to marketing programs. Revenue recognition will not result in related billings throughout the duration of a contract due to timing differences between the contracted billing schedule and the time such revenue is recognized. In such instances, when revenue is recognized in an amount in excess of the contracted billing amount, we record such excess on our balance sheet as unbilled contracts in progress. Alternatively, on a scheduled billing date, should the billing amount exceed the amount of revenue recognized, we record such excess on our balance sheet as deferred revenue. In addition, on contracts where reimbursable costs are incurred prior to the time revenue is recognized on such contracts, we record such costs as deferred contract costs on our balance sheet. Notwithstanding this, labor costs for permanent employees are expensed as incurred.

Table of Content

ITEM 8: FINANCIAL STATEMENTS

CMG HOLDINGS GROUP, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011

CONTENTS

Table of Content

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
CMG Holdings Group, Inc.

Dear Board of Directors:

We have audited the accompanying consolidated balance sheets of CMG Holdings Group, Inc. and its subsidiaries (collectively, the "Company") as of December 31, 2012 and 2011 and the related consolidated statements of operations, stockholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 11 to the financial statements, the Company has negative working capital and suffered recurring losses from operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MaloneBailey, LLP
www.malonebailey.com
Houston, Texas
April 18, 2013

F-2

Table of Content

CMG HOLDINGS, INC
CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash	$ 238,124	$ 337,779
Marketable securities	274,651	1,949
Accounts receivable, net of allowance of $0 and $59,003 respectively	252,567	71,619
Prepaid assets	15,000	-
Current assets held for sale	-	69,451
Total Current Assets	780,342	480,798
Other noncurrent assets	57,833	58,058
Noncurrent Assets Held for Sale	-	6,000
Intangible assets, net of accumulated amortization of $894,998 and $820,414, respectively	-	74,584
TOTAL ASSETS	$ 838,175	$ 619,440
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$ 546,852	$ 1,104,865
Accounts payable – related party	19,625	169,550
Accrued liabilities	722,549	1,130,817
Deferred income	13,370	216,365
Derivative liabilities	145,970	444,150
Short term debt, net of unamortized discount of $47,012 and $183,110, respectively	150,431	1,211,389
Line of credit	-	107,560
Advances from related parties	-	86,328
Current Liabilities Held for Sale	-	913,615
Total Current Liabilities	1,598,797	5,384,639
Notes Payable, net of debt discount of $7,739 and $0, respectively	629,261	-
Long term liabilities Held for Sale	-	1,245,843
TOTAL LIABILITIES	2,228,058	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
Common Stock:		
450,000,000 shares authorized, par value $.001 per share; 294,687,917 and 124,811,383 shares issued, 294,650,743 and 124,774,209 outstanding	294,614	124,812

Additional paid in capital	14,469,341	12,254,301
Treasury Stock, 37,174 and 37,174 shares held, respectively.	37	37
Accumulated deficit	(16,153,925)	(18,390,242)
TOTAL STOCKHOLDERS' DEFICIT	(1,389,883)	(6,011,042)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 838,175	$ 619,440

See accompanying notes to consolidated financial statements.

Table of Content

CMG HOLDINGS GROUP, INC

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31, 2012	2011
Revenues	$ 8,125,196	$ 7,093,048
Operating expenses:		
Cost of revenues	5,792,283	4,444,833
Patent impairment expense	-	171,855
Depreciation and amortization expense	74,850	313,257
Inventory impairment expense	-	3,240,502
Gain on bad debt recovery	(36,250)	-
General and administrative expenses	3,923,919	4,183,858
Total Operating expenses	9,754,802	12,354,305
Operating Loss	(1,629,606)	(5,261,257)
Other income (expense):		
Gain on forgiveness of accounts payable and accrued liabilities	1,441,762	-
Gain (loss) on derivative liability	(547,318)	1,321,369
Gain (loss) on extinguishment of debt	75,618	(293,037)
Unrealized loss on marketable securities	-	(33,057)
Other income	5,721	-
Interest expense	(907,916)	(1,777,493)
Total Other Income (Expenses)	67,867	(782,218)
Loss from continuing operations	(1,561,739)	(6,043,475)
Discontinued Operations		
Loss from discontinued operations	(541,508)	(1,744,402)
Gain on sale of discontinued operations	4,339,564	-
Total income (loss) discontinued operations	3,798,056	(1,744,402)
Net Income (Loss)	$ 2,236,317	$ (7,787,877)
Basic income (loss) per common share for discontinued operations	$ 0.02	$ (0.02)
Basic loss per common share for continuing operations	$ (0.01)	$ (0.09)
Total basic income (loss) per common share	$ 0.01	$ (0.11)
Diluted income (loss) per common share for discontinued operations	$ 0.01	$ (0.02)
Diluted loss per share for continued operations	$ (0.01)	$ (0.09)
Total diluted income per common share	$ (0.00)	$ (0.11)
Basic weighted average common shares outstanding	237,199,982	70,444,199
Diluted weighted average common shares outstanding	237,199,982	70,444,199

See accompanying notes to consolidated financial statements

Table of Content

CMG HOLDINGS GROUP, INC

CONSOLIDATED STATEMENT OF CHANGE IN STOCKHOLDERS' DEFICIT

	Preferred Stock		Treasury Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Par	Shares	Par	Shares	Par			
Balances, December 31, 2010	-	-	37,174	$ 37	58,165,988	58,166	$ 7,272,662	(10,602,365)	$ (3,271,500)
Shares issued for services	-	-	-	-	3,953,333	3,953	191,499	-	195,452
Shares issued for debt	-	-	-	-	49,704,943	49,706	1,661,012	-	1,710,718
Shares issued for cash	-	-	-	-	3,870,000	3,870	213,130	-	217,000
Cashless warrant exercises	-	-	-	-	-	-	-	-	-
Shares issued for accrued liabilities	-	-	-	-	9,117,119	9,117	485,583	-	494,700
Shares issued - Series B Preffered Stock	50,000	50	-	-	-	-	3,240,452	-	3,240,502
Gain on Debt Settlement			-	-	-	-	140,903	-	140,903
Settlement of Derrivative Liabilities through conversion ofrelated notes payable	-	-	-	-	-	-	(950,940)	-	(950,940)
Net loss	-	-	-	-	-	-	-	(7,787,877)	(7,787,877)
Balances, December 31, 2011	50,000	50	37,174	$ 37	124,811,383	$ 124,812	$ 12,254,301	$ (18,390,242)	$ (6,011,042)
Shares issued for services	-	-	-	-	14,150,000	14,150	179,950	-	194,100
	-	-	-	-	145,989,360	145,952	609,055	-	755,007

Shares issued for debt									
Shares issued for debt modification	-	-	-	-	7,100,000	7,100	166,450	-	173,550
Shares issued for debt inducement	-	-	-	-	600,000	600	10,886	-	11,486
Shares issued for debt modification	-	-	-	-	2,000,000	2,000	15,800	-	17,800
Loss on debt settlement of derivative liabilities through conversion of related notes payable	-	-	-	-	-	-	1,211,795	-	1,211,795
Contributed Capital							21,104		21,104
Net income	-	-	-	-	-	-	-	2,236,317	2,236,317
Balances December 31, 2011	50,000	50	37,174	$ 37	294,560,743	$ 294,614	$ 14,469,341	$ (16,153,925)	$ (1,389,883

See accompanying notes to consolidated financial statements.

Table of Content

CMG HOLDINGS GROUP, INC

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$2,236,317	$ (7,787,877)
Adjustments to reconcile net income (loss)		
to net cash provided by (used in) operating activities:		
Gain on recovery of bad debt	(36,250)	-
Amortization of deferred financing costs	19,879	68,292
Shares issued for services	194,100	195,452
Depreciation	-	14,925
Gain on sale of subsidiary	(4,339,564)	-
Gain on forgiveness of accounts payable and accrued liabilities	(1,441,762)	-
Amortization of intangible assets	74,580	298,332
(Gain) loss on derivatives	547,318	(1,321,369)
(Gain) loss on extinguishment of debt	(75,618)	293,037
Amortization of debt discount	784,409	1,540,356
Unrealized loss on trading securities	-	36,057
Impairment of inventory	-	3,240,502
Impairment of patent	-	319,763
Changes in:		
Accounts receivable	(144,698)	114,627
Accounts receivable, related party	-	(13,125)
Prepaid expense and other current assets	(18,727)	(206,182)
Deferred income	(202,995)	189,354
Accrued liabilities	2,031,216	1,563,245
Accounts payable	(35,102)	159,371
Accounts payable, related party	(162,925)	169,550
Net cash (used) provided by operating activities	(569,822)	(1,125,690)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for purchase of fixed assets		(15,999)
Cash paid transferred upon sale of Audio Eye, Inc.	(4,841)	-
Net cash used in investing activities	(4,841)	(15,999)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on related parties debt	(37,000)	(86,110)
Advances from related parties	9,704	45,003
Proceeds from issuance of debt	70,000	207,500
Proceeds from related party debt	415,640	1,087,724
Capital contributions	21,104	-
Payments on debt	-	(2,000)
Stock issued for cash	-	217,000
Net change in line of credit	(4,440)	24,081
Net cash provided by financing activities	475,008	1,493,198
Net increase in cash	(99,655)	351,509

Cash, beginning of period		337,779		13,695
Cash, end of period ($27,425 included in assets held for sale as of December 31, 2011)	$	238,124	$	365,204
Supplemental cash flow information:				
Interest paid	$	4,675	$	64,107
Non-cash investing and financing activity:				
Reclassification of accrued liabilities into debt	$	545,000	$	-
Reclassification of accounts payable to short term debt	$	522,943	$	647,950
Reclassification of short term debt to accounts payable	$	13,000	$	-
Discount on notes payable from derivative liability	$	636,902	$	764,579
Discount on shares issued with notes payable	$	11,486	$	-
Reclassification of derivative liabilities to additional paid-in capital	$	1,211,795	$	8,289,980
Conversion of debt to equity	$	755,007	$	1,422,100
Reclassification of derivative liabilities from additional paid-in-capital	$	-	$	9,240,920
Cashless warrant exercise	$	-	$	121,934
Securities received for accounts receivable	$	-	$	7,000
Common stock issued for settlement of accounts payable and accrued liabilities	$	-	$	509,250

See accompanying notes to consolidated financial statements.

Table of Content

CMG HOLDINGS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

Creative Management Group, Inc. was formed in Delaware on August 13, 2002 as a limited liability company named Creative Management Group, LLC. On August 7, 2007, this entity converted to a corporation and changed its legal name to Creative Management Group Inc. The Company is a sports, entertainment, marketing and management company that provides event management, including implementation, sponsorships, licensing and broadcast, production, syndication.

talent management, including personal representation in the fields of sports, entertainment, personalities and literature; commercial rights, including marketing and sales, consulting, branding and image marketing and endorsements, licensing, sponsorships; and e

On February 20, 2008, Creative Management Group, Inc. formed CMG Acquisitions, Inc., a Delaware company, for the purpose of acquiring companies and expansion strategies. On February 20, 2008, Creative Management Group, Inc. acquired 92.6% of Pebble Beach Enterprises, Inc. (a publicly traded company) and changed the name to CMG Holdings Group, Inc. ("the Company"). The purpose of the acquisition was to effect a reverse merger with Pebble Beach Enterprises, Inc. at a later date. On May 27, 2008, Pebble Beach entered into an Agreement and Plan of Reorganization with its controlling shareholder, Creative Management Group, Inc., a privately held Delaware corporation. Upon closing the eighty shareholders of Creative Management Group delivered all of their equity interests in Creative Management Group to Pebble Beach in exchange for shares of common stock in Pebble Beach owned by Creative Management Group, as a result of which Creative Management Group became a wholly-owned subsidiary of Pebble Beach. The shareholders of Creative Management Group received one share of Pebble Beach's common stock previously owned by Creative Management Group for each issued and outstanding common share owned of Creative Management Group. As a result, the 22,135,148 shares of Pebble Beach that were issued and previously owned by Creative Management Group, are now owned directly by its shareholders. The 22,135,148 of Creative Management Group previously owned by its shareholders are now owned by Pebble Beach, thereby making Creative Management Group a wholly-owned subsidiary of Pebble Beach. Pebble Beach did not issue any new shares as part of the Reorganization. The transaction was accounted for as a reverse merger and recapitalization whereby Creative Management Group is the accounting acquirer. Pebble Beach was renamed CMG Holdings Group, Inc.

On April 1, 2009, the Company, through a newly formed wholly owned subsidiary CMGO Capital, Inc., a Nevada corporation, completed the acquisition of The Experiential Agency, Inc. On March 31, 2010, the Company and AudioEye, Inc. ("AudioEye") completed the final Stock Purchase Agreement under which the Company acquired all of the outstanding capital stock of AudioEye. 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 where the shareholders of AudioEye Acquisition Corp. exchanged 100% of the stock in AudioEye Acquisition Corp for 80% of the capital stock of AudioEye. The Company retained 15% of AudioEye subject to transfer restrictions in accordance with the Master Agreement; on October 2012, the Company distributed to its shareholders, in the form of a dividend, 5% of the capital stock of AudioEye in accordance with provisions of the Master Agreement. On August 17, 2012, the Company completed the sale of AudioEye to AudioEye Acquisition Corp.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Estimates are used when accounting for allowance for doubtful accounts, depreciation, and contingencies. Actual results could differ from those estimates.

Table of Content
CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Risk

The Company maintains its cash balances at two financial institutions where they are insured by the Federal Deposit Insurance Corporation up to $250,000 each. At December 31, 2012 and 2011, neither of these accounts was in excess of the limit. The Company also maintains a money market investment account at one securities firm where the account is insured by the Securities Investor Protection Corporation up to $500,000 for the bankruptcy, etc., of the securities firm. At December 31, 2012 and 2011, the account had no balance in excess of the limit.

Revenue and Cost Recognition

In general, the Company recognizes revenues when earned, when the services or conditions relating to the services have been performed or satisfied by the entity, and recognizes costs when the expenses are incurred. Depending on the terms of the client contract, revenue is derived from diverse arrangements involving fees for services performed and commissions. The Company earns consulting fees by providing branding, imaging marketing and talent placement services, event management, including, implementation and production management. A majority of the Company’s client contracts are individually negotiated and accordingly, the terms of client engagements and the basis on which the Company earns commissions and fees may vary significantly. In those businesses where the key indicators suggest the Company acts as principal, the Company records the gross amount billed to the client as revenue and the related costs incurred as operating expenses. This is generally recorded as the services are provided.

Licensing revenue

The Company recognizes revenue from licensing arrangements when the price is fixed or determinable, persuasive evidence of an arrangement exists, collectability is reasonably assured and the license has been delivered to the customer. The revenue is recognized over the term of the license agreement with any amounts received upfront being deferred and recognized over the remaining life of the license.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are amounts due on sales, are unsecured and are carried at their estimated collectible amounts. Credit is generally extended on a short-term basis; thus accounts receivable do not bear interest although a finance charge may be applied to such receivables that are more than thirty days past due. Accounts receivable are periodically evaluated for collectability based on past credit history with clients. Provisions for losses on accounts receivable are determined on the basis of loss experience, known and inherent risk in the account balance and current economic conditions.

Stock-based compensation

Accounting Standards Codification (“ASC”) 718, “Accounting for Stock-Based Compensation" established financial accounting and reporting standards for stock-based employee compensation plans. It defines a fair value based method of accounting for an employee stock option or similar equity instrument. CMG Holdings Group, Inc. accounts for compensation cost for stock option plans and for share based payments to non-employees in accordance with ASC

718. Accordingly, employee share-based payment compensation is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period. Additionally, share-based awards to non-employees are expensed over the period in which the related services are rendered at their fair value. The Company accounts for share based payments to non-employees in accordance with ASC 505-50 “Accounting for Equity Instruments Issued to Non-Employees for Acquiring, or in Conjunction with Selling, Goods or Services”.

Embedded conversion features

The Company evaluates embedded conversion features within convertible debt and convertible preferred stock under ASC 815 “Derivatives and Hedging” to determine whether the embedded conversion feature should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in earnings. If the conversion feature does not require derivative treatment under ASC 815, the instrument is evaluated under ASC 470-20 “Debt with Conversion and Other Options” for consideration of any beneficial conversion feature.

Table of Content

CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the company considers all short-term debt securities purchased with maturity of three months or less to be cash equivalents.

Intangible Assets

Intangible assets are stated at cost, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful life of the respective asset, which is three years. Amortization expense was $74,580 and $298,332 for the years ended December 31, 2012 and December 31, 2011.

Long-lived Assets

In accordance with ASC 360-10, which requires that long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Due to recurring losses of AudioEye, Inc., the Company evaluated its patents for impairment and determined that future cash flows were insufficient for recoverability of the asset. The Company recognized impairment losses of $0 and $171,855 during the years ended December 31, 2012 and 2011, respectively.

Income Taxes

As a result of the change in tax status resulting from the change in the Company’s organization as a limited liability company to a corporation, the company is no longer a pass-through entity for US income tax purposes. Income tax expense is based on reported earnings before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes, and are measured by applying enacted tax rates in effect in years in which the differences are expected to reverse.

Basic and Diluted Net Loss per Share

Basic loss per share is computed using the weighted average number of shares of common stock outstanding during each period. Diluted loss per share includes the dilutive effects of common stock equivalents on an “as if converted” basis. For the year ended December 31, 2011 potential dilutive securities had an anti-dilutive effect and were not included in the calculation of diluted net loss per common share.

Recently Issued Accounting Pronouncements

The Company does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on our accompanying 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).

Table of Content
CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The following table sets forth by level within the fair value hierarchy the Company’s financial assets and liabilities that were accounted for at fair value as of December 31, 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.

December 31, 2012	Level 1	Level 2	Level 3	Total
Marketable trading securities	$ 3,000	$ -	$ -	$ 3,000
Derivative Liabilities	$ -	$ -	$ 145,970	$ 145,970

December 31, 2011	Level 1	Level 2	Level 3	Total
Marketable trading securities	$ 1,949	$ -	$ -	$ 1,949
Derivative Liabilities	$ -	$ -	$ 444,150	$ 444,150

Investments in Debt and Equity Securities

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 December 31, 2012 and 2011 are as follows:

	2012	2011
Aggregate fair value	$ 3,000	$ 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.

Table of Content
CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

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.

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 was paid to the shareholders of record as of the close of business on October 26, 2012 and issued March 22, 2013, when AudioEye completed its registration process and issued the shares 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 and the related accrued interest of $203,590 were written off during the year ended December 31, 2012. In addition, the Company is currently holding 20% of AudioEye shares with a fair value of $268,750. A gain of $4,339,654 was recorded for the sale of AudioEye for the year ended December 31, 2012 as follows:

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	2,792,224
	$ 4,339,564

As a result of the sale of AudioEye, the Company has classified the assets and liabilities of AudioEye, 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 year ended December 31, 2012 only reflect activity of AudioEye up until the finalization of the sale on August 17, 2012.

A summarized operating result for discontinued operations is as follows:

	For the Year Ended December 31,	
	2012	2011
Revenues	$ (95,736)	$ (138,021)
Cost of revenues	198,568	641,124
Depreciation and amortization expense	2,078	14,925
Operating expenses	398,825	943,324
Operating Loss	503,735	1,461,352

Unrealized gain on marketable securities	24,000	(3,000)
Interest Expense	(61,773)	(280,050)
Net Loss from discontinued operations	$ 541,508	$ 1,744,402

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

	August 17, 2012	December 31, 2011
Cash	$ 4,842	$ 27,425
Receivables	47,429	10,901
Receivables - related party	13,250	13,125
Investments	42,000	18,000
Property and Equipment	7,688	6,000
Total assets of discontinued operations	115,209	75,451
Accounts payable and accrued liabilities	1,417,415	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	$ 2,907,433	$ 2,159,458

Table of Content

CMG HOLDINGS GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE 3: EQUITY

Preferred Stock

Series B Preferred Stock and Inventory Purchase

On March 31, 2011 the Company acquired 20,000 cartoon animated cels (the "Cel Art") from Continental Investments Group, Inc. (the "Agreement"). The Company issued 50,000 shares of its Series B Convertible Preferred Stock to Continental Investments Group, Inc. as consideration for the Cel Art, such shares of Series B Convertible Preferred Stock having a stated value per share of $100. The Cel Art consists of collectible, hand-painted cartoon animation cels. The shares of Series B Preferred Stock are convertible into common shares of the Company at the stated value of $100 per share divided by the volume weighted average trading price for the 30 days prior to conversion. The preferred shares are non-voting and do not receive dividends. The Company determined the fair value of the preferred stock to be $3,240,502 on the acquisition date based on the number of shares of common stock the preferred shares could be converted into and the market price of the common stock on the agreement date. The cartoon animated cels are valued at the lower of cost or market. As of December 31, 2011, Management wrote down the inventory to zero. The Company also analyzed the embedded conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the conversion option should be classified as equity. During the year ended December 31, 2011, the Company determined that due to uncertainties related to future sales of the Cel Art, the entire balance should be reserved as of December 31, 2011.

Series A Preferred Stock Issuance and Rescission

On March 31, 2011 the Company approved the issuance of 51 shares of preferred stock designated as Series A Convertible Preferred Stock (the "Series A Preferred Stock") to three officers of the Company in consideration for the officers forgiving $300,000 of accrued salaries. Each share of Series A Preferred Stock is convertible into 1% of the Company's common stock. The number of votes for the Series A Preferred Stock shall be the same number as the amount of shares of Common Stock that would be issued upon conversion. The Series A Preferred Stock is not entitled to dividends or preference upon liquidation. On May 16, 2011 the Company rescinded the above agreement with an effective date of March 31, 2011. There are no shares of Series A Preferred Stock issued or outstanding as December 31, 2012 or 2011. There was no impact to the consolidated financial statements as a result of the above issuance and rescission.

Common Stock

Shares Issued for Conversion of Debt

During the year ended December 31, 2012, the Company issued 145,989,360 shares of common stock to convert $755,007 of notes payable and accrued interest. See also Note 4.

Shares Issued for Services

During the year ended December 31, 2012, the Company engaged several consultants to perform services and issued 14,150,000 shares as compensation for services, recognizing $194,100 in expense during the year ended December 31, 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 during the year ended December 31, 2012.

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, a loss on debt extinguishment of $173,550 was recorded for the issuance of these shares during the year ended December 31, 2012.

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. Amortization of the debt discount to interest expense totaled $3,829 during the year ended December 31, 2012.

Table of Content
CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE 3: EQUITY (Continued)

Common Stock Warrants

During the twelve months ended December 31, 2011, eight individuals purchased 3,870,000 shares of common stock, 774,000 A Warrants and 774,000 B Warrants for $217,000. A total of 574,000 and 200,000 A Warrants are exercisable at a strike price of $0.25 and $0.10, respectively for three years; 574,000 and 200,000 B Warrants are exercisable at a strike price of $0.50 and $0.20, respectively for three years. The Company can call each of the Warrants after twelve months if the price of the Common Shares of the Company in the Market is 150% of the Warrant strike price for 10 consecutive days. See Note 5 for additional information on the derivative liability.

A summary of warrant activity for year ended December 31, 2012 and 2011 is as follows:

	Outstanding and Exercisable	Weighted average Exercise Price
December 31, 2010	250,000	$ 0.07
Granted	1,548,000	0.32
Exercised	-	-
December 31, 2011	1,798,000	$ 0.28
Granted	-	0.00
Exercised	-	-
December 31, 2012	1,798,000	$ 0.28

As of December 31, 2012, the warrants have a weighted average remaining life of 1.7 years with $0 aggregate intrinsic value.

NOTE 4 - NOTES PAYABLE

Asher Enterprises, Inc.

On August 24, 2011 the company issued a convertible promissory note for $37,500 to Asher Enterprises, Inc. (“Asher”). The convertible promissory note was 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 year ended December 31, 2012.

On October 4, 2011 the company issued a convertible promissory note for $45,000 to Asher. The convertible promissory note was 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 year ended December 31, 2012.

On February 6, 2012 the company issued a convertible promissory note for $37,500 to Asher. The convertible promissory note bears interest at 8% and was due on November 8, 2012. The note was 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 the convertible promissory note and accrued interest to Continental Equities, LLC, see Continental Equities, LLC below.

Table of Content

CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE 3: EQUITY (Continued)

Asher Enterprises, Inc. (Continued)

On October 16, 2012 the company issued a convertible promissory note for $32,500 to Asher. The convertible promissory note bears interest at 8% and is due on July 18, 2013 and any amount not paid by July 18, 2013 will incur a 22% interest rate. The note is convertible at 50% of the average of the lowest three trading prices for the Company's common stock during the ten trading day period prior to the conversion date after 180 days. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as liabilities once the conversion option becomes effective after 180 days due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options.

Hudson Capital Advisors, Inc.

On January 5, 2012, the Company modified its July 11, 2011 agreement with Hudson Capital Advisors, Inc. ("Hudson") 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 Hudson 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. 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 year ended December 31, 2012.

Braeden Storm Enterprises, Inc.

On January 5, 2012, the Company modified its July 6, 2011 agreement with Braeden Storm Enterprises, Inc. ("Braeden") 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 Braeden 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. 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 year ended December 31, 2012.

On February 10, 2012, the Company assigned $56,000 of its accounts payable from a third party to Braeden. 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 Braeden 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 year ended December 31, 2012.

Martin Boyle

On January 5, 2012, the Company modified its September 2, 2011 agreement with Martin Boyle into a $35,000 convertible debenture note bearing interest at 2% due on January 8, 2013. The new convertible debenture note was convertible at the lowest trading price in the three days prior to the day Martin Boyle 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 year ended December 31, 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 convertible debenture note was convertible at the lowest trading price in the three days prior to the day that Scott Baily 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 year ended December 31, 2012.

CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE 3: EQUITY (Continued)

Grassy Knolls, LLC

On January 4, 2012, the Company modified its July 5, 2011 agreement with Grassy Knolls, LLC (“Grassy Knolls”) into a $72,000 convertible debenture note bearing interest at 2% due on January 4, 2013. The new convertible debenture note was convertible at the lowest trading price in the three days prior to the day that Grassy Knolls 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 year ended December 31, 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, resulting 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 year ended December 31, 2012. As part of the sale of AudioEye on August 17, 2012 described in Note 2, these notes were repaid by AudioEye 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 year ended December 31, 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 (“Magna”). The convertible promissory note bore interest at 10%, was due on October 17, 2012 and was convertible at 58% of the lowest trading price in the three days prior to the conversion date. The entire principal balance was converted into common stock and the remaining debt discount of $70,470 was amortized to interest expense during the year ended December 31, 2012.

On April 11, 2012, the Company assigned $50,000 of its accounts payable from a third party to Magna. The convertible promissory note bore interest at 10%, was due on April 13, 2013 and was convertible at 58% of the lowest trading price in the three days prior to the conversion date. The entire principal balance was converted into common stock and the Company amortized $50,000 of the related discount to interest expense during the year ended December 31, 2012.

Hanover Holdings, LLC and Seymour Flicks

On October 17, 2011, the Company issued a convertible promissory note for $50,000 to Hanover Holdings, LLC. On June 5, 2012, Hanover assigned $25,000 principal and related interest to Seymour Flicks and modified the terms of the convertible promissory note. The new convertible promissory of $34,040 bore interest at 10%, was due June 5, 2013 and was 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 options for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instruments should be classified as liabilities (see also Note 5). The fair value of the embedded conversion options resulted in debt discounts of $34,375 and $34,040 on the dates of the convertible promissory notes. During the year ended December 31, 2012, the entire principal balance of both convertible notes was converted into common stock and the Company amortized a total of $68,415 of the related debt 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% and due on May 15, 2013. The convertible debenture note is convertible at a price equal to the close price on the day prior to Paul Sherman's request for conversion, but not to go below $.001. The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the instrument should be classified as a liability. The fair value of the embedded conversion option resulted in a discount of $8,875 on the date of the note. $5,499 of this discount has been amortized to interest expense as of December 31, 2012. The convertible debenture note has an outstanding balance of $9,943 as of December 31, 2012.

Table of Content
CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE 3: EQUITY (Continued)

Continental Equities, LLC

On September 7, 2012 the company issued a convertible promissory note for $50,000 to Continental Equities, LLC ("Continental") for the assignment of an equivalent amount of the Company's account payable to Continental. The convertible promissory note bears interest at 12% and is due on May 15, 2013, any amount not paid by May 15, 2013 will incur a 22% interest rate. 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. Additionally, 400,000 shares were issued as inducement for assignment 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 convertible promissory note bears interest at 12% and is due on May 15, 2013, any amount not paid by May 15, 2013 will incur a 22% interest rate. 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. Additionally, 200,000 shares were issued as inducement for assignment 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 year ended December 31, 2012, the Company amortized $5,663 of the debt discount to interest expense.

On September 7, 2012, the Company assigned $39,000 of its convertible promissory note and accrued interest from Asher to Continental. The convertible promissory note bore interest at 8% and was due on December 31, 2012. The note was 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. During the year ended December 31, 2012, the entire principal balance of the convertible note was converted into common stock and the Company amortized the related debt discount to interest expense.

Connied, Inc.

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

The Company analyzed the conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the embedded conversion feature should be classified as a liability due to their being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options. The embedded conversion feature was measured at fair value at inception and on the date of conversion with the change in fair value recorded to earnings. The addition of the embedded conversion option resulted in a full discount to the note of $85,000 on May 3, 2011. The discount is being amortized over the term of the note to interest expense. As of December 31, 2012, $26,495 of the discount had been amortized to interest expense.

Alan Morell

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

Additionally, during the year ended December 31, 2012, the Company amortized $19,835 of discounts related to other notes not mentioned above to interest expense.

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 years ended December 31, 2012 and 2011, the Company recognized new derivative liabilities of $734,839 and $10,908,663, respectively, 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 and $10,848,420 for the years ended December 31, 2012 and 2011, respectively. As a result of conversion of notes payable described in Note 4, the Company reclassified $0 and $9,240,920 from equity and $1,213,271 and $8,289,980 of derivative liabilities to equity during the years ended December 31, 2012 and 2011, respectively. The Company recognized as a loss on derivatives due to change in fair value of the liability of $404,688 for the year ended December 31, 2012 and a gain of $2,114,291 for the year ended December 31, 2011. The fair value of the Company's embedded derivative liabilities was $121,601 and $444,150 at December 31, 2012 and 2011, respectively.

Table of Content

CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

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 years ended December 31, 2012 and 2011, the Company recognized new derivative liabilities of $734,839 and $10,848,420, respectively, 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 and $596,607 for the years ended December 31, 2012 and 2011, respectively. As a result of conversion of notes payable described in Note 4, the Company reclassified $0 and $9,240,920 from equity and $1,213,271 and $8,289,980 of derivative liabilities to equity during the years ended December 31, 2012 and 2011, respectively. The Company recognized as a loss on derivatives due to change in fair value of the liability of $404,688 for the year ended December 31, 2012 and a gain of $2,114,291 for the year ended December 31, 2011. The fair value of the Company’s embedded derivative liabilities was $121,601 and $444,150 at December 31, 2012 and 2011, respectively.

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 December 31, 2012 and 2011 was $12,007 and $11,673, respectively. The Company recognized $333 as loss and $90,605 as gain on derivative related to the warrants for the years ended December 31, 2012 and 2011, respectively.

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

Derivative Liabilities	
Balance at December 31, 2010	$ -
ASC 815-15 additions	10,848,420
Change in fair value	(2,114,290)
ASC 815-15 deletions	(8,289,980)
Balance at December 31, 2011	444,150
ASC 815-15 additions	721,590
Change in fair value	192,025
ASC 815-15 deletions	(1,211,795)
Balance at December 31, 2012	$ 145,970

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

Gain/(Loss) on Derivative Liability

	For the Year Ended December 31,	
	2012	2011
Change in fair value	$ (429,889)	$ 2,114,291
Excess of fair value of liabilities over note payable	(117,429)	(792,922)
Total	$ 547,318	$ 1,321,369

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 164% to 426%, (4) zero expected dividends, (5) exercise price as set forth in the agreements, (6) common stock price of the underlying share on the valuation date, and (7) number of shares to be issued if the instrument is converted.

Table of Content

CMG HOLDINGS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

NOTE 6 - LEGAL PROCEEDINGS

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

On April 21, 2011, the Company was served with a lawsuit that was filed in Clark County, Nevada against the Company by A to Z Holdings, LLC and seven other individuals or entities. The complaint alleges, among other things, that the Company's Board of Directors did not have the power to designate series A and B preferred stock without amending the articles of incorporation. The complaint also alleges any such amendment would require shareholder approval and filing of a proxy statement. On April 20, 2012, the Company settled with A to Z Holdings, LLC and seven other individuals or entities for $10,000. The Company has accrued this settlement liability as of December 31, 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 December 31, 2012.

NOTE 7 - RELATED PARTY TRANSACTIONS

On September 30, 2010 and December 31, 2010, the Company and its executive management entered into deferred salary conversion agreements in order to assists with the working capital needs of the Company. The $1,046,702 unsecured notes carried an interest rate of 1% with a maturity date on March 31, 2012. On December 30, 2011, these notes were converted into the Company's restricted common shares at $0.06.

From time to time the Company borrows money from its officers. These advances bear no interest and are due on demand. As of December 31, 2012 and 2011, the Company owed $0 and $86,328 as short term related party debt.

During December 2012, the Company entered into a Mututal Separation Agreement and General Release ("Separation Agreements") with former officers and directors of the Company, James Ennis, CEO and Chairman, and Michael Vandetty, Chief Legal Counsel and Director. The Separation Agreements provide for the termination of the former officers employment agreements and waiver of the employment agreement severance clauses as well as forgiveness of a total of $39,532 in accrued expenses and $670,730 in accrued salary due the former officers. The forgiven amounts due were recorded as contributions of capital during the year ended December 31, 2012.

NOTE 8 - SEGMENTS

The Company had three reportable segments during the years ended December 31, 2011 and 2012: event marketing, talent management and consulting services, which were comprised within its specialist marketing service offerings. During the year ended December 31, 2012, it discontinued the talent management and consulting services segments (see Notes 9 and 2, respectively) and has one remaining segment, event marketing, at December 31, 2012.

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 year ended December 31, 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 – GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business.

The Company has a working capital deficit and has generated recurring net losses. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders and the ability of the Company to obtain necessary equity or debt financing to continue and expand operations.

These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. These factors raise substantial doubt regarding the ability of the Company to continue as a going concern.

Besides ongoing revenues from continuing operations, the Company may need to raise additional funds to expand operations to the point at which the Company can achieve profitability.

Table of Content

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company’s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2011. Based upon such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2011, the Company’s disclosure controls and procedures were not effective due to the identification of a material weakness in our internal control over financial reporting which is identified below, which we view as an integral part of our disclosure controls and procedures. This conclusion by the Company’s Chief Executive Officer and Chief Financial Officer does not relate to reporting periods after December 31, 2011.

Management’s Report on Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 based on the framework stated by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, due to our financial situation, the Company will be implementing further internal controls as the Company becomes operative so as to fully comply with the standards set by the Committee of Sponsoring Organizations of the Treadway Commission.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles. Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to change in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on its evaluation as of December 31, 2011, our management concluded that our internal controls over financial reporting were not effective as of December 31, 2011 due to the identification of a material weakness. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. At any time, if it appears that any control can be implemented to continue to mitigate such weaknesses, it is immediately implemented. As soon as our finances allow, we will hire sufficient accounting staff and implement appropriate procedures for monitoring and review of work performed by our Chief Financial Officer.

In performing this assessment, management has identified the following material weaknesses as of December 31, 2012:

- There is a lack of segregation of duties necessary for a good system of internal control due to insufficient accounting staff due to the size of the Company

- Lack of a formal review process that includes multiple levels of reviews

- Employees and management lack the qualifications and training to fulfill their assigned accounting and reporting functions
- Inadequate design of controls over significant accounts and processes
- Inadequate documentation of the components of internal control in general
- Failure in the operating effectiveness over controls related to valuing and recording equity based payments to employees and non-employees
- Failure in the operating effectiveness over controls related to valuing and recording debt instruments including those with conversion options and the related embedded derivative liabilities
- Failure in the operating effectiveness over controls related to recording revenue and expense transactions in the proper period
- Failure in the operating effectiveness over controls related to evaluating and recording related party transactions

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Managements report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management’s report in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

None

Table of Content

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The directors and officers of our Company are set forth below. The directors held office for their respective term and until their successors were duly elected and qualified. the officers serve at the will of the Board of Directors.

Name	Age	With Company Since	Director/Position
Jeffery Devlin	65	November 26, 2012	Interim CEO & CFO, Chairman of the Board, Director
Barry Kernan	48	November 26, 2012	Director
Declan Keegan	39	November 26, 2012	Director
Ian Thompson	31	November 26, 2012	Director
Alan Morell	65	January 2008	Former CEO, Chairman of the Board, Director
James Ennis	44	January 2008	Former Chief Financial Officer, Director
Michael Vandetty	57	January 2008	Former Chief Legal Counsel, Director

Jeffrey Devlin. Mr. Devlin, has been Executive Producer/Partner of Original Film, a movie production company, since 2002. He is also currently and since 2003 been the Chief Executive Officer of MediaLogic, an international consultancy and television production company and since November 2011 he has been Chief Marketing Officer and a director of The Broadsmoore Group, an investment advisory and merchant banking firm. Mr. Devlin has over 25 years of production experience in the advertising and entertainment industries. Mr. Devlin is currently a member of the Board of Directors of the United States Equestrian Team, Somerset Hills Handicapped Riders, Board of Advisors of Atari, and Executive Committee for the Association of Independent Commercial Producers (AICP). He is also a senior advisor to Sirius XM Satellite Radio. Mr. Devlin received a Bachelor’s degree from Bethel University in Nashville, Tennessee and completed graduate courses at Dartmouth College in Hanover, New Hampshire.

Barry Kernan. Mr. Kernan is a graduate of St. Eunan's College an College of Marketing & Design in Dublin Ireland. Mr. Kernan has worked for Superquinn Supermarkets and has owned supermarket and diner businesses which he has sold. Mr. Kernan is currently an entrepreneur operating several businesses in Ireland.

Declan Keegan. Mr. Keegan, is an Ireland based financial advisor with 18 years of experience advising pre-IPO companies in the U.K. and U.S who has worked with Bank of Ireland and other Ireland based financial institutions.

Ian Thompson. Mr. Thompson, is an accountant and qualified financial advisor. Mr. Thompson has worked with RBS Group and Bank of Ireland.

Alan Morell. Mr. Morell has 30 years of global experience in the successful development and management of talent, high growth properties, commercial rights, live events and intellectual property (IP) rights. Mr. Morell began his career with International Management Group (IMG), where he served in a variety of executive offices, including Corporate Vice President. He has created and/or managed campaigns for talent and events globally within the disciplines of Sports and Entertainment. Prior to becoming an officer of Creative Management Group Agency, Mr. Morell was a Director and Chief Executive Officer of CatalystOne, Inc. Mr. Morell is a graduate of the University of Florida. On September 26, 2012, Mr. Morell retired and separated from service as the Chief Executive Officer of the Company and as the Chairperson of the Company's Board of Directors

James Ennis. Mr. Ennis has over 15 years of experience in financial management, strategic planning and corporate development. Prior to joining Creative Management Group, Mr. Ennis served as a Financial Advisor in the global private client group of premier wealth management and investment advisory firms of Smith Barney and Merrill Lynch from 2004 to 2007. From 1997 to 2003, Mr. Ennis served as Director of Finance for Octagon Worldwide, Inc., one of the world's largest sports and entertainment marketing and consulting firms, where his responsibilities included mergers and acquisitions, business development and financial reporting. Mr. Ennis is a graduate of Mount Saint Vincent College. On December 18, 2012, the Company entered into Separation agreements with Mr. Ennis pursuant to which he resigned from his positions with the Company, agreed to termination of his employment agreement, agreed to a lockup provision with respect to his shares in the Compsny and shares of AudioEye, Inc. and received 45% of the stock of the Company's UsaveNJ, Inc. and UsaveNJ, Inc. subsidiaries.

Michael Vandetty. Mr. Vandetty's areas of practice include limited partnership and securities offerings, as well as securities litigation. Mr. Vandetty has extensive transactional experience, including both domestic and international transactions in real estate, entertainment and hospitality, manufacturing and pharmaceutical sales. He also has significant experience in sports and entertainment law, mergers and acquisitions and in contract negotiations in the insurance and intellectual property arenas. Mr. Vandetty is a former prosecutor in both the Dade County State Attorney's Office and the Florida Attorney General's Office. He received a Bachelor of Arts from Rutgers University in 1977 and a Juris Doctorate from the University of Miami Law School in 1980. On December 18, 2012, the Company entered into Separation agreements with Mr. Vandetty pursuant to which he resigned from his positions with the Company, agreed to termination of his employment agreement, agreed to a lockup provision with respect to his shares in the Compsny and shares of AudioEye, Inc. and received 45% of the stock of the Company's UsaveNJ, Inc. and UsaveNJ, Inc. subsidiaries.

ITEM 11. EXECUTIVE COMPENSATION

Compensation for our executive officers is determined by our board of directors where our philosophy is to provide a compensation package that attracts and retains executive talent. The Company has not entered into any employment contract to date with Jeffrey Devlin the acting CEO and CFO. We strive to provide our named executive officers, who are the officers listed in the summary compensation table, with a competitive base salary that is in line with their roles and responsibilities when compared to peer companies of comparable size in similar locations. Although the principal method of providing compensation to our executive officers is a salary, we intend to adopt a stock option plan for all employees, which permit the grant of stock options, stock grants and other forms of equity-based compensation. Our executive officers are eligible for grants pursuant to the plan. Although the principal compensation of our executive officers will be salary, we may provide officers with equity-based incentives. The base salary level and the nature and amount of equity-based incentives is established and reviewed by the compensation committee based on the level of responsibilities, the experience and tenure of the individual and the current and potential contributions of the individual. In determining base salary, we give consideration to persons holding similar positions within comparable peer companies and consideration is given to the executive's relative experience in his or her position. Base salaries are reviewed periodically and at the time of promotion or other changes in responsibilities. As of December 31, 2012, no annual compensation, including a bonus or other form of compensation; and no long-term compensation, including restricted stock awards, securities underlying options, LTIP payouts, or other form of compensation, was paid to these individuals during this period.

Table of Content

EXECUTIVE AGREEMENTS

The Company has not entered into any employment contract with Jeffrey Devlin the acting CEO and CFO.

BOARD COMPENSATION

Members of our Board of Directors do not normally receive cash compensation for their services as Directors, although some Directors are reimbursed for reasonable expenses incurred in attending Board or committee meetings. All corporate actions are conducted by unanimous written consent of the Board of Directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of April 15, 2013, information with respect to the beneficial ownership of the Company’s Common Stock by (i) each person known by the Company to own beneficially 5% or more of such stock, (ii) each Director of the Company who owns any Common Stock, and (iii) all Directors and Officers as a group, together with their percentage of beneficial holdings of the outstanding shares. The information presented below regarding beneficial ownership of our voting securities has been presented in accordance with the rules of the Securities and Exchange Commission and is not necessarily indicative of ownership for any other purpose. Under these rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares the power to vote or direct the voting of the security or the power to dispose or direct the disposition of the security. A person is deemed to own beneficially any security as to which such person has the right to acquire sole or shared voting or investment power within 60 days through the conversion or exercise of any convertible security, warrant, option or other right. More than one person may be deemed to be a beneficial owner of the same securities. The percentage of beneficial ownership by any person as of a particular date is calculated by dividing the number of shares beneficially owned by such person, which includes the number of shares as to which such person has the right to acquire voting or investment power within 60 days, by the sum of the number of shares outstanding as of such date plus the number of shares as to which such person has the right to acquire voting or investment power within 60 days. Consequently, the denominator used for calculating such percentage may be different for each beneficial owner. Except as otherwise indicated below and under applicable community property laws, we believe that the beneficial owners of our common stock listed below have sole voting and investment power with respect to the shares shown.

SECURITY OWNERSHIP OF BENEFICIAL OWNERS:

None

SECURITY OWNERSHIP OF MANAGEMENT:

Title of Class	Name	Shares	Percent
Common Stock	Alan Morell (1)	18,622,944	5.52%
Common Stock	James J. Ennis (2)	11,955,944	3.54%
Common Stock	Michael Vandetty (2)	10,945,944	3.24 %
Common Stock	Jeffery Devlin (3)	0	0 %
Common Stock	Barry Kernan (3)	0	0 %

Common Stock	Declan Keegan (3)	0	0	%
Commpn Stock	Ian Thompson (3)	0	0	%
All Directors and Executive Officers as a group (persons)		41,524,832	12.30	%

These tables are based upon 337,564,955 shares outstanding as of April 15, 2013 and information derived from our stock records. Unless otherwise indicated in the footnotes to these tables and subject to community property laws where applicable, we believe unless otherwise noted that each of the shareholders named in this table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned.

(1) On September 26, 2012, Mr. Alan Morell retired and separated from service as the Chief Executive Officer of the Company and as the Chairperson of the Company's Board of Directors.

(2) On December 18, 2012, the Company entered into Separation agreements with James Ennis and Michael Vandetty pursuant to which each of Messrs. Ennis and Vandetty (i) resigned each of their positions with the Company, (ii) agreed to termination of their employment agreements, (iii) agreed to lockup provisions with respect to their Company shares and shares of AudioEye, Inc. and (iv) each received 45% of the stock of the Company's UsaveNJ, Inc. and UsaveNJ, Inc. subsidiaries.

(3) On November 26, 2012, the holders of 162,186,624 shares of CMG Holdings Group, Inc. (the "Company") $0.001 par value per share common stock ("Common Stock"), constituting approximately 55% of CMGO's total outstanding Common Stock have acted by written consent to replace James Ennis and Michael Vandetty as directors with Jeffrey Devlin, Barry Kernan, Declan Keegan and Ian Thompson.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

No director, executive officer or nominee for election as a director of our company, and no owner of five percent or more of our outstanding shares or any member of their immediate family has entered into or proposed any transaction in which the amount involved exceeds $300,000. Our management is involved in other business activities and may, in the future become involved in other business opportunities. If a specific business opportunity becomes available, such persons may face a conflict in selecting between our business and their other business interests. We have not and do not intend in the future to formulate a policy for the resolution of such conflicts.

Table of Content

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth fees billed to us by our auditors during the fiscal years ended December 31, 2012 and December 31, 2011 for: (i) services rendered for the audit of our annual financial statements and the review of our quarterly financial statements, (ii) services by our auditor that are reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees, (iii) services rendered in connection with tax compliance, tax advice and tax planning, and (iv) all other fees for services rendered. (i) Audit Fees

Name of Firm	Fiscal Year 2012	Fiscal Year 2011
MaloneBailey – audit and audit related	$ 120,000	$ 129,715

PART IV

ITEM 15. EXHIBITS AND REPORTS ON FORM 8-K

1. Financial Statements
2. Financial Statement Schedules
3. Exhibits

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Filing Date/ Period End Date
2.1	Agreement and Plan of Reorganization dated May 27, 2008 between CMG Holding, Inc. and Creative Management Group, Inc..	8-K	May 5, 2008
3.1	Certificate of Incorporation of Pebble Beach Enterprises, Inc. dated July 26, 2004	10-SB	February 1, 2006
3.2	Amendment to Certificate of Incorporation of CMG Holding, Inc.dated February 20, 2008	8-K	February 20, 2008
3.3	Bylaws of CMG Holdings, Inc.	8-K	February 20, 2008
3.4	Certificate of the Designations, Powers Preferences and Rights of the Series A Convertible Preferred Stock dated March 31, 2011	8-K	April 6, 2011
3.6	Certificate of the Designations, Powers Preferences and Rights of the Series B Convertible Preferred Stock dated Marc h 31, 2011	8-K	April 12, 2011
10.1		10-K	

	Stock Purchase Agreement AudioEye date March 31, 2010		April 15, 2010
10.2	AudioEye Spinoff Master Agreement dated June 22, 2011	8-K	June 24, 2011
10.3	Revised AudioEye Spinoff Master Agreement dated April 5, 2012	8-K	April 27, 2012
14.1	Code of Ethics	10-KSB	February 20, 2008
21.1	Subsidiaries of the Registrant		
31.1	CMG Holdings Group, Inc. Certification of Chief Executive Officer pursuant to Section 302		
31.2	CMG Holdings Group, Inc. Certification of Chief Financial Officer pursuant to Section 302		
32.1	CMG Holdings Group, Inc. Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.		
32.2	CMG Holdings Group, Inc. Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.		
101*	Interactive Data Files for CMG Holdings Group, Inc. 10K for the Year Ended December 31, 2012		
101 INS*	XBRL Instance Document		
101 SCH*	XBRL Taxonomy Extension Schema Document		
101 CAL*	XBRL Taxonomy Extension Calculation Linkbase Document		
101 DEF*	XBRL Taxonomy Extension Definition Linkbase Document		
101LAB*	XBRL Taxonomy Extension Label Linkbase Document		
101 PRE*	XBRL Taxonomy Extension Presentation Linkbase Document		

* Pursuant to Rule 406T of Regulation S-T, these interactive date files are deemed not filed or or part of the registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933 or Section 18 of the Securities Act of 1934 and otherwise are not subject to liability.

4. Reports on Form 8-K

Description	Form	Filing Date
Item 5.02 Departure of Directors or Certain Officers; Election of Directors, Appointment of Certain Officers and Item 801 Otheer Event - New Management	8-K	12-19-2012
Item 502 Departure of Directors or Certain Officers; Election of Directors, Appointment of Certain Officers and Item 801 Otheer Event - Change of Control	8-K	12-13-2012
Item 8.01 Other Event - Registrant Disclosure	8-K	11-28-2012

Table of Content

SIGNATURE

	CMG HOLDINGS GROUP, INC. (Registrant)
Date: April 19, 2013	By: /s/ JEFFREY DEVLIN Jeffrey Devlin Interim Chief Executive Officer & Chief Financial Officer (Duly Authorized Officer & Principal Financial and and Accounting Officer)